



MEETING OF THE BOARD OF TRUSTEES
DECEMBER 4, 2014



PRESENTED FOR REVIEW AND APPROVAL
FEBRUARY 24, 2015

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

**December 4, 2014
ERS Board Room
ERS Building – 200 E. 18th Street
Austin, Texas 78701**

TRUSTEES PRESENT

Brian Ragland, Chair
Doug Danzeiser, Member
Cydney Donnell, Member
Yolanda Griego, Member
I. Craig Hester, Member

Frederick E. Rowe, Jr., Vice-Chair (*Remotely via video conference*)

ERS STAFF PRESENT

Ann S. Bishop, Executive Director
Larry Zeplin, Chief Operating Officer
Paula A. Jones, General Counsel and Chief Compliance Officer
Tony Chavez, Internal Auditor
Robert (Rob) Kukla, Director of Benefit Contracts
Shack Nail, Deputy Director of Governmental Affairs
Ralph Salinas, Director of Human Resources
Marc Sundbeck, Manager of Enterprise Risk Management
Catherine (Cathy) Terrell, Director of Governmental Affairs
Tom Tull, Chief Investment Officer
Mike Wheeler, Chief Financial Officer
Nora Alvarado, Benefit Contracts
Carolyn Anderson, Investments
Lori Blewett, Benefit Communications
Kyla Cloutier, Benefit Contracts
Kelley Davenport, Executive Office
D'Ann Deleon, Benefit Contracts
Blaise Duran, Benefit Contracts
Leah Erard, Governmental Affairs
Beth Gilbert, Internal Audit
Bernie Hajovsky, Office Management Support
Dana Jepson, Governmental Affairs
Jennifer Jones, Governmental Affairs
Sharmila Kassam, Investments
Debbie Leatham, Finance
Patricia Maugham, Executive Office
Lauren Russell, Benefit Contracts
MaryJane Wardlow, Governmental Affairs
Keith Yawn, Governmental Affairs

ALSO PRESENT

Lynn Gordon, Minnesota Life
Nick Arnold, Humana
Laura Freytes Diaz, Humana
Amy Cohen, Gabriel Roeder Smith

Virgil Meier, Gabriel Roeder Smith
Kristin Alexander, State Auditor's Office
Cesar Saldivar, State Auditor's Office
Phil Dial, Rudd & Wisdom, Inc.
Katy Fallon, Legislative Budget Board
Kris Hefner, Caremark
Mark Gale, UnitedHealthcare
Terry Mumford, Ice Miller, LLP
Robert L. Gauss, Ice Miller, LLP
Andrea Bouyselus, UnitedHealthcare
Mitchell Bilbe, Rudd & Wisdom, Inc.

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

"A public notice of the Board of Trustees meeting containing all items on the proposed agenda was filed with the Office of the Secretary of State at 10:48 a.m. on Wednesday, November 25, 2014 as required by Chapter 551, Texas Government Code, referred to as "The Open Meetings Law."

I. EXECUTIVE SESSION – THE BOARD OF TRUSTEES WILL MEET IN EXECUTIVE SESSION IN ACCORDANCE WITH SECTION 551.074, TEXAS GOVERNMENT CODE, TO INTERVIEW APPLICANTS FOR THE ERS EXECUTIVE DIRECTOR-DESIGNATE POSITION AND TO DELIBERATE THE APPOINTMENT, EMPLOYMENT, EVALUATION, COMPENSATION, PERFORMANCE, REASSIGNMENT, OR DUTIES OF THE ERS EXECUTIVE DIRECTOR, INTERNAL AUDITOR, EXECUTIVE DIRECTOR-DESIGNATE AND/OR OTHER INDIVIDUAL PUBLIC OFFICERS OR EMPLOYEES. THEREAFTER THE BOARD MAY CONSIDER APPROPRIATE ACTION IN OPEN SESSION.

At 8:02 a.m. on Thursday, December 4, 2014, Mr. Brian Ragland, ERS Board of Trustees Chair, announced that the ERS Board of Trustees would be going into executive session in accordance with Texas Government Code §551.074, to interview applicants for the ERS Executive Director-designate position and to deliberate the appointment, employment, evaluation, compensation, performance, reassignment, or duties of the ERS Executive Director, Internal Auditor, Executive Director-designate and/or other individual public officers or employees. The Vice-Chair, Mr. Frederick E. Rowe will also be in attendance at the executive session via video conference call in accordance with Texas Government Code §551.127. Thereafter the board may consider appropriate action in open session.

At 2:21 p.m. on December 4, 2014, the Board of Trustees returned to open session and Mr. Ragland announced that no action, decision, or vote was taken by the Board while in Executive Session. Mr. Ragland further stated he would entertain any motions from members of the Board.

Mr. Craig Hester, ERS Internal Audit Chair, first commented that Tony Chavez, ERS Internal Auditor has been effective in communicating with the board and is very well organized in presenting logical presentations to the board and staff. Mr. Hester stated that Mr. Chavez has executed the FY2014 Audit Plan, completed six audit engagements and utilized the external auditors in an effective way that's complimented the Internal Audit process. Mr. Hester continued by stating Mr. Chavez has implemented a risk base methodology in the Annual Audit Plan, has expanded and approved the Annual Audit Risk assessment process and has developed a 2-year strategic plan for internal audit with specific measurements and goals as well as created an Internal Audit Committee handbook. After this statement, the following action occurred:

MOTION made by Mr. Craig Hester, seconded by Ms. Yolanda Griego and carried unanimously by the present members of the Board of Trustees of the Employees Retirement System of Texas to increase Internal Auditor, Tony Chavez' annual compensation by 6% effective immediately.

Ms. Yolanda Griego then thanked everyone who participated in the applicant process of the Executive Director-Designate position. Ms. Cydney Donnell also thanked Patti Halladay with Intersource for her great work in finding good candidates. She then acknowledged Ms. Bishop in her leadership as a true leader who informed the board in an ample amount of time of her intent to retire and to be available to help with the transition of the new Executive Director-designate position. Thereafter, the following action occurred:

MOTION made by Ms. Yolanda Griego, seconded by Mr. Craig Hester and carried unanimously by the present members of the Board of Trustees of the Employees Retirement System of Texas to appoint Mr. Porter Wilson as the Executive Director-designate for the Employees Retirement System of Texas with an annual salary of \$265,000. I further move that Mr. Wilson will begin his position as Executive Director-designate when he is first available to do so.

II. RECESS OF THE BOARD OF TRUSTEES – THE BOARD OF TRUSTEES WILL RECONVENE AS COMMITTEE OF THE WHOLE TO TAKE UP AUDIT COMMITTEE AGENDA ITEMS

Upon adjournment of the Audit Committee, the Board of Trustees convened as a committee of the whole to consider the following Board agenda items. Minutes to the December 4, 2014 Audit Committee Meeting are located under the Audit Committee agenda Minutes.

VI. DISCUSSION AND TRAINING REGARDING ETHICS AND FIDUCIARY RESPONSIBILITY

Ms. Paula Jones, General Counsel & Chief Compliance Officer, introduced Mr. Robert Gauss and Ms. Terry A.M. Mumford from the law firm of Ice Miller, LLP, and noted that annual ethics training is required by the ERS Investment Policy. Mr. Gauss and Ms. Mumford presented general education on fiduciary duties, best practices and the practical application for ERS.

There were general questions and discussion related to the presentation, but no action was required on this item.

VII. REVIEW AND APPROVAL OF THE MINUTES TO THE AUGUST 19, 2014, OCTOBER 27, 2014 AND NOVEMBER 18-19, 2014 MEETING OF THE BOARD OF TRUSTEES

Chair, Brian Ragland opened the floor for a motion on the approval of the minutes held on August 19, 2014, October 27, 2014 and November 18-19, 2014.

MOTION made by Ms. Cydney Donnell, seconded by Ms. Yolanda Griego and carried unanimously by the present members of the Board of Trustees of the Employees Retirement System of Texas to approve the minutes to the meeting's held on August 19, 2014, October 27, 2014 and November 18-19, 2014

VIII. REVIEW AND DISCUSSION OF THE TEXA\$AVER PROGRAM REVIEW

Mr. Rob Kukla, Director of Benefit Contracts introduced Ms. Nora Alvarado, Manager of the Account Management/Contract Monitoring team to present to the Board a review on the Texa\$aver program. Ms. Alvarado stated that the Texa\$aver Program is comprised of two plans, the 401(k) plan, which is available to state employees, and the 457 plan, which is available to both state and higher education employees. New employees are automatically enrolled at 1% of their eligible salary into the 401(k) plan. In 2012 the Board approved the establishment of the Roth contribution option for both plans.

Ms. Alvarado reported administrative costs are paid by Texa\$aver participants through monthly fees based on participant's account balance. She reminded the Board that in December of 2013, the

Board approved a reduction for the administrative fees which became effective in February 2014. As a reminder, the legislature does not appropriate any funds into the administration of the Texa\$aver Program and all administration costs are paid by Texa\$aver participants.

The program assets continue to grow and have reached \$2.4 billion as of August 2014. The 401(k) plan experienced an 11.8% increase in accounts and assets grew by 16.8% over the last year. The 457 plan experienced an increase in accounts by 6.7% and assets grew by 11.9%. Ms. Alvarado informed the board the IRS recently changed the limits for calendar year 2015 to allow individuals to save up to \$18,000 in each plan. Ms. Alvarado also noted that a participant who is 50 years or older may contribute an additional \$6,000 for a total of \$24,000 to each Plan. This includes before- and after-tax contributions combined; however, specific to the 457 plan, a participant may not use the Age 50 and Over Catch-up provision in conjunction with the Special 457 Catch-up Provision.

Specific to the Roth contributions, Ms. Alvarado reported Roth participation continues to grow with assets at approximately \$9.9 million.

The following table shows 401(k) automatic enrollment statistics since implementation in January 2008 and as of fiscal year end 2014.

Texa\$aver 401(k) Automatic Enrollment	
Since Implementation January 2008 – August 2014	FY2014 September 2013 – August 2014
145,255 - auto-enrolled employees, 90.0%	23,941 - auto-enrolled employees, 87.9%
<ul style="list-style-type: none"> • 161,309: Eligible to be auto-enrolled • 16,054: Opted out within 30 days 	<ul style="list-style-type: none"> • 27,233: Eligible to be auto-enrolled • 3,292: Opted out within 30 days
Behaviors of the Auto Enrollees:	Behaviors of the Auto Enrollees:
<ul style="list-style-type: none"> • 37,779: Increased deferrals above 1% • 875: Stopped deferrals & withdrew funds • 23,183: Stopped deferrals • 70,875: Separated from service 	<ul style="list-style-type: none"> • 11,156: Increased deferrals above 1% • 97: Stopped deferrals & withdrew funds • 5,145: Stopped deferrals • 18,293: Separated from service
62,081 auto-enrolled employees continue to defer at the 1% payroll rate	

Texa\$aver currently offers 12 core investment options, 11 target date funds and a self-directed brokerage account option. These allow participants to invest based on their savings needs, the risk tolerance and time horizon to retirement. Ms. Alvarado reported the overall year-to-date return is 3.78% as of September 30, 2014; the aggregate annual return since 2001 is 6.17%.

The “What’s Your Excuse” 1% Campaign focused on individuals enrolled at 1% [default annual enrollment contribution rate] for the 401(k) program. On August 26, 2013, approximately 54,000 participants received a direct mail regarding the campaign initiative. Ms. Alvarado stated that over 2,100 participants within the targeted population accepted the call to action and increased their deferrals to between 2% to 15% which was notably higher than expected. As a result, Ms. Alvarado reported over 3,900 participants were encouraged to take advantage and increase their current contribution.

Ms. Alvarado reported that in June 2014 the program continued its “What’s Your Excuse” mission with “Do You Have a Plan” campaign focusing on enrolling individuals not already auto-enrolled into the 401(k) Plan prior to 2008. As of September 2014, there were over 1,600 participants taking action and enrolling in the plan with an average deferral of 5%.

As part of the annual review, the staff review the fees charged for those who participate in the TexaSaver Program. Ms. Alvarado stated the fees are designed to generate sufficient revenue to cover the cost of the record keeping of the program. ERS staff reviewed the fee stratifications on an annual basis and, as a result of this review, staff have determined that as of October 2014 the stratification tier has generated sufficient revenue to cover the cost of the Program. ERS staff recommends the ERS Board of Trustees adopt a revised stratification effective February 1, 2015.

The below chart shows the proposed reduction and monthly fees in both dollars and percentages:

TexaSaver Proposed Fees Effective February 1, 2015				
Account Balance *	Total Number of Accounts **	Current Monthly Fee Per Account	Proposed Monthly Fee Per Account	Proposed Change in Monthly Fee
\$10.00 or less	17,630	No fees	No fees	No Change
Between \$10.01 and \$1,000.00	79,882	\$1.18	\$1.18	No Change
Between \$1,000.01 and \$16,000.00	56,890	\$3.99	\$3.99	No Change
Between \$16,000.01 and \$32,000.00	9,592	\$6.32	\$6.00	(\$0.32) monthly or -5.06%
Between \$32,000.01 and \$48,000.00	5,019	\$8.82	\$8.17	(\$0.65) monthly or -7.36%
Between \$48,000.01 and \$64,000.00	3,050	\$11.76	\$10.89	(\$0.87) monthly or -7.36%
\$64,000.01 and more	10,463	\$14.71	\$13.62	(\$1.09) monthly or -7.42%

*The Program administrative fee is based on the account balance

**Total Number of Accounts as of August 31, 2014

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

MOTION made by Ms. Yolanda Griego, seconded by Ms. Cydney Donnell and carried unanimously by the present members of the Board of Trustees of the Employees Retirement System of Texas to approve revising the fee schedule to the TexaSaver Proposed Fees presented below and as addressed within the agenda item, and to be assessed to TexaSaver 401(k) and 457 accounts beginning on or after February 1, 2015.

TexaSaver Fees
Proposed Effective February 1, 2015

Account Balance	Monthly Fee per Account	Annualized Fee per Account	Monthly Roth Fixed Fee	Annualized Fee per Roth Account
\$10.00 or less	No fees	No fees	No fees	No fees
Between \$10.01 and \$1,000.00	\$1.18	\$14.16	No fees	\$14.16
Between \$1,000.01 and \$16,000.00	\$3.99	\$47.88	No fees	\$47.88
Between \$16,000.01 and \$32,000.00	\$6.00	\$72.00	No fees	\$72.00
Between \$32,000.01 and \$48,000.00	\$8.17	\$98.04	No fees	\$98.04
Between \$48,000.01 and \$64,000.00	\$10.89	\$130.68	No fees	\$130.68
\$64,000.01 and more	\$13.62	\$163.44	No fees	\$163.44

IX. REVIEW, DISCUSSION AND CONSIDERATION TO ADOPT THE TEXA\$AVER 457 PLAN DOCUMENT

Ms. Georgina Bouton, Assistant Director of Benefit Contracts, presented the Texa\$aver 457 Plan document to the Board for its consideration to adopt. She stated the Texa\$aver Program is comprised of two distinct plans: the 401(k) and the 457 plan. Ms. Bouton then stated both plans promote personal savings as part of a three-legged stool approach to retirement savings but there are some differences between the 2 plans. The table below highlights a few of these differences.

	Texa\$aver 401(k) Plan	Texa\$aver 457 Plan
Plan Originated	1985	1974
Eligibility	Employees of state agencies	Employees of state agencies and higher education institutions
Contributions	Based on a percentage (%) of salary	Based on a fixed dollar (\$) amount
Automatic Enrollment Feature	Beginning January 1, 2008, new state employees are automatically enrolled at 1% of salary	Not Available
Catch-up Provision	Not available in the 401(k) Plan	Special 457 Catch-up Limit is \$35,000 for those over 50 in 2014 and is subject to eligibility requirements
Authorized under Internal Revenue Code (IRC)	Yes Section 401(k) of the IRC	Yes Section 457 of IRC
Program Governance	Title 34, §87 of the Texas Administrative Code (TAC)	Plan Document

Ms. Bouton reported governance is how the terms and conditions for each of the plans are documented. The Texa\$aver 401(k) plan is governed by a Plan Document. The Texa\$aver 401(k) Plan Document contains all material terms and conditions for eligibility, contributions, distributions and benefits, as well as the optional provisions such as such as participant loans, unforeseeable emergency withdrawals and plan to plan transfers.

The Texa\$aver 457 Plan and the prior plan are governed by the rules set forth within Title 34, §87 of the Texas Administrative Code (TAC). TAC §87 contains all material terms and conditions for eligibility, contributions, distributions and benefits, as well as the optional provisions such as such as participant loans, unforeseeable emergency withdrawals and plan to plan transfers.

Ms. Bouton informed the Board that in its August 2014 meeting staff proposed a two-step process to facilitate the transition of the governance of 457 Plan from TAC §87 to a plan document structure. The first step of this process would be the development of the Texa\$aver 457 Plan Document which is being presented to the Board for its consideration and adoption. The second step would be the amendments of TAC §87 (Chapter 87 rules) to remove the Texa\$aver 457 and have Chapter 87 rules specific to the Prior 457 Plan. These rule changes would be presented to the Board for consideration, review, and adoption at its May 2015 meeting.

In a response to a question by Mr. Doug Danzeiser asking what is the benefit of a two-step process as opposed of doing it all at once, Ms. Bouton responded it is to provide staff additional time to formulate the 457 Plan Document and the benefit of having the 457 Plan Document effective in January, is that some of the changes to the plan have already been started.

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

MOTION made by Ms. Cydney Donnell, seconded by Ms. Yolanda Griego and carried unanimously by the present members of the Board of Trustees of the Employees Retirement System of Texas approve the adoption of the Deferred Compensation 457 Plan Document as the governing instrument for the Texa\$aver 457 Plan in a form substantially similar to that proposed.

I further move that the Board of Trustees of the Employees Retirement System of Texas authorize the Executive Director to execute the Deferred Compensation 457 Plan Document, and to authorize the Executive Director to thereafter make further changes to the Deferred Compensation 457 Plan Document for the Texa\$aver 457 Plan as she deems necessary or advisable for the benefit of the plan and its participants and for improved administration of the plan.

X. REVIEW AND DISCUSSION REGARDING BOARD MEMBER TRAINING AND ERS CONTRACTS PROCESS

Ms. Paula A. Jones, General Counsel and Chief Compliance Officer informed the board staff will be providing an update on some changes from the 83rd legislative session which gave the board some additional opportunities for training. One of the opportunities involves the Pension Review Board and requirements the legislature placed on that board to come up with training for board members and administrators of public pension plans in the state of Texas. Ms. Jones then introduced Ms. Jennifer Jones, Senior Program Specialist in the Governmental Affairs division to proceed with discussion on this agenda item.

Ms. Jennifer Jones informed the board that legislation from the 2013 session required the Board to create education standards for system trustees and administrators for all Texas public retirement systems. She reported Paula Jones served on PRB's Educational Training Program working group to provide recommendations for trustee/system administrator training. Jennifer Jones also reported retirement systems are required to report training hours beginning February 1, 2016. The requirement break downs are core program requirements, which cover fundamental competencies of public pensions, and non-core program requirements, which provide additional expertise but may not be part of a trustee's or administrator's core responsibilities. Ms. Jennifer Jones stated in the first year as a Trustee/Administrator, there must be seven hours of training and thereafter four hours of training per year. Ms. Jennifer Jones then turned it over to Ms. Nancy Lippa, ERS Assistant General Counsel.

Ms. Lippa reported that effective November 1, 2013, the Texas Comptroller required to provide training to members of governing bodies of state agencies that enter into contracts. Members of the ERS Board will need to complete at least one course of training by September 1, 2015. The training is a broad overview of the contracting process statewide and is not intended to address specific processes and fiduciary requirements related to ERS. The training will be presented via pre-recorded webcast the Comptroller has created, and we plan to show the webcast at an upcoming board meeting.

Ms. Lippa informed the board about ERS' contracting process in the Legal Services division. She noted ERS business divisions submit contract request forms and other required information to Legal Services to begin the contract process. ERS Legal staff use the Statewide Contract Management Guide (CMG), best practices, and licensed attorneys and paralegals to draft contracts in connection with programs administered by ERS. Ms. Lippa also stated the CMG is a reference guide. In its introduction it

says not all of its suggestions and recommendations are appropriate for every type of contract because the nature of level of risk involved in any contract may vary depending on the business relationship with the vendor.

Ms. Lippa then reported ERS procurement professionals work in multiple divisions, including Finance, Legal and Benefit Contracts. There are five certified Texas contract managers, including three who are paralegals in the Legal Services Divisions. ERS has two certified Texas procurement managers, several key employees who have completed procurement and contract management training, and seven licensed attorneys with a range of six to twenty-five years of contracting experience who regularly draft, review and negotiate contracts.

Legal Services has prepared a standard contract template used to draft comprehensive contracts for different program needs. The CMG and best practices were used to develop the contract template. Many provisions recommended by the CMG are also included in ERS' standard contract and include the right to audit and intellectual property and insurance provisions. Ms. Lippa noted some protections included in ERS' contracts address risks in ways that are different from those suggested by the CMG but are intended to specifically protect ERS, its members and participants, and the state of Texas. She then reported some examples of these risks might be data confidentiality and security, security of protected health information under HIPAA, and the ability to obtain the appropriate remedy from a vendor to ensure contract performance. Some protections in the ERS standard contract form exceed the CMG recommendations, such as liquidated damages, cumulative remedies, successor firm transition, and enhanced conflict of interest provisions. Finally, the Texas Insurance Code, Chapter 1551, which is the Texas Employees Group Benefits Act, contains specific requirements applicable to GBP contracts.

Ms. Lippa reported ERS is required to have the Office of the Attorney General review contracts it intends to enter with a person providing medical or healthcare services with a contract amount of \$250 million or more. The Office of the Attorney General is part of the State's Contract Advisory Team. In November 2014, the State Auditor's Office published "An Audit Report on The HealthSelect Contract at the Employees Retirement System" relating to its audit of the procurement and contracting parts for the third-party administrator for HealthSelectSM of Texas. Ms. Lippa reported that in its management response to this audit report, ERS confirmed its contracts have proven to be effective, the Legal staff will continue to use the CMG to assist with contract formation, and subject matter experts will be consulted to evaluate the unique contract risks and exposures to the GBP, plan participants and the state to ensure contracts specify appropriate legal protections.

Ms. Ann Bishop brought to the Boards attention that in addition to the requirements of training, there are people with extensive contracting experience at ERS who have many years of service and experience in doing those contracts. Ms. Bishop asked Mr. Tony Chavez, ERS Director of Internal Audit, to discuss audit work performed over contracting including a previous internal audit of Benefit Contracts' procurement process.

Mr. Chavez noted Internal Audit recently conducted two audits related to contracting, a Benefit Contracts procurement audit and a Contract Administration audit within Legal Services. Both audits were assessed an overall rating of satisfactory but selected audit scope areas did have areas of "needs improvement". Mr. Chavez noted the internal audits focused on the respective division's control activities to meet its strategic objectives. Ratings take into account the likelihood control objectives would fail and consequently the level of impact because of control activity failure. Mr. Chavez provided a handout and noted the different risks and control activities associated with observations reported by the SAO on its recent HealthSelect Contract audit.

There were general discussion and questions related to the presentation, but no action was required on this item.

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

a. GBP Financial Status Update for Fiscal year 2014 and Fiscal Year 2015 –

Mr. Rob Kukla, Director of Benefit Contracts reported to the board there are 436,000 participants covered under HealthSelect with about 24,000 covered under an HMO and 56,000 in the MA plans. As of today, the eligibility into the GBP extends to the following:

- State officials, agency employees or retirees, and their dependents
- State judiciary or retirees and their dependents
- Higher education employees or retirees, and their dependents [excluding UT and Texas A&M Systems]
- Community Supervision and Corrections Department employees or retirees, and their dependents.
- Employees and retirees, but not system members of the Texas Municipal Retirement System and the Texas County and District Retirement System.

Mr. Kukla reported HMOs were approved by the board back in 1993 and they provide services to the members who like to use HMOs rather than the PPO or indemnity type of products that are offered through insurance companies. Since the 1990's there have been as many as 23 different HMOs offered throughout the state, including one self-funded HMO (HealthSelect Plus). Over the past ten years, many HMOs were unable to meet the terms established by ERS and were no longer offered, so currently Scott & White Health Plan and Community First Health Plans are offered.

The charts below display the enrollment in these two plans over the past 3 years along with the service areas covered.

Scott & White HMO
Enrollment Comparison
Fiscal Years 2013 through 2015

Carrier: Scott & White	FY13	FY14	FY15
Members	11,687	11,661	11,595
Dependents	8,192	7,954	7,672
Total Participants	19,879	19,615	19,267

Community First HMO
Enrollment Comparison
Fiscal Years 2013 through 2015

Carrier: Community First	FY13	FY14	FY15
Members	3,094	2,907	2,843
Dependents	2,761	2,549	2,511
Total Participants	5,855	5,456	5,354

Mr. Blaise Duran, Lead of Underwriting, Data Analysis and Reporting in the Benefit Contracts division reported to the board all HMO programs are subject to the theoretical cost index (TCI) test which is based on the HealthSelect program. The TCI compares the cost between HealthSelect and the HMOs

based on various demographic data. Mr. Duran reported an HMO must demonstrate savings to the GBP of at least 5% when compared to the TCI.

Mr. Kukla stated that on September 1, 2011, the first Medicare Advantage HMO (MA HMO) was added in the Houston area and then on January 1, 2012, ERS offered the HealthSelect Medicare Advantage Plan, which is a statewide Medicare Advantage Preferred Provider Organization (MA PPO). Both of these programs are fully insured as opposed to the HealthSelect plan which is a self-funded plan. Mr. Kukla informed the board the MA HMO and the MA PPO do not offer any drug coverage, rather the prescription drug benefits are provided through the employer group waiver plan (EGWP+Wrap) on a self-funded basis.

HealthSelect Medicare Advantage Plan
MA PPO Enrollment Comparison Fiscal
Years 2013 through 2015

Carrier: Humana	FY13	FY14	FY15
Members	37,036	40,872	44,762
Dependents	9,636	10,784	11,875
Total Participants	46,672	51,656	56,637

Medicare Advantage HMO Plan
MA HMO Enrollment Comparison Fiscal
Years 2013 through 2015

Carrier: Kelsey Care	FY13	FY14	FY15
Members	534	802	905
Dependents	128	177	189
Total Participants	662	979	1,094

Mr. Kukla noted that unlike the MA plans, the HMOs contain a prescription drug benefit. The prescription drug benefit program associated with HealthSelect is for the active and pre-65 retirees. This program is run through Caremark, a pharmacy benefit manager (PBM). The responsibilities of the PBM include but are not limited to establishing a network of pharmacies, managing a formulary and operating or contracting a mail service pharmacy. Mr. Kukla reported the management of the formulary is very important in trying to control healthcare spending when it comes to pharmacy benefits. A formulary is managed through what is called a pharmaceutical and therapeutic committee. This is a group of independent physicians and pharmacists who review materials regarding the cost and efficacy of various drugs in each therapeutic class.

Mr. Duran reported ERS contracted with SilverScript Insurance Company to administer an EGWP+Wrap for Medicare primary participants. This program was effective January 1, 2013 and since inception ERS received \$50 million in additional subsidies over what would have been received under the Retiree Drug Subsidy (RDS). ERS reinstated the "age-in" process as of September 2014 and those participants who were not moved into the EGWP+Wrap plan due to CMS sanctions on SilverScript will be added in January 2015.

The Affordable Care Act (ACA) related cost is expected to increase from \$84.8 million in FY2014 to \$122.8 million in FY2015. Mr. Duran reported the \$38 million increase is primarily due to two provisions in the ACA. Mr. Duran reported \$19.4 million of this cost increase is due to a shortening of the eligibility waiting period for health insurance to be effective the first of the month following 60 days employment rather than 90 days. Mr. Kukla noted this change went into effect June 2014. Mr. Duran stated the health insurance providers (HIP) fee is expected to cost \$17.6 million in FY2015 which is an increase of \$9.2

million from FY2014. The fee only impacts fully insured plans such as the HMOs and the MA plans in the GBP.

Mr. Duran stated since the beginning of the ACA, the GBP has accounted for the additional taxes required. In addition to the HIP fee we pay two other taxes, the Patient-Centered Outcome Research Institute (PCORI) and a transitional reinsurance fee. The transitional re-insurance fee ends in 2017. Mr. Duran continued by reporting ERS is currently assessing the impact of the Cadillac tax. This tax moves plans away from comprehensive benefit levels generating high health plans costs and begins in 2018. Currently this tax will affect individuals who exceed \$10,200 per individual or families who exceed \$27,500. Mr. Duran reported the rules have not yet been published.

Mr. Kukla reported that each program offered in the GBP is subject to a review by an external auditor. ERS contracts with independent auditors to review claim processing and to make sure the vendor is complying with ERS contracts. He also noted while all the vendors are subject to the audit, the focus has been mainly on the self-funded plans (medical TPAs for health coverage, the PBM, dental and the disability and flexible spending vendor). Mr. Kukla reported audits are performed after the fiscal year is over.

In FY2014 ERS contracted with MountJoy Chilton an external auditor to complete a FY2012 audit of HealthSelect administered by BlueCross/BlueShield, FY2013 of UnitedHealthcare, FY2013 of the Dental Choice plan administered by Humana, and in FY2013 the Texas Income Protection Plan administered by Aon Hewitt. Another audit firm, HMS audited FY2013 pharmacy results administered by Caremark.

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

b. Actuarial Valuation of Retiree Health Insurance Benefits as of August 31, 2014 – Mr. Mike Wheeler, Chief Financial Officer opened the next agenda item for presentation on the Actuarial Valuation of Retiree Health Insurance Benefits. The valuation is conducted in order to provide the information required under Governmental Accounting Standards Board Statement No. 43 (GASB 43). Mr. Wheeler then introduced Mr. Phil Dial, Rudd & Wisdom Inc. Mr. Dial stated this is the 8th valuation of the Group Benefits Program (GBP) Other Post-Employment Benefits (OPEB) provided through the GBP. It applies to retirees of state agencies, certain higher education institutions and “other” employers. Mr. Dial reported that the OPEB provided through the GBP are health and basic life and the OPEB does not include retirement benefits. While retirees have access to other optional benefits, those benefits are fully funded by member contributions, and therefore, do not create employer obligations under GASB 43.

Mr. Dial reported the information required under GASB 43 is reported by ERS in the notes and supplementary information contained in the CAFR. This information is provided to the Comptroller. The Comptroller does not report GASB expense and liability information for ERS and TRS in the financial statements in the states CAFR. Instead, certain information is disclosed in the notes of the financial statements. Mr. Dial reported GASB 43 requires disclosure of the Annual Required Contribution (ARC), but the employer is not actually required to contribute the ARC each year.

Senate Bill 1459 that was adopted by the 83rd legislation in 2013 amends Article 1551 of the Insurance Code. State contribution rates provided for retirees vary based on length of service at retirement. Mr. Dial reported the amendment only applies to employees with less than 5 years of service on August 31, 2014 who retire on or after September 1, 2014.

Mr. Dial reported the long term effect of Senate Bill 1459 will be to reduce the states liability and cost for the applicable employees who apply and who retire with less than 20 years of service. He also stated it may discourage some employees and vested terminated members with less than 20 years of services from enrolling for insurance upon retirement.

Mr. Mitchell, Rudd & Wisdom, Inc. reported the actuarial cost method used is the Entry Age Normal which is the same method used for the valuation of a retirement plan. Both the normal cost and the 30-year amortization of the liability are done as level percentage of pay. Mr. Mitchell reported that the

demographic and pay-related assumptions are the same as those used in valuing the retirement plans. The discount rate for the plan is determined based on the plan PAYGO basis based on the rate of return on the employer's assets. Mr. Mitchell noted the health plan benefit cost trend has been established consistent with our other economic assumptions as required by GASB.

Mr. Dial stated the demographic assumptions include mortality rates, disability, termination, withdrawal and retirement. This is what is used to project the population out into the future. Mr. Dial noted it's the same economic assumptions as those adopted by ERS for its retirement plan valuation in FY2014 as well as those utilized by TRS for higher education employees in their most recent valuation.

Since the Plan is currently funded on a pay-as-you-go basis, GASB 43 requires that the discount rate be based on the expected yield of the assets of the employer. Mr. Dial reported for this purpose and for the state of Texas, the assets of the employer are the assets held in the treasury pool managed by the Comptroller. Mr. Dial stated that over the last 30 years, the average annual rate of return (return in excess of inflation) for the treasury pool has been approximately 2% over the last 30 years. Based on this analysis and the 3.5% inflation assumption that was adopted by the board for purposes of the retirement plan valuation selected an assumed discount rate of 5.5% in the OPEB valuation. This is the same discount rate that was used for the FY2008-2013 valuations.

The OPEB valuation is based on projected Per Capita Health Benefit Costs for 2014 by gender and age. Mr. Dial informed the board that January 1, 2012 with the addition of the Medicare Advantage PPO option (HealthSelect Medicare Advantage) it was necessary to have two sets of Per Capita Health Benefit Costs.

Mr. Dial reported there are over 100,000 retirees in HealthSelect which means a great deal of credible data exists to develop the per capita costs. Because the medical piece on the Medicare Advantage plan is fully insured, we are able to use the premium for the medical piece for those in the Medicare Advantage Plan.

Mr. Dial touched briefly on the Health Plan Benefit Cost Trend and stated the trend is expected to remain at 8.5% over the next biennium and then decline over the next 5 years to a sustainable level. Mr. Dial reported the ultimate level is 2% in excess of the assumed rate of inflation.

Mr. Dial then briefed the board on the GBP membership and results with the 3 categories being actives, deferred vested, and retirees and nominees. Overall the headcount increased by 7,000 members since last year. The total unfunded actuarial accrued liability is \$24.7 billion. The normal cost or the amount employees have accrued in the last year is \$984 million. The amortization is at \$1.07 billion, and the ARC is at \$2.056 billion which would be this year's contribution towards funding the total liability. Mr. Mitchell stated the actuarial employer contributions for 2014, which include federal revenue is \$621 million which is about 30% of the cost.

Mr. Dial then discussed the comparison of FY2013 and 2014 results with the board.

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

MOTION made by Ms. Cydney Donnell, seconded by Ms. Yolanda Griego and carried unanimously by the present members of the Board of Trustees of the Employees Retirement System of Texas accept the actuarial valuation for retiree health benefits under the Texas Employees Group Benefits Program for FY2014 performed by Rudd and Wisdom, Inc., as presented.

c. Health Insurance Financial Status Update for Fiscal Year 2014 and Outlook for Fiscal Year 2015 - HealthSelectSM of Texas (HealthSelect) is a self-funded point of service health benefit plan offered under the Texas Employees Group Benefits Program (GBP). About 84.2% of GBP health plan participants are enrolled in HealthSelect which offers health benefits coverage throughout Texas and the United States.

Mr. Kukla opened this agenda item by stating the healthcare costs on the medical side have increased by 6% and the prescription drugs by 21.4% which weighted an average of 9.3%. He reported the internal administrative expenses are less than 0.5% of total Healthcare expenses and the external administrative fees are less than 3%. Overall the year ended with a net gain of \$53.9 million, leaving a surplus in the contingency fund of \$379 million as of August 31, 2014, about \$19 million more than originally expected.

Mr. Duran informed the board the two major contributors to the FY2014 drug trend are compound drugs and Hepatitis C medications which were over 21%. Plan expenditures for compound drugs increased at a rate of about 350% through June 2014. Mr. Duran reported that effective July 1, 2014 we made a change to the coverage of compound drug. The plan now excludes non-FDA approved bulk chemicals and requires a prior authorization for any compound drugs over \$300. He also reported the RX drug trend is expected to remain high due to specialty drug utilization and the use of Hepatitis C medication, Sovaldi and Olysio. In October 2014 the FDA approved a new interferon-free drug called Harvoni.

Mr. Kukla reported the healthcare network size has grown by 17% since September 2012. The percentage of claims paid in-network (based on allowed amount) increased from 88.2% in FY2013 to 90.1% in FY2014. Mr. Kukla reported that in FY2014, there was a \$257 million difference between billed amounts and allowed amounts for covered services provided by out-of-network providers. Based on the data received from United, charges from out of network hospital based physicians were 7.9% of all out of network charges in FY 2013 and 5.6% in FY2014.

FY2014 saw a significant improvement in customer service metrics. Mr. Kukla reported there were 91 grievances in the last half of the fiscal year which is a decrease of 54% from the first half of the year and 88 grievances were seen in the last half of FY2012 under the previous Third Party Administrator (TPA). Mr. Kukla continued to report that in FY2014 customer satisfaction was up to 87%. He stated that a significant number of grievances have to do with allowable amounts, and most of those were anesthesia billing. In FY2013 there were 184 grievances filed about allowable amounts (148 of them being anesthesia billing) and in FY2014 there were 178 similar grievances filed (with 90 being anesthesia billing).

Mr. Duran reported the board approved a 7% increase in the HealthSelect employer and member contribution rates for FY2015. The increased contribution rates are expected to largely offset the 8% expected health plan benefit cost trend. Mr. Duran stated the difference between the contribution increase and health plan benefit cost trend will cause projected loss of approximately 1% over the \$3 billion in health plan expenditures or \$32 million in FY2015. The projected loss will be offset by the contingency fund and is expected to reduce the fund balance to \$347 million as of August 31, 2015.

Texas Employees Group Benefits Program Summary of Experience HealthSelect and HealthSelect Medicare Rx Only (Based on Experience through September, 2014)			
<i>\$Millions</i>			
	FY13	Projected FY14	Projected FY15
Revenue from State/Members			
Employer Contribution - Total	\$1,901.6	\$2,053.0	\$2,235.5
Member Contribution	385.8	404.5	431.3
Other Revenue	115.9	170.1	157.8
TOTAL REVENUE	\$2,403.3	\$2,627.6	\$2,824.6
HEALTH CARE EXPENDITURES	\$2,362.7	\$2,573.7	\$2,857.0
Net Gain/(Loss)	\$40.6	\$53.9	(\$32.4)
Fund Balance	\$325.4	\$379.3	\$346.9
Other Expenses Incurred Outside of the GBP Fund			
Member Cost Sharing	\$469.2	\$470.3	\$476.8

d. Dental Plans – Mr. Kukla introduced Ms. Kyla Cloutier, Account Manager for the dental program, for an update on the dental plans. Ms. Cloutier stated the Group Benefits Program (GBP) offers three dental program options. Two are insurance options: a self-funded Preferred Provider Organization (PPO) known as the State of Texas Dental Choice PlanSM (Dental Choice) and a Dental Health Maintenance Organization (DHMO) plan. The third option is the State of Texas Dental Discount Plan, a non-insurance dental discount program. The Dental Choice plan has in-network and out-of-network coverage options for the participants and the dental DHMO plan is limited to in-network only.

Ms. Cloutier reported that enrollment in all three of the plans continues to rise. Overall, the enrollment within the dental options continues to grow at a rate just over 2% year after year. FY2015 has enrollment at just over 423,000 participants among all three options.

Enrollment for each of the dental plan options over the last five years is shown in the chart below:

Dental Plans Enrollment Comparison <i>September 1, 2010 to September 1, 2014</i>						
Dental Plan	FY11	FY12	FY13	FY14	FY15	% Change FY11–FY15
State of Texas Dental Choice Plan SM (PPO)	235,591	246,734	258,502	271,645	281,031	19.29%
DHMO	161,348	151,757	145,835	142,463	135,586	-15.97%
State of Texas Dental Discount Plan SM (non-insurance option)*	N/A	N/A	N/A	N/A	6,627	N/A
Total	396,939	398,491	404,337	414,108	423,244	6.64%

*Dental discount plan implemented September 1, 2014 (FY2015).

Ms. Cloutier reported HumanaDental continues to expand its network for their dental PPO providers

and dentists. HumanaDental reported an increase in its combined general dentistry/specialty network of almost 14% for September 2014 when compared to the same period last year. When compared to the national benchmark plan, GBP participants utilized the PPO benefits more than the average.

Ms. Cloutier stated that the DHMO is limited to contracted providers only and in-network providers remained the same from FY2013 to FY2014.

HumanaDental DHMO Features and Coverage	
Deductibles	None
Copays	Vary based on service provided
Maximum benefit	Unlimited annual and lifetime benefit
Cleanings/Oral Exams	2 exams per calendar year at no cost; 2 cleanings per year with \$12 copay
Specialty Dentistry	25% discount off specialists usual fee; individual responsible for 100% of remaining fee
Orthodontic	\$1,800 child and \$2,100 adult, if performed by contracted general dentist; 25% discount for services performed by specialist

Ms. Cloutier informed the Board the DHMO is offered to employees at a lower rate; the administrative costs for the DHMO are included in the member contribution rates.

GBP Dental Plans Financial Status Fiscal Year End 2014			
Dental Choice		DHMO	
Member Contributions	\$70,886,574	Member Contributions	\$14,577,543
Claims	\$65,491,673	Paid to DentiCare	\$14,593,137
Loss Ratio*	92.39%	Loss Ratio*	n/a
Administration	\$70,886,574	Administration	n/a

*Ratio of incurred claims to member contributions

The third and newest option for participants is the dental discount program. It was awarded in December 2013 by the Board to Careington International. Participating providers in this program agree to accept a discounted rate for payment in full at the time services are rendered. ERS implemented this program as a way to encourage participants without dental insurance to enroll in an alternative, non-insurance option.

Dental Discount Program Enrollment As of September 30, 2014	
Actives & Dependents	6,065
Retirees & Dependents	562
Total Enrollment	6,627

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

e. Life Plans – Ms. D’Ann DeLeon, Account Manager within the Benefit Contracts Division, presented the next agenda item: an update on Life Plans. She reported the Texas Employees Group Benefits Program provides basic optional term life, accidental death and dismemberment (AD&D), and voluntary AD&D insurance. All life plans are funded solely by the participants, with the exception of the basic life program, which is funded by the state of Texas. At its August 2011 meeting, the Board approved a contract with Minnesota Life Insurance to insure the group term life and AD&D insurance coverages for an initial contract term beginning January 1, 2012, and ending August 31, 2016.

Ms. DeLeon reported 93.9% of eligible employees and retirees participate in the life and AD&D plans. The GBP Life Plans remain financially sound. FY2015 experience and the FY2016 recommended member contribution rates will be presented to the Board at its May 2015 meeting.

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

f. Disability Plans – Mr. Kukla introduced Lauren Russell, Account Manager for the Disability Program, to present the next agenda item to the Board. Ms. Russell stated the GBP includes optional enrollment in short term and long term disability insurance, which provides an opportunity for participants to protect their income in the event of a disability. Ms. Russell also stated that in 2013 ERS re-branded the plans as the Texas Income Protection Plan (TIPP). She reported the disability program is available to active employees. As a self-insured program, the premiums are solely funded by the participants. She also reported the administration of the disability plan transitioned from Dearborn National Life Insurance Company to Aon Hewitt on September 1, 2013.

At the May 2013 Board meeting, the Board approved several changes to ERS’ disability plans in order to align the plan design with industry standards. The most significant of these changes was in the definition of *Total Disability* which went into effect for disabilities occurring on or after September 2, 2013. Ms. Russell reported that under the revised definition a disabled employee may continue to receive benefits while working provided he/she does not earn more than 80% of his/her pre-disability earnings. This change was presented to promote consistency with the requirement under Texas Government Code §814.203, applicable to ERS disability retirement benefits. A second notable change was approved by the Board in May 2013 pertaining to the maximum benefit period for employees. Under the older provision, benefits terminate at age 65. The maximum benefit period was revised to align with the eligibility date for Social Security retirement benefits. Therefore, the maximum benefit period for employees becoming disabled after age 62 was revised to work in conjunction with the normal retirement age under Social Security, with the ultimate maximum period for an employee who becomes disabled at age 69 or older being 12 months. Ms. Russell reported both of these plan design changes have had no financial impact on the disability plans to date.

The following table is enrollment in both of the disability plans as of August 31, 2014. Ms. Russell reported there were approximately 115,000 members enrolled in short term disability and 90,000 members were enrolled in long term disability.

GBP Disability Enrollment

Year End FY2014 (09/01/2013- 08/31/2014)

Coverage	Plan Type	Funding	Members	Covered Payroll
Disability	Short Term	Self-Funded*	115,267	\$ 426,306,502
Disability	Long Term	Self-Funded*	89,609	\$ 356,244,445

*The GBP retains the risk under the self-funded plans.

Following the Board's May 2013 approval, as of September 1, 2013, the disability plan member contribution rates increased from \$0.26 to \$0.30 per \$100 of the monthly insurance salary for short-term disability; however, the long-term disability rates have remain unchanged from previous years.

Ms. Russell reported the short term disability plan in FY2014 had approximately \$15 million in member contributions. Also, the estimate incurred claims were approximately \$11 million, representing a loss ratio of 72%. With the loss ratio, the short term disability plan remains financially secured.

**GBP Short-Term Disability Plan
Financial Status – FY End 2014**

Member Contributions	\$ 15,343,843
Estimated Incurred Claims	\$ 11,116,005
Loss Ratio*	72.45%
Administration	\$ 3,316,092

**Ratio of incurred claims to member contributions*

Due to long-term disability plan design, Ms. Russell provided a 5-year overview as a comprehensive demonstration of how the long-term disability plan is performing overall. Ms. Russell noted approximately \$135 million were reported in member contributions and the estimated incurred claims equal roughly \$132 million. Due to the volatility of the long term disability plans, the loss ratio tends to fluctuate substantially over the course of several years; however, the five year average of 98% demonstrates the long term disability plan remains financially sound.

**GBP Long-Term Disability Plan
Financial Status Comparison
Fiscal Years 2008-2012**

	FY 2009	FY 2010	FY 2011	FY 2012	FY2013	Total 2009- 2013
Member Contributions	\$27,640,818	\$29,207,417	\$26,628,706	\$25,819,810	\$26,051,958	\$135,348,709
Estimated Incurred Claims	\$21,704,104	\$21,423,409	\$30,521,453	\$29,885,603	\$30,164,475	\$132,571,910
Loss Ratio*	78.52%	73.35%	114.62%	115.75%	115.79%	97.95%
Administration	\$1,052,170	\$1,074,656	\$1,064,524	\$1,035,412	\$1,094,680	\$5,608,858

**Ratio of incurred claims to member contributions*

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

XII. REVIEW AND DISCUSSION OF TEXFLEX FLEXIBLE SPENDING ACCOUNTS UPDATE

Ms. Kyla Cloutier presented a review and discussion of the TexFlex Flexible Spending Account (FSA) update for the Board. The TexFlex FSA is a pre-tax contribution option program for employees to set money aside for health and dependent care expenses. It is authorized by the Internal Revenue Code and participation is voluntary. Employees are able to use up to \$2,500 for medical expenses or \$5,000 for

dependent care expenses. There is a debit card associated with this program with an annual convenience fee of \$15 paid by the participant. Ms. Cloutier reported administrative costs are paid by the employee at \$1.00 per account per month and forfeited funds for FY2013 were just over \$4 million.

Ms. Cloutier reported the TexFlex FSA accounts and premium conversion lowered the employer's social security tax obligation by \$40 million in FY2014. The state employees' federal income tax and FICA tax liabilities were lowered since participation in the TexFlex program is done with pre-tax dollars and lowers a participant's taxable income.

Ms. Cloutier reiterated the FY2014 maximum contribution limits (as set forth by IRS) were \$2,500 for health care accounts, and \$5,000 for dependent care accounts. These limits will continue through FY2015.

In May 2014 the Board approved a few changes to the FSA program which Ms. Cloutier summarized. The first change allowed a carryover option of up to \$500 in unused healthcare account funds into the next fiscal year. The second change made applied to participants who terminate employment with the state. Upon termination, these individuals are no longer required to continue making contributions to their FSA. Lastly, there is a fee holiday for 2015 for the TexFlex Program; however, the cost of the debit card will still be enforced. Mr. Kukla reported the administration fees will be funded through prior forfeitures, so trust fund money would not be used to cover the fee holiday.

Ms. Cloutier proceeded to inform the Board the passive enrollment process automatically re-enrolls participants at the same contribution amount as the previous year. Enrollment has decreased in the healthcare accounts, but the contributions have increased. The following table provides a year-over-year comparison of the enrollment numbers and pledged contribution elections into the TexFlex program.

**TexFlex
Enrollment and Contribution Elections**
Fiscal Years Beginning 2014 and 2015

Account Type	FY 2014 Enrollment	FY 2015 Enrollment	% Increase Enrollment	FY 2014 Contribution Elections*	FY 2015 Contribution Elections**	% Increase Contribution Elections
Health Care	51,694	49,418	(4.4%)	\$52,351,485.45	\$63,017,249.00	20%
Dependent Care	4,196	4,305	2.59%	\$4,922,992.44	\$5,364,076.00	8.9%
Participation in Both Plans	(2,854)	(2,636)	(7.6%)	\$11,790,312.91	\$13,305,270.34	12.8 %
TOTAL* <i>(Participants)</i>	53,036	51,087	(3.67%)	\$69,064,790.80	\$81,686,595.54	18.2%

*Total enrollment is not equal to the sum of health care and dependent care enrollment because some members are enrolled in both plans.

**Contribution Elections are pledges into the program and are reported commitments for the applicable fiscal year.

The current contract with PayFlex, Incorporated will expire on August 31, 2015. Ms. Cloutier noted a Request for Proposal was published on July 24, 2014 and a recommendation regarding the RFP will be presented to the board at the February 2015 meeting.

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

XIII. LEGISLATIVE UPDATE

(This agenda item was taken out of order and presented December 5, 2014)

Ms. Ann Bishop introduced Ms. Cathy Terrell, Director of Governmental Affairs and Ms. Dana Jepson, Senior Coordinator of Research and Policy of Governmental Affairs division to give the board a legislative update. Ms. Terrell updated the board on activities related to the House State Affairs Committee, including the hearing held on September 4, 2014 which focused on the third party administrator contract for the HealthSelect. ERS met with committee members and legislative staff and provided the committee with several detailed documents prior to the hearing. Additionally, Mr. Hester and Mr. Chavez visited State Representative Byron Cook's district office to meet with the chair and review all of the actions ERS takes to review vendor performance and ensure their compliance with the contract. Mr. Ragland subsequently testified at the November 19 House State Affairs Committee hearing on the findings of the State Auditor's Office audit.

At the December 4, 2014 hearing of the House Appropriations Committee, Ms. Emily Morganti, budget analyst with the Legislative Budget Board presented the Legislative Appropriations Requests for the ERS retirement and insurance programs. Ms. Terrell also reported ERS has provided data and information to the House Pensions Committee for its interim report expected to be released in December.

Ms. Jepson presented a synopsis of an interim study report ERS issued on dependent health insurance coverage. One of the findings of the 2012 interim study on the sustainability of the group benefits program was a belief among some major state employers that some low income employees could not afford to pay their share of the dependent premium contribution for GBP health insurance coverage. The state pays 100% of the cost for employee and retiree coverage and 50% of the cost of dependent coverage. In order to determine the prevalence of the issue, ERS conducted a survey of 136,000 employees. ERS worked with the University of Texas Institute of Organizational Excellence to conduct the survey. Survey results showed that 3.7% of GBP eligible children and 5.5% of eligible spouses were reported to be uninsured. That's around 6,400 children and 4,800 spouses. About 10% of GBP-eligible children were reported to be uninsured or on Medicaid or CHIP (18,000 children). Ms. Jepson provided copies of the full study to the members of the board. Copies of this report were also shared with the House Pensions Committee for inclusion in their interim report. Ms. Terrell provided the board a list of bills that have been filed prior to the start of the legislative session that are relevant to ERS programs. Pre-filing of bills started November 10th. She updated the board on some of the legislative outreach conducted by the Governmental Affairs Division. She showed an example of a legislative district snapshot that provides demographic information on ERS customers and programs customized for each legislative district. The snapshot project was a joint effort of Governmental Affairs and Information Systems. In addition to visiting with legislators, ERS does continuous outreach to numerous stakeholder groups. ERS staff present at many stakeholder events and host regular briefings on such topics as the Legislative Appropriations Requests, actuarial valuations of the pension program, financial updates on the insurance program, and interim study report findings.

Ms. Bishop then commended Ms. Jepson for her efforts and stated she is an excellent researcher, writer, editor and project manager.

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

XIV. EXECUTIVE DIRECTOR'S REPORT

(This agenda item was taken out of order and presented December 5, 2014)

Ms. Ann Bishop proceeded with the next agenda item Executive Director's Report. Her report to the Board is included with these minutes as ¹Exhibit A

¹Exhibit A – page 22

XXIV. ANNUAL REVIEW AND CONSIDERATION OF ERS' INVESTMENT POLICY

(This agenda item was taken out of order and presented December 4, 2014.)

Ms. Sharmila Kassam, Deputy Chief Investment Officer, presented the annual review and consideration of ERS' Investment Policy.

Ms. Kassam explained that staff annually reviews the policy and recommends changes as needed. The primary purpose of the proposed revisions is to clarify certain ethics policy requirements based on review of applicable state laws and certain minor non-substantive changes.

One of the modifications to the investment policy will be updated language to clarify when traveling to speak and/or actively participating in a conference, when approved by the Executive office, the staff member is allowed direct third-party reimbursement, as allowed under State ethics laws.

- 1.) 5.1 – Code of Ethics and Personal Activities
 - C. Attendance at Business Meetings/Functions
 - i. Change “ground transportation” to “transportation”

The second modification is erroneous references to the Texas Trust Code in five of the addendums. This erroneous reference will be deleted from the Investment policy.

- 2.) Delete the erroneous references to the Texas Trust Code from the listed addendums.
 - Addendum I, Private Equity
 - Addendum II, Real Estate
 - Addendum X, Hedge Fund Program
 - Addendum XII, Fixed Income
 - Addendum XIII, Private Infrastructure

The floor was open for a motion that the Board of Trustees of the Employees Retirement System of Texas approve the proposed revisions to the ERS Investment Policy as presented in this agenda item.

The Board of Trustees took the following action:

MOTION made by Ms. Cydney Donnell, seconded by Mr. Craig Hester and carried unanimously by the members present that the Board of Trustees approve the proposed revisions to the ERS Investment Policy as presented in this agenda item.

XV. RECESS OF THE BOARD OF TRUSTEES – THE BOARD OF TRUSTEES WILL RECONVENE AS A COMMITTEE OF THE WHOLE ON FRIDAY, DECEMBER 5, 2014 AT 8:30 A.M. TO CONSIDER INVESTMENT ADVISORY COMMITTEE

The Board of Trustees then recessed at 6:40 p.m. on Thursday, December 4, 2014. The Board of Trustees reconvened on Friday, December 5, 2014 at 8:30 a.m. to consider the remaining Joint Board of Trustees and Investment Advisory Committee agenda items.

PUBLIC AGENDA ITEM - # 14
14. Executive Director's Report
December 4, 2014

Legislative Update and Outlook

With the election concluded, the next session of the Texas Legislature will begin on Tuesday, January 13th. Bill pre-filing has already begun, and ERS employees are analyzing bills and beginning work on cost estimates.

The past few years have seen significant changes in the House and Senate. Just under half of House members are new since 2011. And over a quarter of the Senate is new this session, with average seniority dropping almost three years. Amidst this turnover, all four committees with oversight over ERS – House Pensions, Senate State Affairs, House Appropriations, and Senate Finance - will have new chairs.

Legislative turnover presents a challenge, but also an opportunity. ERS is always working to educate legislative members on the retirement, insurance, and workforce issues that each member faces. ERS staff in Information Systems, Benefit Communications, and Governmental Affairs have developed a legislative district handout that can show each legislative member the number of ERS members and annuitants in the district, the amount of medical and drug claims, and more. ERS has visited many capitol and district offices.

This session, the highest legislative priority is making the trust fund actuarially sound. ERS will work closely with the legislature to explore every way to achieve this goal. ERS will also seek sufficient funding to maintain the current health insurance program, so that no benefit design changes are necessary. Finally, the Legislative Analysis Group will continue to meet and analyze bills that impact ERS or the programs it administers.

Risk Appetite Statements

As part of the Enterprise Risk Management program, risk appetite statements establish a common understanding between executive management and the Board of Trustees regarding desirable risks underlying the execution of ERS' strategic direction. The ERS Risk Appetite Statements will provide guidance on the level of risk which the agency is willing to accept before action is necessary to reduce it.

The risk events identified in the FY2014 Entity-Wide Risk Assessment were mapped to each of the strategies in the ERS FY2015-17 Strategic Plan. Subject Matter Experts (SME's) for each strategy were interviewed to gauge the amount of risk the agency is prepared to accept in pursuit of the strategic objectives. A survey for the Board of Trustees is also under development to gauge their risk preferences and objectives.

Utilizing the Board survey and the SME interview results, risk appetite statements will be drafted and reviewed by the ERS Risk Committee, which is made up of division directors and other key staff. Once the risk appetite statement drafts are finalized, they will be brought to the Board.

Storage Encryption

In FY2014 Legal advised Executive Office and Information Systems of changes in the Safe Harbor provisions of Title XIII of the American Recovery and Reinvestment Act of 2009 §13420 specific to encryption of HIPAA data at rest. A project was initiated to evaluate potential impact to ERS and identify any actions required to maintain compliance. It was immediately confirmed that all major system stores of affected data was encrypted at rest and in compliance. The broader analysis of our business use of affected data indicated that additional action was required to remain in full compliance. While the system initiated use of the data was encrypted the data could be introduced to ERS by other channels not specifically designed to be encrypted at rest. For example, members send information to ERS via mail or

e-mail to comment on their experiences with the benefit programs. These correspondences can contain information considered HIPAA.

Following the identification of the less rigid methods of receiving and handling these communications, options to apply more rigor and control were considered. It was determined the ability to establish and ensure control would impose needless complexity on multiple teams and potentially reduce the level of service provided to our members. Information Systems evaluated and proposed the option of converting all storage to encrypted storage at the hardware level. Information Security policy already required encryption on mobile devices including phones and laptops. The policy was expanded to apply to all desktops and other non-enterprise storage devices. The change was fully implemented in FY2014. Information Systems worked with vendors to term existing leases and lease new enterprise storage arrays with encryption. The project to completely replace all storage is on track to complete in December 2014.

2015 Board of Trustee Election Update

Information for participating in the 2015 Board of Trustee election is being sent to agency coordinators and eligible voting members beginning this month. The communications include important election dates and voting information. Nomination petitions for the Board of Trustees position will be distributed beginning January 2, 2015. All nominations along with the necessary signatures must be received by January 30, 2015 for consideration. Certified candidates will be announced prior to the February 2015 Board of Trustees Meeting.

Fall Enrollment

Fall Annual Enrollment has concluded for Medicare-eligible retirees and their families. The enrollment period was November 3 through 21, 2014. The plan year continues to be aligned with the federal Medicare plan year, January through December, but for the first time this year their premium rates will also be aligned. Fall Annual Enrollment fairs were conducted around the State.

Members participated in fall Annual Enrollment in the following ways:

- 2,525 changes to coverage;
- 430+ attendees at 23 statewide fairs and webinars;
- 2,300+ phone calls:
 - 440 at ERS
 - 1,870 at ACT;
- 48 visits to ERS; and
- 33,400 logins to ERS Online.

In conjunction with the fairs, ERS staff conducted Medicare Preparation sessions for members who are nearing Medicare eligibility. Since September 1, 2014, more than 1,500 people have attended 24 statewide seminars and webinars, most held on the same days and at the same locations as Annual Enrollment fairs.

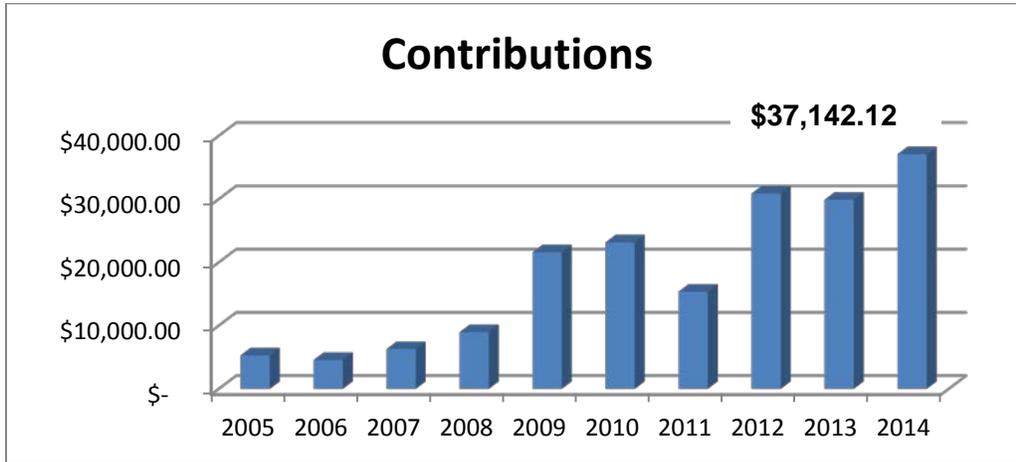
State Employee Charitable Campaign (SECC)

The State Employee Charitable Campaign (SECC) is a statutorily authorized workplace campaign that provides state employees with a convenient and efficient way to make voluntary contributions to charities.

This campaign involves numerous charities, offering employees broad choices in giving. These charitable organizations must meet strict eligibility and accountability standards and must demonstrate they provide direct and indirect health and human services that benefit Texas citizens. Employees can donate through payroll contributions or make a one-time donation.

We are pleased to announce our results exceeded the campaign goals of a 40% participation rate and \$36,000 in contributions. 147 (44.5%¹) employees contributed \$37,142 for the 2014 Campaign.

There has been an upward trend over the last 10 years.



Historical information referenced from SECC State Agency Reports²

¹ This percentage is based on the number of filled positions, 330, as of September 1, 2014 at ERS (provided by HR). The SECC campaign uses 311 FTEs so the percentage is higher. (47.3%)

² SECC State Agency Reports - <http://www.secctexas.org/coordinator/resources?phpMyAdmin=VHfu5VL3EIGX4bN0vFUxv6lrd#sw%20results>