



Board of Trustees Meeting

August 23, 2017



Presented for Review and Approval

December 13, 2017

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**BOARD OF TRUSTEES MEETING
EMPLOYEES RETIREMENT SYSTEM OF TEXAS
August 23, 2017
ERS Board Room
ERS Building – 200 E. 18th Street
Austin, Texas 78701**

TRUSTEES PRESENT

I. Craig Hester, Chair
Doug Danzeiser, Vice-Chair
Ilesa Daniels, Member
Cydney Donnell, Member
Brian Ragland, Member
Jeanie Wyatt, Member

ERS STAFF PRESENT

Porter Wilson, Executive Director
Cathy Terrell, Deputy Executive Director
Paula A. Jones, Deputy Executive Director & General Counsel
William Nail, Special Projects & Policy Advisor
Jennifer Chambers, Director of Government Relations
Tony Chavez, Director of Internal Audit
Robin Hardaway, Director of Customer Benefits
Sharmila Kassam, Deputy Chief Investment Officer
Machelle Pharr, Chief Financial Officer
Gabrielle Schreiber, Director of Procurement and Contract Oversight
Diana Kongevick, Director of Benefit Contracts
Bernie Hajovsky, Director of Enterprise Planning
Chineque “DeeDee” Sterns, Director of Human Resources
Tom Tull, Chief Investment Officer
Kathryn Tesar, Director of Benefits Communications
Keith Yawn, Director of Strategic Initiatives
Nora Alvarado, Benefit Contracts
Brannon Andrews, Office of General Counsel
Michelle Barron, Benefit Contracts
Georgina Bouton, Benefit Contracts
Anthony Curtis, Investments
Kelley Davenport, Executive Office
Juli Davila, Investments
D’Ann Deleon, Benefit Contracts
Pablo de la Sierra Perez, Investments
Blaise Duran, Benefit Contracts
Leah Erard, Strategic Initiatives
Mike Ewing, Office of General Counsel
Beth Gilbert, Internal Audit
Nancy Lippa, Office of General Counsel
Nicholas Maffeo, Investments
Betty Martin, Investments
John McCaffrey, Investments
Karen Norman, Internal Audit
Travis Olson, Investments
Jonathan Puckett, Internal Audit
Mari Queller, Finance
Susie Ramirez, Executive Office
Lauren Russell, Benefit Contracts

Robert Sessa, Investments
Michael Shoop, Investments
Chris Tocci, Investments
Angelica Torres, Benefit Contracts

ALSO PRESENT

Steve Alexander, UnitedHealthcare
Ky Ash, K&L Gates
Keith Barnes, Blue Cross and Blue Shield of Texas
Mary Grace Bibly, Self
Sue Brown, Novo Nordisk
Philip Dial, Rudd & Wisdom, Inc.
Kristen Doyle, Aon Hewitt Investment Consultants
Mary Esther Escobedo, Texas State Employee Union
Ryan Falls, Gabriel, Roeder, Smith & Co.
Elaina Fowler, American Federation of State, County, and Municipal Employees
David Gonzales, Humana
Pat Harvey, Walgreens
Bill Hamilton, Retired State Employee Association
Kenneth Herberful, Pension Review Board
Seth Hutchinson, Texas State Employee Union
John Hryhorchuk, Governor's Office
Tathata Lohachitkul, Albourne
Amy Mashberg, Self
Kim McLeod, UnitedHealthcare
Colleen McGlamry, UnitedHealthcare
Bob May, Texas Pension Review Board
Michael McCormick, Aon Hewitt Investment Consultants
Catherine Melvin, Texas Department of Public Safety
Joe Newton, Gabriel, Roeder, Smith & Co.
Chris Payton, Optum RX
Laura Pinkard, Humana
Avery Saxe, Legislative Budget Board
Cristen Shelton, Optum RX
Trevor Simmons, Legislative Budget Board
Steve Voss, Aon Hewitt Investment Consultants
Derek Voyal, Optum RX
Cyrus Walker, Blue Cross Blue Shield of Texas
James Walsh, self
Emmitt Wilborn, ERS Retiree
Bobby Wilkinson, Governor's Office

Meeting of the ERS Board of Trustees

1. CALL TO ORDER

1.1 Call Meeting to Reconvene the Board of Trustees

At 2:42 p.m. Mr. Craig Hester, Chair of the Board of Trustees, reconvened the meeting, after a temporary recess, to take up Board of Trustees agenda items.

2. MINUTES

2.1 Approval of the minutes to the May 17, 2017 and July 10, 2017 Meeting of the Board of Trustees – (ACTION)

Move that the ERS Board of Trustees of the Employees Retirement System of Texas approve the minutes to its meeting held on May 17, 2017 and July 10, 2017. Mr. Hester recommended two revisions.

Mr. Hester opened the floor for a motion on the approval of the minutes (as corrected) to the meetings held on May 17, 2017 and July 10, 2017.

MOTION by Cydney Donnell, second by Brian Ragland

Final Resolution: Motion Carries

Aye: Brian Ragland, Craig Hester, Cydney Donnell, Doug Danzeiser, Ilesa Daniels, Jeanie Wyatt

3. BOARD RULES

3.1 Review and Consideration of the Rules of the Board of Trustees, Texas Administrative Code, Title 34, Part IV, Section 67.201 (Procedures Governing Bid Protests) - (ACTION)

Ms. Gabrielle Schreiber, Director of the Office of Procurement and Contract Oversight, (OPCO) presented amendments to ERS' bid protest procedures for board consideration. There were three proposed amendments. The first is due to ERS' reorganization of the procurement functions into one division. OPCO has revised the roles of ERS staff who are involved in the bid protest process. Ms. Schreiber noted that OPCO has revised the rule to allow for protests to be filed with and first determined by the Director of Procurement and Contract Oversight, in keeping with the current organizational structure. Every other part of the process remains the same, with any appeals following that determination going to the Deputy Executive Director.

The second revision reflects recent revisions to the Comptroller of Public Accounts' bid protest rules and conforms ERS rules to be consistent with the Comptroller's rules. The Comptroller revised their rules in January 2017.

The third amendment is to revise the bond requirements. Previously, ERS could require the posting of a bond if ERS may need an actuary to resolve the protest. Under this revision, ERS could require the posting of a bond if any professional services may be needed to resolve the protest.

Ms. Schreiber informed the board that the notice of proposed amendments published in the July 2, 2017 issue of the *Texas Register* and no comments were received. Staff recommends that the proposed amendments be adopted to Texas Administrative Code, title 34, Part IV, Section 67.201(Procedures Governing Bid Protests), as presented.

There being no further discussion, the Board then took the following action.

Move that the Board of Trustees of the Employees Retirement System of Texas adopt the proposed amendments to the Texas Administrative Code, Title 34, Part IV, Section 67.201, Procedures Governing Bid Protests, as presented in Exhibit A attached to this agenda item.

MOTION by Brian Ragland, second by Jeanie Wyatt

Final Resolution: Motion Carries

Aye: Brian Ragland, Craig Hester, Cydney Donnell, Doug Danzeiser, Ilesa Daniels, Jeanie Wyatt

4. GROUP BENEFITS PROGRAM UPDATE

4.1 Consideration of Proposed Rates for Medicare Advantage Health Maintenance Organization Plans for Calendar Year 2018 - (Action)

Chairman Hester welcomed the new Director of Benefit Contracts, Diana Kongevick, to present on the Medicare Advantage Health Maintenance Organization Plans for Calendar Year 2018. The Medicare Advantage Health Maintenance Organization (MA-HMO) is a fully-insured plan specific to those retirees who reside in one of eight Houston area counties. The HealthSelect Medicare AdvantageSM Preferred Provider Organization plan is offered as a fully insured PPO customized for ERS. The cost of the Medicare Advantage plans is heavily subsidized by the federal government and results in lower premium costs to retirees and reduced costs to the GBP. Ms. Kongevick stated the plans are highly valued and enrollment continues to increase.

The HMO plan is currently provided by KelseyCare Advantage (KelseyCare) and is the only MA-HMO currently offered. The MA-HMO participants receive their medical coverage through KelseyCare, while the prescription drug coverage is through the self-funded HealthSelect Medicare RX plan, administered by UnitedHealthcare. There are eight Houston area counties that provide this plan and the service area will not change for Calendar Year 2018.

Mr. Blaise Duran, Manager of Underwriting, Data Analysis & Reporting, reported to the board that the member contribution rates for MA-HMO are comprised of three parts: the MA-HMO plan premium, the HealthSelect RX drug coverage and the health insurance provider (HIP) fee. The MA-HMO plan premium is a negotiated premium with KelseyCare that is fully insured, and it covers the medical portion of the MA benefits. The HealthSelect RX drug coverage for calendar year 2018 is projected an estimated cost for an individual enrolled in HealthSelect Medicare RX. All three of these pieces combined to get total member contribution rates. When negotiating the MA premium, ERS has to comply with a rider that is in the State's appropriations act, which says that the amount of the state contribution for that premium cannot exceed the cost of coverage to cover those members under HealthSelect. In order to meet the statutory requirement, the consulting actuary utilizes a Theoretical Cost Index.

Mr. Duran then discussed the proposed rates for Calendar Year 2018. The recommended rate is an increase of \$4.26 for the Medicare primary spouse (\$136.10) and an \$8.52 increase for the Medicare primary surviving spouse (\$272.20). Even with this slight increase, rates for the Medicare Advantage plans are much lower costs for retirees with any out of pocket premiums. The Medicare primary spouse would save \$220.00 every month and the surviving spouse would save \$440.00 monthly when compared to the HealthSelect rates.

There being no further discussion, the Board then took the following action.

Move that the Board of Trustees of the Employees Retirement System of Texas approve recommended contribution rates for the following Medicare Advantage HMO for participation in the Texas Employee Group Benefits Program for Calendar Year 2018: KelseyCare Plan Administrators, L.L.C., D/B/A KelseyCare Advantage MA-HMO Plan to

provide Medicare Advantage HMO medical-only coverage in the Houston application area which includes the counties located in Exhibit A of this agenda item.

MOTION by Cydney Donnell, second by Doug Danzeiser

Final Resolution: Motion Carries

Aye: Brian Ragland, Craig Hester, Cydney Donnell, Doug Danzeiser, Ilesa Daniels, Jeanie Wyatt

4.2 Consideration of Proposed Rates for HealthSelect Medicare Advantage for Calendar Year 2018 - (ACTION)

Ms. Diana Kongevick, Director of Benefit Contracts, stated that the HealthSelect Medicare AdvantageSM Preferred Provider Organization is a fully-insured PPO customized for ERS. The cost of the Medicare Advantage plans is heavily subsidized by the federal government and results in lower retiree premium costs to retirees and reduced costs to the GBP. Ms. Kongevick stated that the plans are highly valued and enrollment continues to increase.

Mr. Blaise Duran, Manager of Underwriting, Data Analysis & Reporting, explained how rates are developed and stated that the Health Insurance Providers' fee is expected to be back in place for the upcoming year, although Humana has agreed as part of the negotiation to offset part of it. Staff recommends a one-year extension with Humana with a fee cap for Calendar Year 2019.

Mr. Duran noted the same rider applies for the MA-HMO and the HMOs. The HealthSelect MA administrator must agree to charge premium rates that are no greater than 95% of the Theoretical Cost Index in order to ensure saving of at least 5% as compared to the cost of coverage under HealthSelect.

There being no further discussion, the Board then took the following action.

Move that the Board of Trustees of the Employees Retirement System of Texas approve the recommended Calendar Year 2018 plan rates, effective January 1, 2018, for the statewide HealthSelect Medicare Advantage Plan offered under the Texas Employees Group Benefits Program.

MOTION by Cydney Donnell, second by Jeanie Wyatt

Final Resolution: Motion Carries

Aye: Brian Ragland, Craig Hester, Cydney Donnell, Doug Danzeiser, Ilesa Daniels, Jeanie Wyatt

5. TEXA\$AVER

5.1 Review, Discussion and Consideration of the Texa\$averSM 401(k) / 457 Program Investment Policy - (ACTION)

Ms. Georgina Bouton, Assistant Director of Benefit Contracts, and Nora Alvarado, Manager of the Benefit Contracts account management team, presented Texa\$aver program updates and the Texa\$averSM 401(k) and 457 Program Investment Policy for board consideration.

Ms. Alvarado provided an update to the Board on the target date fund transition presented in the July 10, 2017 Board meeting.

On July 7, 2017, approximately \$625 million was transferred from the Wells Fargo Dow Jones Target Date Funds into the LifePath® Portfolio Index Funds F series as the interim target date fund offering for the TexaSaver Program. This transfer represented approximately 190,000 participant accounts. ERS staff and Empower Retirement monitored the transfer to ensure minimal participant disruption. Ms. Alvarado noted there were no issues or increased calls regarding this transfer.

As of today, Ms. Alvarado reported the total target date fund balance is \$635 million. ERS staff and the Product Review Committee are currently preparing to conduct a search for a target date fund to replace the interim solutions approved in July. This target date fund recommendation is scheduled to be presented at the December 2017 board meeting. Ms. Alvarado stated that ERS staff and Empower continue their research regarding any transaction costs that may have resulted from the funds transition.

Ms. Bouton presented the investment policy for the TexaSaver 401(k)/457 Program. The TexaSaver Program has been operating under the guidelines specified within the TexaSaver Operating Plan. This Operating Plan has provided parameters for the ongoing administration and evaluation of the investment products offered within the Program. Staff has redefined the Operating Plan into the TexaSaverSM 401(k)/457 Program Investment Policy. The Policy provides for the effective supervision, monitoring and management of the investment options available within the Program; the operational components have been removed. The TexaSaver Investment Policy has been organized into eight sections.

Section 1 identifies the objectives of the program, which include assisting participants in accumulating supplemental assets for retirement;

Section 2 defines roles and responsibilities of key stakeholders, including the ERS Board, the Executive Director, the Deputy Executive Director, the Product Review Committee members, ERS staff, program vendors and program participants;

Section 3 identifies an investment philosophy for the program;

Section 4 addresses investment options structured within the program, organizing the available investment options into three tiers:

- Tier 1 is the target date funds
- Tier 2 are the professionally managed core funds which provide participants the ability and flexibility to create their own portfolios by choosing the asset classes that best suit their individual risk tolerance and personal investment objectives
- Tier 3 is the self-directed brokerage account which provides participants with the opportunity to invest in a broad array of additional mutual funds, stocks, bonds and alternatives that are not available within the target fund and core fund offerings

Section 5 identifies the scope, frequency and parameters for the investment performance evaluation;

Section 6 defines the fund selection process from the point of identifying the need for a change, defining the process to establish and the fund search criteria;

Section 7 addresses a requirement to have staff and the Product Review Committee review the investment policy for any necessary changes or updates and

Section 8 addresses the Product Review Committee membership and ERS staff conformance to the code of ethics defined within the ERS investment policy.

Ms. Donnell asked about the control and oversight of monitoring accounts specific to identifying excessive trading. Ms. Alvarado stated that Empower Retirement who is the third-party administrator monitors calls and looks at participant accounts. Ms. Bouton commented that the TexaSaver Program does not currently offer funds with restrictive trading policies; however, it has done so in the past. In those cases, the third-party record keeper has reported on accounts that have been subject to excessive trading.

There being no further discussion, the Board then took the following action.

Move that the Board of Trustees of the Employees Retirement System of Texas take the following action with regards to the restated and amended TexaSaver 401(k)/457 program investment policy, as set forth in Exhibit A. Further move to adopt the proposed restated and amended TexaSaver 401(k)/457 program investment policy as reflected in Exhibit A.

MOTION by Cydney Donnell, second by Doug Danzeiser

Final Resolution: Motion Carries

Aye: Brian Ragland, Craig Hester, Cydney Donnell, Doug Danzeiser, Ilesa Daniels, Jeanie Wyatt

5.2 Review, Discussion and Consideration of the TexaSaverSM 401 (k) / 457 Program Product Review Committee Governance Charter - (ACTION)

Ms. Georgina Bouton, Assistant Director of Benefit Contracts, and Nora Alvarado, Manager of the account management team, presented the TexaSaverSM 401(k) and 457 Program's Governance Charter for the Product Review Committee. The charter was initially presented to the board for review at the July 10, 2017 meeting.

Ms. Alvarado reported section 1 of the Governance Charter defines the Product Review Committee's purpose with regards to guidance on investment monitoring, selection process, formulating recommendations to the Board, investment reviews as well as recommended due diligence measures.

Section 2 explains the Product Review Committee members serve as fiduciaries of the program and are governed by and subject to the Code of Ethics defined within the ERS Investment Policy.

Section 3 defines the composition and members of the Product Review Committee. There will be no more than six ERS staff and three non-ERS staff. The three non-ERS staff members may include a designated Investment Advisory Committee member or other professional with significant investment or financial experience who will serve for as long as they are appointed members.

Section 4 establishes the standard meeting frequencies to be no less than semiannually with flexibility to add meetings when necessary.

Section 5 establishes the meeting agenda structure and approval.

Ms. Bouton explained that Section 6 of the governance charter provides parameters for the meeting process, establishes a committee chairperson who will be the division director

overseeing the TexaSaver program, and allows for remote attendance. Ms. Bouton noted that this section of the Charter establishes the need for a quorum for PRC actions, defines the voting process, and identifies the process for documenting and managing meeting minutes.

Lastly, Ms. Bouton explained that Section 7 stipulates that the Charter will be reviewed on an annual basis by staff. Any proposed changes to this charter will be presented to the Board for consideration and approval. The provisions of the governance charter shall be presented to the Board at a minimum every three years.

Mr. Danzeiser asked about how the Product Review Committee works. Ms. Bouton explained that although the Product Review Committee and its oversight have been part of the TexaSaver Program for many years; the committee lacked a formal governance charter. The Product Review Committee meets at least twice a year and more frequently if necessary. Committee members review for the various investment options within the TexaSaver program. Based on their expertise, they provide guidance for enhancing the investment options or make other recommendations for any change. Ms. Bouton also stated the Product Review Committee has the ability to name a subcommittee to perform due diligence and to formulate a recommendation for their overall Product Review Committee. Any recommendations from the Product Review Committee regarding changes to the investment options of the TexaSaver Program would be presented to the Board.

Mr. Danzeiser stated that the fund selection changes would not be going through ERS' procurement process but would be presented to the Board for approval. Ms. Bouton affirmed this statement.

Mr. Wilson, Executive Director, explained that a Texas Attorney General opinion states these investment products do not have to be selected through an RFP process. ERS' Office of General Council reviewed this opinion and ERS modified its process regarding the TexaSaver Program's procurement process for investment options. Ms. Gabrielle Schreiber, Director of Procurement and Contract Oversight, reiterated that the AG opinion stated that investments are neither goods, nor services, which are subject to Chapter 2155 of the Government Code. ERS attorneys drafted a memo stating that these investments products were not subject to procurement requirements. Mr. Porter stated that the legal memo made some recommendations about how the procurement process could be revised and what sort of controls and features would need to be included in the fund selection process, including bringing decisions on the changes to the TexaSaver Program's fund products to the Board for decisions. The program governance charter helps to formalize the new structure and process.

There being no further discussion, the Board then took the following action.

Move that the Board of Trustees of the Employees Retirement System of Texas adopt the TexaSaver 401(k)/457 Program Product Review Committee Governance Charter, as reflected in Exhibit A, and this agenda item.

MOTION by Cydney Donnell, second by Doug Danzeiser

Final Resolution: Motion Carries

Aye: Brian Ragland, Craig Hester, Cydney Donnell, Doug Danzeiser, Ilesa Daniels, Jeanie Wyatt

6. INCENTIVE COMPENSATION PLAN

6.1 Consideration of the ERS Incentive Compensation Plan (ACTION)

Ms. Chineque “DeeDee” Sterns, Director of Human Resources, presented the ERS Incentive Compensation Plan (ICP) for its annual review and consideration by the board. The Board originally adopted the plan in December 2006 and as a best practice, the ICP is brought to the Board for consideration on an annual basis.

A draft plan document for fiscal year 2018 was submitted to the Board for preliminary review during the May board meeting. Ms. Sterns noted that revisions had previously been made to the ICP to remain competitive in the labor market, and to improve plan administration. The ICP was most recently amended and approved by the Board on August 16, 2016. Ms. Sterns reported that staff did not identify any necessary changes for the 2018 plan year and ERS did not receive any request for changes for the upcoming plan year.

The ICP communicates strategic performance priorities to participating employees, and encourages sustained levels of high investment performance, without undue risk. The plan is structured to promote teamwork among employees and attract and retain high performing team members.

Mr. Wilson noted that ERS staff will continue to bring the policy to a board meeting before the need for official approval in order to give board members time to review the policies and procedures and suggest any changes.

There being no further discussion, the Board then took the following action.

Move that the Board of Trustees of the Employees Retirement System of Texas approve the ERS Incentive Compensation Plan for Key Investment Professionals and Leadership Employees as presented in Exhibit A.

MOTION by Jeanie Wyatt, second by Ilesa Daniels

Final Resolution: Motion Carries

Aye: Brian Ragland, Craig Hester, Cydney Donnell, Doug Danzeiser, Ilesa Daniels, Jeanie Wyatt

7. ERS’ OPERATIONAL ITEMS

7.1 Consideration of the ERS Fiscal Year 2018 Proposed Operating Budget - (ACTION)

Mr. Porter Wilson, Executive Director, and Machel Pharr, Chief Financial Officer, presented the Employees Retirement System of Texas (ERS) Proposed Operating Budget for Fiscal Year 2018. The ERS Board of Trustees reviews and approves the operating budget for the system each year in August for a Fiscal Year that begins September 1 and ends August 31. The Operating Budget contains Fiscal Year 2017 accomplishments and Fiscal Year 2018 major initiatives based on the 2017-2021 Strategic Plan.

Mr. Wilson highlighted Fiscal Year 2017 accomplishments – noting that ERS worked with the 85th Legislature to provide information on pensions and group benefit programs. Key accomplishments include:

- Completion of the asset allocation and pension experience study.
- Implementation of a new contract for administration of Pharmacy Benefits Management with considerable plan savings.
- Innovative investment idea for the fixed income portfolio was declared the 2016 winner of the *Best New U.S. Fixed Income ETF*.

- Increased participation in the ERS Board of Trustee election through the usage of personalized email message for retirees and members. More voters used the electronic ballot casting, from 15.7% to 40.4%, which increases valid ballots and saves the system money.
- Continued enhancements to customer service, including:
 - Implementing a virtual callback feature which allows members to request a callback, rather than waiting on the line when wait times are longer than normal. The feature is very popular with members, who choose it the majority of the time that it is available.
 - Redesigning the ERS website with customer input, providing for an improved member experience.
- Completing the Sunset review evaluation of ERS programs and operations, with passage of the ERS Sunset Bill.
- Completing a massing study, geotechnical survey, brokerage firm selection and RFP selection of an Owners' Representative for the space planning/annex redevelopment project.
- Completing the procurement and planning process and selecting a vendor and site for relocation of the data center to enhance ERS capabilities for business continuity.
- Conducting award-winning Texa\$aver communication campaigns.
- Implementing a streamlined front desk experience by replacing a paper form with data entry via an iPad.
- Establishing an On-the-Job training/mentoring program for contact center staff as they transition from their training class to the production environment, helping to lower turnover.
- Offering staff continued education through a monthly Lunch & Learn series in which subject matter experts present a variety of topics.

Mr. Wilson then outlined ERS' major initiatives for Fiscal Year 2018:

- One- to two-year transition on asset allocation based on the board's decisions;
- Evaluate the investment systems' architecture for improved processes;
- Complete Sunset implementation (Group Benefits Advisory Committee, investment fee reporting, and grievance process restructure and reporting);
- Implement new HealthSelect third party administrator contract;
- Implement new patient centered medical homes;
- Conduct approximately 20 solicitations including (Benefits Administration Services, external advisor for derivatives, design/build firm selection);
- Complete server relocation process and
- Begin new building development.

Ms. Pharr informed that staff is proposing a \$79.4 million budget for 2018, which is about a 4.9% increase over the Fiscal Year 2017 budget. Approximately 62% of the proposed budget is salary and salary-related expenses.

For the 2018 operating budget, staff is proposing the addition of four FTEs. One is for an infrastructure analyst to increase expertise in investments; one to assist with contracting in the Office of General Counsel; one in Procurement and Contracting Oversight to help with purchasing; and one in Customer Benefits to serve on the Business Integration Team, which performs a number of tasks, including vendor implementation, data integrity and system testing.

Based on estimated investment performance as compared to the trust's benchmark, staff is proposing a \$5.1 million budget for the FY2018 Incentive Compensation Plan, which includes projected payouts for 2017 as well as the second year payout for 2016 and the final payout for 2015.

Budget reductions from Fiscal Year 2017 include the costs associated with the Trustee election; which included contracting services and postage (about \$256,000). Other reductions included savings from the Personal Enrollment Statements which is now included in the TPA contract for HealthSelect, with estimated savings to ERS of about \$234,000, and one-time-costs related to the data center relocation of \$450,000.

In terms of non-salary related budget drivers, \$330,000 is being added to the investment operations. Ms. Pharr reported several business process and improvement initiatives are included in the proposed budget. In order to prepare and get data ready for the benefits administration services project, staff is proposing a data integrity and security project, with a cost of about \$570,000 for 2018.

Ms. Pharr provided the board with an overview of the investment related and non-investment related budget breakout. Exhibit D of the Proposed Operating Budget provides information and explanations of investment related costs included in budgets of other divisions of ERS. In Legal Services there is an increase related to outside legal services in anticipation of more private investment deals in 2018. In Human Resources, \$70,000 is included for the ICP audit and the compensation study. Information Systems also continues to perform additional work for the Investment division.

In response to a question asked by Mr. Doug Danzeiser requesting a rough estimate of how many FTEs have increased as a result of SB 20 relating to contracting, Ms. Pharr responded that staff related to procurement and contract oversight increased from 11 to the 17 proposed in the budget. However, not all of that staff increase is due to the new legislation. Ms. Gabrielle Schreiber noted in addition to SB 20, the LBB budget requirements was one reason for needing more purchasing staff, as well as Sunset recommendations which added some contract oversight staff. In addition, the Executive Director consolidated people from Office of the General Counsel, Finance and Benefit Contracts into Procurement and Contract Oversight.

Mr. Hester congratulated Ms. Pharr and staff on preparing an excellent document.

There being no further discussion, the Board then took the following action.

Move that the Board of Trustees of the Employees Retirement System of Texas approve the Fiscal Year 2018 Proposed Operating Budget, for the Employees Retirement System of Texas, including the addition of a compensation pool in the amount of \$280,000 to be used at the discretion of the Executive Director for retention and recruitment for staff not eligible for the incentive compensation plan. The Board authorizes the Executive Director to administer the operating budget as necessary for the system administration, and authorize the transfer of interest from the interest account as required to fund the operating budget.

MOTION by Craig Hester, second by Ilesa Daniels

Final Resolution: Motion Carries

Aye: Brian Ragland, Craig Hester, Cydney Donnell, Doug Danzeiser, Ilesa Daniels, Jeanie Wyatt

8. GROUP BENEFITS ADVISORY COMMITTEE CHARTER

8.1 Consideration of the Group Benefits Advisory Committee Charter - (ACTION)

Mr. Keith Yawn, Director of Strategic Initiatives, presented the Group Benefits Advisory Committee development timeline to the Board. The 2016 Sunset Advisory Commission Staff Report on the Employees Retirement System of Texas recommended that management “establish an advisory committee to obtain regular stakeholder and expert input on benefits”. The staff recommendation was approved by the full Sunset Commission during their public meeting on November 10, 2016. An ERS staff implementation proposal was presented to the ERS Board on May 17, 2017. On July 11, 2017, staff released the initial draft of the governance charter for board review and comment.

Mr. Yawn reported that upon Board approval of the proposed charter, staff will bring two related items up for consideration during the December 2017 board meeting. The first is a change to the ERS rules that will be necessary to implement policies for reimbursement of travel expenses for members of the committee. The second will be staff recommendations for nominees to the committee. Mr. Yawn noted that the first Group Benefits Advisory Committee meeting will occur sometime in March 2018.

The committee can have up to 11 members. The majority of the positions require a minimum of one year of GBP enrollment and all positions require employer support. Members will serve three-year staggered terms (inaugural terms of 2-4 years will be randomly drawn to establish a staggered schedule). Mr. Yawn informed the board that, upon approval of the charter, ERS staff will begin soliciting and reviewing applications to make appointment recommendations to the Board during the December meeting. Members of the committee will serve at the will of the Board, and can be replaced by the Board as deemed appropriate. The committee will meet separately from the Board of Trustees. The committee would meet a minimum of twice a year, likely in March and October. Minutes from those meetings would be provided to the board for review during the next Board of Trustees regular meeting. An annual report of committee activity would be provided each year during the August meeting. If there are any recommendations or actions for potential board action, they would also be presented. Recommendations or advice provided to the Board are advisory only.

Mr. Hester commented that staff did a good job of drafting the charter and appreciates Mr. Yawn for incorporating received comments on the ethics disclosure requirements in order to avoid conflicts of interest.

There being no further discussion, the Board then took the following action.

Move that the Board of Trustees of the Employees Retirement System of Texas approve The ERS Group Benefits Advisory Committee Governance Charter, as presented in Exhibit A of the agenda item.

MOTION by Doug Danzeiser, second by Jeanie Wyatt

Final Resolution: Motion Carries

Aye: Brian Ragland, Craig Hester, Cydney Donnell, Doug Danzeiser, Ilesa Daniels, Jeanie Wyatt

Before moving on to the next agenda item, Mr. Hester took a moment to recognize the Texas Department of Public Safety (DPS). DPS troopers have been coming to ERS meetings

for over a year and dedicates officers to be present during the board meetings. Mr. Hester noted he appreciates their service to the State of Texas and to the ERS Board.

9. SELF-EVALUATION REPORT

9.1 Review and Discussion of the ERS Board of Trustees Self-Evaluation Report

Mr. Hester introduced Mr. Bernie Hajovsky, Director of the Enterprise Planning Office, to present the results of the ERS Board of Trustees Self-Evaluation Report. To carry out its obligations, the Board follows best practices in governance. An essential part of sound governance is conducting a performance evaluation on a regular basis. The most recent board evaluation took place in the Spring of 2015 and since then two current members of the Board were either elected or appointed.

Overall the assessment revealed positive feedback from the Board relating to the Board's mission, functions and responsibilities. Mr. Hajovsky reviewed some of the highlights and noted the Board's solid understanding of how decisions impact membership and agency operations such as contract awards, program plan changes, and investment oversight. In addition, the Board closely monitors ERS' investments programs and financial information, and works closely with Internal Audit staff to ensure that the agency's audit and compliance functions adhere to best practices and provide assurance to the efficiency of agency operations.

Mr. Hajovsky noted some areas in which the Board saw opportunities for improvement. The Board feels that there is an opportunity to seek more input from, and communicate more frequently with, members and other stakeholders about benefit programs. Another possible improvement area is to more formally evaluate the performance of the Board and the Investment Advisory Committee.

Mr. Hajovsky thanked the Board for taking time out of their busy schedule to complete the survey and for their candid responses.

Mr. Hester asked about the possibility of the Board conducting an assessment of the IAC's performance. Mr. Wilson noted that the Board was included in the most recent self-review of the IAC and that the IAC wanted more input from the Board regarding their performance.

This agenda item was presented for discussion and informational purposes only. No action was taken.

10. EXECUTIVE DIRECTOR REPORT

10.1 Executive Director Agency Update

Appropriations Update – Senate Bill 1 - Executive Director Porter Wilson reported that the 85th Texas Legislature, despite a tight budget environment, maintained the current level of appropriations for the retirement program for the biennial budget that goes into effect on September 1, 2018. The state contributes 9.5% of payroll for retirement and state agencies contribute another 0.5%, for a total contribution of 10%. The legislature also maintained member retirement contributions at 9.5% of salary. The 19.5% total payroll contribution is below what the system needs to be considered actuarially sound. ERS requested the full actuarially sound contribution rate but it was not funded.

The legislature provided funds sufficient to cover a 0.7% cost trend increase each year for the Texas Employees Group Benefit Program. Employers also contribute 1% of payroll to the

program. The increased funding was less than requested and will require the GBP to spend down more of the insurance contingency fund. ERS was also directed to pursue additional program savings, in addition to the program savings achieved through the new pharmacy benefit management and health plan administration contracts. The legislative initiatives include measures to reduce out-of-network usage of independent, free-standing emergency room facilities and to achieve and report savings through contract negotiations for lower health related institution claim reimbursement rates.

ERS was also directed to analyze our Consumer Direct HealthSelect plan participants' healthcare cost and utilization data and develop recommendations as applicable for the Legislature.

Special Legislative Session - Mr. Wilson provided the Board with a Special Legislative Session update on House Bill 214 which deals with elective abortion coverage on insurance plans. The Legislature also addressed Teacher Retirement System health care funding needs. Although this doesn't directly affect ERS, the two systems are often compared and compete for limited state revenue. The TRS retiree health insurance plan received additional funding of about \$218 million in general revenue. The additional funding will reduce some of the impact of benefit changes to TRS retirees enacted during the regular session.

Owner's Representative Selected for Building Development - ERS sought the services of an Owner's Representative to assist in the planning, procurement, design, construction, closeout, and warranty phases of the ERS annex redevelopment project. Following a procurement process that attracted several qualified respondents, ERS selected Broaddus & Associates for the contract. ERS published the RFP for Owner's Representative services on April 19, 2017 and had 75 vendors request RFP access. Twelve vendors attended non-mandatory site walkthroughs. On June 30, 2017, ERS received 8 responses. One response was disqualified for noncompliance with the RFP requirements. ERS selected four finalists: Capital Project Management, CBRE, Broaddus & Associates and Square One Consultants. Square One Consultants and Capital Project Management ultimately withdrew their bid, which left two remaining finalists: CBRE and Broaddus & Associates. The ERS evaluation team selected Broaddus & Associates. ERS staff met with Rick Johnson from Broaddus following the selection and project work has begun. The Owner's Representative serves as ERS advocate throughout the project, from the selection of a design build firm to the ultimate final completion of the building construction.

Redesigned Website and New Domain Name- ERS unveiled a new website and domain name on August 21. The online site is at www.ers.texas.gov. The site was redesigned to provide easier navigation and a better user experience. Communications have been included in member and employer newsletters. A video explaining the site's new navigation and features is on the new home page.

The website redesign was guided by an external consultant who met with ERS members and designed new navigation based on their opinions and feedback. The content development and buildout of the new site's navigation was done internally by staff primarily in Benefits Communications and Information Systems. The refreshed site is organized based on common search functions.

All staff and trustee email addresses have been changed to the ers.texas.gov domain address. The previous ers.state.tx.us address extension will redirect to the new domain name for at least one year. The domain name change brings ERS into conformance with Texas Department of Information Resource guidelines.

Staying Connected Retiree Fairs - After each legislative session, ERS hosts *Staying Connected Retiree Fairs* around the state. This is an opportunity for ERS to update retirees on their benefits and the outcome of the legislative session. The fairs are scheduled for:

- Central Austin, August 29
- South Austin/Kyle, August 30
 - 2nd Austin-area event added
- Houston, September 19
- Arlington, September 26

These retiree only events are very popular. Executive Director Porter Wilson addresses retirees and answers any questions they have. Retirees and their family members also have an opportunity to visit directly with ERS program vendors.

Summer Enrollment for Plan Year 2018 - Summer Enrollment for plan year 2018 was June 26 – July 28, 2017. ERS mailed out over 200,000 Personal Benefits Enrollment Statements to participant's homes. The statement summarizes current enrollment choices and is customized to provide costs and options for coverages for the upcoming plan year. About 60,000 members used the enrollment opportunity to make changes to their coverage during this six-week period. ERS offers members the ability to make changes themselves by using our self-service features, or they can call and get assistance with the change from the contact center. ERS uses a contact center overflow vendor, ACT, to help with enrollment related questions. The overflow vendor assisted in taking over 10,000 calls during the summer enrollment period. Members can also visit in person and 92 members chose to handle their enrollment needs by visiting with an ERS staff member at ERS in person.

Mr. Wilson reminded the Board that Blue Cross and Blue Shield of Texas is the new HealthSelect third-party administrator beginning September 1, 2017. The transition planning and implementation project began immediately after the contract was awarded and involved numerous ERS staff members. It is difficult to transition a program of this size, and it has gone well. Most member questions are related to the new provider network, transition of care issues, and wellness program offerings.

ERS hosted 37 Summer Enrollment fairs across Texas with 5,125 people in attendance. Members value the opportunity to personally talk with ERS staff members and program representatives. ERS staff members are equipped with the technology to provide enrollment customer service at the events. The expanded number of fairs was designed to enhance communications about the transition to new administrators for both the prescription and HealthSelect programs. Another 910 people participated in 11 webinars. The ERS website had more than 1.2 million page views of people accessing information and wanting to understand their benefits.

Fall Enrollment for Plan Year 2018 - Mr. Wilson reported that Fall Enrollment for Medicare-eligible retirees and their families will be held from October 30 – November 17, 2017. There are no major changes to the retiree benefits or administrators this year. There will be 8-10 fairs scheduled around the state and virtual opportunities for people to get information about their benefits so they can make informed benefit decisions.

11. CHAIR ELECTIONS

11.1 Election of Chair and Vice-Chair of the ERS Board of Trustees for Fiscal Year 2018 - (ACTION)

Texas Government Code, Title 8, section 815.201, provides that the Board shall elect new officers from its membership. As a result of such an election, the newly elected Chair and Vice-Chair of the ERS Board of Trustees will each serve a one-year term beginning September 1, 2017 and ending August 31, 2018.

Mr. Ragland thanked Chair Hester for his service as chair over the past couple of years.

There being no further discussion, the Board then took the following action.

Move that the Board of Trustees of the Employees Retirement System of Texas elect Doug Danzeiser as Chair and Cydney Donnell as Vice-Chair of the ERS Board of Trustees for one-year terms beginning September 1, 2017 and ending August 31, 2018.

MOTION by Brian Ragland, second by Jeanie Wyatt

Final Resolution: Motion carries

Aye: Brian Ragland, Craig Hester, Cydney Donnell, Doug Danzeiser, Ilesa Daniels, Jeanie Wyatt

12. TRUSTEE RECOGNITION

12.1 Board of Trustees Recognition

Chair Craig Hester recognized Mr. Ragland for his service on the ERS Board of Trustees. Mr. Hester presented Mr. Ragland with an ERS Resolution [Exhibit A], an honorary gavel and a board photo.

Mr. Ragland then expressed his appreciation and thanked staff and board for his experience at ERS.

13. EXECUTIVE SESSION

13.1 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. Thereafter, the Board may consider appropriate action in open session.

At 4:40 p.m. on August 23, 2017, Chairman Hester announced that the Board of Trustees will now 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. Thereafter, the Board may consider appropriate action in open session.

Upon returning from executive session, Mr. Hester announced that it is 6:03 p.m. on August 23, 2017. No action, decision, or vote was taken by the Board while in executive session.

Mr. Brian Ragland reminded the Board that they had set out specific evaluation criteria for Mr. Wilson within the past year which included expectations for leadership, management, communications, policy matters and staff development. Mr. Wilson and his team have met these expectations and have done excellent work in continuing to secure the retirement and insurance benefits for ERS active and retired members. Mr. Ragland commended Mr. Wilson for his leadership in managing the budget, having a successful legislative session, developing the senior team, overseeing the Sunset review implementation, and keeping the Board informed.

At this time Mr. Hester opened the floor for a motion from the Board.

Mr. Ragland moved that the Board of Trustees of the Employees Retirement System of Texas award ERS Executive Director Porter Wilson an increase in his annual compensation of 5% of his Fiscal Year 2017 annual salary effective September 1, 2017.

Mr. Ragland furthered move that the Executive Director be awarded the maximum incentive compensation award for which he is eligible, based on his participation in the incentive compensation plan for Fiscal Year 2017, for the qualitative seventy-five percent of his 50%, which reflects his leadership and management accomplishments for the year and, on the quantitative, 100% of his 50%, which is based on trust fund performance; and

Mr. Ragland further moved the Board of Trustees of the Employees Retirement System of Texas affirm that effective September 1, 2017, Mr. Wilson is approved to participate in the ERS incentive compensation plan for key investment professionals and leadership employees as a leadership employee, with a maximum award percentage available at 100% of his salary, in accordance with the terms of the plan; and

Mr. Ragland further moved that Mr. Wilson's performance goals for Fiscal Year 2018 should reflect 50% of his possible award under the ICP as a quantitative goal, based on relative trust fund performance, and 50% of his possible award under the ICP as a qualitative goal reflecting his overall agency leadership, management, communications, policy matters, staff development, and implementation of the agency's strategic initiatives, as reflected in the board-approved operating budget for fiscal year 2018; and

Mr. Ragland further moved that the Board of Trustees of the Employees Retirement System of Texas use the agency initiatives identified in the Fiscal Year 2018 operating budget and approved by the Board to evaluate the executive director's job performance by measuring the initiatives against the accomplishments reported in Fiscal Year 2018 operational budget.

MOTION by Brian Ragland, second by Cydney Donnell

Final Action: Motion carries

Aye: Brian Ragland, Craig Hester, Cydney Donnell, Doug Danzeiser, Ilesa Daniels, Jeanie Wyatt

Mr. Hester then opened the floor for any comments from the Board. Ms. Donnell congratulated Mr. Wilson for his hard work and success in a legislative year. Mr. Hester then thanked Mr. Wilson for his leadership skills and looks forward to continuing to work with him going forward.

Mr. Wilson thanked the board for their vote of confidence and stated that he is blessed to have a great team to work with and lead.

Ms. Wyatt expressed appreciation for the training that Mr. Wilson and his team performed during her onboarding as a new trustee and said she was impressed with the level of research and diligence evident in the work of staff. She also congratulated the Investment team in being responsive to questions and concerns that she had, which ultimately reflects Mr. Wilson's leadership skills.

14. CALENDAR

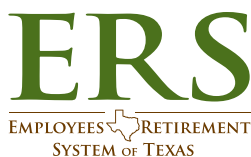
14.1 Set Date for the Next Joint Meeting of the ERS Board of Trustees and Investment Advisory Committee, the Next meeting of the Board of Trustees, and the Next Meeting of The Audit Committee

Tuesday, December 12, 2017 and Wednesday, December 13, 2017 were set as the dates for the next regular meetings of the Board of Trustees and Investment Advisory Committee, Board of Trustees and Audit Committee. The Board will approve the 2018 meeting schedule at its December 2017 meeting.

15. ADJOURNMENT

15.1 Adjournment of the ERS Board of Trustees Meeting

The August 23, 2017 Meeting of the Board of Trustees adjourned at 6:11 p.m.



RESOLUTION

WHEREAS,

THE HONORABLE BRIAN RAGLAND

was elected to serve on the Board of Trustees of the Employees Retirement System of Texas by his fellow state employees and State of Texas retirees to serve a six-year term that began September 1, 2011, serving as one of three elected members; and

WHEREAS,

Brian Ragland was selected by his fellow board members to serve as Vice-Chair for Fiscal Year 2013 and as Chairman of the Board for Fiscal Year 2014; and served with distinction as a member of the ERS Audit Committee as Chairman for Fiscal Year 2015 and 2017; and

WHEREAS,

as an Employees Retirement System of Texas Board member, Brian Ragland was responsible for overseeing the administration of retirement assets and benefits for more than 350,000 state employees, retirees and beneficiaries, and the health and life benefits for more than 550,000 state and higher education employees, retirees and dependents; and

WHEREAS,

Brian Ragland's experience and expertise provided valuable insight and assistance to the Board and ERS staff through three regular sessions of the Texas Legislature; and

WHEREAS,

During his service on the Board, the ERS Trust Fund grew to \$27 billion. ERS tackled many challenges and decisions impacting state and higher education employees and retirees, and throughout these challenges, Brian Ragland's leadership, influence and unwavering support for ERS and its members were particularly beneficial in:

- Obtaining additional funding for the retirement plan through increased state and member contributions;
- Determining a new asset allocation and enhancing the investment program;
- Containing costs in the Texas Employees Group Benefit Program through plan design and strategic contracting;
- Lowering costs for retirees through a new Medicare Advantage plan; and

WHEREAS,

after six years of service as an honorable member of the ERS Board of Trustees, Brian Ragland ends his trustee service;

NOW, THEREFORE,

be it resolved that the Trustees, staff and members of the Employees Retirement System of Texas hereby express their highest respect and sincerest appreciation to the Honorable Brian Ragland for his selfless commitment to the System by honoring and recognizing him with this Resolution as a lasting token of his noble public service as a member of the ERS Board of Trustees...

ADOPTED THIS DAY, THE 23RD OF AUGUST 2017.

Board of Trustees
Employees Retirement System of Texas

 I. Craig Hester, Chair

 Doug Danzeiser, Vice-Chair

 Ilesa Daniels, Member

 Jeanie Wyatt, Member

 Cydney Donnell, Member