



Board of Trustees Meeting

August 21, 2019



Presented for Review and Approval

December 10, 2019

- 1. CALL TO ORDER 3
- 1.1 Call Meeting of the ERS Board of Trustees to Order 3
- 2. MINUTES 3
- 2.1 Review and Approval of the Minutes to the May 22, 2019 ERS Board of Trustees Meeting – (ACTION)..... 3
- 3. TEXAS EMPLOYEES GROUP BENEFITS PROGRAM 3
- 3.1 Texas Employees Group Benefits Program Update 3
- 3.2 Review and Consideration of Proposed rates for HealthSelectSM Medicare Advantage PPO Plan for Calendar Year 2020 – (ACTION) 5
- 3.3 Review and Consideration of Proposed rates for Medicare Advantage Health Maintenance Organization Plan for Calendar Year 2020) – (ACTION)..... 5
- 4. GROUP BENEFITS FUNDING POLICY 7
- 4.1 Review and Consideration of the Group Benefits Funding Policy Document – (ACTION)..... 7
- 5. TEXA\$AVER PROGRAM 7
- 5.1 Review and Consideration of Proposed Texa\$averSM 401(k)/457 Program Plan Rates – (ACTION) .. 7
- 6. INCENTIVE COMPENSATION PLAN 9
- 6.1 Review and Consideration of the ERS Incentive Compensation Plan for Fiscal Year 2020 – (ACTION)..... 9
- 7. ERS’ OPERATIONAL ITEMS 9
- 7.1 Review of 2019 ERS Accomplishments 9
- 8. EXECUTIVE DIRECTOR REPORT 13
- 8.1 Executive Director Agency Update..... 13
- 9. EXECUTIVE SESSION..... 14
- 9.1 Executive Session – In accordance with Section 551.074, Texas Government Code, the ERS Board of Trustees will meet in executive session to deliberate the employment, evaluation and duties of the Executive Director of the Employees Retirement System of Texas. Thereafter, the Board may consider appropriate action in open session..... 14
- 10. BOARD CHAIR ELECTIONS 15
- 10.1 Election of Chair and Vice-Chair of the ERS Board of Trustees for Fiscal Year 2020 – (ACTION) . 15
- 11. ADJOURNMENT..... 16
- 11. Adjournment of the ERS Board of Trustees Meeting 16

**BOARD OF TRUSTEES MEETING
EMPLOYEES RETIREMENT SYSTEM OF TEXAS
August 21, 2019
TRS Board Room, E513
TRS Building - 1000 Red River Street
Austin, Texas 78701**

TRUSTEES PRESENT

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

ERS DIRECTORS PRESENT

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

ERS STAFF PRESENT

Nora Alvarado, Group Benefits
Jason Avants, Information Systems
Georgina Bouton, Group Benefits
Glenna Bowman, Finance
Kelley Davenport, Executive Office
Juli Davila, Investments
Christ Davis, Customer Benefits
Blaise Duran, Group Benefits
Leah Erard, Office of Strategic Initiatives
Cynthia Hamilton, Office of General Counsel
Angelica Harborth, Group Benefits
Nancy Lippa, Office of General Counsel
Betty Martin, Investments
Roger Nooner, Benefits Communications
Aris Oglesby, Investments
Jamey Pauley, Executive Office
Susie Ramirez, Executive Office
Tanna Ridgway, Investments
Lauren Russell, Group Benefits
Cheryl Scott Ryan, Office of General Counsel
Mary Jane Wardlow, Executive Office
Ariana Whaley, Government Relations

ALSO PRESENT

Haseeb Abdullah, self

Nick Arnold, Humana

Brian Barth, Texas Department of Transportation

John Claisse, Albourne

Phil Dial, Rudd and Wisdom, Inc.

Elena Diaz, Retired State Employees Association

Katy Fallon-Brown, Legislative Budget Board

Bill Hamilton, Retired State Employees Association

Tathata Lohachitkul, Albourne

Kelley Ngaide, State Auditor's Office

Chris Paxton, Optum Rx

Mallory Sumner, Blue Cross and Blue Shield of Texas

Meeting of the ERS Board of Trustees

1. CALL TO ORDER

1.1 Call Meeting of the ERS Board of Trustees to Order

Mr. Craig Hester, Chairman of the Board of Trustees of the Employees Retirement System of Texas (ERS), noting a quorum was present, called the meeting to order at 1:55 p.m. and read the following statement:

“A public notice of the ERS Board of Trustees meeting containing all items on the proposed agenda was filed with the Office of the Secretary of State at 8:18 a.m. on Monday August 12, 2019, as required by Chapter 551 Texas Government Code, referred to as the Open Meetings Law.”

2. MINUTES

2.1 Review and Approval of the Minutes to the May 22, 2019 ERS Board of Trustees Meeting – (ACTION)

Mr. Hester opened the floor for a motion on the approval of the minutes from the May 22, 2019 ERS Board of Trustees meeting.

Move that the Board of Trustees of the Employees Retirement System of Texas approve the minutes to the meeting held on May 22, 2019.

Motion by Catherine Melvin, second by Doug Danzeiser.

Final Resolution: Motion Carries

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

3. TEXAS EMPLOYEES GROUP BENEFITS PROGRAM

3.1 Texas Employees Group Benefits Program Update

Diana Kongevick, Director of Group Benefits, began with an update on the HealthSelectSM of Texas plan. The transition to Blue Cross and Blue Shield of Texas (BCBSTX) as the third-party administrator began September 1, 2017. Given the number of participants affected, the transition was very successful. The HealthSelect network continues to grow and is significantly larger than it was when reviewed with the board in December of 2017.

The HealthSelect plan highly values a participant's established relationship with a Primary Care Physician (PCP). During the transition, the initial focus was on increasing PCP network participation. Since the transition to BCBSTX, more participants have selected a PCP to coordinate care. More PCPs are in-network with 88% less disruption when compared to December 2017.

During the HealthSelect network development, ERS enacted a PCP contingency plan to limit PCP disruption. The plan allowed participants to see their previous network PCP on an in-network basis through December 2017 as long as the PCP participated in any BCBSTX network.

Ms. Kongevick provided information about the HealthSelect of Texas network.

- At the time of implementation, BCBSTX committed to 90% of the BCBSTX PPO network PCPs participating in the HealthSelect of Texas network. BCBSTX met this goal, and as of July 2019, the number of participating HealthSelect of Texas PCPs exceeded those in the large, broad BCBSTX PPO network by 14.5%.
- HealthSelect of Texas participants (on average) live two miles to the first closest PCP, 2.9 miles to the second closest PCP and 3.4 miles to the third closest PCP.
- When comparing Metropolitan Service Areas (MSA) networks, the HealthSelect of Texas network PCP participation exceeds BCBSTX PPO network in all but one MSA.

- There were 8,798 more specialists in the network in July 2019 compared to December 2017 with significant improvements seen in the number of hospital-based specialists of Radiology, Anesthesiology, Pathology, Emergency Medicine and Neonatology. Most participants (99.5%) have access to a key specialist within 75 miles.
- Ms. Kongevick pointed out that one measure of network quality is the percentage of claims paid to in-network providers. For FY18, 91% of non-Medicare primary claims were paid to in-network providers. That percentage increased to 93% in FY19.

Mr. Blaise Duran, Actuarial and Reporting Services Manager, Group Benefits, provided information about HealthSelect FY19 projected trends and Member Cost Share (MCS).

- The self-funded HealthSelect plans continue to perform well. In December 2018, FY19 trend was projected to be significantly higher than FY18; however, that was not the result, largely due to better than expected medical trend. Pharmacy also emerged as better than expected. Overall, the plan remains in a strong financial position with an FY19 medical and pharmacy (combined) trend projected at 6%.
- Member Cost Share was discussed. A 10-year illustration of total per participant annual health care showed that the costs paid by the member remained relatively flat at approximately \$900 per year. At the same time, the health plan cost share increased from \$4,339 (FY10) to \$6,294 (FY19).
- On a percentage basis, participant cost share decreased from 17.2% (FY10) to 12.3% (FY19), while the health plan share increased from 82.8% (FY10) to 87.7% (FY19).

Mr. Duran concluded with an update on the 86th Legislative Session and a discussion of the bills and riders with GBP impact.

- HB 170 – Requires coverage of diagnostic mammography at the same benefits level as screening mammography.
- HB 392 – Authorizes ERS to offer an individual long-term care insurance program.
- HB 1584 – Prohibits the use of step therapy for drugs prescribed for the treatment of stage four, advanced, metastatic cancer.
- SB 1264 – Effective January 1, 2020, this bill applies to GBP health plans (except Medicare Advantage Plans). The bill prevents patient surprise billing (also known as balance-billing) for:
 - out-of-network emergency services,
 - out-of-network facility-based provider performing services at an in-network facility and
 - out-of-network diagnostic imaging provider or laboratory provider performing services in conjunction with an in-network provider.

The law does NOT apply to non-emergency health care services, specifically when a health plan participant has chosen to seek care from an out-of-network provider and received a written disclosure in advance about all the out-of-network providers who will be involved with the service and the estimated costs.

- Rider 10.06 – Directs the University of Texas Health Science Center Houston to provide data analysis and individual benchmarking for Health and Human Services Commission, ERS, Teacher Retirement System and Texas Department of Criminal Justice.
- Rider 15 – Directs ERS to maintain competitive and favorable contracted provider rates with Health Related Institutions (HRIs) receiving appropriations.

- Rider 16 – Directs ERS to provide an incentive to participants to shop for lower cost healthcare within the health plan using a shared savings approach.

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

3.2 Review and Consideration of Proposed rates for HealthSelectSM Medicare Advantage PPO Plan for Calendar Year 2020 – (ACTION)

Mr. Blaise Duran, Actuarial and Reporting Services Manager, described the Medicare Advantage PPO plan, a fully insured PPO customized for the Employees Retirement System of Texas. The plan is subsidized by the federal government resulting in lower cost to retirees and a reduced cost to the program.

The plan provides cost-effective medical benefits to Medicare-primary participants in the Texas Employees Group Benefits Program (GBP). Plan enrollment continues to increase. Enrolled participants totaled 79,800 in January 2019 compared to 68,696 in January 2017.

Mr. Duran explained that to ensure the cost effectiveness of the plan, the consulting actuaries and ERS staff use a theoretical cost index (TCI) model. The TCI estimates the total cost that would be required to cover HealthSelect MA PPO participants if enrolled in HealthSelectSM of Texas.

The total participant CY20 HealthSelect Medicare Advantage PPO plan monthly proposed contribution rate is \$303.40 composed of three elements:

- \$150.35 - the fully-insured MA PPO medical premium
- \$126.56 – the projected cost of self-funded HealthSelect Medicare Rx prescription drug coverage
- \$ 26.49 – Health Insurance Providers (HIP) fee required under the ACA

The \$303.40 CY20 proposed contribution rate represents a 7.6% increase over the CY19 contribution rate. However, the primary reason for the increase is due to the inclusion of the HIP fee, previously waived by the federal government for CY19.

Discussion about the HIP fee included Trustees Hester, Dial, and Melvin. Both Mr. Duran and Mr. Dial pointed out that even with the inclusion of the HIP fee, the CY20 contribution rate is still 5.5% less than the CY18 contribution rate, which also included a HIP Fee.

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

Move that the Board of Trustees of the Employees Retirement System of Texas approve the Calendar Year 2020 plan rates as presented in this agenda item effective January 1, 2020 for the statewide HealthSelect Medicare Advantage PPO Plan offered under the Texas Employees Group Benefits Program.

Motion by Doug Danzeiser, second by Jim Kee.

Final Resolution: Motion Carries

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

3.3 Review and Consideration of Proposed rates for Medicare Advantage Health Maintenance Organization Plan for Calendar Year 2020) – (ACTION)

Mr. Blaise Duran, Actuarial and Reporting Services Manager, described the Medicare Advantage Health Maintenance Organization Plan. This is a fully insured plan specific to those who reside in one of eight Houston area counties. The plan is subsidized by the federal government resulting in lower cost to retirees and a reduced cost to the program.

KelseyCare Advantage Medicare health maintenance organization (MA HMO) is the only MA HMO currently offered under the Texas Employees Group Benefits Program (GBP). Participants receive

medical coverage through KelseyCare Advantage MA HMO and prescription drug coverage through the self-funded HealthSelectSM Medicare Rx plan.

The plan continues to grow with 1,576 participants as of January 2019 compared to 1,355 participants in January 2017. The Houston service area remains the same for CY20.

Mr. Duran explained that ERS must comply with a rider in the General Appropriations Act when determining appropriate premium rates for participating MA HMOs, which stipulates that:

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

To ensure compliance with the rider, ERS utilizes a theoretical cost index (TCI) model. The TCI estimates the total cost that would be required to cover the MA HMO participants if enrolled in the self-funded HealthSelectSM of Texas plan. To participate in the GBP, the MA HMO administrator must agree to charge premium rates that are no greater than 95% of the TCI in order to ensure savings of at least 5% as compared to the cost of coverage under HealthSelect of Texas.

The total participant CY20 KelseyCare Advantage MA HMO plan monthly proposed contribution rate is \$254.24 and made up of three elements:

- \$106.68 – the fully-insured MA HMO medical premium
- \$126.56 – the projected cost of self-funded HealthSelect Medicare Rx prescription drug coverage
- \$ 21.00 – Health Insurance Providers (HIP) fee required under the ACA

The \$254.24 CY20 proposed contribution rate represents a 3.9% increase over the CY19 contribution rate. However, the primary reason for the increase is due to the inclusion of the HIP fee, previously waived by the federal government for CY19.

The proposed monthly contribution rate for a Medicare-Primary Spouse will increase by \$4.74 and will increase for a Medicare-Primary Surviving Spouse by \$9.48. When compared to HealthSelect of Texas rates, MA HMO retiree savings are significant, with a savings of \$230.88 for a Medicare-Primary Spouse and \$461.76 for a Medicare-Primary Surviving Spouse.

Mr. Danzeiser asked whether the TCI model is keeping some HMOs from being able to participate in the program. Mr. Duran said that, due to the success and savings found in the HealthSelect of Texas program, it is increasingly difficult for HMO carriers to reduce rates to the level required to participate in the program.

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

Move that the Board of Trustees of the Employees Retirement System of Texas approve the Calendar Year 2020 plan Medicare Advantage HMO contribution rates as presented in this agenda item for participation in the Texas Employees Group Benefits Program.

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

Motion by Catherine Melvin, second by Ilesa Daniels.

Final Resolution: Motion Carries

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

4. GROUP BENEFITS FUNDING POLICY

4.1 Review and Consideration of the Group Benefits Funding Policy Document – (ACTION)

Ms. Diana Kongevick, Director of Group Benefits, described the development of a Texas Employees Group Benefits Program Funding Policy Document (Policy). The ERS Board of Trustees (Board) requested that staff develop a health funding policy similar to the Pension Funding Priorities and Guidelines Policy adopted in May 2018.

The Board and staff discussed the program structure and goals at the December 2018 Board meeting. Staff provided a more detailed draft document at the March 2019 Board meeting. The draft document was shared with the Group Benefits Advisory Committee at their March 2019 meeting. An updated draft document was provided at the May 2019 Board meeting.

Ms. Kongevick explained the Texas Employees Group Benefits Program (GBP) health plans are dynamic in nature in that the scope and cost of health plan coverage continuously increases due to increases in utilization, the cost of health care, and development of new and generally more expensive treatments, procedures, services, supplies and drug therapies. The Policy provides a framework for the dynamic plan management ERS must exercise to keep pace with these developments.

Ms. Kongevick outlined the purpose and scope of the Policy and its applicability. The Policy applies to programs funded through the legislative appropriation process, which currently includes the GBP employee and retiree basic term life and health plans. The policy does not apply to GBP optional benefit plans.

The Policy's goal is to offer competitive benefits at a reasonable cost and to preserve the sustainability and financial integrity of the GBP basic term life and health plans to:

- promote the health and wellbeing of GBP participants;
- provide benefits that current and future members value; and
- develop, implement, and maintain innovative health benefit plan strategies that contribute to plan value.

The discussion concluded with an overview of the Policy guidelines that provide a framework to achieve policy goals.

Ms. Kongevick thanked everyone for their involvement throughout the Policy development. ERS staff recommend the Board adopt the proposed Policy as presented in Exhibit A.

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

Move that the Board of Trustees of the Employees Retirement System of Texas approve the GBP Funding Policy attached as Exhibit A of this agenda item.

Motion by Jim Kee, second by Catherine Melvin.

Final Resolution: Motion Carries

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

5. TEXA\$AVER PROGRAM

5.1 Review and Consideration of Proposed Texa\$averSM 401(k)/457 Program Plan Rates – (ACTION)

Ms. Georgina Bouton, Assistant Director of Group Benefits Division, gave a recap of the Texa\$aver Program contracts awarded at the May 22, 2019 ERS Board of Trustees meeting. The third-party administrator services contract was awarded to Great-West Life and Annuity Insurance Company branded Empower Retirement. The investment advisory services contract was awarded to Advised Assets Group, LLC (AAG). The initial service dates under the contracts were July 1, 2019 through June 30, 2025.

As presented in May, the contracts to Empower Retirement and AAG resulted in lower contracted rates, which are guaranteed throughout the contract term. ERS' internal actuary reported a projected savings of \$28.5 million for FY20 through FY25.

Ms. Bouton explained that following the contract award, ERS negotiated with Empower Retirement to terminate the expiring contracts, escalate the service dates under the new contracts to begin June 1, 2019, and implement the lower contracted rates effective June 1, 2019.

The June 1 reduced contracted rates are the amount billed to ERS for the TexaSaver Program. Since the TexaSaver Program is 100% funded by participants, the participant fee schedule needed to be amended to align with the reduced contract rates. The objective was to align the TexaSaver participant fee schedule, which is the tiered fee structure, in a manner to:

- uphold the Board-adopted fee schedule; and
- benefit all TexaSaver participants.

Ms. Bouton further explained that ERS' in-house actuary and staff formulated a fixed percentage reduction of 39.67% for the fees, which was applied to all tiers of the participant fee schedule.

The revised participant fee schedule is illustrated below.

Chart 1
Proposal for aligning TexaSaver participant fees
with new TPA Contract, effective June 1, 2019

Account Balance	Current Monthly Fee (Per Participant, Per Account)	Proposed Monthly Fee (Per Participant, Per Account)	Monthly Fee Change (Per Participant, Per Account)
\$1,000.00 or less	\$ 1.18	\$ 0.71	\$ (0.47)
\$1,000.01 to \$16,000.00	\$ 3.99	\$ 2.41	\$ (1.58)
\$16,000.01 to \$32,000.00	\$ 6.00	\$ 3.62	\$ (2.38)
\$32,000.01 to \$48,000.00	\$ 8.17	\$ 4.93	\$ (3.24)
\$48,000.01 to \$64,000.00	\$10.89	\$ 6.57	\$ (4.32)
\$64,000.01 or more	\$13.62	\$ 8.22	\$ (5.40)

Ms. Nora Alvarado, Voluntary Income Plans, Group Benefits, explained that the June 2019 administrative fee was assessed to participant accounts on July 5, 2019 based on the revised fee schedule.

Ms. Alvarado described the communication plan coordinated with Empower Retirement to notify participants of the reduced administrative fees. The plan included a website notice which posted in June 2019, email notifications sent to over 137,000 participants with email addresses, and an insert in the TexaSaver third quarter statements.

Ms. Alvarado stated that staff would begin an in-depth evaluation of the tiered fee structure currently assessed to participants. Staff requested Empower Retirement to identify industry best practices and conduct a survey of other state plans. These findings and a participant fee structure proposal will be brought to the Board in 2020 for review and consideration.

Mr. Danzeiser asked if there was follow-up from the previous May Board meeting regarding the revised fees on the low balance tiered accounts; if the number of low balance accounts had reduced; and if there have been complaints.

Ms. Alvarado explained that since the implementation of the fees, the number of low balance accounts have reduced by 1,600 and ERS has not received complaints.

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

Move that the ERS Board of Trustees adopt the fee structure for the TexaSaver Program effective June 1, 2019 for the contract period ending June 30, 2025 in connection with the third party administration contract with Great-West Life and Annuity Insurance Company (Empower Retirement) and Advised Assets Group, LLC (AAG) to provide investment advisory services.

Motion by Ilesa Daniels, second by Catherine Melvin.

Final Resolution: Motion Carries

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

6. INCENTIVE COMPENSATION PLAN

6.1 Review and Consideration of the ERS Incentive Compensation Plan for Fiscal Year 2020 – (ACTION)

Ms. DeeDee Sterns, Director of Human Resources, presented the review and consideration of the ERS Incentive Compensation Plan (ICP) for Fiscal Year 2020. Ms. Sterns stated that the Board of Trustees reviews and considers the ICP on an annual basis. The ICP was most recently amended on August 29, 2018.

Ms. Sterns said that staff conducted an in-depth review this year of the ICP document and presented the results of that review to the Board during the May meeting. The review included the executive office, the office of the general counsel, the investments team, and the ICP team. Ms. Sterns stated that, based on the review, staff are recommending two material changes. First is to move the payment date from December 1 to February 1. Second is to add an “underpayment” section, which will mirror the “clawback” (overpayment) section currently in the ICP document.

In addition to the two material changes, Ms. Sterns stated that staff are recommending several non-material changes. These non-material changes will be to revise language to make it consistent with the investment policy, to align language to reflect current processes and practices, and to add definitions and additional language to provide better clarification.

Ms. Sterns noted that in the May Board meeting it was mentioned that staff would also be submitting the ICP draft to outside tax counsel for their review before the August Board meeting. From that review, no additional material changes are being recommended.

Ms. Sterns stated that staff recommend that the Board consider and approve the ERS Incentive Compensation Plan for Fiscal Year 2020 as presented in Exhibit A and asked if the Board had any questions.

Mr. Hester commented that he thinks the movement of the payment date to February 1 is a good one. There being no questions, Mr. Hester opened the floor for a motion.

Move that the Board of Trustees of the Employees Retirement System of Texas approve the ERS Incentive Compensation Plan for Fiscal Year 2020 as presented in Exhibit A.

Motion by James Kee, second by Doug Danzeiser.

Final Resolution: Motion Carries

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

7. ERS' OPERATIONAL ITEMS

7.1 Review of 2019 ERS Accomplishments

Mr. Porter Wilson, Executive Director, highlighted some of ERS' accomplishments for FY19. ERS had a successful year achieving progress toward four strategic goals. The first goal is to support our members retirement income security. These accomplishments come under the regular order of business, as this is the reason ERS exists as an organization. More than \$2.5 billion dollars in annuity payments were made timely and accurately to retirees and beneficiaries this year as a result of the diligence of staff. ERS provided information to the Legislature on the importance of putting the ERS pension funds back on a path to solvency. ERS transitioned the investment policy statement from a rules based to principles based

document. ERS increased retention of TexaSaver participants who are automatically enrolled in the 401(k) Plan by 9.5% for a total of 85.3% and negotiated a new contract for TexaSaver which resulted in a 40% reduction in membership fees.

In sustaining competitive group benefits, the program continued to generate cost savings from the medical and pharmacy benefit managers, allowing ERS to request legislative funding at the Fiscal Year 2019 base level. The 86th Legislature maintained the funding at that level for Fiscal Years 2020 and 2021. As a result, no HealthSelect premium increases are required for those that pay out of pocket for dependents and spouses and no benefit design changes are required. The very positive cost trend of 4.8% is achieved through the efforts of a variety of teams that negotiate rates to keep utilization appropriate and find opportunities to save cost in the plan.

Mr. Wilson described three initiatives that had been launched: Implementation of the mental health virtual visits program, "Changing the Script", and a Mobile Mammography Program. Virtual visits utilization has increased by 67%. Mental health coverage for our participants is expected to be enhanced by adding this coverage to our virtual visits program. "Changing the Script" is aimed at reducing utilization of opioids. Mr. Wilson outlined the successes in reducing prescriptions for both short acting and long acting opioids as a result of this program. He also described the partnership ERS entered into with the University of Texas MD Anderson Cancer Center on a unique mobile mammography program that ERS is hopeful can be built out with other partners in other parts of the state.

Mr. Wilson also provided information on the efforts of ERS to ensure that we collect all funds that can offset our health care costs by collecting \$2 million in subrogation.

Mr. Wilson then described ways in which ERS seeks to improve communication and engage stakeholders. He explained that ERS has put together a series of videos regarding ERS investments and asset classes in which ERS invests to provide clearer insight to active members and retirees.

He also discussed the new participant guide to the appeals process. The Sunset process observed that ERS needed to provide greater insight into how people can appeal and access their health benefits to the fullest. In addition to publishing the participant guide, ERS designed and implemented optional recorded audio statement and a direct call process to enhance participants' involvement when filing an appeal.

Mr. Wilson explained efforts undertaken by ERS to build out the wellness program by engaging employers. A reporting dashboard was developed for the 16 largest employers to help them encourage their employees to do three things: 1) take a health risk assessment, 2) participate in weight management programs, if applicable, and 3) designate a primary care provider and see that provider on an annual basis. ERS set ambitious goals for the program, called AMP, which stands for Assess, Manage, Prevent.

In addition, Mr. Wilson stated that the Medicare preparation handbook has been redesigned. Medicare is a challenging topic for everyone. The ERS team created handouts in easier to understand language to help demystify the Medicare enrollment process.

Mr. Wilson provided a high-level overview of engagement statistics with members through the year including 440,000 phone calls.

Under enhancing agency performance and accountability, Mr. Wilson described enterprise risk assessment conducted which formally reviewed ERS enterprise risk. As part of the enterprise risk management initiative the agency has designated an enterprise data officer to assist in ensuring good controls on the creation of data, its quality and its security.

Performance guarantees have been another area of success for ERS this year. Mr. Wilson explained that ERS has a large number of contracts with performance guarantees and that tracking those can sometimes be a challenge. Improvements have been made in developing the guarantees as well as monitoring and reporting on that performance.

Mr. Wilson explained that ERS continually looks to build its knowledge. One way of achieving that is in-house educational training. Also, ERS is developing a series of primers on investment asset classes

including hedge funds, private equity and fixed income. ERS also started a 360-degree leadership feedback process. Mr. Wilson explained that upon becoming Executive Director, the Board suggested a 360-degree leadership initiative in which he asked former peers to provide feedback on his leadership style and areas of improvement and similar input was requested during his evaluation last year. This was rolled out to the agency beginning with some of the senior leadership team in investments. This will then be done with the directors and then to another layer of management later in the year. It is a good tool to give people an opportunity to understand where they have the ability to grow.

Mr. Wilson described the current status of the new building and explained that modifications were made to the existing building in order to move staff from the Annex so that it could be demolished as the first step of the process.

Mr. Wilson praised the ERS staff for all of their accomplishments.

Mr. Hester asked Mr. Wilson what are the two or three biggest things he wanted to get done this year. Mr. Wilson outlined the three items as pension funding and how to address that during the next session, enterprise risk management, and wellness.

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

7.2 Consideration and Approval of the ERS Fiscal year 2020 Proposed Operating Budget – (ACTION)

Mr. Porter Wilson presented the ERS Fiscal Year Proposed Operating Budget for board approval. The budget includes the FY20 major initiatives for which funding is requested. Initiatives associated with members retirement income security include analysis and development of an experience study and implementation of bills passed during the 86th Legislative Session. Two of those bills will be highlighted in the next agenda item.

In sustaining competitive group benefits, ERS has been evaluating ways to encourage participants to seek lower cost quality care. SmartShoppers is an initiative we designed to do that. As discussed in a preceding agenda item, ERS is exploring options related to individual long term care insurance, although the program is not expected during this calendar year. Members have expressed considerable interest in this insurance.

On engaging stakeholders for informed decision making, *Ready, Set, Retire!* trainings/fairs are being enhanced to offer specific information for employees in all three retirement groups. In prior years, the majority of those attending these popular seminars have been in group 1, but a number of members in groups 2 and 3 are now approaching retirement.

Another initiative under this goal includes evaluating and selecting a knowledge management. Mr. Wilson explained that this is a tool that will allow ERS to work more efficiently and requested Robin Hardaway, Director of Customer Benefits, to explain the initiative. Ms. Hardaway said that the knowledge management system would allow ERS staff to more easily access resources when assisting the 440,000 members who call in.

Mr. Wilson discussed that for the fourth strategic direction, enhancing agency performance and accountability, ERS is continuing to evaluate options to address the aging system currently in place that ERS and our members use for benefits enrollment and administration. ERS is in the process of engaging an outside consultant to identify options and associated risks. Data Quality is a major initiative of ERS and will continue to be of ongoing importance. ERS is dedicating resources to a data quality and governance process. Other efforts during this budget cycle will be implementation of CAPPs HR, which will replace ERS' internal human resources administration system. ERS is among the last group of agencies to go onto this system.

Recruitment and retention has become a challenge with the current low unemployment environment. In this budget, we are requesting resources to assist HR in meeting the demands of the organization. Development of the new building is a major initiative and is continuing to progress on schedule.

Mr. Wilson introduced Machel Pharr, Chief Financial Officer, to provide information on the specific funding requests for the 2020 budget. Ms. Pharr stated that the proposed budget for 2020 is \$85.3 million and directed the Board's attention to the approximately 40 line items detailed on page 11 of the budget document. Of the \$85.3 million, approximately 62% is salary and other salary related costs. Professional and contract services account for approximately 20% of the budget and includes investment consulting, actuarial and legal services, financial and insurance audits, the contact center and information technology services. Approximately 8% of the budget is for subscriptions and electronic communication, such as Bloomberg, and FACTSET. Other expenses, which equate to about \$3.9 million or 5%, include postage, building maintenance, and printing costs.

Ms. Pharr explained that the budget document also provides a breakdown of the budget by division. The Investment Division makes up just over \$30 million or about 36% of the proposed budget. Of the \$3 million increase in the total agency budget, \$1.9 million is associated with non-salary costs. Ms. Pharr described the budget process for ERS which starts with taking the current budget and removing any one-time or cyclical expenditures and determining where budgets can better align with actual expenditures. Ms. Pharr noted that the divisions identified additional reductions that could assist in offsetting increases they had proposed. Increases in the proposed budget for 2020 are primarily related to data quality and data security initiatives, tools to increase efficiencies, such as the knowledge management tools described by Ms. Hardaway and contractual rate increases.

Ms. Pharr noted that while the Investment Division is our largest division by dollar amount, Customer Benefits is our largest division by number of full-time employees (FTEs). She noted that the proposed budget included an additional 5.5 FTEs for a total of 414.5 FTEs. One position is proposed for Investments to assist with hedge funds; one to OPCO to assist with solicitations and contract management; one each to Customer Benefits and Information Systems to assist with data quality efforts and two positions to Human Resources to assist with recruiting, leave management, benefit coordination and CAPPs HR. The position to assist with CAPPs is proposed to begin mid-year and thus counts as a half position. Ms. Pharr noted that while ERS does not go live with CAPPs HR until FY21, ERS will have to begin that implementation during FY20.

Ms. Pharr stated that any funds we do not expend in our operating budget remain in the trust.

Dr. Kee commented that the document mentioned that the total budget represents about 28 basis points of the trust assets. He stated that it would be helpful for the board members to know how that compares to other plans and mentioned his conversation with Mr. Wilson on the difficulties of comparing to other entities due to their structures and use of outsourcing. Mr. Wilson replied that ERS deputy executive director, Cathy Terrell attended the recent National Association of State Retirement Administrators conference and visited with their research team about collecting data from peers. He expressed that efforts would be made to provide context and provide budget comparisons that are relevant. Mr. Wilson provided further information explaining that some state retirement systems are positioned similar to ERS in that they do investments, pensions and health insurance management. However, some systems only manage investments, while another agency may handle the pension operations and a third agency may handle the health insurance management. Mr. Wilson indicated that we would evaluate ways to determine the costs associated with a specific function and compare that to peers.

Mr. Hester indicated that it may be difficult to find pension plans that are similar to our structure, due to the inclusion of the group health plan and the defined contribution plans. Ms. Melvin asked for comparison information on our administrative costs to other state agencies of similar size that do not have pass-through funds, e.g. ratio of FTEs to budget.

Mr. Wilson welcomed the input for further analysis. He discussed some of the efforts ERS has made to ensure that the budget is reasonable so that the agency can provide quality customer service and products to our membership and participants. He expressed that we will evaluate opportunities to ensure our processes are efficient. Mr. Wilson stated that the growth of 3.6% is well within any peers that have gone through the legislative process.

Ms. Melvin expressed that the Board would like to continue to explore in the upcoming months ERS processes for assuring efficiency and effectiveness. Mr. Wilson concurred.

Dr. Kee requested information on the total employee count and how the increase relates to the workload. Mr. Hester replied that the FTE count in 2012 was 342, referencing Exhibit E in the budget document, compared to the proposed 2020 FTE count of 414.5 and expressed that most of the growth was in the Investments Team. Mr. Wilson stated that as we have built out our in-house investment capabilities we have grown in those capabilities, particularly alternative funds. This has also required additional resources in Legal, IT, HR and Finance. Mr. Wilson noted that another area of growth is procurement. Prior to 2015, ERS did not have a dedicated procurement division. Since that time, ERS has implemented a procurement and contracting division that has continued to grow in part due to legislation and in part due to the nature of procurements made by ERS.

Mr. Hester mentioned that to put the number in investment terms, it reflects a compound annual growth rate to 2.4% in staff over the last eight fiscal years assuming a full 414.5 if fiscal year. The unemployment rate in Austin is 2.2% reflecting a hot job market. He had asked staff about some of the difficulties in recruiting and retaining staff and some of the comments he had heard include fewer applicants with limited skill sets and lack of competitive salaries. Of the recent job postings, less than 70% of applications screened by HR have met the minimum qualifications. It is a very competitive market, particularly for top talent. In the last two years, the average time to fill a position has increased by a minimum of 41 days. The average time to fill a position this past year was 116 days. The turnover rate has been 11.4%. Individuals have listed advancement opportunities and better pay as reasons for leaving as well as retirement. To address the issue, Mr. Hester proposed an amendment to add an additional \$400,000 to use for recruitment and retention for non-ICP eligible employees.

Discussion continued around FTE increases, complexity in our investments, challenges with recruiting and retaining staff, importance of cybersecurity and efficiencies achieved through technology as well as improved data quality. There being no further discussion or questions, Mr. Hester asked for a second to the amended motion.

Move that the Board of Trustees of the Employee Retirement System of Texas approve the Fiscal Year 2020 Proposed Operating Budget, including the addition of a compensation pool in the amount of \$400,000 to be used at the discretion of the Executive Director for retention and recruitment of staff not eligible for the Incentive Compensation Plan for the Employees Retirement System of Texas as presented, and authorize the Executive Director to administer the operating budget as necessary for the efficient and effective administration of the system, and authorize transfer of interest account as required to fund the operating budget.

Motion by Craig Hester; second by Catherine Melvin

Final Resolution: Motion Carries

Ayes: Craig Hester, Catherine Melvin, Ilesa Daniels, James Kee, Doug Danzeiser

8. EXECUTIVE DIRECTOR REPORT

8.1 Executive Director Agency Update

86th Legislative Session Updates – The 86th Texas Legislative session adjourned on May 27, 2019. Mr. Wilson provided the board with updates to the following bills:

- **SB 322** requires a public retirement system to have an independent firm evaluate investment practices and performance. Mr. Wilson noted that staff is awaiting guidance from the Pension Review Board or required components. The report is due May 2020.
- **SB 2224** requires a public retirement system to adopt a funding policy. Staff are currently reviewing Funding Guidelines and Priorities to identify if additional information is needed to meet requirements.

- **HB 1** maintains state funding at current levels. The General Appropriations Act for the 2020-2021 Biennium retains state, agency and member contributions at the 2019 levels for the ERS, and Law Enforcement and Custodial Officers Supplemental Retirement funds. It retains state contributions at the 2019 levels for the Judicial Retirement System (JRS) Plan 2 and increases the member contributions by 2%. These contributions do not meet the actuarially sound contribution level. The 86th Legislature provided funds at the 2019 per-member contribution rate for the Group Benefits Program Funding. The funding level assumes continued cost savings through the Third Party Administrator and Pharmacy Benefit Manager Contract as well as using a portion of the contingency reserve.
- **HB 2384** creates a tiered structure for judicial salaries that increased the judges' contribution rate from 7.5% to 9.5%, but will still have an impact on the actuarial status of the JRS2 Plan. Staff will report back to the board on update systems for implementation.

Federal Issues – ERS staff worked with Teacher Retirement System of Texas, University of Texas System and Texas A&M University System health plans on a proposed pharmaceutical drug cost issue to communicate what would be a negative impact to members both in and out-of-pocket costs and a cost to the state. Mr. Wilson informed the board that ERS staff attended the 2019 National Association of State Retirement Administrators (NASRA) Conference to receive an update on various potential federal proposal's regarding public pension systems. Staff will continue to monitor federal issues and communicate potential impact to the state's pension and health care programs.

New Trustee Elected to the Board – Mr. Wilson congratulated Mr. Brian Barth of Flower Mound who was certified as the winner of the 2019 ERS Board of Trustees election. Mr. Barth received 50.5% of the votes and his six-year term begins September 1, 2019 – August 31, 2025.

ERS Pension Funds Experience Study Timeline – The ERS pension funds are regularly evaluated and recommendations are made on economic, demographic assumptions and key valuation methodologies. The 85th Legislature adjusted the timeline for the required ERS pension fund experience studies to be completed at least every four years rather than five years. Mr. Wilson noted the most recent ERS pension fund experience study was performed in 2017. Under the new legislative requirement, the next experience study must be performed prior to August 2021, which is immediately following the Legislative Session.

Summer Enrollment for Plan Year 2020 – Summer Enrollment for Plan Year 2020 concluded on July 26 for employees, pre Medicare retirees and their families. ERS mailed 272,011 Personal Benefits Enrollment Statements to participants and 11,198 members made coverage changes. ERS and ACT received 8,325 phone calls (311 by ERS and 8,000 by ACT). The Summer Enrollment outreach consisted of 24 fairs across Texas with a little over 3,000 people who attended and 554 people participated in five webinars.

Staying Connected Fairs – ERS will host its biennial Staying Connected retiree fairs in the coming weeks. The fairs are a chance for retirees to hear the latest about their ERS-administered benefits, and connect with ERS staff and each other.

- August 30 – Region 20, San Antonio
- September 6 - South Austin/Kyle
- September 9 – Region 13, Austin
- September 19 - Arlington
- September 24 - TxDOT Houston District Office

9. EXECUTIVE SESSION

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

Mr. Hester stated it was 4:23 p.m. on August 21, 2019. In accordance with Section 551.074, Texas Government Code, the ERS Board of Trustees will meet in executive session to deliberate the employment, evaluation and duties of the Executive Director of the Employees Retirement System of Texas. Thereafter, the Board may consider appropriate action in open session.

Upon returning from executive session, Mr. Hester announced it was 5:24 p.m. on August 21, 2019, and the Board is now in open session. No action, decision, or vote was taken by the Board while in executive session.

The ERS Board of Trustees set out specific evaluation criteria for the ERS Executive Director last year at this time. The criteria included expectations for leadership, management, communications, policy matters, and staff development. Mr. Wilson is held accountable to lead the agency in achieving the initiatives set forth in the agency budget. Mr. Wilson and his team have met these expectations, and have done excellent work in continuing to secure the retirement and insurance benefit programs for ERS active and retired members.

Mr. Hester opened the floor for a motion.

Move 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 1.5%, effective September 1, 2019.

Further move that the ERS Executive Director, Porter Wilson be awarded the maximum incentive compensation award for which he is eligible based on his participation in the Incentive Compensation Plan (ICP) for Fiscal Year 2019. For the qualitative component, award 75% of his 50%, which reflects his leadership and management accomplishments for the year and for the quantitative component, grant 100% of his 50%, which is based on trust fund performance.

Move that the Board of Trustees of the Employees Retirement System of Texas affirm that effective September 1, 2019, ERS Executive Director, Porter Wilson, is approved to participate in the ERS ICP for Investment Professionals and Leadership Employees as a leadership employee with a maximum award percentage available of 100% of his salary in accordance with the terms of the plan.

Further move that Mr. Wilson's performance goals for plan year 2020 should reflect 50% of his possible award under the ICP as a quantitative goal of 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 2020.

And move that the Board of Trustees of the Employees Retirement System of Texas use the agency initiatives identified in the Fiscal Year 2020 operating budget and approved by the Board to evaluate the Executive Director's job performance by measuring the initiative against the accomplishments reported in Fiscal Year 2021 operational budget.

Motion by: Ilesa Daniels, second by Catherine Melvin

Final Resolution: Motion Carries

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

10. BOARD CHAIR ELECTIONS

10.1 Election of Chair and Vice-Chair of the ERS Board of Trustees for Fiscal Year 2020 – (ACTION)

Texas Government Code Section 815.201, provides that the Board of Trustees shall elect new officers from its membership. As a result of such an election, the newly elected Chair (presiding officer) and Vice-Chair of the ERS Board of Trustees will each serve a one-year term beginning September 1, 2019 and ending August 31, 2020.

Mr. Hester opened the floor for discussion. Members discussed the motion. Ms. Melvin thanked Mr. Hester for his service as chair and being a good example to the board during meetings and encouraging the members to express their opinions.

There being no further discussion Mr. Hester called for a motion.

Move that the Board of Trustees of the Employees Retirement System of Texas elect Ilesa Daniels as Chair and Craig Hester as Vice-Chair of the ERS Board of Trustees for one-year terms beginning September 1, 2019 and ending August 31, 2020.

Motion by: Catherine Melvin, second by Jim Kee

Final Resolution: Motion Carries

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

11. ADJOURNMENT

11. Adjournment of the ERS Board of Trustees Meeting

Chairman Hester thanked the Teacher Retirement System of Texas for allowing ERS to have meetings at their building and to the ERS staff who work so diligently in making sure the meeting room and logistics are in place for each meeting. Mr. Hester moved to adjourn the Board of Trustees meeting at 5:35 p.m. on August 21, 2019.