



ERS

EMPLOYEES  RETIREMENT
SYSTEM OF TEXAS

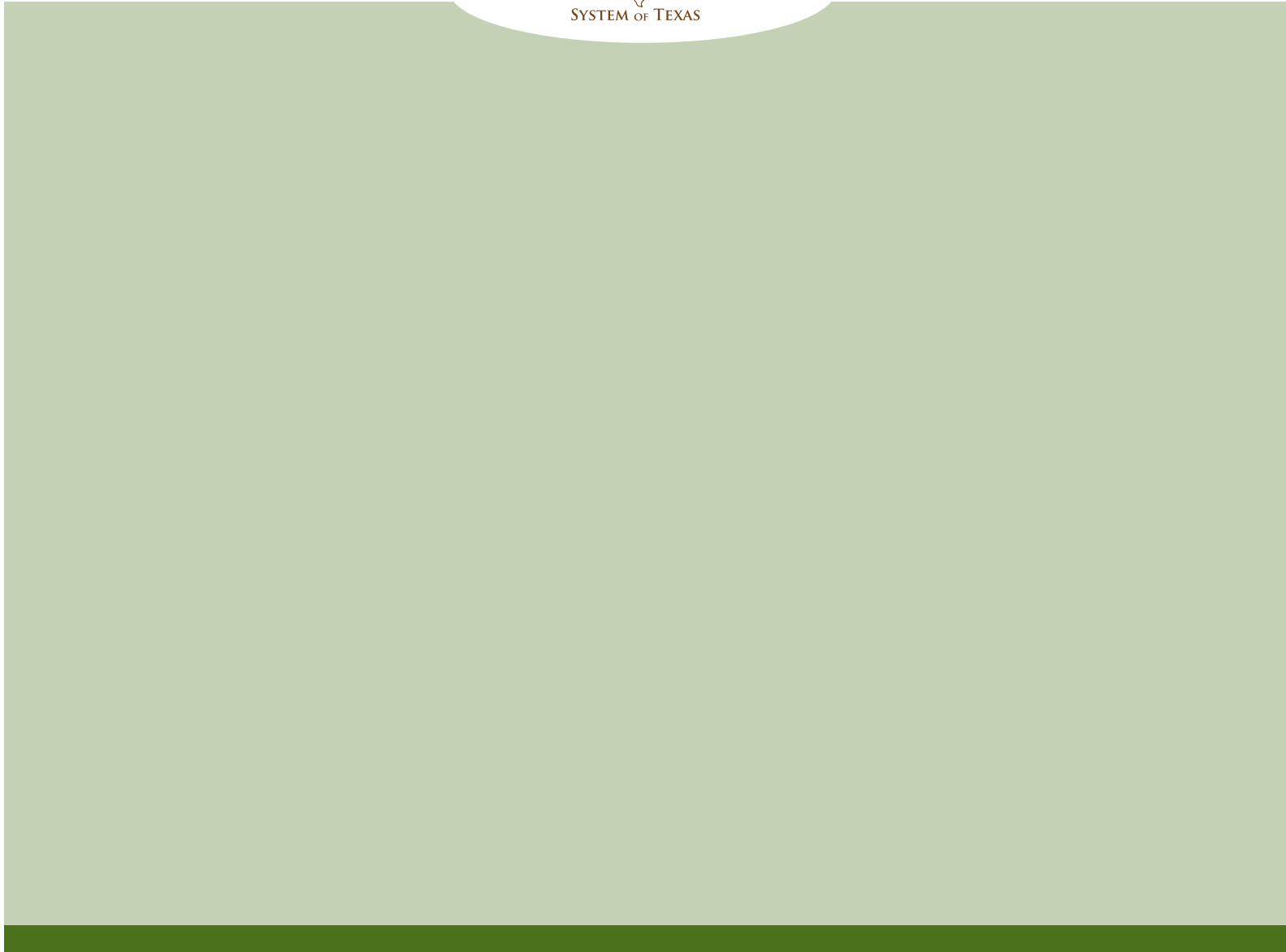


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**BOARD OF TRUSTEES MEETING
EMPLOYEES RETIREMENT SYSTEM OF TEXAS**

**May 20, 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
Yolanda Griego, Member
I. Craig Hester, Member
Cheryl MacBride, Member

ERS STAFF PRESENT

Ann S. Bishop, Executive Director
Larry Zeplin, Chief Operating Officer
Tony Chavez, Internal Auditor
Paula A. Jones, General Counsel and Chief Compliance Officer
Robert P. Kukla, Director of Benefit Contracts
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
Kathryn Tesar, Director of Benefits Communications
Tom Tull, Chief Investment Officer
Debbie Warren, Director of Customer Benefits
Mike Wheeler, Chief Financial Officer
Lori Blewett, Benefits Communication
Kyla Cloutier, Benefit Contracts
Kelley Davenport, Executive Office
Leah Erard, Governmental Affairs
Beth Gilbert, Internal Audit
Bernie Hajovsky, Executive Office
Robin Hardaway, Customer Benefits
Sarah James, Benefit Contracts
Dana Jepson, Governmental Affairs
Jennifer Jones, Governmental Affairs
Sharmila Kassam, Investments
Debbie Leatham, Finance
Mark Lopez, Benefit Contracts
Patricia Maugham, Executive Office
Gilbert Mokry, Internal Audit
Lauren Russell, Benefit Contracts
Cheryl Scott Ryan, Legal Services
Chris Tocci, Investments
Mary Jane Wardlow, Governmental Affairs

ALSO PRESENT

Steve Alexander, UnitedHealthcare
Nick Arnold, Humana
Sharon Barnes, Texas Commission on Environmental Quality
John Barton, Texas Department of Transportation
Tiffany Calderon, Humana
The Honorable Bill Callegari, Texas House of Representatives
Lindsay Chessmore, Careington
Susan M. Corbett, Austin Community College
Leslie Cunningham, Texas State Employees Union
Bill Dally, Self (Retiree)
Phillip Dial, Rudd & Wisdom, Inc.
Meredyth Fowler, Texas House of Representatives, Speaker Joe Straus
Gary Chandler, Department of Public Safety Officers Association
Lynn Gordon, Minnesota Life
Tom Griebel, Retired State Employees Association
Joaquin Guadarrama, Office of the Governor
Bill Hamilton, Retired State Employees Union
Chris Hanson, Pension Review Board
Jeremy Hedrick, Careington
Kris Hefner, Caremark
Tom Herrera, Texas State Employees Union
Harrison Hiner, Texas State Employees Union
Ray Hymel, Texas Public Employees Association
Michelle Jordan, Texas Emergency Services Retirement System
Rebecca Larson, Careington
Kirk Lavallee, Delta Dental
Richard Lavine, American Federation of State, County and Municipal Employees
Eli Magana, American Federation of State, County and Municipal Employees
Jon Mathers, Texas House of Representatives
Larry McGinnis, Department of Public Safety Officers Association
Jerry McGirty, Texas Department of Criminal Justice
Emily Morgani, Legislative Budget Board
Mike Morrissey, Office of the Governor
Jimmy Naekson, Department of Public Officers Association
Harry Nanos, Texas Alcoholic Beverage Commission Officers Association
Liz Oberg, Scott & White Health Plan
Krissy O'Brien, American Federation of State, County and Municipal Employees
John Pike, Department of Public Safety Officers Association
Reinaldo Rivera, Texas Commission on Environmental Quality
David Sinclair, Game Warden Peace Officers Association
Patricia Thomas, Texas Department of Transportation
Alisol Valdez, Austin Community College
Don Zavodny, American Federation of State, County and Municipal Employees

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 Joint Meeting of the Board of Trustees (Board) and Investment Advisory Committee (IAC) containing all items on the proposed agenda was filed with the Office of the Secretary of State at 8:56 a.m. on Friday, May 9, 2014 as required by Chapter 551, Texas Government Code, referred to as The Open Meetings Law.”

The Board of Trustees convened as a committee of the whole at 8:00 a.m. to consider Audit Committee agenda items.

I. PRESENTATION, DISCUSSION AND CONSIDERATION OF AUDIT COMMITTEE AGENDA ITEMS:

a. External Audit Reports – Mr. Hester, Chair of the Audit Committee opened up the meeting by introducing Mr. Tony Chavez, ERS Director of Internal Audit. Mr. Chavez reported there had been one external engagement reported since the last committee meeting and that was the post payment audit conducted by the Texas Comptroller’s Office. The engagement objective was to ensure expenditures were paid in accordance with state laws and rules. Mr. Chavez stated there is no materiality threshold, so any instance of noncompliance, no matter the dollar amount, will be reported. Generally, the System manages its expenditures in accordance with governing requirements. Very minor exceptions were reported and the Comptroller’s Office noted certain processes could benefit from further review in order to improve compliance with the laws and rules governing expenditures.

Mr. Chavez reported on detailed observations and stated there are four transactions that did not include a late payment interest totaling \$166, two transactions that totaled \$16 for services not payable using payment cards and one transaction that included an incorrect amount of \$14 for non-overnight meals.

In a response to a question asked by Mr. Hester regarding the letter dated on February 21, 2014 that states the system is responsible for ensuring staff is knowledgeable in the areas of the accounting and payroll personnel system, Mr. Mike Wheeler, Chief Financial Officer responded by saying that ERS staff is trained in the policies and procedures that are required by the Comptroller’s Office.

Ms. MacBride congratulated the Finance staff for a good job on making sure that our expenditures meet the proper state rules and requirements.

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

b. Internal Audit Reports – Mr. Chavez reported that Internal Audit completed two engagements as part of the Fiscal Year 2014 audit plan, the *Audit of Legal Services Contract Administration and Quarterly Investment Compliance Agreed-Upon Procedures for quarter ending March 31, 2014*. Mr. Chavez stated that the Legal Services Division assists in contract formation and review as requested by the procuring divisions.

Audit of Legal Services Contract Administration - Audit work was performed over two scope areas 1) Internal Contract Administration and 2) External Legal Counsel. Audit work performed over Internal Contract Administration focused on the interaction and procedures between the requesting divisions and Legal Services. The External Legal Counsel scope area focused on Legal Services utilization of external counsel for costs and alignment with ERS’ goals and objectives. The overall assessment was satisfactory and did not identify any negative impact during this scope review period.

There were two observations reported. The first observation noted current policies and procedures do not ensure a consistent process is followed and aligned with management expectations. The second observation noted there were no measures to report on the efficiency and performance of the contract administration function within Legal Services. The intent of these two observations was to assist with the objectives related to the alignment of expectations between legal services and the requesting divisions. Mr. Chavez reported that Legal Services has started initiating some management action and they will develop a plan by August 2014 to address other recommendations in the report.

In a response to a question asked by Ms. Donnell, requesting to better understand the policies and procedures and when a contract should be referred to Legal Services, Ms. Paula A. Jones, General Counsel and Chief Compliance Officer reported they are still working on the process and providing guidance. Legal Services has reached preliminary agreements with some divisions that if the dollar amount is below a certain threshold, the

division has the option not to send to Legal Services for review. Ms. Jones stated that they would work with the Executive Office to offer additional guidance as to when a contract should be referred to Legal Services. For example, there are DIR (Department of Information Resource) contracts, and other contracts/ purchase orders that go directly to Finance through the purchasing division without being referred to Legal Services. Ms. Jones stated that policy would need to consider certain high risk factors that even if the contract dollar amount is relatively minimal, Legal Services would need to review.

Mr. Chavez introduced Mr. Gilbert Mokry, Internal Audit staff to report on the Quarterly Investment Compliance Procedures. There were three instances noted of investment holdings in prohibited countries. Mr. Mokry reported to the board that all securities noted were purchased prior to inclusion on the December 31, 2013 Pension Review Board's list. In proxy voting, there was one instance of one non-counted proxy vote because the incurring associated expense for voter participation was not in the best interest of the Trust. Mr. Mokry also reported in securities lending, there were five instances of collateralization falling below 100% based on end-of-day market values resolved within one day. There were 18 instances where more than 90% of a single security was loaned out.

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

II. ADJOURNMENT OF THE AUDIT COMMITTEE – FOLLOWING ADJOURNMENT OF THE AUDIT COMMITTEE, THE BOARD OF TRUSTEES WILL TAKE UP THE REMAINING AGENDA ITEMS

III. REVIEW AND APPROVAL OF THE MINUTES TO THE FEBRUARY 25, 2015 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 February 25, 2014.

MOTION made by Ms. MacBride, seconded by Ms. Griego and carried unanimously by the members of the Board of Trustees of the Employees Retirement System of Texas to approve the minutes to its meeting held on February 25, 2014.

IV. REVIEW, DISCUSSION AND CONSIDERATION OF REQUIRED RULE REVIEW AND ADOPTION OF AMENDMENTS TO THE RULES OF THE BOARD OF TRUSTEES, TEXAS ADMINISTRATIVE CODE, TITLE 34, PART IV:

a. *Chapter 71 (Creditable Service), Chapter 73 (Benefits), Chapter 77 (Judicial Retirement) -*

Ms. Ann Bishop introduced Ms. Robin Hardaway, Assistant Director of Customer Benefits to present the proposed amendments to Chapter 71 concerning creditable service. Ms. Hardaway stated these are minor to clean up language to existing rules and some of the amendments. Section 71.17 is concerning supporting electronic certification of leave totals, Section 71.19 clarifies the break in service required for re-employment with TRS or ERS after retirement, Section 71.23 clarifies the acceptance of funds from traditional IRAs, and Sections 71.29 and Section 71.31 clarify that service purchased under these sections have not been used to determine salary for calculating any annuity. Ms. Hardaway also reported amendments that reference actuarial service credit tables were adopted by the ERS Board of Trustees on February 25, 2014.

Ms. Hardaway reported on the required rule review and proposed amendments to Chapter 73 which concerns benefits. The reasons to re-adopt Chapter 73 continue to exist with clean up language and the following amendments:

- Section 73.2 is a rule to support the 2013 legislative changes from employees hired on or before September 1, 2013 who are subject to the new benefit plan structure,
- Section 73.21 amended to reference the actuarial reduction factor tables adopted by the ERS Board of Trustees on Tuesday, February 25, 2014, and
- Section 73.29 clarifies that spousal consent is also required for proportionate retirement benefits, and
- Section 73.45 allows ERS the discretion to charge interest on overpayments.

Ms. Hardaway reported to the Board the required rule review and proposed amendments to Chapter 77 concerning Judicial Retirement. Reasons to re-adopt Chapter 77 continue to exist with corrected language and the following amendments to Sections 77.11 and 77.21 to reference the actuarial reduction factor tables for service credit and the reduction factor tables that were adopted by the ERS Board of Trustees on February 25, 2014.

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

MOTION made by Ms. Donnell, seconded by Mr. Hester and carried unanimously by the members of the Board of Trustees of the Employees Retirement System of Texas take the following actions 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:
 - Chapter 71, Creditable Service, §§ 71.17, 71.19, 71.23, 71.29, and 71.31 concerning Credit for Unused Accumulated Leave, Transfer of Service between the Teacher Retirement System of Texas (TRS) and the Employees Retirement System of Texas (ERS), Acceptance of Rollovers and Transfers from Other Plans, Purchase of Additional Service Credit, and Credit Purchase Option for Certain Waiting Period Service;
 - Chapter 73, Benefits, §§ 73.2, 73.21, 73.25, and 73.29 concerning Determination of Date of Hire for Retirement Benefit Eligibility, Reduction Factor for Age and Retirement Option, Payment to an Estate and Spousal Consent Requirements and adding new § 73.45, Overpayment or Improper Payment of Benefits; and
 - Chapter 77, Judicial Retirement, §§ 77.11 and 77.21 concerning Reduction Factors for Age and Retirement Options – Judicial Retirement System of Texas Plan One (JRS1) and Judicial Retirement System of Texas Plan Two (JRS2), and Purchase of Additional Service Credit.
- 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 73 (Benefits), as Chapter 73 was amended by the Board as provided by this agenda item; and
 - Chapter 77 (Judicial Retirement), as Chapter 77 was amended by the Board as provided by this agenda item.

The adopted amendments to 34 TAC, §§ 71.17, 71.19, 71.23, 71.29 and 71.31 were subsequently published in the June 6, 2014 issue of the *Texas Register*, 39 TexReg 4485; and

The adopted amendments to 34 TAC, §§ 73.2, 73.21, 73.25, 73.29 and new 73.45 were subsequently published in the June 6, 2014 issue of the *Texas Register*, 39 TexReg 4486; and

The adopted amendments to 34 TAC, §§ 77.11 and 77.21 were subsequently published in the June 6, 2014 issue of the *Texas Register*, 39 TexReg 4486; and

The re-adoption amendments to 34 TAC, Chapters 73 and 77 were subsequently published in the June 6, 2014 issue of the *Texas Register*, 39 TexReg 4490.

b. Chapter 85 – Flexible Benefits (TexFlex) – Mr. Rob Kukla, Director of Benefit Contracts, presented the next agenda item on Chapter 85 Flexible Benefits (TexFlex). Mr. Kukla stated that Flexible Spending Account (FSA) allows an employee to set aside a portion of earnings to pay for or be reimbursed for two kinds of qualified expenses (dependent and health care expense) in a tax favorable manner. ERS' proposed amendments to 34 TAC §§ 85.1, 85.3, 85.7, 85.9, and 85.11 would simplify the plan administration and benefit TexFlex plan participants in a manner permitted by the Internal Revenue Code (IRC). These changes will allow employees to decrease their contribution resulting from a qualifying life event that might occur, terminate an employee's health care reimbursement account with his/her separation from state employment, and implement the \$500 carryover option as allowed under IRS Notice 2013-71.

Mr. Kukla reported that the public notice of the proposed amendments to Chapter 85 was published in the *Texas Register* on April 11, 2014 and when the comment period expired on May 12, 2014, ERS did not receive any comments on the proposed amendments to §§ 85.1, 85.3, 85.7, 85.9, and 85.11.

The proposed amendments to §85.3 will allow TexFlex participants who terminate employment to no longer be required to continue making health care reimbursement contributions to TexFlex for the rest of the plan year unless they choose otherwise. Mr. Kukla reported that TexFlex participants will be provided with a permissive rather than mandatory set of reimbursement reports and already have access to an interactive and secure website to review claims and transactions.

Mr. Kukla informed the board of additional changes in IRS notice 2013-71 which allows plans to implement an alternative to the grace period provision allowed under the FSA plan. With this change, a plan may permit participants to carry over up to \$500 from the previous plan year's contributions that were unspent in the prior plan year. Currently, participants in the TexFlex healthcare reimbursement plan are entitled to a 75-day grace period after the plan year ends to utilize funds before they are forfeited to the plan.

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

MOTION made by Ms. Donnell, seconded by Mr. Hester and carried unanimously by the members of the Board of Trustees of the Employees Retirement System of Texas take the following action with regards to The Rule of the Board of Trustees, Texas Administrative Code, Title 34, Part IV, Chapter 85 – Flexible Benefits to amend §§ 85.1, 85.3, 85.7, 85.9, and 85.11 concerning Introduction and Definitions; Eligibility and Participation; Enrollment; Payment of Claims from Reimbursement Accounts; and Administration of the FSA program and as presented in this Agenda Item.

The re-adoption of amendments to 34 TAC, Chapters 73 and 77 were subsequently published in the June 6, 2014 issue of the *Texas Register*, 39 TexReg 4490.

V. **REVIEW, DISCUSSION AND CONSIDERATION OF THE INSURANCE PLANS UNDER THE TEXAS EMPLOYEES GROUP BENEFITS PROGRAM FOR FISCAL YEAR 2015:**

a. ***Administrative Fee for the TexFlex Flexible Spending Account (FSA) Program*** – Mr. Rob Kukla introduced Blaise Duran, Benefit Contracts Team Lead of Underwriting, Data Analysis and Report to help present this agenda item Mr. Kukla reported that TexFlex is a FSA program authorized under Section 125 of the Internal Revenue Code that allows individuals to take and put aside up to \$2,500 for health care expenses throughout the year that are not covered under their regular plans and \$5,000 of dependent care. Mr. Kukla reminded the board that PayFlex has been the administration for the FSA for quite some time and the current contract will expire on August 31, 2014. A one-year extension will extend this administrative contract through August 31, 2015.

Mr. Kukla reported that as of March 31, 2014, the TexFlex consisted of 49,530 health care reimbursement accounts and had about \$47 million pledged so far this year. Beginning in Fiscal Year 2014 federal health care reform provisions reduced the maximum contribution allowed in health care reimbursement account from \$5,000 to \$2,500. The \$2,500 limit applies only to health care reimbursement and not to the dependent care FSA. The maximum contribution limit for TexFlex dependent care FSA will remain at \$5,000 in fiscal year 2014.

All benefits and contributions must be used by the end of the plan year or they are forfeited. There is a grace period of an additional 75 days after the plan year. The carryover period is available between September 1 and November 15 of the following year. Any money that is not spent is forfeited to the plan. Mr. Kukla announced that plan sponsors have an option in the design of the health care spending benefit to support an extended grace period or a carryover option of up to \$500. Mr. Kukla then turned it over to Mr. Duran to discuss the administrative fees that are associated with the TexFlex FSA.

Mr. Duran reported on May of 2012, the Board approved a reduction of the administrative fee from \$2.00 to \$1.00 per account/per month effective September 1, 2010. Due to the amount of forfeited funds in the FSA trust, for fiscal year 2015, the \$1.00 per account/per month administrative fee could be waived.

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

MOTION made by Mr. Hester, seconded by Ms. Griego and carried unanimously by the members of the Board of Trustees of the Employees Retirement System of Texas approve an administrative fee holiday For the TexFlex program for Fiscal Year 2015.

b. ***Life and Accidental Death and Dismemberment Proposed Rates*** - Mr. Kukla reported to the board on Life and Accidental Death and Dismemberment (AD&D) rates. He stated that ERS provides basic and optional term life and AD&D insurance coverage under the Texas Employees Group Benefits Program (GBP). The contribution rates are set by the Board of Trustees (BOT) and the benefits are funded through member contributions. Employee and retiree basic term life and AD&D benefits are paid for by the State of Texas through the biennial insurance appropriation.

On August 23, 2011, the Board approved the selection of Minnesota Life Insurance Company (Minnesota Life) to underwrite and administer the life insurance and AD&D coverage for an initial term beginning January 1, 2012 through August 31, 2016. The following table lists enrollment and volume for the life and AD&D plans as of March 31, 2014:

Plan	Funding	Enrolled Members	Volume of Insurance
Basic Life	Fully Insured	306,023	\$ 1,293,692,500
Optional Life & AD&D	Fully Insured	204,817	\$18,612,150,400
Voluntary AD&D	Fully Insured	131,130	\$18,119,414,000
Dependent Life & AD&D	Fully Insured	114,743	\$ 506,550,000

Mr. Duran reported that life rates were developed based on actual and expected claim payments, administrative fees and investment income. He also stated that the life experience was as anticipated and current rates are adequate to continue through fiscal year 2015.

Mr. Duran then proposed the Board approve the member contribution rates for the life and AD&D plans effective September 1, 2014:

GBP Life and AD&D Coverage
Proposed Monthly Member Contribution Rates for FY 2015
Effective September 1, 2014

Plan	Proposed FY 2015	Change from current rate
Active and Retiree Basic Term Life and AD&D ⁽¹⁾	\$2.22	No change
Active and Retiree Optional Life and AD&D ⁽²⁾		
Under Age 25	\$0.05	No change
25-29	0.05	No change
30-34	0.06	No change
35-39	0.06	No change
40-44	0.08	No change
45-49	0.12	No change
50-54	0.19	No change
55-59	0.33	No change
60-64	0.57	No change
65-69	0.93	No change

70-74	1.48	No change
75-79	2.41	No change
80-84	3.92	No change
85-89	6.79	No change
90 & Over	10.57	No change
Active Dependent Life and AD&D ⁽¹⁾	\$1.38	No change
Retiree Minimum Optional Life ⁽²⁾	\$2.34	No change
Retiree Dependent Life ⁽¹⁾	\$3.05	No change
Voluntary AD&D		
Employee Only ⁽²⁾	\$0.02	No change
Employee & Family ⁽²⁾	0.04	No change

⁽¹⁾ Rates are per unit of coverage. \$5,000 of coverage for active employees and their dependents; \$2,500 of coverage for retired employees and their dependents.

⁽²⁾ Rates are per \$1,000 of coverage which is based on individual salary and coverage level, e.g., Elections I – IV. Retiree Optional Life does not include AD&D.

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

MOTION made by Ms. Donnell, seconded by Ms. MacBride and carried unanimously by the members of The Board of Trustees of the Employees Retirement System of Texas approve the proposed fiscal year 2015 member contribution rates for the Basic Life, Optional Life and Accidental Death and Dismemberment plans as presented in this agenda item and effective September 1, 2014.

c. Proposed Rates for the Short and Long-Term Disability Plans – Mr. Kukla presented to the Board the proposed rates for the short and long-term disability plans. He stated the short-term disability coverage provides a maximum benefit of 66% of employee's monthly salary up to a maximum of \$10,000 in covered payroll or \$6,600 in benefits for up to five months. The long-term disability coverage starts after a six-month waiting period and provides a maximum benefit of 60% of employees' monthly salary up to a maximum of \$10,000 in covered payroll or \$6,000 in benefits.

Mr. Kukla reported that this program used to be administered by Dearborn National and effective September 1, 2013, the Board approved a new contract to Aon Hewitt Absence Management LLC (Aon Hewitt) for an initial four-year term through August 31, 2017. Effective September 1, 2013, all administrative services for disability plans moved from the previous administration, Dearborn National to Aon Hewitt.

Ms. Bishop congratulated the Benefit Contracts team that worked on the contract for the successful transition from one vendor to another.

Mr. Duran continued with discussion on the rate analysis and stated the member contribution rates for the disability plans were developed based on actual and future claims, investment income and administrated fees included in the Aon Hewitt Contract. He also reported the disability experience was as anticipated and current rates are adequate to continue through fiscal year 2015.

Mr. Kukla then proposed the rates to the board for approval as listed below:

GBP Disability Plans
Proposed Monthly Member Contribution Rates for FY 2015
(effective September 1, 2014)

Plan Description	FY 2014	Change from current rate
Short Term Disability*	\$0.30	No Change
Long Term Disability*	\$0.63	No Change

* Rates are per \$100 of monthly covered salary

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

MOTION made by Ms. MacBride, seconded by Ms. Griego and carried unanimously by the members of The Board of Trustees of the Employees Retirement System of Texas approved the proposed Fiscal Year 2015 member contribution rates for the Short and Long-term Disability Plans as presented in this Agenda item and effective September 1, 2014.

d. Dental Choice and Dental Health Maintenance Organization Proposed Rates – Mr. Kukla presented to the Board the dental proposed rates. The State of Texas Dental Choice PlanSM (Dental Choice) contribution rates are set by the Board, with the benefits being funded through member contributions. The following table provides Dental Choice enrollment as of March 31, 2014 and the year-over-year change in enrollment for each coverage category.

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State of Texas Dental Choice PlanSM
Member Enrollment
as of March 31, 2014

	Employees	Retirees	Dependents	COBRA	Total	Year over year change FY13 – FY14
Member Only	58,165	19,308	1,563	531	79,567	+6.0%
Member & Spouse	15,102	12,712	0	121	27,935	+3.8%
Member & Children	19,782	930	40	42	20,794	+6.6%
Member & Family	17,887	1,392	0	40	19,319	+3.7%
Total	110,936	34,342	1,603	734	147,615	+5.3%

Mr. Duran stated the current contribution rates are expected to be adequate to support the plan through fiscal year 2015. Mr. Kukla reported to the Board there will be some plan improvements which will offer some higher level benefits to members. Effective September 1, 2014, Dental Choice will be revised as follows:

- Eliminate preventive services being charged against the policy's annual maximum of \$1,500. This means that the \$1,500 benefit maximum will apply to only Basic and Major services. The orthodontic maximum will remain unchanged.
- The extended maximum (in-network only) – when a participant reaches the \$1,500 maximum for Basic and Major services, a plan benefit of 40% of eligible expenses will apply to additional Basic or Major series received from in-network providers during the calendar year. The extended maximum does not apply to orthodontic services or out of network services.
- Add coverage for up to two periodontal cleanings in a year in addition to the two regular cleanings already covered by the plan.
- Remove the exclusion on crowns which are required as a result of attrition or abrasion.
- Cover emergency oral exam when they are performed on the same day of a palliative treatment.

Mr. Kukla continued to report on the dental health maintenance organization. In December 2013, the Board approved the selection of DentiCare, Inc., a wholly owned subsidiary of Humana, Inc. to underwrite the fully-insured Dental Health Maintenance Organization Plan (DHMO) for the period beginning September 1, 2014 through August 31, 2018.

The following table provides DHMO enrollment as of March 31, 2014. Staff will closely monitor the enrollment changes in the DHMO Plan that may result with the installation of the discount dental program effective September 1, 2014.

**Dental Health Maintenance Organization (DHMO)
Member Enrollment
as of March 31, 2014**

	Employees	Retirees	Dependents	COBRA	Total	Year over year change FY13 – FY14
Member Only	34,678	9,467	558	246	44,949	+0.8%
Member & Spouse	7,034	5,920	0	65	13,019	(1.9%)
Member & Children	10,588	732	18	20	11,358	(3.4%)
Member & Family	9,339	1,040	0	18	10,397	(5.8%)
Total	61,639	17,159	576	349	79,723	(1.1%)

The DentiCare proposal accepted by the Board includes a 9.2% increase in premium rates effective September 1, 2014. Mr. Kukla continued by stating the contribution rates are set by the Board and are based on the DHMO premium rates.

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

MOTION made by Ms. MacBride, seconded by Ms. Donnell, opposed by Ms. Griego and carried unanimously by the remaining members of The Board of Trustees of the Employees Retirement System of Texas who approved the proposed member Contribution rates for fiscal year 2015 for the State of Texas Dental Choice PlanSM and the Dental Health Maintenance Organization plan as presented in this agenda item effective September 1, 2014.

e. State of Texas Dental Discount PlanSM Proposed Rates – Mr. Kukla continued with the next agenda item, the State of Texas Dental Discount PlanSM proposed rates. The Dental Discount service is not dental insurance; rather it provides discounts for specific dental services provided by participating dentists. Mr. Kukla informed the board that a member who is enrolled in the discount program will pay an administrative fee, and that administrative fee will give them access to a network of dentists which have agreed to accept a fixed discounted fee from the member in exchange for the member getting services from the dentist.

Mr. Kukla reminded the Board that at its December 6, 2013 board meeting, the ERS Board of Trustees approved the selection of Careington International Corporation (Careington) to provide a dental discount service plan under the GBP for an initial contract period beginning September 1, 2014 and ending August 31, 2018. Mr. Kukla stated for fiscal year 2015, GBP members will have the option to choose the Dental Discount Plan, the State of Texas Dental Choice PlanSM PPO administered by HumanaDental or the HumanaDental DHMO. The member may only select one of the three dental plans.

Mr. Duran noted that Careington has guaranteed a tiered rate schedule and the final rates will be contingent on overall enrollment among GBP members. The rates presented below in the column captioned “≤ 25,000” represent “not to exceed” rates for fiscal year 2015; e.g., the “not to exceed” rate will be \$2.25 per month for member only coverage if fiscal year 2015 total enrollment as of September 1, 2014 is at or below 25,000 participants.

**Texas Employees Group Benefits Program
State of Texas Dental Discount Plan
Monthly Rates for Fiscal Year 2015**

	Enrolled Number of Participants					
	≤ 25,000	25,001 – 50,000	50,001 – 100,000	100,001 – 150,000	150,001 – 200,000	200,001 – 250,000
Member Only	\$2.25	\$1.95	\$1.70	\$1.45	\$1.20	\$1.00
Member + Spouse	4.50	3.90	3.40	2.90	2.40	2.00
Member + Child(ren)	5.40	4.68	4.08	3.48	2.88	2.40
Member + Family	7.65	6.63	5.78	4.93	4.08	3.40
Spouse Only	2.25	1.95	1.70	1.45	1.20	1.00
Child(ren) Only	3.15	2.73	2.38	2.03	1.68	1.40
Spouse + Child(ren)	5.40	4.68	4.08	3.48	2.88	2.40

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

MOTION made by Ms. Griego, seconded by Ms. MacBride and carried unanimously by the members of The Board of Trustees of the Employees Retirement System of Texas approved the proposed “Not to Exceed” member contribution rates for the State of Texas Dental Discount Plan for Fiscal Year 2015 as presented in this agenda item effective September 1, 2014.

f. Recommendations for Health Maintenance Organizations and Rates – Mr. Kukla continued with the next agenda item, discussion of the Health Maintenance Organizations (HMO) and rates. He stated that HMO coverage is funded in the same way as HealthSelect with the State covering 100% of the contribution for member and 50% for the dependent. Contribution rates are set by the Board of Trustees.

The eligibility, network and plan design differ from HealthSelect. Mr. Kukla informed the Board that a member has to live or work in a certain county in order to qualify to enroll in one of the HMOs and there are no out-of-network benefits. The participating HMOs are selected on an annual basis through an application process.

Mr. Kukla reported the HMO is a fully insured plan as opposed to a self-funded plan we have with HealthSelect. As a result federal healthcare reform impacts these plans in a slightly differently way. Because the HMOs provide both medical and prescription drug coverage in a single plan, they must apply an out-of-pocket maximum to all coverage beginning in 2015. The out-of-pocket limit for co-insurance will be set at \$2,000 per participant. Mr. Kukla continued by stating that a secondary out-of-pocket limit on in-network coverage only, which includes coinsurance and co-pays will be set at \$6,350 per individual and \$12,700 per family.

In a response to a question asked by Mr. Hester questioning what are the Affordable Care Act (ACA) fees, Mr. Kukla stated there are essentially three taxes or fees that are in place with the ACA. The first one is the Patient Centered Outcome Research Institute that is funded at \$1 and in the second year and beyond it will be \$2 per participant. The second fee is a reinsurance tax that applies to everyone and is designed to fund the provision within the ACA plan that requires accepting participants without any medical evidence. And the third fee is a tax on fully insured plans which is just an insurance tax designed to fund the subsidies included in the Act.

Mr. Kukla informed the Board that in the past ERS issued a Request For Application (RFA) for qualified HMOs to provide coverage under the GBP for the upcoming fiscal year. Mr. Kukla stated in the last several years the HMO RFA has not received any responses, so ERS staff contacted Texas Department of Insurance (TDI) to get a list of all licensed HMO vendors in the state of Texas. Using a Letter of Inquiry (LOI), we solicited information from qualified HMOs, concerning their interest in submitting an application to provide HMO coverage under the GBP. Based on the responses to the LOI, the HMO RFA was not distributed for fiscal year 2015.

Mr. Kukla reported that ERS elected an “evergreen” contract to Scott & White Health Plan and Community First Health Plans beginning in fiscal year 2014. Scott & White has requested a service area expansion to include Walker county, bringing the total service area to 45 counties beginning September 1, 2014. Mr. Duran stated the proposed rates were evaluated based on the Theoretical Cost Index (TCI) to ensure the total cost will be below what is required to cover the HMO’s participants in HealthSelect.

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

MOTION made by Mr. Hester, seconded by Ms. Donnell and carried unanimously by the members of The Board of Trustees of the Employees Retirement System of Texas approve the contribution rates as presented in this agenda item, for the following HMOs for participation in the Texas Employees Benefits Program in fiscal year 2015 beginning September 1, 2014 and ending August 31, 2015:

- **Community First Health Plans, Inc.** to provide services in the application area of San Antonio which includes the counties indication in this agenda item.
- **Scott and White Health Plan** to provide services in the application areas of Austin, San Angelo, Temple and Waco which include the counties indicated in this agenda item.

I further move that the Board of Trustees authorize the Executive Director to negotiate, execute and administer any applicable contracts needed to effect this action.

g. HealthSelectSM of Texas Proposed Rates – Mr. Kukla reported to the Board, the HealthSelectSM of Texas proposed rates and reminded them the state pays 100% of the cost of the employee/retiree contribution and 50% of the contribution for dependent coverage. Members also share costs through copayments, deductibles and coinsurance. Mr. Kukla stated the management of medical benefits will continue with UnitedHealthcare and the pharmacy benefits with Caremark.

Effective January 1, 2015, the Affordable Care Act (ACA) will require an out-of-pocket cost share. The maximum out of pocket limit co-insurance will remain at \$2,000 per participant and an additional benefit will include a co-insurance and co-pays limit set at \$6,350 per individual and \$12,700 per family. Mr. Kukla reported that since we have separate plans for medical and prescription drugs, the limits do not include co-pays for the prescription drug or the prescription drug deductible. In 2016, the prescription drug will be added to the member cost share.

Mr. Kukla provided the Board with a recap of the various fees that are required under the ACA that apply to HealthSelect and these fees include the Patient Centered Outcome Research Institute funding and the transitional reinsurance fees that will be due through 2016.

Mr. Kukla stated the ACA requires a waiting period can be no more than 90 days following the date a member becomes eligible for the plan. As a result of the ACA requirements and the limitations of the state payroll system, Mr. Kukla reported the effective date for GBP health coverage will be changed to the 1st of the month following completion of 60 days of employment. This change will increase the number of people who are covered in the GBP, but are not expected to have a material impact on the health plan.

Mr. Kukla then reported on the alternative reimbursement programs and stated that ERS continues to pursue the Patient-Centered Medical Home (PCMH). These programs have been extremely successful this past year. Austin Regional Clinic (ARC), Kelsey-Seybold Clinic, Austin Diagnostic Clinic, and Trinity Mother Frances have agreed to operate as PCMH also known as Accountable Practice Models (APM)

PCMH Clinic	Area	No. of GBP Participants
Austin Regional Clinic	Austin	24,651 participants
Kelsey-Seybold Clinic	Houston	10,459 participants
Austin Diagnostic Clinic*	Austin	5,525 participants
Trinity Mother Frances	Tyler	4,394 participants

**added July 2013*

For fiscal year 2013, the GBP saved approximately \$11.6 million with the APMs in place with ARC, Trinity Clinic, and Kelsey-Seybold Clinic and ERS shared \$3.2 million of the savings with these clinics. Mr. Kukla noted that July 1, 2013, ADC was added to the APM and in April 2014 UHC signed a contract with Covenant Health Partners in the Lubbock area.

Mr. Kukla next reported to the Board an update on the Employer Group Waiver Plan and Commercial Wrap (EGWP + Wrap) and stated SilverScript Insurance Company administers the EGWP + Wrap for Medicare primary participants in the HealthSelect prescription drug plan. The GBP EGWP + Wrap was implemented effective January 1, 2013 and saved the GBP \$40 million in calendar year 2013. Mr. Kukla also stated this program has been very successful.

Mr. Kukla next informed the Board of a growing problem in the drug plans regarding the use of compound drugs. A compound prescription drug is a prescription medication that requires compounding by a pharmacist because it is not available from the manufacture in the prescribed form or strength. A compound drug consist of two or more solid, semi-solid or liquid ingredients, at least one of which is a Prescription Drug. Mr. Kukla reported that due to the significant costs associated with this type of prescription and the potential that some ingredients being added to some compound drugs are not FDA approved, effective July 1st there will be some additional steps in the process regarding the management of compound prescription medications. He stated that if the cost of a compound medication is greater than \$300/month it will have to go through a preauthorization process. In addition, the plan will exclude all bulk chemicals used in compound medications as bulk chemicals are not FDA approved.

Mr. Kukla reported adherence to Drug Therapies is an extremely important aspect of lowering total health care cost. There will be a change in the program to lower the co-pay for tier 1 from \$15 to \$10 and this will eliminate the retail maintenance fee as it applies to the generic maintenance medications. This will go into effect as of September 1, 2014. Mr. Kukla also stated staff is currently working with the HMOs to manage any cost

increase that might occur and wanted to make sure that all members, HMO, traditional PPO, and those under SilverScript, benefit from this reduction.

Mr. Duran reported the medical benefit cost trend will continue at a rate of 8% through fiscal year 2015 and has projected the prescription benefit cost trend will be at 15% which will drive the total health care cost trend to 10%. He also stated that the plan would need an 11% increase in the contribution rates in order to break even in 2015. The appropriations bill for 2014 and 2015 has allowed for a per capita increase to the GBP health plan at 7%. ERS can maintain the current benefit level using the 7% increase along with supplementing revenue from the contingency fund as necessary in 2015. Mr. Kukla then noted at the beginning of fiscal year 2015, the contingency fund will be somewhere around \$305 - \$335 million depending how things emerge over the course of the next few months. Mr. Kukla also noted that while the member contribution rates for Medicare Advantage plans will not change until January 1, 2015, the state's contribution rates for Health Select MA-PPO will be the same as those for HealthSelect for fiscal year 2015 effective September 1, 2014.

Mr. Kukla presented to the Board the proposed monthly contribution rates for fiscal year 2015 with a 6.89% increase.

HealthSelect of Texas
Proposed Monthly Contribution Rates for FY 2015
 effective September 1, 2014

Membership Category	Total Contribution	State Pays	Member Pays	Change in Member's Monthly Contribution
Member only	\$ 535.44	\$ 535.44	\$ 0.00	\$ 0.00
Member & Spouse	1151.20	843.32	307.88	19.86
Member & Children	947.72	741.58	206.14	13.28
Member & Family	1563.48	1049.46	514.02	33.14

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

MOTION made by Ms. Donnell, seconded by Ms. MacBride, opposed by Ms. Griego and carried unanimously by the remaining members of the Board of Trustees of the Employees Retirement System of Texas who approve the proposed HealthSelectSM of Texas contribution rates for Fiscal Year 2015 as presented in this agenda item Effective September 1, 2014.

VI. EXECUTIVE SESSION – IN ACCORDANCE WITH SECTION 551.074, TEXAS GOVERNMENT CODE, THE BOARD OF TRUSTEES WILL MEET IN EXECUTIVE SESSION TO EVALUATE THE DUTIES, PERFORMANCE AND COMPENSATION OF THE EXECUTIVE DIRECTOR OF THE EMPLOYEES RETIREMENT SYSTEM OF TEXAS; AND TO DELIBERATE THE APPOINTMENT, EMPLOYMENT, EVALUATION, REASSIGNMENT, DUTIES, DISCIPLINE, OR DISMISSAL OF ONE OR MORE PUBLIC OFFICERS OR EMPLOYEES

At 10:24 a.m. on May 20, 2014, Chair Brian Ragland announced that the Board of Trustees (BOT) will meet in executive session in accordance with Section 551.074, Texas Government Code to evaluate the duties,

performance and compensation of the Executive Director of the Employees Retirement System of Texas; and to deliberate the appointment, employment, evaluation, reassignment, duties, discipline, or dismissal of one or more public officers or employees.

Following the executive session, the Board may consider appropriate action in open session.

Following the Board's executive session and the resumption of the open session, Mr. Ragland announced that it is now 11:20 a.m. on May 20, 2014, and no action, decision, or vote was taken by the Board while in Executive Session. Mr. Ragland announced that ERS' Executive Director, Ann Bishop has given her notice that she plans to retire in the summer of 2015 following the legislative session. Mr. Ragland appreciates the ample notice and willingness that Mrs. Bishop has provided to the Board to work through this transition. The Board will work with staff to begin a search process, and Mr. Ragland stated that the goal is to have someone appointed by the Board as an Executive Director designated in time to shadow the Executive Director during the legislative session.

X. REVIEW AND DISCUSSION OF THE STATE OF ERS' UNFUNDED PENSION LIABILITY PANELS: ERS WILL HOST STATE REPRESENTATIVE BILL CALLEGARI, SENATOR ROBERT DUNCAN AND THREE PANELS TO DISCUSS THE STATE'S RETIREMENT PROGRAM

ERS hosted a series of panels to hear different perspectives on the state employee pension program and approaches to address the trust fund's growing gap between assets and liabilities.

State Representative William "Bill" Callegari opened the session by providing remarks on the work done during the last legislative session and his outlook on the future. Rep. Callegari served as Chairman of the House Pensions Committee during the last legislative session, but he is retiring and he will not return. He expressed his belief that a defined contribution plan is not in the best interest of the state and that the current plan can be fixed through a variety of approaches.

Senator Robert Duncan, who served as the Chairman of the Senate State Affairs Committee during the last legislative session, will also not be returning to the Legislature. Senator Duncan stressed the need for dependable revenue sources in order to protect the existing plan. He talked about additional pension revenue as a state budget priority and the importance of the current pension plan as a recruiting tool for state employment.

Both legislators stressed the importance of making the fund actuarially sound and the need for interest groups to work together on this issue in the upcoming legislative session.

Following the opening remarks, there were three panels, each focused on a particular perspective – state budget, state employers and employee and retiree interest groups.

The first panel focused on state budget issues. Panelists included Mike Morrissey, Deputy Chief of Staff and Senior Advisor, Office of the Governor; John Opperman, Director of Budget, Lt. Governor's Office; Andrew Blifford, Budget Director, Speaker of the House; Porter Wilson, Chief of Staff, Senator Duncan; and Ursula Parks, Executive Director of the Legislative Budget Board. All panelists agreed educating the members of the legislature on retirement issues is critical. Additionally, all expressed concern about the effect that new Governmental Accounting Standards Board rules related to reporting pension liabilities may have when reported on the state's financial statements in January 2016. Mr. Morrissey discussed the need to look for possible funding options to make the pension system sound: one-time funding sources, obligation bonds, or increased contributions. Mr. Opperman stressed the pressure felt in the legislature to balance the ERS appropriation between the healthcare system and the pension system. Mr. Wilson reiterated the notion that state government needs a qualified workforce to fulfill its mission to Texas citizens. Ms. Parks gave an overview of the fiscal climate of the state as a

whole, including an expected surplus going into the 2015 session. She also suggested increased contributions might be more feasible than a large cash infusion to the ERS Trust.

Panelist	Highlights	Funding
<p>Mike Morrissey Office of the Governor</p>	<p>Too many options can make it hard to build a coalition.</p> <p>Should there be alternatives to lower cost or allow portability?</p> <p>GASB changes can adversely impact Texas, which may help support one time infusion.</p>	<p>Probably not a revenue magic bullet. With extra cash, now is the time for a one-time infusion. Find a dedicated revenue source. ESF one of other sources for infusion.</p> <p>Bonds may be an option for an infusion, may need revenue source for them.</p>
<p>John Opperman Office of the Lieutenant Governor</p>	<p>Healthcare overall single biggest driver of state budget. Continued attention to budget transparency may lead to truing up revenue streams to appropriations.</p> <p>“We respond best in crisis”</p> <p>“Will be harder and harder to put patch on”</p>	<p>Competing budget priorities crowding out funding, ERS has to ask for more funding</p>
<p>Andrew Blifford Office of the Speaker of the House</p>	<p>Does not expect state contribution to go down. Try to put more in if possible, but probably not ASC.</p> <p>What role does the DB plan play in the decisions younger workers are making? May need alternative structures.</p> <p>More concerned about health care than unfunded liability.</p> <p>Additional plan changes should be considered.</p> <p>Expect questions about 8% assumption. Education is important, provide a justification for the 8% return.</p>	<p>Increase in employer and employee contributions</p>
<p>Porter Wilson Office of Senator Robert Duncan</p>	<p>Legislature will be facing many complex issues. Where do pensions fit in priority of other members?</p>	
<p>Ursula Parks Legislative Budget Board</p>	<p>Over 200 Boards looking at similar budget problems. Total Texas health care costs have crowded out funding. Surplus creates opportunity, but there is competition. ERS is required to ask for both pension and health care.</p> <p>“Truing up of revenue streams”.</p>	<p>Many competing demands: public education, health care (Medicaid), transportation. Be careful that any one-time infusion is not lost in market crash.</p> <p>In a period of revenue growth, additional state debt might be a difficult sell.</p>

The next panel focused on state agency employers and included Brad Livingston, Executive Director, Texas Department of Criminal Justice; Chris Hanson, Executive Director of the Pension Review Board; Rolando Garza, Deputy Executive Commissioner, Office of System Support Services, Health and Human Services Commission; and; John Barton, Deputy Executive Director and Chief Engineer, Texas Department of Transportation. Each provided their perspective about recruiting and retaining a viable workforce. All of the agency heads focused on the need to retain employees to ensure institutional knowledge. The need to attract younger workers into public service was also discussed.

Panelist	Highlights
Brad Livingston Texas Dept. of Criminal Justice	We need a viable plan long-term, not solutions that are cobbled together over time. Benefit package: attract and recruit. Meaningful salary increases must be in place before employees can contribute more. Turnover rates are increasing, a continuous commitment to current employees is important. State agencies should have skin in the game. State and agency should contribute.
Christopher Hanson Texas Pension Review Board	Portability is important. Education and risk of compounding are two ideas to think about. Retention issue raised more than recruitment. Historically, the contributions made to the ERS retirement plan have been 70% of the necessary rates – this helped create the pension liability.
Rolando Garza Health and Human Services Commission	His group has experienced 31% turnover. They have a passion for work. Pay and retirement are the two primary reasons people leave. The defined benefit plan is a primary attraction of state employment.
John Barton Texas Department of Transportation	Priorities: ability to retain and ability to provide services. If agencies cannot retain, a gap in institutional knowledge will occur. State employers must be innovative and creative about finding solutions to recruit & retain. Solvency of the fund is critical. Comprehensive total package.

The final panel consisted of heads of organizations representing employee and retiree interests. Panelists included Bill Hamilton, Retired State Employee Association; Gary Chandler, Department of Public Safety Officers Association; Gary Anderson, Executive Director of the Texas Public Employees Association; Harrison Hiner, Texas State Employees Union; David Sinclair, Texas Game Warden Peace Officers Association; and, Don Zavodny, Association of State, Federal, County and Municipal Employees (ASFCME).

Panelist	Highlights	Legislative Priorities	On Separating LECOS
Gary Chandler, Department of Public Safety Officers Association	<p>Members have a strong reaction to benefit changes.</p> <p>Changes need to be made.</p>	<p>Willing to look at all of the issues.</p>	<p>Idea is new, still trying to understand who it will involve and costs.</p>
Gary Anderson, Texas Public Employees Association	<p>TPEA is committed to restoring solvency but also preserving workforce.</p> <p>Agencies and the Board of Trustees must communicate impact of benefit decisions to the legislature.</p> <p>Legislature lumps all employee benefits together.</p> <p>Pension program is a critical piece of the benefit.</p> <p>State employees have made a commitment.</p> <p>Can't increase cost of benefits without a compensation offset.</p> <p>One revenue idea is to switch the agency's contributions for insurance and pension so that the 1% goes to retirement and the 0.5% goes to insurance.</p> <p>Options to consider include interest from ERS management of the ESF (Rainy Day Fund).</p> <p>The legislature has chronically underfunded state government.</p> <p>State employees have options, turnover will get worse.</p>	<p>Supports an immediate increase of employee contribution to 7.5%</p> <p>We must preserve the model.</p> <p>The legislature should come up to the 10% max contribution.</p> <p>We must actively explore and pursue all available alternative funding sources to close the gap in getting the fund to actuarial soundness.</p>	<p>LECOS separation may need to be discussed, but this is not the right time to do it.</p> <p>LECOS separation creates risk of wholesale changes to the model.</p>
Bill Hamilton, Retired State Employees Association	<p>This is an extraordinary educational opportunity.</p> <p>Many times the conversation is "How much more funds, should we change benefits, look at the model?"</p> <p>The retirement plan should be about the value of public service.</p> <p>State employees have a lasting impact.</p> <p>We will not welcome any effort to balance the fund on the backs of state employees, especially new employees.</p>	<p>Priorities are the pension, then retiree health insurance.</p>	<p>Split does make main fund look better.</p> <p>Still need a funding strategy for the split fund.</p>

<p>Harrison Hiner, Texas State Employees Union</p>	<p>TSEU members are front line staff. Given the reality of pay, state employees rely on a secure defined benefit plan. Defined benefit plan plays a great role in recruitment and retention. \$11 billion surplus plus the ESF, positive outlook for the biennium.</p>	<p>Should pursue additional appropriations or a lump sum, minimize employee impact. View compensation as holistic package. Any increase in the cost of benefits is essentially a pay cut.</p>	<p>LECOS separation will reduce GR shortfall for employees. Separating the fund means using political influence in different directions. One fund could get starved out. Legislature could prioritize first responders over human services.</p>
<p>David Sinclair, Texas Game Warden Peace Officers Association</p>	<p>Retired game wardens are interested in making the fund sound. Without soundness, no COLA. Actuarial soundness could have a big impact on employees. Hope that there are matching state contributions.</p>	<p>Retirement is the GWPOA's first priority. Health insurance is the GWPOA's second priority. Salary is the GWPOA's lowest priority. Concerned about rising costs, they will work to maintain existing health benefit.</p>	<p>Jury is still out. There are too many unknowns. Leaving security of big fund might be a concern.</p>
<p>Don Zavodny, ASFCME</p>	<p>Pension, health, and salary are the three-legged stool of benefits. Importance may vary over course of employment. Concerned about turnover, and ability to recruit and retain correctional officers. Pensions will have to be a multifaceted approach. We must be willing to share. It can't all be done on the backs of the workers, can't all be revenue. We must avoid pitting groups against each other. We must work together and use a multi-faceted approach. Benefit changes send unintended messages to workers about their value.</p>		

During public comment, Dick Lavine spoke on behalf of the ASFCME Retired Members —7,000 members. He spoke in support of the state contribution increasing to 10%, against outsourcing state services and allowing retirees to run for election to the ERS Board.

XII. 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 A¹.

XIII. 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

Tuesday, August 19, 2014, was set for the next regular meetings of the Board of Trustees and Investment Advisory Committee, Board of Trustees and Audit Committee.

XIV. ADJOURNMENT OF THE JOINT MEETING OF THE BOARD OF TRUSTEES AND INVESTMENT ADVISORY COMMITTEE

The May 20, 2014 Joint Meeting of the ERS Board of Trustees and Investment Advisory Committee adjourned at 5:30 p.m.

¹ Exhibit A – Page 23

PUBLIC AGENDA ITEM - #12

12. Executive Director's Report

May 20, 2014

Results from the 2014 Survey of Employee Engagement (SEE)

ERS participated in its 7th organizational assessment survey in February 2014. The employee engagement measurement tool is prepared and given by the Institute for Organizational Excellence at the University of Texas. ERS has participated every even numbered year since 2002.

The purpose of the SEE is to:

- Assess the organizational climate
- Serve as a measurement tool for employee engagement
- Focus on the key drivers relative to the ability to engage employees towards successfully fulfilling the vision and mission of the organization

The employee response to the survey was again exceptional, with an 81% response rate. The state agencies overall survey scores typically range from 325 to 375. **ERS scored 401**, compared to its 2012 score of 387.

As a reminder, survey questions were rated on a 1-5 scale, from strongly disagree, disagree, neutral, agree, and strongly agree. A score above 375 in an area, or 3.75 on an individual question, is viewed as an area of substantial strength.

Survey on Health Insurance

In response to a request from the Legislature to study the impact of offering alternative health insurance options, ERS has contracted with an independent research organization, The University of Texas at Austin's Institute for Organizational Excellence, to administer a survey about GBP health insurance coverage. All 145,000 employees enrolled in the GBP should have received an email or a letter from UT explaining-how to take the survey. Retirees under the age of 65 will receive a survey in June.

The survey takes less than 10 minutes and can be completed on any computer, smart phone, or mobile device. It will ask about GBP health coverage and if members are interested in some other insurance choices. The results will be reported to the Texas Legislature and could shape recommendations on health insurance options for the state workforce.

Legislative Update

In March, ERS and our consulting actuaries at Gabriel Roeder Smith (GRS) invited legislative leadership and stakeholders to briefings. We laid out the actuarial methodology that GRS would use to split LECOS for actuarial purposes, and presented the preliminary results. There was also discussion about the procedural and policy issues that would happen if the plans were actually split.

The House Pensions committee has tentatively scheduled its interim hearings for July 9th – 11th. July 10th will be a joint hearing between Pensions and the House Appropriations subcommittee to look at the financial health of the Group Benefits Program. On either July 9th or 11th, Pensions will conduct its retirement oversight hearing.

In April, the Senate State Affairs committee announced a new interim charge. The committee will be monitoring the actuarial and financial conditions of the pensions and health care programs administered by ERS. No hearing date has been set.

On May 7th, ERS launched a comprehensive member survey. The results will be used to help complete the required study on providing a basic health insurance option to members. Information gathered in the study will also be used to help stakeholders and policy makers make decisions about employee benefits.

On April 9, the State and Local Government Benefits Administrators awarded ERS the grand prize for the 2013 SALGBA Challenge, in honor of HealthSelect' Patient-Centered Medical Homes program. The PCMH program rewards clinically-integrated medical practices that agree to improve patient care while lowering costs. The SALGBA review committee noted that the "program submission was innovative, was bound for future success and could be a great model for other public entities.

Dependent Eligibility Audit

In its continued efforts to manage plan costs, ERS contracted with Aon Hewitt to conduct a dependent verification audit in April 2011. This process required that all employees and retirees verify that their covered dependents met the qualifications to be covered under the Group Benefit Program (GBP).

Since the audited population was comprised of nearly 120,000 members, the audit was structured into four staggered "waves" and targeted nearly 220,000 enrolled dependents. The first audit wave was launched March 2011; the subsequent waves were conducted in April and May 2011. The duration of each audit group was ninety (90) days. Throughout the respective audit period, members responded to the audit by supplying required documentation such as marriage license, birth certificates, and redacted tax forms to confirm their dependent's eligibility in the health program.

At the conclusion of the dependent eligibility audit, approximately, 5.3% of the enrolled dependents were found not to meet the eligibility rules and were eliminated from coverage.

Since April 2011, however, many new dependents have been added to the health program. Building on the results of the previous dependent eligibility audit, ERS has contracted with AON Hewitt to begin a two phased approach to resume the audit verification process.

First, we will audit anyone who has added a dependent since the final list of the first audit was completed, April 2011. This is known as the "Gap Audit". Second, we will install new procedures with Benefit Coordinators so that when a member adds a dependent, whether as a new hire, through a Qualifying Life Event (QLE), or during the annual enrollment process, AON Hewitt will be notified and immediately request documents to verify the eligibility of the dependent. This is known as the "Guard Process".

The Gap Audit has begun. On April 23, 2014, we released 35,788 letters to members who have 59,013 dependents to verify. This process is running smoothly. We anticipate an end date of July 23, 2014 to close out the Gap Audit.

The Guard Process will be installed on June 25, 2014 with the first on-going file being submitted to AON Hewitt with the initial letters being released on July 3.

We will update our progress with this program at Board meetings in the future as part of our updates to the financial condition of the health plan.

Annual Enrollment for Plan Year 2015

Annual enrollment for plan year 2015 will take place over a five week period from June 30 – August 1, 2014. The phased approach has proven effective of the past two years as it helps to spread out the demand on the contact center and improve the overall customer experience during annual enrollment.

Annual Enrollment for Plan Year 2015 June 30 – August 1					
	Week Beginning Monday				
	June 30	Jul 13	Jul 18	Jul 25	Aug 1
Phase 1 (June 30- July 13)	■				
Phase 2 (July 7 – July 18)		■			
Phase 3 (July 14 – July 25)			■		
Phase 4 (July 21 – August 1)				■	

ERS will be hosting **47** Annual Enrollment fairs across the state and throughout the enrollment period.

Fall enrollment will be in the October – November time frame to coincide with Medicare enrollment period. We are considering a phased approach like we use during Annual Enrollment.

ERS Website

ERS recently refreshed its member website, after working with an outside contractor to evaluate www.ers.state.tx.us and identify ways to improve site visitors' overall experience. The evaluation included input from 30 ERS members, including 10 new employees, 10 employees nearing retirement, and 10 retirees. Improvements include:

- easier navigation throughout the site,
- more prominent FAQs,
- links to third-party administrator websites on the homepage,
- an easy-to-see "Access My Account" button, and
- a revamped "sub-site" for vendors.

Certificate of Achievement for Excellence in Financial Reporting

ERS earned the annual Certificate of Achievement for Excellence in Financial Reporting, awarded by the Government Finance Officers Association (GFOA) of the United States and Canada for its Comprehensive Annual Financial Report for the fiscal year ended August 31, 2013. The Certificate of Achievement is the highest form of recognition in governmental accounting and financial reporting, and its attainment represents a significant accomplishment by a government and its management. To be awarded a Certificate of Achievement, a government unit must publish an easily readable and efficiently organized Comprehensive Annual Financial Report whose contents meet or exceed program standards.

Awards and Nominations for Investments

I am proud to announce that *Institutional Investor* magazine, one of the world's foremost financial publications, nominated Leighton Shantz, Director of Fixed Income, and the Fixed Income Team for the prestigious 2014 Investor Intelligence Award: *Debt (Fixed Income/Credit)*. This nomination was for their excellence in restructuring the fixed income program and transitioning the portfolio for the future while being innovative in their implementation. The outstanding nominees for this award represent some of the most cutting-edge plans in North America. Of the five nominees, Leighton and his team won the award for the best of the group.

Tom Tull was also nominated by *Institutional Investor* magazine, as Chief Investment Officer of the Year. CalSTRS was the final winner in this space.

In addition, the aiCIO magazine, which is written for investment officers at the world's largest institutional investors, recently named Robert Lee III an up and comer in the Hedge Fund space for those under the age of 40. This recognition was given to 40 investment individuals and Rob was singled out for his managing a hedge fund portfolio across multiple asset classes.

The Texa\$aver 401(k) and 457 Program continues the winning streak

Texa\$aver submitted award entries for its “**1% Contribution Increase**” campaign and has been awarded the following:

International Academy of Visual Arts (IAVA) announced Texa\$aver is the winner of three Awards of Distinction in the Communicator Awards Competition for Marketing Effectiveness: Integrated Campaign, Employee Publication: Benefits and Employee Publication: Copy/Writing.

IAVA is an invitation-only group consisting of top-tier professionals from acclaimed media, communications, advertising, creative, and marketing firms.

Association of Marketing and Communication Professionals (AMCP) announced Texa\$aver is the winner of three Platinum Hermes Creative Awards, the highest honor in the competition, for Integrated Marketing Campaign, Publications/Benefits, and Communication Campaign.

AMCP is an international organization consisting of marketing, communication, advertising, public relations, media production, web, and freelance professionals. As part of its mission, AMCP fosters and supports the efforts of marketing and communication professionals who contribute their unique talents to public service and charitable organizations.

National Association of Government Communicators (NAGC) announced the Texa\$aver Program is a winner of the Blue Pencil & Gold Screen Awards which will be presented next month. NAGC is a national not for profit professional network of federal, state and local government employees who disseminate information within and outside government. Its members are editors, writers, graphic artists, video professionals, broadcasters, photographers, information specialists and agency spokespersons.

The campaign focused on Texa\$aver participants who were auto-enrolled in the 401(k) plan at 1% and encouraged them to increase their contribution rate. Through creative web, mobile, and marketing communications, the campaign consisted of more than 20 touch-points. Each touch-point featured a cleverly designed “What’s Your Excuse” call-out, and then addressed common excuses like “I’ll save when I’m older” and “I have too many expenses.” The campaign helped 3,274 participants increase their contribution beyond 1%. The Texa\$aver Program emphasizes the three-legged stool for retirement savings: contributions to the ERS retirement plan, Social Security, and additional savings through a Texa\$aver 401(k) or 457 accounts.

Get Fit Award

ERS was awarded the “#1 Fittest State Agency in Texas” for Mid-size state agencies for the second year in a row with a completion rate of 42%. The 10-week state employee wellness challenge concluded on March 22 and ERS’ award is displayed prominently on the first floor near the elevators.

Thanks to all ERS employees that participated and all those that made the challenge a success!