



Board of Trustees Meeting

May 22, 2019



Presented for Review and Approval

August 21, 2019

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**BOARD OF TRUSTEES MEETING
EMPLOYEES RETIREMENT SYSTEM OF TEXAS
May 22, 2019
TRS Board Room, E513
TRS Building - 1000 Red River Street
Austin, Texas 78701**

TRUSTEES PRESENT

I. Craig Hester, Board Chair
Ilesa Daniels, Board Vice Chair
Doug Danzeiser, Member
Jim Kee, Member
Catherine Melvin, Member

TRUSTEE ABSENT

Cydney Donnell, Member

ERS DIRECTORS PRESENT

Porter Wilson, Executive Director
Cathy Terrell, Deputy Executive Director
Paula A. Jones, Deputy Executive Director & General Counsel
William Nail, Special Projects & Policy Advisor
Jennifer Chambers, Director of Government Relations
Tony Chavez, Director of Internal Audit
Bernie Hajovsky, Director of Enterprise Planning Office
Robin Hardaway, Director of Customer Benefits
Diana Kongevick, Director of Group Benefits
Machelle Pharr, Chief Financial Officer
Gabrielle Schreiber, Director of Procurement and Contract Oversight
DeeDee Sterns, Director of Human Resources
Kathryn Tesar, Director of Benefits Communications
Tom Tull, Chief Investment Officer
Keith Yawn, Director of Strategic Initiatives

ERS STAFF PRESENT

Nora Alvarado, Group Benefits
Brannon Andrews, Office of General Counsel
Jason Avants, Information Systems
Georgina Bouton, Group Benefits
Amanda Burleigh, Office of General Counsel
Anthony Curtiss, Investments
Kelley Davenport, Executive Office
Juli Davila, Investments
Christ Davis, Customer Benefits
Pablo De la Sierra, Investments
Blaise Duran, Group Benefits
Angelica Harborth, Group Benefits
Aaron Ismail, Internal Audit
Nancy Lippa, Office of General Counsel
Ricky Lyra, Investments
Betty Martin, Investments
Ken McDowell, Investments
Roger Nooner, Benefits Communications
Aris Oglesby, Investments
Jamey Pauley, Executive Office
Susie Ramirez, Executive Office

Tanna Ridgway, Investments
Cheryl Scott Ryan, Office of General Counsel
Robert Sessa, Investments
John Streun, Investments
Ariana Whaley, Government Relations

ALSO PRESENT

Nick Arnold, Humana
Sam Austin, NEPC
Brian Barth, Texas Department of Transportation
Tim Bruce, NEPC
Phil Dial, Rudd and Wisdom, Inc.
Robert Dwyer, Empower Retirement
Gavin Groenberg, Voya Financial
Patrick Harvey, Walgreens
Angela Hollard, Empower Retirement
Colleen McGlamry, UnitedHealthCare
Brian Ragland, Texas Department of Transportation
Mallory Sumner, BlueCross and Blue Shield of Texas

Meeting of the ERS Board of Trustees

1. CALL TO ORDER

1.1 Call Meeting of the ERS Board of Trustees to Order

Mr. Craig Hester, Chairman of the Board of Trustees of the Employees Retirement System of Texas (ERS), noting a quorum was present, called the meeting to order at 12:43 p.m. and read the following statement:

“A public notice of the ERS Board of Trustees meeting containing all items on the proposed agenda was filed with the Office of the Secretary of State at 2:54 p.m. on Monday May 13, 2019, as required by Chapter 551 Texas Government Code, referred to as the Open Meetings Law.”

2. MINUTES

2.1 Review and Approval of the Minutes to the March 6, 2019 ERS Board of Trustees Meeting – (ACTION)

Prior to the motion, Mr. Hester recommended edits to the March 6, 2019 Board of Trustees Meeting minutes as presented.

Mr. Hester then opened the floor for a motion on the approval of the minutes from the March 6, 2019 ERS Board of Trustees meeting.

Move that the Board of Trustees of the Employees Retirement System of Texas approve the minutes to the meeting held on March 6, 2019.

Motion by Craig Hester, second by Catherine Melvin.

Final Resolution: Motion Carries

Aye: Craig Hester, Doug Danzeiser, Ilesa Daniels, Catherine Melvin, Jim Kee

2.2 Review and Approval of the Minutes to the March 28, 2019 ERS Board of Trustees Meeting – (ACTION)

Mr. Hester opened the floor for a motion on the approval of the minutes from the March 28, 2019 ERS Board of Trustees Meeting.

Move that the Board of Trustees of the Employees Retirement System of Texas approve the minutes to the meeting held on March 28, 2019.

Motion by Jim Kee, second by Doug Danzeiser.

Final Resolution: Motion Carries

Aye: Craig Hester, Doug Danzeiser, Ilesa Daniels, Jim Kee

Abstain: Catherine Melvin

3. RULES OF THE BOARD OF TRUSTEES

3.1 Review, Discussion and Consideration of the Rules of the Board of Trustees, Texas Administrative Code, Title 34, Part IV, Chapter 73 (Benefits) – (ACTION)

Director of Customer Benefits Robin Hardaway, informed the board that under Chapter 73 (benefits), staff is proposing to repeal Section 73.9 as it is redundant with Texas Government Code § 814.108(c)(5), and in Section 73.31 staff propose an amendment to remove a reference to an already repealed statute of the Texas Government Code § 814.1041.

Notice of the proposed amendments to Chapter 73 were published in the April 5, 2019 issue of the *Texas Register*. Deadline for receiving comments was May 6, 2019 and no comments were received.

Ms. Hardaway reported that staff's recommendation is to adopt the proposed amendments to Chapter 73 concerning benefits and to re-adopt Chapter 73, concerning benefits, including the adopted changes.

There being no further discussion or questions, Mr. Hester opened the floor for a motion.

Move that the Board of Trustees of the Employees Retirement System of Texas:

- Adopt the proposed amendments to Chapter 73, concerning Benefits and
- Re-adopt Chapter 73, which include the changes adopted by the Board as provided by Exhibit A and this agenda item, because the reasons for initially adopting the chapter continue to exist.

Motion by Doug Danzeiser, second by Jim Kee.

Final Resolution: Motion Carries

Aye: Craig Hester, Doug Danzeiser, Ilesa Daniels, Catherine Melvin, Jim Kee

3.2 Review, Discussion and Consideration of the Rules of the Board of Trustees, Texas Administrative Code, Title 34, Part IV, Chapter 74 (Qualified Domestic Relations Orders and Chapter 77 (Judicial Retirement) – (ACTION)

Deputy Executive Director and General Counsel Paula A. Jones, reminded the board that Texas Government Code § 2001.039 requires review of rules every four years. Ms. Jones reported that notice of rule review for Chapter 74 (Qualified Domestic Relations Orders) was published in the August 17, 2018, issue of the *Texas Register* and no comments were received. The notice of the rule review for Chapter 77 (Judicial Retirement) was published in the May 18, 2018, issue of the *Texas Register* and no comments were received by ERS.

Staff reviewed Chapters 74 and 77 and did not find any changes needed at this time, and it is staff's recommendation to re-adopt Chapter 74 and Chapter 77 with no changes.

There being no further discussion or questions, Mr. Hester opened the floor for a motion.

Move that the Board of Trustees of the Employees Retirement System of Texas re-adopt Chapters 74 and 77 of the Rules of the Board of Trustees because the reasons to adopt the rules in these chapters continue to exist.

Motion by Catherine Melvin, second by Ilesa Daniels.

Final Resolution: Motion Carries

Aye: Craig Hester, Doug Danzeiser, Ilesa Daniels, Catherine Melvin, Jim Kee

3.3 Review, Discussion and Consideration of the Rules of the Board of Trustees, Texas Administrative Code, Title 34, Part IV, Chapter 82 (Health Services in State Office Complexes) – (ACTION)

Director of Strategic Initiatives Keith Yawn, presented proposed changes to Chapter 82 pertaining to health services provided in state office complexes. Mr. Yawn provided the board with program background information and legislative history beginning with the establishment of Chapter 671, Texas Government Code, in 2005. ERS has worked with the Texas Commission on Environmental Quality (TCEQ) to facilitate an onsite health clinic at its North Austin state office complex by leveraging existing third-party administrator contracts and TPA provider networks to obtain qualified staff for the clinic. TCEQ provided funding for the establishment and the ongoing operation of the clinic facility, which has been in place for the past 14 years. [Note: Subsequent to this presentation, it was determined that ERS did fund the majority of the clinic's first year implementation and operating costs. TCEQ has fully funded the clinic operations since the initial year.]

Agency interest in onsite health clinics has recently increased and options for clinic structures have altered significantly since the TCEQ operation was established. Mr. Yawn reported that the proposed rule amendments would delegate certain responsibilities to the Executive Director to ensure that staff have the operational flexibility to work efficiently and effectively with interested state agencies who wish to plan, establish, fund and operate proposed onsite clinics with potential medical and financial value to the health plans at negligible costs to ERS.

Notice of the proposed rule review of Chapter 82 was published in the August 17, 2018, issue of the *Texas Register* and ERS did not receive any comments on the proposed rule review. Notice of the

proposed rule amendments to Chapter 82 was published in the April 5, 2019, issue of the *Texas Register* and ERS did not receive any comments on the proposed rule amendments.

Mr. Danzeiser asked Mr. Yawn and Ms. Jones about the existing ability of the Board to expand the program and what restrictions were in place related to financial considerations and expenditures for the program and the continued use of the term “pilot” program. ERS staff responded that the designation of “pilot program” is in the statute and therefore it will be a “pilot” if it is implemented in other agencies. A statutory change could be considered by the legislature in a future legislative session. Staff informed the board that multiple requirements, in both statute and the budget, are in place to ensure that any future expansions of the program be done in cost-neutral manner, and that ERS does not directly expend funds on expansion efforts. Additionally, staff provided information on the ongoing development of available clinic operational data to use in making future program decisions, specifically related to potential expansion opportunities.

Mr. Danzeiser ended the discussion by requesting that staff work on moving the clinic from its current pilot designation to a more permanent program status and staff agreed to pursue the change.

There being no further discussion or questions, Mr. Hester opened the floor for a motion.

Move that the Board of Trustees of the Employees Retirement System of Texas:

- adopt the proposed amendments to Chapter 82, concerning Health Services in State Office Complexes and
- re-adopt Chapter 82, which include the changes adopted by the Board as provided by Exhibit A and this agenda item, because the reasons for initially adopting the chapter continue to exist.

Motion by Doug Danzeiser, second by Catherine Melvin.

Final Resolution: Motion Carries

Aye: Craig Hester, Doug Danzeiser, Ilesa Daniels, Catherine Melvin, Jim Kee

4. CONTRACT AWARD RECOMMENDATION

4.1 Review, Discussion and Consideration of the Contract Award Recommendation for the Third Party Administrative and Investment Advisory Services for the Texa\$aver Program – (ACTION)

Director of Procurement and Contract Oversight Gabrielle Schreiber explained that ERS currently contracts with Empower Retirement to provide the Third Party Administrative (TPA) services; Wells Fargo Bank to provide financial custodial services (Custodial Services); and Advised Assets Group, LLC, a subsidiary of Empower Retirement, to provide investment advisory services (Advisory Services) for the Texa\$aver 401(k) and 457 Deferred Compensation Program.

On November 21, 2018, ERS issued a Request for Proposal (RFP) for Texa\$aver program administration. Vendors could submit proposals for one or both of two services: the administration and custodial services, and/or the advisory services.

ERS received proposals from two entities to provide both services: Great-West Life & Annuity Insurance Company (Empower Retirement) proposed to provide the TPA services and through their wholly owned subsidiary, Advised Assets Group, LLC, the Advisory services; and Voya Institutional Plan Services, LLC (Voya) proposed to provide both services.

During the preliminary review phase, ERS’ Office of Procurement and Contract Oversight (OPCO) staff evaluate certain criteria on a pass/fail basis. This included compliance with the RFP, responsiveness, and certain vendor performance checks. Additionally, OPCO verified the respondents met the minimum requirements for both services.

Ms. Schreiber explained that once the preliminary review was completed, subject matter experts throughout the agency reviewed the proposals. The proposal review phase included an analysis and scoring of operational capabilities and services, and pricing. For the TPA and Custodial Services, Operational Capabilities and Services scores were weighted at 60% and Price Proposal scores were

weighted at 40%. For the Advisory Services, Operational Capabilities and Services scores were weighted at 70% and Price Proposal scores were weighted at 30%.

Based on the scoring for price proposals and pass/fail items, both respondents were recommended as finalists for both services.

Ms. Schreiber then discussed the finalists review phase. During this phase, ERS conducted site visits and face-to-face interviews with both finalists. Staff also evaluated best and final pricing offers, determined Contractibility and Legal Requirements, Regulatory Compliance, and Past Performance.

Ms. Schreiber introduced Georgina Bouton, Assistant Director of Group Benefits, to discuss the operational capabilities and services of the two finalists.

Ms. Bouton explained that both Empower Retirement and Voya are recognized as industry leaders, citing reports from Pension and Investments. She said that both finalists perform program administration core functions, including automatic enrollment administration, planned transaction processing, loan withdrawal processing, benefits administration and similar functions.

The finalists differ in readying participants for retirement and proving participant decision-making tools. Empower Retirement uses a "lifetime income score" to measure a participant's likelihood to replace his or her current income in retirement. Each participant is provided an estimated retirement income amount and this amount is then reflected as a percentage of the goal met. Voya uses the dollar bill as a visual representation of a participant's estimate of future retirement income. Their dollar in the "myOrangeMoney" tool turns orange as the retirement income goals are met by the participant.

Empower Retirement uses a server-based record keeping system, which they own, maintain and update. Voya uses an Omni-based record keeping system. While Voya does not own the system, they purchased the Omni-based code in 1985. Voya performs an overnight batch process to allow participants the flexibility to make changes to pending transactions online until the market closes.

Empower Retirement and Voya both offer program-level and participant-level advisory services. Program-level services include monitoring and evaluating fund performance, preparing performance analysis for the product review committee, analyzing the program's investment choices, and searching for new fund choices in accordance with the program's investment policy. Participant-level advisory services include licensed representatives to present at group informational meetings, educational seminars, and individual financial counseling sessions.

Empower Retirement advisory services are powered by Morningstar, and Voya advisory services utilizes Financial Engines.

Ms. Bouton then introduced Blaise Duran, Group Benefits Actuarial and Reporting Services Manager to present the price proposal and financial analysis. Mr. Duran explained that respondents could submit price proposals based on either a per-participant per-month basis or a per-participant per-account basis. Both Empower Retirement and Voya proposed a per-participant per-account price proposal, guaranteed over the six-year contract term. In addition, both Empower Retirement and Voya proposed reduced monthly fees if selected to provide both TPA services and Advisory Services.

Mr. Duran showed expected savings as compared to the current contracted rates. Empower Retirements' projected savings was \$24.9 million for TPA services only and \$28.5 million for both TPA and Advisory Services. Voya's projected savings were \$8.2 million for TPA services and \$12.1 million for both TPA and Advisory Services.

Mr. Hester pointed out that Empower Retirement's proposed administrative fees are significantly less than Empower Retirement fees under the existing contract, and asked about changes between the current contract and this proposal.

Ms. Schreiber responded that the best and final offer was quite a bit lower, but that in terms of operational capabilities and services, ERS expects to receive the same level of service.

Mr. Duran discussed the finalists' proposed cost for Advisory Services. Both finalists proposed a monthly fee per account, guaranteed over the six-year contract term. Mr. Duran presented an illustration of the projected Advisory Services fees at the current rates compared to the expected savings over the six-year period FY20 – FY25. Empower Retirement's projected savings compared to the current contract were \$0.8 million. Voya's proposed fees were the same as current rates.

ERS reviewed the RFP evaluation team findings and made a best-value determination.

Diana Kongevick, Director of Group Benefits, announced that staff recommend that the Board of Trustees of the Employees Retirement System of Texas award the TPA Services contract to Empower Retirement. Staff further recommend that the Board of Trustees of the Employees Retirement System of Texas award the Advisory Services contract to Advised Assets Group.

Mr. Danzeiser asked if the contract savings would impact members. Mr. Duran replied that since the Texa\$aver participants pay the fees cost savings would be passed to the participants when the new contract starts.

Ms. Melvin asked about the rigor of the examination in connection with data systems and security.

Ms. Schreiber replied the examination is extensive. ERS has three to four Information Technology subject matter experts on the evaluation team. ERS also requests a SOC 2 (or equivalent report) which is evaluated during the Proposal Review Phase. In addition, finalist data centers are included as part of the site visit process.

Ms. Melvin stated that she understood the current vendor would be motivated to keep the contract, but the price reduction is significant and inquired about any additional reasons for such a reduction.

Ms. Kongevick indicated that factors could include the impact of mergers and acquisitions in the market, shifting competition, and pressure to lower fees.

There being no further discussion or questions, Mr. Hester opened the floor for a motion.

Move that the Board of Trustees of the Employees Retirement System of Texas award the contract to:

Great West Life and Annuity Insurance Company doing business as Empower Retirement to provide third party administrative services for the Texa\$aver 401(k) and 457 Plans, collectively referred to as the Texa\$aver Program, for the Employees Retirement System of Texas pursuant to a contract which will cover a six year term.

Further move that the Board of Trustees of the Employees Retirement System of Texas authorize the Executive Director to negotiate and execute a contract with Empower with terms that are fully acceptable to ERS, and to authorize the Executive Director to thereafter administer the contract agreed to by the parties.

In the event that a contract fully satisfactory to ERS is not timely executed with Empower, or if it appears to the Executive Director during the term of the contract that Empower will not be capable of providing the required third party administrative services to ERS' satisfaction, then the Board authorizes the Executive Director to resume any necessary due diligence process and contract negotiations with the next top-ranked qualified respondent, and to negotiate and execute contract terms with the next top-ranked qualified respondent that are fully acceptable to ERS, and to authorize the Executive Director to thereafter administer the contract agreed to by the parties.

Advisory Services

Move that the Board of Trustees of the Employees Retirement System of Texas award the contract to:

Empower Retirement for advisory services to provide investment advisory services for the TexasSaver Program for the Employees Retirement System of Texas pursuant to a contract which will cover a six year term.

Further move that the Board of Trustees of the Employees Retirement System of Texas authorize the Executive Director to negotiate and execute a contract with Empower with terms that are fully acceptable to ERS, and to authorize the Executive Director to thereafter administer the contract agreed to by the parties.

In the event that a contract fully satisfactory to ERS is not timely executed with Empower, or if it appears to the Executive Director during the term of the contract that Empower will not be capable of providing the required investment advisory services to ERS' satisfaction, then the Board authorizes the Executive Director to resume any necessary due diligence process and contract negotiations with the next top-ranked qualified respondent, and to negotiate and execute contract terms with the next top-ranked qualified respondent that are fully acceptable to ERS, and to authorize the Executive Director to thereafter administer the contract agreed to by the parties.

Motion by Doug Danzeiser, second by Catherine Melvin.

Final Resolution: Motion Carries

Aye: Craig Hester, Doug Danzeiser, Ilesa Daniels, Catherine Melvin, Jim Kee

5. TEXAS EMPLOYEES GROUP BENEFITS PROGRAM

5.1 Review, Discussion and Consideration of Group Benefits Program Update and Proposed Rates for HealthSelect of Texas and Consumer Directed HealthSelect Plans with rates inclusive of plan changes – (ACTION)

Blaise Duran, Actuarial and Reporting Services Manager, Group Benefits, presented an overview of the HealthSelect Plans and explained that HealthSelect plan costs are funded by contributions paid by employers and enrolled members. State contributions are based on legislative appropriation. Currently, the State pays 100% of the contribution rate for eligible full-time employees and retirees, and 50% of the contribution for eligible dependents. State contributions are the same for HealthSelect of Texas®, Consumer Directed HealthSelectSM and HealthSelectSM Medicare Advantage.

Mr. Duran described the FY20 Contribution Rate Analysis. The Actuarial and Reporting Services unit and the consulting actuary analyzed the following critical factors in developing rates. These factors include:

- revenue requirements;
- state funding;
- historical enrollment;
- claims experience;
- projected contingency fund balance;
- cost containment practices;
- anticipated increases in plan costs attributable to the Affordable Care Act and
- the impact of participating Health Maintenance Organizations and funding for basic life and accidental death and dismemberment coverages.

The FY19 combined medical and prescription drug trend is estimated at 7.0%. This is composed of a medical benefit cost trend of 5.5% and a prescription drug trend of 11.3%. Mr. Duran pointed out that the prescription drug trend is in line with what is expected. Due to low utilization in early FY18, a higher medical benefit cost trend was previously expected; however, that rebound did not emerge. As a result, medical benefit cost trend is in line with an average year expectation.

Mr. Duran indicated the FY20 combined trend is expected to be approximately 7.4%, consistent with historic trend levels.

Mr. Hester requested clarification of the Rudd and Wisdom letter (Exhibit A) which included reference to a FY20 health plan benefit cost trend of 7.3%. Mr. Duran and Mr. Phil Dial, Rudd and Wisdom, Inc.

both agreed that the Rudd and Wisdom letter was correct and that the FY20 combined trend is expected to be approximately 7.3% and not 7.4% as mentioned earlier.

Mr. Duran stated that the expected trend means the combination of utilization and cost would result in an expected increase of 7.3% next year. The cost increase will be managed through contract savings and health plan management. It will be financed through those savings and the insurance contingency fund and the State or the member would not be asked to bear the increased costs.

Mr. Duran then presented the FY20 Contribution Rate Analysis. By statute, the Consumer Directed HealthSelect plan is required to be revenue neutral. ERS developed initial assumptions when developing the plan design to meet this requirement. The original pricing assumptions were based on a projected 3% enrollment. While the plan continues to grow, the current enrollment is still low at one-half of one percent. Therefore, when developing rates, ERS continues to use the original pricing assumptions.

Mr. Duran provided information about the recommendation to increase the annual Out-of-Pocket Maximum. ERS sets out-of-pocket maximums consistent with the Internal Revenue Service (IRS) maximums. The out-of-pocket maximums are increasing from \$6,650 to \$6,750 for individuals and from \$13,300 to \$13,500 for families. These increases are effective January 1, 2020 for HealthSelect plans and September 1, 2019 for HMO plans.

Mr. Danzeiser inquired if out-of-pocket maximums could be set at a lower amount or if there is a range allowed. Mr. Duran explained that in order to be consistent across both the HealthSelect plan and the Consumer Directed HealthSelect plan, ERS chooses to use the IRS maximums for the high deductible health plans. Mr. Duran also pointed out that the member out-of-pocket maximum includes costs for deductibles, coinsurance and copayments.

Mr. Duran presented slides showing the FY20 proposed monthly contribution rates for HealthSelect of Texas and Consumer Directed HealthSelect, which are the same as FY19 rates. In addition, under the Consumer Directed HealthSelect plan, there are no proposed changes in the State monthly contribution to health savings accounts (HSAs).

There being no further discussion or questions, Mr. Hester opened the floor for a motion.

Move that the Board of Trustees of the Employees Retirement System of Texas approve the proposed FY20 HealthSelect of Texas and Consumer Directed HealthSelect contribution rates, inclusive of the recommended plan change, as presented in this agenda item effective September 1, 2019.

Motion by Jim Kee, second by Ilesa Daniels.

Final Resolution: Motion Carries

Aye: Craig Hester, Doug Danzeiser, Ilesa Daniels, Catherine Melvin, Jim Kee

5.2 Review, Discussion and Consideration of Proposed Rates for Health Maintenance Organizations Plans – (ACTION)

Blaise Duran, Actuarial and Reporting Services, Group Benefits, provided an overview of the Health Maintenance Organization (HMO) plans. There are three HMO plans offered to participants:

- Community First Health Plans, Inc. (Community First)
 - Eight county service area in San Antonio region
- Baylor Scott & White Plan (Baylor Scott & White)
 - Thirty county service area in Austin-San Angelo-Temple-Waco region
- KelseyCare powered by Community Health Choice, Inc. (KelseyCare powered by CHC)
 - Five county service area in Houston region

For FY19, ERS staff did not publish Requests for Applications for HMOs. Similar to previous years, incumbent carriers were provided a renewal option, subject to due diligence.

Mr. Duran reminded the Board that ERS must comply with a rider in the State's appropriations act, which stipulates:

"In no event shall the total amount of state contributions allocated to fund coverage in an optional health plan exceed the actuarially determined total amount of state contributions required to fund basic health coverage for those active employees and retirees who have elected to participate in that optional health coverage."

To ensure compliance with the rider, ERS staff and consulting actuary use a theoretical cost index model (TCI). The TCI estimates the total cost that would be required to cover the HMO's participants if they were enrolled in HealthSelect of Texas. The rate analysis also includes the appropriateness of the methodology used by the HMO and the GBP claims experience.

With the significant savings, low to negative trend, and cost control efforts experienced in the HealthSelect plans, it has become significantly difficult for the HMO plans to meet the theoretical cost index.

Mr. Duran presented a map of the FY20 Community First service area and a table of the proposed FY20 rates, which remain at FY19 levels. This is consistent with no increase in the HealthSelect of Texas rates. The funding level from the State is also staying the same.

Mr. Duran then presented a FY20 service area map for Baylor Scott & White and a table of the proposed FY20 rates. In order to meet the theoretical cost index, Baylor Scott & White agreed to a reduction in rates of approximately 3% from FY19 rate levels. The 3% reduction translates to a \$12 monthly rate reduction for member and spouses and a \$20 monthly rate reduction for member and families.

With regard to KelseyCare powered by CHC, the proposed FY20 premium rates were 7.2% higher than FY19 rates. In order to meet the theoretical cost index, FY20 premium rates needed to reduce 3.1% from FY19 rates. KelseyCare declined to submit revised rates and chose to voluntarily withdraw from the GBP. Therefore, KelseyCare participants will be transitioned to the HealthSelect of Texas plan effective September 1, 2019.

Staff emphasized that the Kelsey Seybold providers who participate in KelseyCare also participate in the HealthSelect of Texas network and members can keep the same PCP if they remain in the plan. Because HealthSelect of Texas rates are higher, members who cover dependents will see a monthly contribution increase of about 29%.

Mr. Danzeiser asked why ERS did not publish Request for Applications.

Diana Kongevick, Director of Group Benefits, explained that because of the service area and rate requirements, the responses would have most likely been limited to our current vendors. Porter Wilson, Executive Director, concluded that ERS and the Board will likely have continued conversations about the future of HMOs within the GBP.

There being no further discussion or questions, Mr. Hester opened the floor for a motion.

Move that the Employees Retirement System of Texas Board of Trustees approve the extension of the HMO Carrier plans for Community First Health Plans, Inc. and Baylor Scott and White Health Plan, including the service areas described in Exhibit B and Exhibit C, and set contribution rates as presented in this agenda item for participation in the Texas Employees Group Benefits Program beginning September 1, 2019 and ending August 31, 2020.

Motion by Ilesa Daniels, second by Jim Kee.

Final Resolution: Motion Carries

Aye: Craig Hester, Doug Danzeiser, Ilesa Daniels, Catherine Melvin, Jim Kee

5.3 Review, Discussion and Consideration of Proposed FY20 Rates for State of Texas Dental Choice, Dental Health Maintenance Organization and State of Texas Dental Discount Plan – (ACTION)

Blaise Duran, Actuarial and Reporting Services, Group Benefits, gave an overview of the State of Texas Dental Choice PlanSM. The plan is self-funded and the Texas Employees Group Benefits Program (GBP) assumes all risk for claims and administrative expenses. Contributions from members must be sufficient to support the anticipated costs for the upcoming year. Member contribution rates are based on:

- claims experience through February 28, 2019;
- estimated trends in per capita benefit costs;
- projected provider reimbursement;
- historical enrollment patterns;
- contractually guaranteed administrative fees and
- proposed benefit changes.

Effective September 1, 2019, Delta Dental will administer the Dental Choice Plan. Based on the projected total cost evaluation performed by ERS staff and consulting actuary, the change in administrators is expected to reduce costs. This savings will more than offset the expected trend increase as well as the impact of the FY19 plan benefit changes. Therefore, it is recommended that the member contribution rates for FY20 decrease by 5% beginning September 1, 2019.

Delta Dental will also administer the DHMO plan effective September 1, 2019, and the FY20 DeltaCare HMO USA proposed rates are nearly identical to the FY19 DHMO rates. Since the premiums are paid in full by member contributions, the FY20 DHMO member contribution rates are set equal to the contractual premium rates.

Mr. Duran explained that enrollment in the Dental Choice Plan has been increasing over the years while enrollment in the DHMO and the State of Texas Dental Discount Plan has been steadily declining. Current enrollment as of March 31, 2019 showed enrollment in the Dental Choice plan was 185,581; enrollment in the DHMO was 68,746; and enrollment in the State of Texas Dental Discount Plan was 5,703.

Diana Kongevick, Director of Group Benefits, recommended that the Board discontinue offering the State of Texas Dental Discount Plan as part of the GBP. The plan is offered as part of the GBP with the Careington network. Careington does not pay any claims or provide claim management. The plan is an outlier in the GBP in that it is a discount only plan and not an insurance plan.

Ms. Kongevick explained that ERS staff would work with Beneplace, the administrator of the discount purchase program, to make discount dental plans available through the discount purchase program, similar to other discounts available through that program.

This change removes confusion for participants who may think that the State of Texas Dental Discount Plan is a less expensive dental insurance plan, instead of a discount plan. For those members who prefer a discount plan the change may provide additional options for them. Additional discount plans may be available through the discount purchase program at various price points. In addition, participants can move in and out of the dental discount plan throughout the year as they choose, instead of being locked into prescribed enrollment periods.

Ms. Kongevick stated these changes were discussed with the Group Benefits Advisory Committee (GBAC) in March and they were supportive.

Mr. Hester asked how ERS would communicate the change to the participants currently in the Dental Discount Plan, if approved.

Director of Benefits Communications Kathryn Tesar explained that ERS would outreach to affected members through a variety of communication channels

There being no further discussion or questions, Mr. Hester opened the floor for a motion.

Move that the Board of Trustees approve the FY20 State of Texas Dental Choice Plan rates for as attached as Exhibit A and the FY20 Dental Health Maintenance Organization (DHMO) rates as

attached as Exhibit B and further move that the State of Texas Dental Discount Plan be discontinued from the Texas Employees Group Benefits Program.

Motion by Catherine Melvin, second by Doug Danzeiser.

Final Resolution: Motion Carries

Aye: Craig Hester, Doug Danzeiser, Ilesa Daniels, Catherine Melvin, Jim Kee

5.4 Review, Discussion and Consideration of Proposed FY20 Rates for State of Texas Vision – (ACTION)

Blaise Duran, Actuarial and Reporting Services Manager, Group Benefits, reported that the State of Texas Vision plan is in its third year under the Texas Employees Group Benefits Program (GBP) and this plan has been well received.

This is a self-funded plan and the GBP assumes all risk, paying all claims and administrative expenses in excess of contributions. Contributions must be sufficient to support the anticipated costs for the upcoming year. Member contribution rates are based on:

- claims experience through March 31, 2019;
- estimated trend in benefits costs;
- projected provider reimbursement rates and
- contractually guaranteed administrative fees.

Mr. Duran compared FY18 plan enrollment to FY19 plan enrollment (as of March 31, 2019). He emphasized growth continues with 220,195 participants in FY19, up from 183,294 participants in FY18.

Next, Mr. Duran illustrated FY18 plan experience. With contributions of \$12.5 million, claims of \$7.3 million and administrative cost of only \$640 thousand, the plan earned money. Based on the plan experience ERS staff and the consulting actuary recommend that the FY20 member contribution rates decrease by 15% beginning September 1, 2019. This is about a \$1.00 drop in the member only rate and an almost \$3.00 drop in the member and family rate.

There being no further discussion or questions, Mr. Hester opened the floor for a motion.

Move that the Board of Trustees of the Employees Retirement System of Texas approve the FY20 State of Texas Vision Plan Proposed Rates effective September 1, 2019 as presented in this agenda item.

Motion by Jim Kee, second by Catherine Melvin.

Final Resolution: Motion Carries

Aye: Craig Hester, Doug Danzeiser, Ilesa Daniels, Catherine Melvin, Jim Kee

5.5 Review, Discussion and Consideration of Proposed FY20 Rates for Basic and Optional Term Life, Accidental Death and Dismemberment Plans – (ACTION)

Blaise Duran, Actuarial and Reporting Services, Group Benefits, described the funding arrangements for the life insurance plans. He explained that the life insurance plans are funded through a fully insured minimum-premium arrangement with Minnesota Life (the insurer).

The minimum premium arrangement includes maximum premium rates for each coverage that are guaranteed for the term of the contract. In no event will payments to the insurer exceed the amount calculated and based on the guaranteed maximum premium rates over the term of the contract. On a weekly basis, ERS reimburses the insurer in an amount equal to the actual life insurance claims paid by the insurer during the previous week and on a monthly basis, ERS pays the contractual administrative fees.

The Accidental Death & Dismemberment (AD&D) plan is fully insured by Minnesota Life. The AD&D premium is based on rates guaranteed for the term of the contract.

Mr. Duran noted Requests for Proposals for the Life and AD&D plans will be issued in FY20 with an effective date of September 1, 2021.

A discussion of member contribution rates followed and Mr. Duran explained that member life plan rates are developed based on:

- reasonable expectations of future claims determined through a review of the plan experience over the last five years,
- anticipated claim payment patterns,
- expected investment income earned on funds held by ERS and
- maximum claims rates and administrative fees included in the contract with Minnesota Life Insurance Company (Minnesota Life).

Mr. Duran said that the Basic and Optional Life experience summary for the five-year period from FY14 – FY18 shows a Life Total loss ratio of 99.3%. The Basic Life coverage loss ratio is a little high at over 100%; Optional Life is close to where we would want it at 98.9%; and Dependent Life is high at 105%.

Mr. Hester asked if those loss ratios are the expected trend going forward and Mr. Duran confirmed that the loss ratios have been stable (with only mild fluctuations) and are expected to continue. There are plans to look at the breakout of rates among the different products to determine any needed adjustments, but for the time being there is a comfort with the overall life loss ratio of 99.3%.

Phil Dial, Rudd and Wisdom, Inc., added there are some factors that could prompt an adjustment, but overall the indication is that the rates are adequate.

Mr. Duran then presented the staff recommendation that the proposed FY20 member contribution rates remain at current FY19 levels.

There being no further discussion or questions, Mr. Hester opened the floor for a motion.

Move that the Board of Trustees of the Employees Retirement System of Texas approve the proposed FY20 member contribution rates for the Basic Life and Accidental Death and Dismemberment, Optional Term Life, and Voluntary Accidental Death and Dismemberment plans effective September 1, 2019 and as presented in this agenda item.

Motion by Doug Danzeiser, second by Catherine Melvin.

Final Resolution: Motion Carries

Aye: Craig Hester, Doug Danzeiser, Ilesa Daniels, Catherine Melvin, Jim Kee

5.6 Review, Discussion and Consideration of Proposed FY20 Rates for Texas Income Protection Plan – (ACTION)

Blaise Duran, Actuarial and Reporting Services, Group Benefits, provided an overview of the Texas Income Protection Plan (TIPP). There are two self-funded plans:

- Short-term disability – benefits last approximately five months after a one-month elimination period
- Long-term disability – benefits can last for many years and the maximum benefit period ranges from 12 months to Social Security Retirement Age after a 6-month elimination period

Both of these plans are funded through member contributions from those who elect to participate in the plan. The member contributions rates are based on the following:

- reasonable expectations of future claims,
- anticipated claim payment patterns,
- expected investment income on funds held by ERS and

- the administrative fees associated with the Texas Income Protection PlanSM (TIPP) benefit administration.

Mr. Duran explained that different contribution rate approaches are used for short-term and long-term disability. Because short-term disability has short-term liabilities, recent experience is used. For long-term disability, claims are longer in duration; therefore, experience is evaluated over many years.

Member enrollment in the TIPP remains relatively stable. As of March 31, 2019, including higher education members, there were 113,222 (49%) of GBP employees enrolled in the short-term disability coverage and 86,441 (37%) of GBP employees enrolled in long-term disability coverage.

Mr. Duran said that short-term disability experience had a FY18 net gain of \$25,518 and an FY19 net gain of \$216,081 as of March 31, 2019. The plan is performing at close to break-even, which is the desired result with this plan and indicates the plan is priced appropriately. Staff recommend no change to the rates.

The long-term disability experience covers a 10-year period ending FY17 and reflects an approximate \$16 million dollar gain. When comparing the actual experience to adjusted assumptions (the amount that would have paid over that 10-year period based on current contribution rates and administrative fees paid to the administrator), there is a \$3.5 million loss. The long-term disability plan is close to break-even given the actual \$16 million gain over the same timeframe. Therefore, staff recommend that the FY20 monthly member contributions rates remain the same as in FY19.

Mr. Hester opened the floor for a motion.

Move that the Board of Trustees of the Employees Retirement System of Texas approve the proposed FY20 member contribution rates for the Texas Income Protection Plan effective September 1, 2019 and as presented in this agenda item.

Motion by Jim Kee, second by Ilesa Daniels.

Final Resolution: Motion Carries

Aye: Craig Hester, Doug Danzeiser, Ilesa Daniels, Catherine Melvin, Jim Kee

5.7 Review, Discussion and Consideration of Proposed FY20 Fees for TexFlex Program – (ACTION)

Blaise Duran, Actuarial and Reporting Services, Group Benefits, provided an overview of the TexFlex Program. There are three type of flexible spending accounts:

- Health Care Reimbursement Account
- Limited Reimbursement Account
- Dependent Care Reimbursement Account

Additionally there is a Commuter Spending Account.

The TexFlex program is funded by pre-tax salary contributions from active employees and reimburses participants for qualified, eligible expenses.

Mr. Duran explained that participants who chose to contribute to any of the three flexible spending accounts paid no account administration fees. In previous years, employees enrolled in a flexible spending account were responsible for a nominal account administrative fee of \$1 per account per month. For FY17, FY18 and FY19, ERS granted an administrative fee holiday waiving the participating member's administrative fee. Instead, administration fees are paid from the previous year's forfeited funds balance. Staff recommend a continuation of the administrative fee holiday for FY20.

Mr. Duran reviewed enrollment and account contributions, pointing out a 4% enrollment decrease in the Health Care Reimbursement Plan and a 2% enrollment decrease in the Dependent Care Reimbursement Plan for a total average combined decrease of 4%.

Commuter Spending Account enrollment began January 1, 2016 with a benefit start date of March 1, 2016. The account is available to those who utilize mass transit and/or incur parking expenses as part of their daily commute. Participants can enroll and unenroll on a monthly basis.

The Commuter Spending Account administrative fee cost (per member) is \$3 per month or \$36 annually and is paid entirely by the participant. Currently, 23 participants elected to participate in the parking benefit and 144 participants elected to participate in the transit benefit. While participation increased, enrollment remains low. Consistent with the IRS rules, forfeited fund balances cannot be used to pay the Commuter Spending Account administrative fee, Staff recommends no change to that fee.

Mr. Danzeiser asked about flexible spending account trends in connection with forfeitures.

Mr. Duran responded that the total forfeitures balance is currently \$18 million. He indicated that the \$500 carryover specific to the Health Care Reimbursement Plan has reduced forfeitures but it has not eliminated them.

Diana Kongevick, Director of Group Benefits, responded to Mr. Danzeiser's question regarding whether participants receive a notice of the amount they forfeit each year. She explained that participants are provided notice of the status of their account, the amount of funds available and any deadlines. Ms. Daniels and Ms. Melvin confirmed notices are provided and discussed the various types of information provided to participants to avoid forfeiture of funds.

Executive Director Porter Wilson pointed out that, in addition to the Board approving the administrative fee holiday, debit cards were also approved by the Board to provide easier access to health care spending account funds. In many cases, use of a debit card reduced the amount of claims substantiation required and made access to TexFlex funds easier.

Ms. Melvin stated that there is also a run-out period at the end of each year, which allows members additional time to submit claims. Ms. Kongevick confirmed that the run-out period allows a participant to incur the claims and then submit for reimbursement later but before the end of the run-out period.

Machelle Pharr, Chief Financial Officer, provided information citing that, although last year's calculation is not complete, it appears there is a decline in forfeitures.

Mr. Danzeiser requested an update on the Commuter Spending Account and the Capital Metro pilot.

Ms. Kongevick informed the Board of a recent meeting between ERS and Capital Metro. Capital Metro is in the process of completing a pilot program with a small agency to simplify use of the program.

Mr. Danzeiser commented that Capital Metro has a discount program for large employers. If the discount could combined with our Commuter Spending Account it could increase the benefit to our participants. He offered the Board's assistance in reaching out to Capital Metro if needed to encourage action in this area. Ms. Kongevick and Mr. Wilson both agreed they would involve the Board if there were an opportunity for their involvement.

There being no further discussion or questions, Mr. Hester opened the floor for a motion.

Move that the Board of Trustees of the Employees Retirement System of Texas approve an FY20 administrative fee holiday for the TexFlex program applicable to those participants enrolled in the Flexible Spending Health Care Reimbursement and Dependent Care Reimbursement plans, and continue the \$3.00 per month (or \$36 per year) employee-paid fee for the Commuter Spending Account.

Motion by Catherine Melvin, second by Doug Danzeiser.

Final Resolution: Motion Carries

Aye: Craig Hester, Doug Danzeiser, Ilesa Daniels, Catherine Melvin, Jim Kee

6. GROUP BENEFITS FUNDING POLICY

6.1 Review and Discussion of the Group Benefits Funding Policy Draft Document

Diana Kongevick, Director of Group Benefits, described the development of a Texas Employees Group Benefits Program Funding Policy Document. The Board requested that ERS staff develop a health funding policy similar to the pension policy adopted in May 2018. Program structure and goals were discussed at the December 2018 Board meeting.

As a result of comments from that meeting, staff updated the policy's goals and presented a more detailed outline document at the March 2019 Board meeting with a request for the Board to provide feedback and comments for use in drafting the policy document. In addition, the draft outline was shared with members of the Group Benefits Advisory Committee at their March 2019 meeting.

Blaise Duran, Actuarial and Reporting Services, Group Benefits, discussed the framework for developing the policy document and reviewed the proposed purpose and scope of the GBP policy. The draft policy applies only to the health insurance programs and basic term life programs funded through the legislative appropriation process. The policy does not include optional benefit plans.

Mr. Duran discussed the various policy goals and guidelines and Ms. Kongevick asked the Board to review the policy draft document and provide comments by early July. Edits will then be incorporated into a final document and presented to the Board for approval at the August 2019 Board meeting.

Mr. Danzeiser asked about a process to track the Member Cost Share over time in order to provide the Board a historical record of any increases and reductions. Mr. Duran replied that this information is available and can be provided to the Board. He noted that on a percentage basis, the Member Cost Share continues to reduce every year even though plan costs have increased. Mr. Hester requested that this historical information be provided to the Board at the August meeting.

Mr. Danzeiser stated that when he attended the Group Benefits Advisory Board meeting, there was some analysis done comparing our benefits to other plans and he asked if that type of analysis should be part of the funding policy document Mr. Wilson said that ERS staff would work to provide the Board an analysis comparing ERS benefits to the private sector in some regular manner.

Mr. Wilson reminded the Board that the draft policy is available to the Board at the Board site for their additional input and comments. The final draft should be available in advance of the August Board meeting where it will be presented for action.

This agenda item was presented for information and discussion purposes only. No further discussion occurred or questions asked, and no action was taken.

7. INCENTIVE COMPENSATION PLAN

7.1 Review and Discussion of the Incentive Compensation Plan for Fiscal Year 2020

DeeDee Sterns, Director of Human Resources, and Jamey Pauley, Program Specialist, Enterprise Planning Office, presented the review of the Incentive Compensation Plan (ICP) for Fiscal Year 2020. The board reviews the ICP on an annual basis. During the May board meeting, staff provides a draft of the plan and any suggested changes for Board review. During the August board meeting, staff presents the final proposed plan document for consideration. The plan must be adopted before the new fiscal year that begins September 1, 2019.

Ms. Sterns reported the objectives of the plan are to communicate the strategic performance priorities, encourage sustained levels of high investment performance without undue risk, promote teamwork among employees, support ERS' strategic and operational goals, and attract and retain key employees.

In order to be eligible for the ICP participating employees must be in compliance with all the ERS policies and procedures and the ERS investment policy. All participants must be in good standing and new hires must successfully complete their six-month probationary period. Performance measures are

based on a one, three, and five-year performance period. There are individual and total trust performance benchmarks and participants have to meet those benchmarks in order to receive an award. The benchmarks are set in the investment policy, unless otherwise stated in the ICP document.

Ms. Sterns noted that participants are evaluated on both quantitative and qualitative metrics. The metric is based on 25% of total trust performance, with a maximum of 25% on the qualitative. Investments uses a discretionary matrix tool to evaluate participants' qualitative performance. Payout of incentive award is done over a three-year period, 50% in the first year, 25% each year following. The awardee must be an active and eligible ERS employee on each payment date to receive the full amount. If the Trust does not have positive performance, incentive compensation can still be earned, but an award will not be paid until the Trust Fund has a positive year. During non-positive years, award payments are deferred and after three years of deferrals, unpaid incentive awards are forfeited. Ms. Sterns reported that metrics and calculations are tied to the risk budget, which is approved by the board. ICP awards are calculated based on a weighted average salary. If an award is paid in error there is a clawback provision in the plan requiring the participant to repay.

Human Resources manages the administrative oversight of the plan and Finance performs the award calculations. A third-party entity performs an independent review, and there is both an internal and external audit that helps ensure payments are in accordance to the plan.

Staff annually reviews the Plan and related processes to recommend improvements to the Board. This year, staff conducted a thorough review of the Plan document with executive management and other key stakeholders. In addition to the Plan document review, staff conducted a study to determine how ERS's ICP maximum award percentages compare to those of its peers.

Mr. Pauley stated that Segal Waters Consulting recently conducted a total compensation study for non-administrative positions within the ERS Investments division. In July 2018, they issued the final report, which was reviewed with the board in August 2018. One of the findings from the report indicated that ERS may be significantly above the market average with regard to maximum award percentages for ICP.

While the study showed that ERS was 161% of market, there were questions raised with regard to the reliability of this finding due to the small peer-group sample size. Only 5 of the 10 peers in Segal's study provided data related to the maximum award percentages. Mr. Pauley said that this prompted ERS executive management to initiate a follow-up study focused solely on ICP. This study was performed in-house by ERS staff.

Mr. Pauley reported that with regard to the methodology, staff began work to identify a more appropriate peer group for comparing maximum award percentages. Staff focused on state and public school retirement systems across the U.S., as well as peer funds located in Austin, Texas. Of the more than 60 funds researched, 24 have an ICP. Based on comparableness in investment style and operations, the peer group was narrowed down to 20. All of the peers provided ERS with copies of their ICP documents and showed a willingness to provide additional information and data if requested. Staff also obtained industry survey data.

In addition to narrowing the sample size to 20, staff narrowed its analysis to jobs identified as those most common among the industry. These are referred to as Key Benchmark Jobs and they include Chief Investment Officer, Asset Class Directors, Portfolio Managers, and Investment Analysts. In performing the analysis, staff reviewed the plan documents of each peer and contacted them with follow-up questions.

Mr. Pauley reported that the analysis showed that ERS is not significantly above market with regard to the maximum award percentages for ICP. When considering the entire peer group, ERS shows on aggregate to be approximately 109% of market. Furthermore, when considering just the three peers located within Austin, ERS shows on aggregate to be approximately 78% of market. The additional industry survey data that staff obtained was also consistent with these findings. Mr. Pauley informed the board, that based on this additional review and these findings, staff are not recommending changes to the maximum award percentages within ERS' ICP structure at this time.

With regard to the ICP document review, staff conducted an in-depth review of the ICP document for Fiscal Year 2020. The document review team included the Executive Office, Human Resources, Finance, Office of the General Counsel, Investment Compliance, and Investments. An outside tax counsel will also conduct a review before the document is presented to the Board for final approval in August 2019.

Staff are proposing two material changes in the document. The first is to move the payment date from December 1 to February 1, and the second is to create a subsection for "Underpayment" within the "Incentive Compensation Award Payments and Limitations" section of the ICP document.

Upon conclusion of the ICP study portion of the presentation, Mr. Danzeiser asked Mr. Pauley if any of the staff who conducted the internal study were eligible for ICP. Mr. Pauley said that he was the one primarily responsible for conducting the study, and that he is not eligible for ICP.

During the ICP document review portion of the presentation, Mr. Hester asked if the reason for proposing the new "Underpayment" section was the result of looking at the other 20 ICP documents or whether it was because we had some miscalculations. Mr. Pauley responded that it was primarily because of some recent miscalculations, and that the new language would provide staff with the policy guidance to address this.

Mr. Pauley also generally explained the nature of the non-material changes that staff are also proposing.

Dr. Kee asked if the primary reason for conducting the ICP study was because ERS felt that the original peer group providing ICP data from the Segal study was not valid. Mr. Pauley and Porter Wilson, Executive Director, confirmed that this was the purpose of the additional study. Mr. Wilson also indicated that another important objective from the exercise around the study was to establish a valid peer group that we can use to conduct more studies in the future and be confident that the data sets will be consistent over time.

Ms. Melvin indicated that it makes her wonder about the methodology that the vendor used in the original study. Ms. Sterns and Mr. Wilson said that Segal Waters' methodology was sound but that ICP was not a primary part of the scope of their study. Direct compensation was their primary scope.

Mr. Danzieser asked if the ICP penalizes staff who take on excessive risk to beat their benchmarks. Mr. Wilson indicated that the investment policy, rather than the ICP document, is where the control for risk is articulated. Tom Tull, Chief Investment Officer, confirmed that the investment policy defines how much risk the various asset classes are allowed to take. He said that ICP participants do not earn extra for taking on additional risk.

This agenda item was presented for information and discussion purposes only. No further discussion occurred or questions asked, and no action was taken.

8. EXECUTIVE DIRECTOR REPORT

8.1 Executive Director Agency Update

86th Legislative Session Updates – Porter Wilson, Executive Director, reported that staff have tracked around 400 bills this legislative session. In addition, the Finance division has coordinated around 150 cost estimates for proposed legislation. Both bill analyses and cost estimates require input from staff throughout the agency, often on short deadlines. The ERS Board Report¹ is included, which lists bills that could have an impact on the agency, members and retirees.

ERS Board of Trustee Election Update – ERS certified two candidates (Brian Barth, Texas Department of Transportation and Cora Bennett, Texas Juvenile Justice Department) for the 2019 ERS Board of Trustees Election. The candidate forum was held on May 9 and is recorded on the ERS website. Voting is held from May 10 through June 14. The election administrator will be at ERS to announce the election results on July 11.

Membership Benefits Survey – Staff are developing a survey to members and retirees about their satisfaction with their retirement and benefits. Staff will be consulting with the Group Benefits Advisory Committee on the questionnaire. ERS intends to partner with a consultant to distribute, collect and analyze data from the electronic survey, which will be sent to a representative sample of members and retirees in early fall.

Summer Enrollment Update – Summer Enrollment for Plan Year 2020 will take place over a five-week period from June 24 through July 26, 2019. ERS will provide each participant a customized Personal Benefits Enrollment Statement, answer member questions via the phone, emails and in-person. Numerous enrollment fairs will be held around the state, which gives ERS an opportunity to share important benefits information with members and to help those members make benefits changes. Members can go online to make any needed benefits changes, or call to make a change.

Get Fit Challenge Update – ERS took first place for mid-sized state agencies with 201-500 full time employees. ERS had 67.4% of employees completing the challenge. Francesca Dooley in Human Resources led the effort and accepted the award on behalf of ERS.

9. EXECUTIVE SESSION

9.1 Executive Session – In accordance with Section 551.074, Texas Government Code, the ERS Board of Trustees will meet in executive session to deliberate the employment, evaluation and duties of the Executive Director of the Employees Retirement System of Texas. Thereafter, the Board may consider appropriate action in open session.

Mr. Hester stated it was 4:00 p.m. on May 22, 2019. In accordance with Section 551.074, Texas Government Code, the ERS Board of Trustees will meet in executive session to deliberate the employment, evaluation and duties of the Executive Director of the Employees Retirement System of Texas. Thereafter, the Board may consider appropriate action in open session.

Upon from returning from executive session, Mr. Hester announced it was 4:23 p.m. on May 22, 2019, and the Board is now in open session. No action, decision, or vote was taken by the Board while in executive session.

10. ADJOURNMENT

10.1 Adjournment of the ERS Board of Trustees meeting

Chairman Hester asked for a motion to adjourn and Ms. Melvin moved to adjourn the Board of Trustees meeting at 4:30 p.m.

¹ Exhibit A – Page 20

**Filed Legislation Affecting the Employees Retirement System of Texas
86th Texas Legislature, Regular Session**

Grey Text = Past Procedural Deadline

Green/Bold = Passed Bill

Bill	Author	Summary	May 14, 2019
RETIREMENT			
<i>Retirement - Elected Class</i>			
SB 223	Seliger	Fixes elected class annuities for legislators and statewide elected officials at 2% per year of service of a district judge's salary as of 8/31/19.	Referred to State Affairs 2/1/19
HB 814	Landgraf		Referred to PIFS 2/25/19
HB 1150	Hinojosa	Sets the retirement annuity for members of the legislature and the Lieutenant Governor equal to the average annuity of a retired classroom teacher.	Referred to PIFS 2/26/19
SB 729	Fallon	Fixes elected class annuities at 2% per year of service of \$140,000 for members of the elected class with all service earned as member of the legislature.	Referred to State Affairs 3/1/19
HB 2341	Toth		Referred to PIFS 3/6/19
HB 4399	Cain	Changes legislative base salary for annuity purposes from the salary of a district judge to the Constitutional legislator's salary.	Filed 3/7/19
SB 1522	Fallon	Requires ERS to suspend annuity payments to former legislators working as lobbyists.	Referred to State Affairs 3/14/19
<i>Retirement - Employee Class</i>			
HB 425	Allen, Alma	Provides an immediate 10% COLA, effective 9/1/19, plus a 4% annual COLA for annuitants. Also provides a supplemental payment equal to the lesser of the monthly annuity or \$2,000, payable in January '18.	Referred to PIFS 2/20/19

Bill	Author	Summary	May 14, 2019
SB 680	Fallon	Caps the annuity of a retiree from a public retirement system at a maximum based on certain Federal salaries.	Referred to State Affairs 3/1/19
HB 3522	Murphy	Permits the assignment of ERS death benefits to funeral home directors.	Referred to Senate State Affairs 5/6/19
SB 1570	Flores	Prevents certain corrections officers from receiving a pension if they are convicted of a felony.	Referred to PIFS 5/13/19
Retirement - JRS Plan 1 & Plan 2			
SB 48	Zaffirini	Allows JRS 2 retirees to resume service in JRS 2 if they return to service as a judicial officer after a break of more than 12 months, and have their annuity recalculated when they leave service.	Referred to State Affairs 2/1/19
HB 1222	Wray	Provides a salary increase to certain justices and judges.	Pending in Judiciary 4/15/19
HB 210	Craddick	Recalculates JRS 2 annuities for judges who are required to retire due to constitutional age limits if a judicial pay raise occurs within one year of the retirement.	Scheduled for hearing in PIFS 4/25/19
SB 387	Huffman	Judicial pay raises.	Referred to State Affairs 2/14/19
HB 2384	Leach		Pending in Senate State Affairs 5/9/19
HB 3951	Longoria	Requires ERS to recalculate JRS 2 annuities if a judicial pay raise is approved.	Scheduled for hearing in PIFS 4/25/19
SB 1466	Hughes		Referred to State Affairs 3/14/19

Bill	Author	Summary	May 14, 2019
Retirement - Law Enforcement and Custodial Officer Supplemental Retirement Fund (LECOSRF)			
SB 346	Zaffirini	Amends the collection of state criminal court costs, including the costs allocated to LECOSRF.	Reported from House Judiciary 5/10/19
HB 2356	Munoz	Includes overtime as compensation for pension purposes for certain DPS officers and game wardens working in border counties.	Referred to PIFS 3/6/19
HB 2473	Gutierrez	Permits peace officers employed by institutions of higher education and public schools to move from TRS to ERS, effective 1/1/2020, and participate in LECOSRF. Also adds certain peace officers employed by the state and correctional officers at the Texas Juvenile Justice Department to LECOSRF.	Referred to PIFS 3/11/19
SB 2057	Menendez		Referred to State Affairs 3/21/19
HB 2619	Cole	Permits peace officers employed by institutions of higher education and public schools to move from TRS to ERS, effective 1/1/2019, and participate in LECOSRF, and permits ERS retirees to return to service as a peace officer and have their annuity recalculated upon re-retiring.	Referred to PIFS 3/11/19
HB 3983	Leach	Adds peace officers employed by the Attorney General to LECOSRF.	Scheduled for hearing in PIFS 4/25/19
SB 1864	Hinojosa		Filed 3/7/19
HB 4229	Hefner	Allows DPS offices to include overtime pay for purposes of calculating their contribution and annuity.	Filed 3/7/19
Texa\$aver			
HB 2414	Cortez	Amends the Texa\$aver defined contribution plan to make it optional for new employees.	Recommended for L&C Calendar

Bill	Author	Summary	May 14, 2019
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Defined Benefit Plans

SB 2428	Bettencourt	Allows ERS and TRS to offer defined benefit retirement plans.	Referred to State Affairs 3/21/19
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CHAPTER 615
(Survivor benefits for officers killed in the line of duty)

HB 872	Hefner	Adds jailers, county jailers, and guards to the officers eligible for certain Chapter 615 benefits.	Recommended for L&U Calendar 5/13/19
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HB 1618	Cyrier	Allows certain members of Texas military forces to qualify for Chapter 615 Benefits if killed in the line of duty.	Referred to State Affairs 4/29/19
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HB 1926	Herrero	Expands responsibility of employer to notify ERS of certain line of duty deaths.	Referred to PIFS 3/5/19
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SB 1396	Flores		Referred to State Affairs 3/14/19
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SB 1171	Menendez	Makes survivors of members of Texas Military Forces eligible for Chapter 615 benefits.	Referred to Veteran Affairs 3/7/19
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INSURANCE

Insurance - Coverages

HB 170	Bernal	Requires the GBP to cover diagnostic mammography in the same manner as screening mammography.	Referred to B&C 5/7/19
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Bill	Author	Summary	May 14, 2019
HB 217	Gervin-Hawkins	Requires the GBP to cover a hair prosthesis for cancer patients	Received in the Senate 5/13/19
HB 565	Coleman	Requires the GBP to conform with certain ACA coverage requirements	Pending in Insurance 3/5/19
HB 762	Wu	Requires the GBP to cover certain HIV testing	Pending in Insurance 3/5/19
SB 107	Menendez	Requires the GBP to cover PTSD as a serious mental illness	Referred to Business & Commerce 2/1/19
SB 145	Rodriguez	Requires the GBP to conform with certain ACA coverage requirements	Referred to Business & Commerce 2/1/19
HB 1645	Beckley	Requires the GBP to provide coverage for pre-existing conditions.	Referred to Insurance 3/4/19
HB 2114	Martinez Fischer		Pending in Insurance 4/16/19
SB 344	Watson	Prohibits the GBP from automatically rejecting a campus-based mental health professional from contracting with the plan based on the professional's service area.	Referred to Business & Commerce 2/7/19
HB 3039	Turner	Requires the GBP to cover vaccinations for bacterial meningitis	Referred to Insurance 3/13/19

Insurance - Pharmacy

Bill	Author	Summary	May 14, 2019
HB 937	Davis	Requires the GBP to provide an enrollee with up to a 12 month supply of a covered contraceptive.	Sent to Calendars 4/8/19
SB 795	Alvarado		Referred to Business & Commerce 3/1/19
SB 469	Kolkhorst	Prohibits the GBP from preventing a pharmacy to disclose drug costs.	Referred to Business & Commerce 2/14/19
HB 1584	Thompson	Requires the GBP to cover certain prescription drugs for stage-four advanced, metastatic cancer.	Referred to B&C 5/10/19
SB 1148	Buckingham		Referred to Business & Commerce 3/1/19
Insurance - Other			
HB 392	Blanco	Amends Chapter 1552, Insurance Code, to allow ERS to provide long-term care insurance that is not group insurance.	Passed Senate Local Calendar 5/10/19
HB 839	Hernandez	Adds the ERS Group Benefits Advisory Committee to Chapter 1551, Insurance Code	Referred to PIFS 2/25/19
HB 1440	Tinderholt	Requires ERS to develop health benefit programs comparable to TRS coverage, and restricts current and retired legislators, lieutenant governors, and governors to enrolling in those plans.	Referred to PIFS 2/27/19
HB 1742	Smithee	Adds non-network laboratories to the list of medical facilities subject to mediation.	Voted from B&C 5/14/19
SB 1914	Johnson		Filed 3/7/19

Bill	Author	Summary	May 14, 2019
SB 22	Campbell	Prohibits transactions between a governmental entity and an abortion provider or affiliate.	Sent to House Calendars 4/17/19
HB 2367	Bonnen	Prohibits a carrier from submitting bids to ERS if the carrier has terminated a contract with a physician or provider for notifying an enrollee about certain coverage options.	Referred to B&C 5/13/19
HB 2525	Burrows	Requires health care facilities and practitioners to disclose prices to patients, and permits patients to share savings if a patient chooses a less costly service.	Heard in PIFS 4/18/19
HB 2894	Collier	Amends Penal Code criminal offense of health care fraud.	Referred to Senate Criminal Justice 5/10/19
SB 1377	Buckingham		Referred to Criminal Justice 3/14/19
HB 3933	Martinez Fischer	Requires the GBP to cover emergency care and out-of-network facility-based providers	Left pending in Insurance 4/2/19
SB 1264	Hancock		Reported from Insurance 5/13/19
HB 4026	Dominguez	Permits public school retirees to participate in the GBP.	Pending in PIFS 5/2/19
HB 4076	King	Moves certain education employees from the TRS health plan into the GBP.	Referred to PIFS 3/21/19
HB 4101	Meza	Removes the waiting period for new employees to receive GBP coverage.	Referred to PIFS 3/25/19
HB 4153	Anchia	Allows spouses and dependents of wrongfully convicted to participate in the GBP	Set on House Calendar 5/9/19

Bill	Author	Summary	May 14, 2019
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OPEN RECORDS

SB 730	Fallon	Prohibits ERS from withholding the names or annuity amounts of annuitants who were or are members of the legislature.	Referred to Business & Commerce 3/1/19
HB 2189	Capriglione	Amends the disclosure requirements for certain governmental contracts under the Public Information Act.	Sent to Calendars 4/17/19
SB 943	Watson		Reported from House State Affairs 5/10/19

INVESTMENTS

SB 322	Huffman	Requires retirement systems to select a firm to regularly assess the retirement system's investment practices and performance.	Reported from PIFS 5/14/19
HB 1887	Murphy		Pending in PIFS 3/26/19
HB 1170	Anchia	Prevents ERS from investing in companies that manufacture firearms or ammunition.	Referred to PIFS 2/26/19
HB 2649	Flynn	Requires public retirement systems, including ERS, to report investment commissions and fees.	Scheduled for hearing in PIFS 4/25/19
HJR 143	Bonnen	Amends the constitution to allow the legislature to appoint public officers to invest and manage public funds.	Referred to Senate State Affairs 4/29/19

HB 793	King	Exempts certain small business contracts from the requirement that the contractor certifies that it does not boycott Israel	Effective 5/7/19
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Bill	Author	Summary	May 14, 2019
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FUNDING

SB 500	Nelson	Supplemental Appropriations bill.	Conferees appointed 4/18/19
SJR 4	Menendez	Raises the Constitutional minimum state contribution from 6% to 7%	Referred to State Affairs 2/7/19
SB 456	Huffman	Increases the statutorily required contribution to the ERS Trust Fund from 7.4% to 9.5%.	Referred to State Affairs 2/14/19
HJR 10	Capriglione	Establishes the Texas Legacy Fund, portions of which may be used to lower the unfunded liability of ERS.	Received in Senate 4/24/19
SJR 60	Menendez	Raises the Constitutional maximum state contribution from 10% to 11%	Filed 3/7/19
SB 2224	Huffman	Requires public retirement systems, including ERS, to adopt a funding policy	Referred to PIFS 4/16/19
HB 4159	Capriglione	Permits agencies to not implement certain programs if no appropriation is made.	Pending State Affairs 4/8/19
SB 1369	Buckingham		Referred to Finance 3/14/19

BOARD OF TRUSTEES

HB 596	Hernandez	Allows one of the members elected to the Board of Trustees to be a retiree. Effective for the elected member position taking office on 9/1/2021.	Referred to Senate State Affairs 4/15/19
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Bill	Author	Summary	May 14, 2019
HB 784	Davis	Requires Board of Trustees members to disclose conflicts of interest and refrain from voting if such a conflict exists	Left pending in State Affairs 4/8/19
