LEGISLATIVE HANDBOOK
A REFERENCE GUIDE TO ERS

Prepared for the 86th Texas Legislature

JANUARY 2019

ERS
Employees Retirement System of Texas

EMPLOYEES RETIREMENT SYSTEM OF TEXAS

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January 2019

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January 2019

Honorable Members
86th Texas Legislature

Dear Members,

The mission of state government is critical – both to the economy of Texas and to the health and safety of its residents. Maintaining a strong workforce to achieve that mission requires not just competitive salaries, but also competitive benefits. The Employees Retirement System of Texas (ERS) has been entrusted with administering those benefits to help attract and retain a qualified state workforce. These include both health insurance and an employee/employer-funded pension that – when combined with Social Security benefits and personal savings – supports employees in their retirement years.

For the coming biennium, the comprehensive ERS health insurance program remains financially strong. Thanks to cost management initiatives and competitive contracting, ERS does not anticipate needing appropriations above its 2019 base funding level in order to maintain current benefits. Funding for the pension plan however, is insufficient.

A sound pension fund is achieved when contributions plus investment earnings equal the benefits paid, plus operating expenses. While ERS administers the pension program and manages the investment of trust fund assets, the legislature sets the benefits and contributions levels for the plan. And while the legislature has done an effective job of keeping the benefits affordable, contribution levels for the pension program have rarely met actuarially sound levels since the mid-1990s. As a result, the pension plan has a significant unfunded liability that has grown, even as the "normal" cost to provide the benefits remains reasonable at 13.86% of payroll.

To achieve these affordable benefit levels, the legislature has adjusted the plan design for new employees twice over the last 10 years. In addition to plan design changes, the legislature has also increased both the state's and the employee's contributions. Investment opportunities have also been expanded to maximize earning potential. While all these measures have helped, they are still insufficient to fully address the unfunded liability. Without further action, the ERS retirement program is expected to run out of funds.

ERS takes great pride in serving all state employees, and retirees. In partnership with you, we are committed to working to maintain quality health care benefits, return the pension fund to actuarial soundness, and fulfill our mission and responsibility to ERS members and the State of Texas.

Sincerely,

Porter Wilson

Porter Wilson
Executive Director

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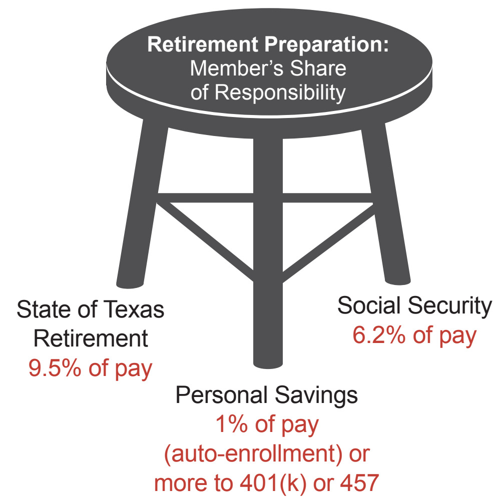
ERS at a Glance
for Fiscal Year 2018

Retirement

Retirement plans for state employees and elected officials (ERS fund), law enforcement and custodial officers (LECOSRF), and judges (JRS 1 and JRS 2)

- $29 billion Trust Fund
- 9.58% gross one-year rate of return on investments (9.54% net of fees)
- $11.6 billion ERS Trust actuarial unfunded liability
- 70.2% ERS Trust funded ratio
- $2.5 billion in retirement payments annually (in all plans)
- ERS Trust Fund is projected to deplete in 2096, without additional contributions or benefit reductions
- 374,083 retirement plan members, including
  – 142,103 contributing members
  – 119,889 non-contributing members
  – 112,091 retirees and beneficiaries



TEXA$AVER℠
401(k) / 457 Program

Voluntary tax-deferred supplemental 401(k) / 457 retirement program

Over 200,000 accounts with more than $3 billion in assets

$3.31 Billion in Total Assets			
401(k)*	**401(k) Roth**	**457***	**457 Roth**
$2.44 billion	$34.3 million	$868.7 million	$27.8 million
208,617 accounts	5,069 Roth accounts	34,023 accounts	4,212 Roth accounts
92,392 accounts contributing	3,402 Roth accounts contributing	18,561 accounts contributing	2,707 Roth accounts contributing

*Includes 401(k) Roth and 457 Roth amounts shown.

Texas Employees Group Benefits Program
Health Insurance Coverage

Nearly 535,400 participants enrolled in GBP health plans, including:

- 211,644 employees
- 113,478 retirees
- 204,284 dependents
- and others

Expenditures

- < 3% spent on administration
- $2.6 billion in payments to doctors, hospitals, pharmacies and other health care providers across Texas through the self-funded health plans
- $509 million in member expenditures (including copays, coinsurance and deductibles)

Health Insurance Coverage

- HealthSelect℠ of Texas, a statewide point-of-service plan
- Consumer Directed HealthSelect℠, a statewide high-deductible health plan coupled with a health savings account
- HealthSelect℠ Prescription Drug Program
- Scott & White Health Plan, an HMO serving areas in west and central Texas
- Community First Health Plans, an HMO serving the San Antonio area
- KelseyCare powered by Community Health Choice, an HMO serving the Houston area
- HealthSelect Medicare Advantage, a statewide Medicare PPO
- KelseyCare Advantage, a Houston-area Medicare HMO
- HealthSelect℠ Medicare Rx

Dental and Vision

- State of Texas Dental Choice Plan℠, a dental PPO
- HumanaDental DHMO, a dental HMO
- State of Texas Dental Discount Plan℠ (not an insurance plan)
- State of Texas Vision, an insurance plan

Optional Life and Other Coverage

- Optional and Dependent Term Life Insurance
- Voluntary Accidental Death & Dismemberment Insurance
- Texas Income Protection Plan℠ (TIPP) long-term and short-term disability insurance

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Flexible Spending Accounts

for health care, limited purpose, dependent care, and commuter expenses

- $44.5 million estimated Federal Insurance Contributions Act (FICA) tax savings for the State of Texas
- $131.7 million estimated in FICA tax and Federal Income Tax savings for participants
- $505.8 million in insurance premiums redirected
- $75.9 million contributed to TexFlex accounts by state employees
- 50,412 health, limited purpose, dependent care, and commuter accounts

ERS History and Strategic Direction

ERS History

In the late 1930s, a group of state employees began discussing the idea of a retirement system for state employees. During World War II, officials of the Texas Highway Department became concerned by the loss of qualified employees to private industry and considered proposing a State Highway Department Retirement System. The two groups formed a coalition for all state employees that resulted in legislative action by the 49th Texas Legislature in 1945. Representatives George Parkhouse and Sherwood Brown sponsored House Joint Resolution 10, allowing Texans to vote in November 1946 to approve the formation of a Retirement, Disability and Death Compensation Fund for state employees. Voters adopted the constitutional amendment to create the Fund, and, following two House-Senate Conference Committees, ERS was created effective September 1, 1947 by House Bill 168, 50th Texas Legislature, Regular Session. A constitutional amendment adopted by Texas voters in 1968 established ERS as a constitutional entity (Senate Joint Resolution 39, 60th Legislature, Regular Session). The provisions were consolidated in 1975 into current Article XVI, Section 67.

ERS began operations in 1947 with a $25,000 state appropriation. ERS built and occupied its first building in 1966, later expanding and renovating the property into the current agency headquarters within the state Capitol Complex.

ERS Timeline

1945 1950 1955 1960 1965 1970

1946
Texas voters amend Constitution, creating Retirement, Disability and Death Compensation Fund for state employees (Art. XVI, Section 67)

1947
50th Texas Legislature creates Employees Retirement System of Texas (HB 168)
Retirement plan design is money-purchase plan*

$2.9 million in member and state contributions invested in U.S. bonds

1955
54th Texas Legislature transfers administration of Judicial Retirement System (JRS 1)** plan started in 1949 from the Chief Justice of the Supreme Court of Texas to ERS (SB 203)

1957
Texas voters amend Constitution, effective 9/1/58, to create a defined benefit plan and phase out the money-purchase plan* over 10 years

1960
ERS makes first investment in corporate stock with the $614 million purchase of 10,000 shares in 30 corporations

1963
58th Texas Legislature expands ERS membership to include elected state officials and legislators (HB 902)

1967
60th Texas Legislature expands ERS membership to include district attorneys (SB 281)

1968
ERS is established as a constitutional entity (SJR39)

*A money-purchase plan is based on employer and employee contributions and interest earned, divided by life expectancy.

** JRS 1 was set up as a pay-as-you-go plan, which relies entirely on state appropriations to pay the benefits owed to annuitants.

Legislation passed in 1955 by the 54th Texas Legislature (Senate Bill 203, Regular Session) transferred the administration of the Judicial Retirement System of Texas to ERS. In November 1957, Texans approved a constitutional amendment that implemented a major reorganization of ERS, effective September 1, 1958, transforming the agency from a money-purchase plan to a defined benefit plan. The old system remained in effect for 10 years, requiring ERS to operate two parallel retirement systems. In 1963, the membership of ERS expanded to include elected state officials, including legislators. District attorneys were added by the 60th Texas Legislature in 1967 (Senate Bill 281, Regular Session).

Initially, ERS was limited to investing only in government securities. During its first year, a total of $2.9 million in member and state contributions was invested in U.S. bonds. After the agency's reorganization in 1958, broader investments were allowed, within specific parameters, in corporate securities, common stocks, preferred stocks, debentures, bonds, mortgages and related types of investments. The agency's first investment in corporate stock was in 1960 when ERS purchased 10,000 shares in 30 corporations at a cost of $614 million.

Today, the ERS Board of Trustees' investment policies are guided by the "Prudent Person" rule set forth in the state constitution. The ERS Board of Trustees has established investment objectives and investment operating policies to obtain the optimum return on ERS investments consistent with the assumption of prudent risk. The primary objective of ERS investment operations is to earn an absolute return on total investments that will ensure the payments due to ERS members and their beneficiaries at a reasonable cost. In carrying out this objective, ERS has the powers, privileges, and immunities of a corporation, as well as the powers, privileges and immunities conferred by law. Although the system is a separate legal entity and by statute must prepare a separate annual financial report, it is also considered a part of the State of Texas financial reporting entity and is included in the state's annual financial report.

1975
64th Texas Legislature created Texas Employees Uniform Group Insurance Program (UGIP) to provide health insurance and other optional coverages for employees, retirees and dependents (SB 18)

64th Texas Legislature transfers administration of the Social Security Program to ERS (SB 464)

1979
66th Texas Legislature creates Law Enforcement and Custodial Officer Supplemental Retirement Fund (LECOSRF) to provide an increased benefit for certified peace officers and custodial officers (SB 43)

1985
JRS 2 defined benefit plan created for new judicial members. JRS 1 closes to new members (SB 105)

1991
The 72nd Texas Legislature transfers the Texa$aver Program to ERS from the Office of the Comptroller

1991
72nd Texas Legislature expands membership in UGIP to include employees of state institutions of higher education, junior colleges, and community colleges, other than the University of Texas and Texas A&M University systems (HB 2)

2001
77th Texas Legislature replaces the UGIP with the Texas Employees Group Benefits Plan, effective 6/1/03 (HB 2811)

The most significant change to ERS' operations during the agency's first 50 years came in 1975 (Senate Bill 90, 64th Texas Legislature, Regular Session), when the Texas Legislature created the Texas Employees Uniform Group Insurance Program (UGIP) to provide high-quality health insurance and other optional coverages for employees, retirees, and their eligible dependents beginning September 1, 1976. Known today as Texas Employees Group Benefits Program (GBP), the program has expanded over the years. In 1992, membership was expanded to include employees of state institutions of higher education, junior colleges, and community colleges, other than The University of Texas and Texas A&M University systems, which have their own insurance programs and have retirement benefits through the Teacher Retirement System of Texas.

Beyond the state employee retirement plan and Group Benefits Program, the ERS Board of Trustees administers additional programs, such as:

- Judicial Retirement System of Texas Plan 1 (pay-as-you-go defined benefit plan established in 1949 and transferred to ERS in 1955) and Plan 2 (pre-funded defined benefit plan established in 1985);
- Death Benefits Program for Commissioned Peace Officers and Firemen (established in 1967);
- Law Enforcement and Custodial Officer Supplemental Retirement Fund (pre-funded defined benefit supplement established in 1979);
- Internal Revenue Code Section 125, Flexible Benefits (Cafeteria) Program (TexFlex℠, established in 1988);
- Proportionate Retirement Program (PRP) (established in 1991) and
- Texa$aver℠ 401(k) / 457 Program (transferred from the Office of the Comptroller to ERS in 1991).

Over the years, various groups of employees have been added to those eligible for ERS programs and plan offerings. The GBP currently serves employees of 114 state agencies, 47 universities, 19 junior and community colleges and four local governmental entities.

The six-member Board of Trustees is composed of one member appointed by the Governor, one member appointed by the Chief Justice of the Texas Supreme Court, one member appointed by the Speaker of the Texas House of Representatives, and three members elected by ERS members. All board members hold office for staggered six-year terms. Board member positions are non-salaried and the Board of Trustees annually elects a chair and vice-chair from among existing trustees each fiscal year. This election typically takes place during the August quarterly meeting. Craig Hester serves as the chair for Fiscal Year 2019, with Ilesa Daniels serving as vice- chair.

The Investment Advisory Committee (IAC) was established to assist the Board in carrying out its fiduciary duties with regard to the investment of the system assets. Comprised of nine members with professional investment expertise, the IAC reviews investment strategies and related policies to provide the Board with advice and recommendations for adopting prudent and appropriate investment policies. Together with the ERS staff, investment consultants and advisors, the IAC provides recommendations to the Board on asset mix, portfolio strategy, investment policies, and eligible securities. In addition, ERS staff uses the expertise of IAC members to assess specific investment opportunities.

Eight executive directors have led ERS through the various phases of its history, including the current executive director, Porter Wilson, who began his tenure in 2015.

Agency Strategic Direction

The mission of ERS is to offer competitive benefits to enhance the lives of its members. ERS prudently and professionally manages the trust funds and programs on behalf of its members. The benefits are an important part of the compensation of State of Texas employees, contributing to their financial security and well-being throughout their lives. ERS strives to operate in an ethical, cost-effective manner, providing valuable and reliable service delivered by highly qualified staff.

ERS is a constitutional trust fund administered by the ERS Board of Trustees. Article XVI, Section 67 of the Texas Constitution and Section 815.103 of the Texas Government Code provide that the ERS Board of Trustees is the trustee of all system assets, and must manage those assets for the exclusive benefit of the trust's beneficiaries. ERS' operations are held to a fiduciary duty standard to ensure that the actions and activities of the Board of Trustees, the agency and its employees are conducted in a manner consistent with the protections, preservation, and best interest of the trust and trust's beneficiaries.

ERS uses the strategic planning process to direct its budget and project planning and prioritization. The process involves a broad spectrum of ERS employees and serves as an exercise to work collaboratively as a team, strengthen the group's analytic skills, and learn from and with one another.

Through the process, ERS has established four strategic directions to guide the agency through 2021.

Support Our Members' Retirement Security

As public servants, state employees provide critical services to Texans. ERS works to support the current and future workforce by attaining and maintaining actuarially sound retirement plans, providing tools and assistance to enhance retirement readiness, and administering and managing trust assets innovatively to achieve target returns within risk tolerance.

Sustain Competitive Group Benefits Program

ERS strives to offer competitive benefits at a reasonable cost to the members, retirees and their dependents. To accomplish this, ERS will administer programs that offer value to participants and employers, encourage participants to actively engage in healthy behaviors, and use data analytics to better manage the programs and improve outcomes.

Engage Stakeholders for Informed Decision Making

ERS recognizes the important role that its members, the Texas Legislature, the member groups and many others play in shaping group benefit program offerings. As new plans or programs are considered or introduced, it is critical that ERS engage its stakeholders to support positive outcomes. Thus, ERS will educate stakeholders on programs and their value, increase its own understanding of stakeholder needs and appropriately apply input into agency activities.

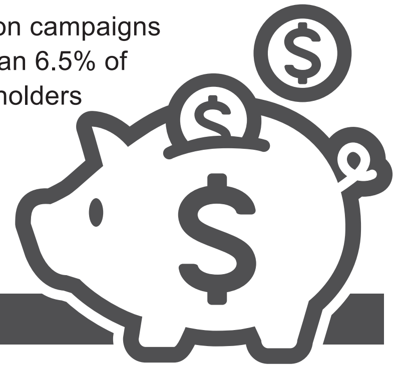
Enhance Agency Performance and Accountability

As benefit plans and products evolve and more state employees look toward retirement, it is important that the agency be nimble to adapt to changes and seize opportunities to increase efficiency and effectiveness. At the same time, we must ensure our policies, processes and procedures are transparent to maintain the trust of our members and the public. We recognize that our employees are our greatest assets. We value the contribution that each individual makes to our success and seek to leverage their input, skills and talents to achieve the agency's mission.

ERS Accomplishments for Fiscal Year 2018

Retirement

- Netted $2.6 billion in investment earnings for the trust funds
- Adopted first statement of Pension Funding Priorities and Guidelines for ERS retirement plans, to enhance communication around funding needs to key decision-makers
- Issued nearly $2.5 billion in payments for retirees and beneficiaries
- Retained 73% of participants who had been automatically enrolled in Texa$aver 401(k)s
- Conducted education campaigns resulting in more than 6.5% of Texa$aver accountholders increasing their contributions



Texas Employees Group Benefits Program (GBP)

- Established the Group Benefits Advisory Committee to provide member and expert input to the Board of Trustees, and held the first meeting
- Expanded the HealthSelect[SM] provider network and enhanced benefits, such as $0 copay for medical virtual visits, available 24 hours a day, 7 days a week
- Launched a campaign to better educate members about how to avoid unexpected health costs
- Through effective cost management and contract negotiations, achieved an average increase of only 0.48% in all health plan premiums without reducing benefits
- Prioritized prevention and wellness by hiring a Health Promotion Administrator to foster a community of wellness leaders across GBP-participating agencies

Engaged Stakeholders for Informed Decision Making

- Updated the GBP annual report to a reader-friendly format, making communication and presentation more effective
- Engaged regularly with employee and retiree groups to share critical updates, get input from state employees and retirees, and inquire on retirement funding priorities
- ERS Customer Benefits and Benefits Communications divisions had roughly a half-million direct contacts with members, including:
  - 147 benefits education events and webinars
  - 424,454 phone calls
  - 3,300 one-on-one meetings and
  - 20,000 emails

Enhanced Agency Performance and Accountability

- Materially completed Sunset Commission-required implementation projects
- Instituted independent investment compliance function
- Completed data center relocation to more secure and resilient facility
- Responded to 225 Public Information Act requests

Retirement

Overview

Today, pension benefits support more than 100 state agency employers throughout Texas in recruiting and retaining staff for more than 141,000 positions to carry out the critical mission and services of state government.

Four Trust Funds

ERS manages four retirement trust funds for the State of Texas that cover large segments of the state workforce, including general state agency employees, state law enforcement and custodial officers, and elected state officials, judges, and district attorneys. From these funds, roughly 125,000 retirees and beneficiaries currently receive annuity payments.

The plan is designed to compensate long-term state employees with steady retirement income. Since its establishment, the ERS retirement plan has been a cost-effective way for the state to provide reasonable retirement benefits to those whose careers serve the State of Texas.

The retirement plans administered by ERS are:

Employees Retirement System (ERS) Retirement Trust Fund

- Employees and officers of every department, commission, board, agency, or institution of the State of Texas, except those who are covered by the Teacher Retirement System, JRS 1, or JRS 2
- Members of the elected class, including legislators, statewide elected officials, and district and criminal district attorneys

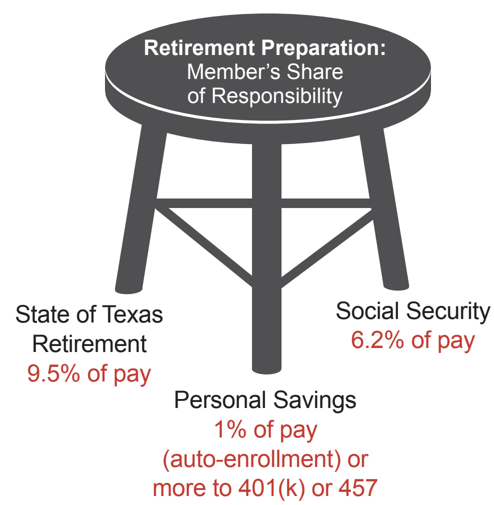
Law Enforcement and Custodial Officer Supplemental Retirement Fund (LECOSRF)

- Law enforcement officers who are commissioned by the Texas Department of Public Safety, the Texas Alcoholic Beverage Commission, or the Texas Parks and Wildlife Department, or the office of inspector general at the Texas Juvenile Justice Department, and who are recognized as commissioned officers by the Commission on Law Enforcement
- Custodial officers employed by the Texas Department of Criminal Justice (TDCJ), including the Board of Pardons and Paroles, and certified by TDCJ as employees who are required to have contact with state inmates

Judicial Retirement System of Texas Plan 1 (JRS 1) and Plan 2 (JRS 2)

- Judges, justices, and commissioners of the Texas Supreme Court, the Court of Criminal Appeals, the Court of Appeals, and District Courts, and certain commissions to a court

State employees contribute to the retirement fund while they work and earn a steady monthly benefit in retirement. It is only one part of a financially secure retirement. Because the average state retiree receives a monthly annuity of $1,676, with no guaranteed cost-of-living adjustments (COLAs), both Social Security and personal savings are key components of an employee's retirement income security.



An additional tool for employees to increase their retirement income is the Texa$aver[SM] 401(k)/457 Program, a voluntary savings program, also known as a defined contribution plan. The plan offers employees lower-than-average fees on a variety of individually defined investment options.

ERS retirees spend most of their retirement money in Texas, because 96% live in Texas. The National Institute on Retirement Security has reported that each taxpayer dollar invested in Texas' public pensions supported $9 in total economic activity.

Demographic Summary Results

As of August 31, 2018

(Source: Actuarial Valuation Report from Gabriel, Roeder, Smith & Company - Summary of Membership Data)

	ERS	LECOS	JRS 2	JRS 1*
Member metrics	State Employees Elected Officials District Attorneys	Law Enforcement & Custodial Officers (DPS, TABC, TPWD, TDCJ)	Judges, justices and certain court commissioners (after 9/1/85)	*(Closed Plan)* Judges, justices and certain court commissioners (prior to 9/1/85)
Members (current and terminated)				
Active Members	141,535	37,167	561	<10
Average Age	43.6	41.0	57.8	71.2
Average Entry Age	35.0	33.0	47.4	41.3
Average Years of Service	8.6	8.0	10.4	29.9
Average Annual Salary	$ 48,581	$ 45,321	$ 142,731	$ 148,000
Inactive Members-vested	15,842	104	12	0
Inactive Members-non-vested	103,894	19,738	141	0
Annuitants (Retirees and beneficiaries)				
Retirees and Beneficiaries	111,361	13,080	393	337
Service Retirements	100,302	12,244	346	218
Disability Retirements	2,289	94	1	0
Beneficiaries	8,770	742	46	119
Average Age (as of 8/31/18)*	68.9	62.6	70.0	79.7
Average Age at Retirement*	59.1	54.0	62.9	61.4
Average Years of Service*	21.7	23.6	15.0	18.3
Average Annual Annuity	$ 20,285	$ 5,410	$ 63,902	$ 65,913

*Annuitant demographics are based only on Service Retirements

Adequate funding is important to the long-term stability of the ERS Trust Fund. Employee contributions and investment earnings produce 81.3% of the benefits, with state contributions making up the remaining 18.7%. ERS is responsible for requesting the funding to support the program and protecting members' investment in the Trust Fund, while the Legislature determines eligibility requirements for retirement, state funding, contribution rates and the benefit design.

Retirement Contribution Rates

	Fiscal Year 2018	Fiscal Year 2019
ERS		
State	9.5%	9.5%
Agency	0.5%	0.5%
Employee	9.5%	9.5%
Total Contribution	19.5%	19.5%
LECOSRF*		
State	0.5%	0.5%
Employee	0.5%	0.5%
Total Contribution	1%	1%
JRS 2		
State	15.663%	15.663%
Employee**	7.43%	7.46%
Total Contribution	23.093%	23.123%

*LECOSRF-eligible employees also contribute to the ERS Trust Fund because LECOSRF is a supplemental benefit. LECOSRF annuitants receive about 80% of their benefit from the ERS Trust Fund. LECOSRF also receives dedicated revenue in court costs, which was $18.8 million in FY18 and $18.1 million in FY19.

**For JRS 2, this amount reflects the employee contribution of those members actively contributing. After 20 years of service (or reaching Rule of 70 and serving 12 years on an appellate court), JRS 2-eligible employees can either stop contributing, or they can continue to contribute and earn additional service.

Supporting the Long-term Health of the Plan

Multiple internal and external factors can affect the fiscal condition of a retirement plan. The following measures are in place to help ensure the long-term health of the ERS retirement plans.

- ✓ Oversight by the Texas Legislature and Texas Pension Review Board
- ✓ Annual valuation of assets and liabilities reported to state leadership
- ✓ Employees contribute to the plan throughout their career
- ✓ State constitutional provision requiring that “financing of benefits must be based on sound actuarial principles”
- ✓ No automatic annual cost-of-living adjustments (COLAs)
- ✓ No ad-hoc COLAs, 13th checks or benefit increases unless the fund is actuarially sound under Texas law
- ✓ Review of experience, assets, and liabilities at least every four years
- ✓ Regular independent audits of actuarial methodologies, assumptions, and demographic data
- ✓ Adjustments to the actuarial assumptions and retirement factor tables when needed

ERS Trust Funded Ratio

The financial status of ERS' funds is reflected in the funded ratio, or the measurement of the plan's assets to liabilities. The funded ratio provides a one-day snapshot at the end of each fiscal year.

The funded ratio can change from year to year. ERS' funded ratio has declined during periods when:

- the Legislature made a benefit design change without pre-funding the change, such as
  - – ad hoc COLAs were made and were typically not pre-funded during an employee's working career,
  - – retirement benefits were increased, without a corresponding increase in funding and
  - – employees received incentives to retire sooner than anticipated;
- the Legislature set contribution levels below the actuarially sound contribution rate;
- market volatility resulted in lower-than-expected investment returns; and
- actuarial assumptions changed, including a lowering of the assumed rate of return.

Recognizing the impact of past benefit increases and recent market downturns on the ERS retirement plan, the Texas Legislature took action in 2009, 2011, 2013 and 2015 to set the ERS plan on a path toward greater stability, including:

- Increasing state and member contributions and implementing an agency contribution of 0.5%
- Reducing annuities for certain members retiring before meeting minimum retirement age requirement
- Changing the retirement calculation formula

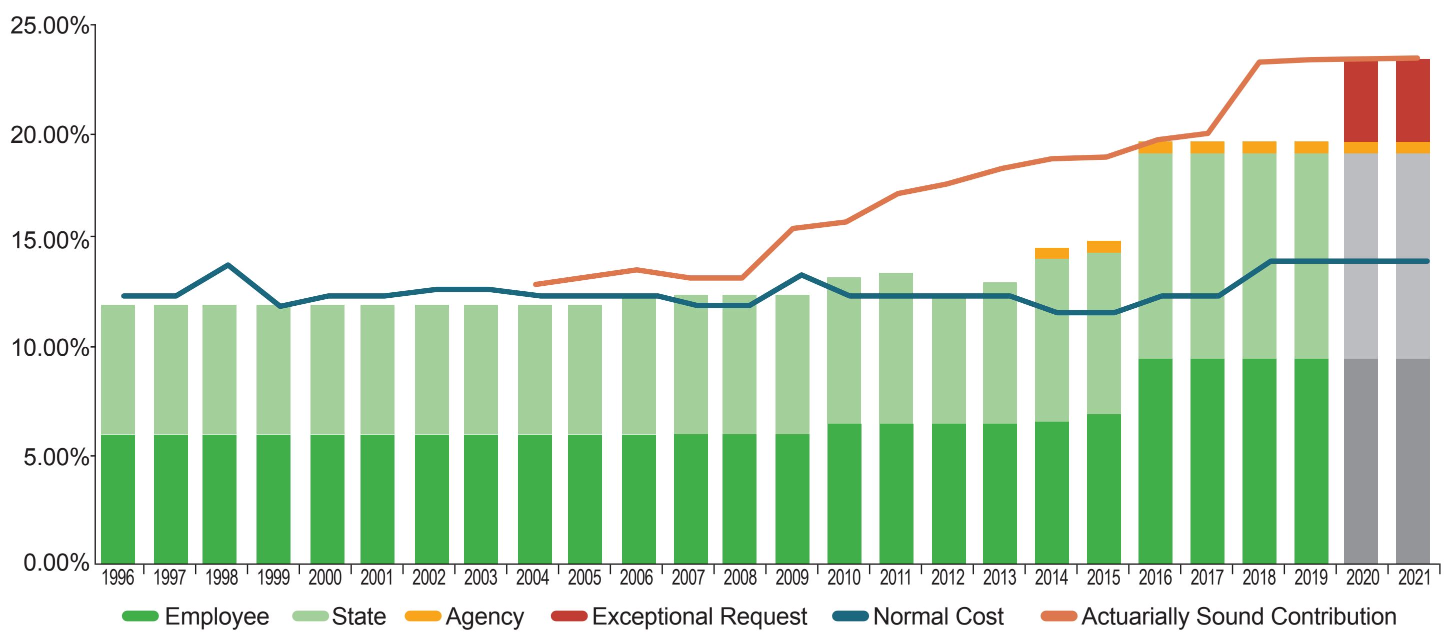
The majority of reforms during these years applied only to state employees hired after the changes were implemented, known as employee Group 2 and Group 3. In Fiscal Year 2018, the number of active employees in these groups eclipsed the number in Group 1 – who were exempt from most changes – and represented 60% of active employees on August 31, 2018.

Credit rating agencies look not only at the total debt obligation of the state, but also how the state manages its debt. By increasing state and member contributions in 2015 and maintaining those contribution levels in 2017, the Legislature sent a strong message that Texas is prepared to meet its debt obligations.

However, additional contributions or benefit reductions are needed to return the ERS, LECOSRF, and JRS2 funds to actuarial soundness. Each year, the fund calculates a contribution rate needed for the fund to become sound, as defined by statute. This is known as the actuarially sound contribution (ASC) rate. The ERS Fund is not receiving the ASC rate, as noted below.

ERS Retirement Trust

Comparison of Historical Contributions Needed and Received



Retirement: Actuarial Status

The financial health of a defined benefit plan depends on an equal balance between assets and liabilities so that:

Investments + Contributions = Benefits + Expenses

Despite reduced benefit costs and long-term positive investment performance, the plans' funded status is declining due to not receiving full actuarial contributions and short-term investment return performance.

State contributions to the ERS administered retirement plans represent 0.6% of the state's budget.

Annual actuarial valuations report on a plan's membership, funding, and financial status based on a best estimate of future benefit obligations. To conduct actuarial valuations, ERS actuaries calculate the liabilities of a defined benefit plan based on an entry age actuarial cost method and in accordance with applicable federal and state statutes and accounting standards. The calculation relies on a number of assumptions, including the plan's expected investment returns (often referred to as the discount rate), inflation predictions, projected retirement rates, worker and retiree mortality rates, and other demographic data.

In the case of the ERS retirement plans, the ERS Board of Trustees adjusts plan assumptions to reflect actual experience, following a formal evaluation process, called the "Pension Experience Study," which occurs at least once every four years. As a result of the 2017 Pension Experience Study, the Board adopted new assumptions and methodologies that affected the funding status of the pension fund, including:

- 7.5% nominal return assumption (decreased from 8.0%)
- 2.5% inflation rate assumption (decreased from 3.5%)
- Changing cost method to Individual Entry Age Normal Cost
- Updating mortality tables
- Adjusting to salary growth, retirement rates, termination rates and other demographic assumptions
- Adopting new five-year closed smoothing method prospectively
- Resetting actuarial value of the fund to market value as of August 31, 2017 to address all unrecognized losses

According to the August 31, 2018 actuarial evaluation, the ERS plan is estimated to deplete by 2096, and carries a current funded ratio of 70.2% based on the actuarial value of assets. The funded ratio means that there is currently 70.2 cents of assests for every dollar promised. That ratio is declining because of inadequate contributions. LECOSRF is projected to deplete by 2045, with a current funded ratio of 65.6%. Additional contributions or benefit reductions are needed to return the ERS and LECOSRF plans to actuarial soundness.

Actuarial Impact of Assumption and Method Changes

	8/31/16 Valuation	8/31/16 Valuation Restated with Changes	8/31/17 Valuation	8/31/18 Valuation
Normal Cost	12.28%	14.00%	13.95%	13.86%
Unfunded Liability	$8.7 billion	$12.3 billion	$11.3 billion	$11.6 billion
Funded Ratio	75.2%	66.5%	70.1%	70.2%
Funding Period	35 years	Never	Never	Never
31-Year ASC Rate	19.88%	23.85%	23.21%	23.12%

Actuarial Valuations for All Trusts

The Trust's value comes from investment returns and contributions from employees and the state. The actuarial accrued liability is the best estimate of future benefit obligations, or the amount owed to future retirees.
The **unfunded accrued liability** in each of the plans is the funding gap between the **actuarial accrued liability** (money owed for all current and future annuity benefits) and the **actuarial value of assets** (money in the Trust).

ERS Trust FY18

An unfunded liability is the difference between the unmet actuarial liability and the current assets

$38.99 Billion Actuarial Accrued Liability

minus

$27.36 Billion Actuarial Value of Assets

= **$11.63 Billion Unfunded Accrued Liability**

Actuarial Valuation Results as of August 31, 2018

	ERS	LECOSRF	JRS 2
Actuarial Accrued Liability	$38.99 billion	$1.45 billion	$487.8 million
Actuarial Value of Assets	$27.36 billion	$0.95 billion	$447.1 million
Unfunded Liability	$11.63 billion	$0.50 billion	$40.7 million
Funded Ratio	**70.2%**	**65.6%**	**91.7%**
Funding Period*	**Never**	**Never**	**69**
31-Year ASC Rate	**23.12%**	**3.76%**	**23.84%**

*The funding period defines when a plan can expect to be fully funded based on current benefits, plan experience and contribution rates. A funding period of never indicates that at the current contribution rates, these plans will never be fully funded, meaning that they will not have enough money to pay all the current and promised benefits. Plans that are not fully funded have a funding gap, referred to as an unfunded liability. The Texas Government Code 811.066 requires that any unfunded liability be paid off within a 31-year period.

Funding Policy

In May 2018, the ERS Board of Trustees approved the Pension Funding Priorities and Guidelines policy. The purpose of the funding policy is to:

- enhance communications and provide transparency to the Legislature, plan members and retirees regarding Board positions on plan funding strategy;
- provide consistent policy guidance to current and future Boards; and
- ensure legislators, elected officials and other decision-makers have clear and accurate information about the Trust's funding goals and the needs identified by the Board to support sound fiduciary investment decisions in accordance with Texas Government Code Section 815.106.

The principle policy objective for ERS retirement programs is to fully fund the long-term cost of retirement benefits, through disciplined and timely accumulation of contributions and prudent investment of assets to deliver earned benefits on a continuing basis. To this end, the policy lays out a multi-level funding period goal to gradually achieve funding on sound actuarial principles:

1. **Avoid trust fund depletion of the pre-funded plans.**
   The most urgent goal is to prevent further depletion of retirement trust funds for pre-funded plans because benefits are much more cost-efficient to pay when the benefits are pre-funded and the plan can leverage investment earnings over time.
2. **Meet current statutory standard of a 31-year funding period for unfunded liabilities.**
   The Board's primary funding period goal is to meet the current statutory standard of 31 years. Up until the time that each plan reaches a 31-year funding period for unfunded liabilities, the Board directed staff to request funding that will achieve a 31-year funding period, per Texas Government Code Sections 811.006 and 840.106.
3. **Once a 31-year funding period is achieved, match future funding periods to the average years of service at retirement.**
   As of the valuation date when a 31-year period or less is first achieved, the system will consider closing the amortization period and resetting the funding period goal to match the average years of service at retirement for the ERS plan, rounded to the nearest whole number. This standard is consistent with both emerging actuarial best practices and developing government accounting standards.

Projected contributions are not expected to be sufficient to eliminate the unfunded liability over a finite period of time for the ERS Trust Fund and the Law Enforcement and Custodial Officer Supplemental Retirement Fund (LECOSRF). Assuming continuing market returns averaging 7.5% over the long term, the ERS Fund is projected to have a declining funding-period status until the year 2096, after which the funding would revert to a pay-as-you-go status. **As a result, no level of the Board's funding period goal is currently being realized**.

In addition to setting the funding period goal, the policy also defines Board policies on funding methods related to actuarial cost method, asset smoothing method, as well as criteria for approving benefit enhancements. The Funding Policy Priorities and Guidelines seek to balance five principles:

- **100% Payment of Vested Benefits** – Contributions, future investment returns and current plan assets must be sufficient to pay all vested benefits expected to be paid to members and their beneficiaries when due. Strong fiduciary management and efficient payment of vested retirement benefits is the Board's fundamental policy, and in the event of any conflict, that policy takes precedence over all other objectives and guidelines reflected in this policy.
- **Contribution Stability and Sound Financing of Benefits** – The Texas Constitution requires that the financing of benefits be based on sound actuarial principles. It is the Board's desire that year-to-year contribution volatility be controlled to the extent reasonably possible in order to achieve and maintain sound actuarial financing of benefits during the legislative appropriations process.
- **Intergenerational Equity and Responsibility** – The costs of benefits, which are shared between the state (as the employer) and the employee, should be paid for by the generation that receives the benefits, whenever possible, and in a manner consistent with the duty to pay all vested benefits when due and without reduction.
- **Workforce Parity** – Plan design, when possible, should treat the active workforce and annuitants equitably.
- **Quality of Benefit** – System annuitants should receive a benefit that is sufficient to provide a sound foundation for retirement security.

Retirement Plans

ERS currently administers retirement plans for:

- state employees, elected officials, and district attorneys, through the ERS Fund;
- law enforcement and custodial officers, through the ERS Trust Fund and the Law Enforcement and Custodial Officer Supplemental Retirement Fund (LECOSRF); and
- state judges (through the JRS 1 and JRS 2 funds).

ERS Plan – Regular Class

Membership

- Employees and officers of every department, commission, board, agency, or institution of the State of Texas, except those who are covered by JRS 1, JRS 2, the Teacher Retirement System, or the Optional Retirement Program.

Retirement Eligibility

Employees hired on or after September 1, 2013 (Group 3):

- Age 65 with at least 10 years of service credit or Rule of 80*; reduced annuity for members who retire before age 62 – 5% per year with no maximum.

Employees hired between September 1, 2009 and August 31, 2013 (Group 2):

- Age 65 with at least 10 years of service credit or Rule of 80*; reduced annuity for members who retire before age 60 – 5% per year to a maximum of 25%.

Employees hired before September 1, 2009 (Group 1):

- Age 60 with at least five years of service credit or Rule of 80*

***Rule of 80 – When the sum of a member's age and years of service credit equal or exceed 80.**

Standard Retirement Benefits

Minimum standard annuity of $150 a month; maximum standard annuity of 100% of the highest average salary

Employees hired on or after September 1, 2013 (Group 3):

- Monthly annuity equal to 2.3% of an employee's highest average salary — based on the highest 60 months — multiplied by years and months of service credit.

Employees hired between September 1, 2009 and August 31, 2013 (Group 2):

- Monthly annuity equal to 2.3% of an employee's highest average salary — based on the highest 48 months — multiplied by years and months of service credit.

Employees hired before September 1, 2009 (Group 1):

- Monthly annuity equal to 2.3% of an employee's highest average salary — based on the highest 36 months — multiplied by the number of years of service credit.

ERS Plan – Elected Class

Membership

- Individuals who hold state offices that are normally filled by statewide elections and are not included in JRS 1 or JRS 2, members of the Legislature, and district and criminal district attorneys

Retirement Eligibility

- Age 60 with eight years of service credit or age 50 with 12 years of service credit

Standard Retirement Benefits

- Monthly annuity is equal to 2.3% of the current state salary of a district judge times the number of years of service credit
- Maximum standard annuity is 100% of current state salary of a district judge

Law Enforcement and Custodial Officer Supplemental Retirement Fund (LECOSRF)

Membership

- Law enforcement officers who are commissioned by the Texas Department of Public Safety, the Texas Alcoholic Beverage Commission, the Texas Parks and Wildlife Department, or the office of inspector general at the Texas Juvenile Justice Department, and who are recognized as commissioned officers by the Texas Commission on Law Enforcement
- Custodial officers employed by the Texas Department of Criminal Justice (TDCJ), including the Board of Pardons and Paroles, and certified by TDCJ as employees who are required to have contact with state inmates
- Members are eligible for Regular Class benefits, plus an additional 0.5% to standard ERS multiplier of 2.3%

Retirement Eligibility

- 20 years of service credit as a certified peace officer or custodial officer at age 50; may retire with 20 years at an earlier age with an actuarially reduced annuity

Standard Retirement Benefits

- Minimum standard annuity of $150 a month; maximum standard annuity of 100% of the highest average salary

Employees hired on or after September 1, 2013 (Group 3):

- Monthly annuity equal to 2.8% of an employee's highest average salary — based on the highest 60 months — multiplied by years and months of service credit

Employees hired between September 1, 2009 and August 31, 2013 (Group 2):

- Monthly annuity equal to 2.8% of an employee's highest average salary — based on the highest 48 months — multiplied by years and months of service credit

Employees hired before September 1, 2009 (Group 1):

- Monthly annuity equal to 2.8% of an employee's highest average salary — based on the highest 36 months — multiplied by the number of years and months of service credit

Judicial Retirement System Plan 1 (JRS 1)

Pay-as-you-go plan funded through legislative appropriations on a biennial basis

There is no trust fund to invest and pay benefits

Membership

- Judges, justices, and commissioners of the Texas Supreme Court, the Court of Criminal Appeals, the Court of Appeals, and District Courts, and certain commissions to a court whose service began before September 1, 1985

Retirement Eligibility

- Age 65 with at least 10 years of service credit while currently holding judicial office, or age 65 with at least 12 years of service credit if not currently holding judicial office
- 20 years of service credit, regardless of age or whether the member is currently holding a judicial office
- Appellate judges with 12 years of service, after meeting the Rule of 70

Standard Retirement Benefits

- Monthly annuity equal to 50% of the salary for the position from which the member retired; additional 10% added to the annuity of members who retire within one year after ending judicial service
- Accrual of an additional 2.3% per year – up to a maximum annuity of 90% – for any judge serving more than 20 years; automatically adjusted annuities when judicial salaries increase

Judicial Retirement System Plan 2 (JRS 2)

Benefits funded in advance and paid from the trust administered by ERS

Membership

- Judges, justices, and commissioners of the Texas Supreme Court, the Court of Criminal Appeals, the Court of Appeals, and District Courts, and certain commissions to a court whose service began after August 31, 1985

Retirement Eligibility

- Age 65 with at least 10 years of service credit while currently holding a judicial office, or age 65 with at least 12 years of service credit if not currently holding judicial office
- 20 years of service credit, regardless of age or whether the member currently holds a judicial office
- Appellate judges with 12 years of service on an appellate court, after meeting the Rule of 70

Standard Retirement Benefit

- Monthly annuity equal to 50% of the salary for the position from which the member retired; additional 10% added to the annuity of members who retire within one year of leaving the bench
- Accrual of an additional 2.3% per year – up to a maximum annuity of 90% – for appellate judges serving beyond the Rule of 70 and any judge serving more than 20 years;
- no automatic adjustment to annuities when judicial salaries increase

Membership by Plan

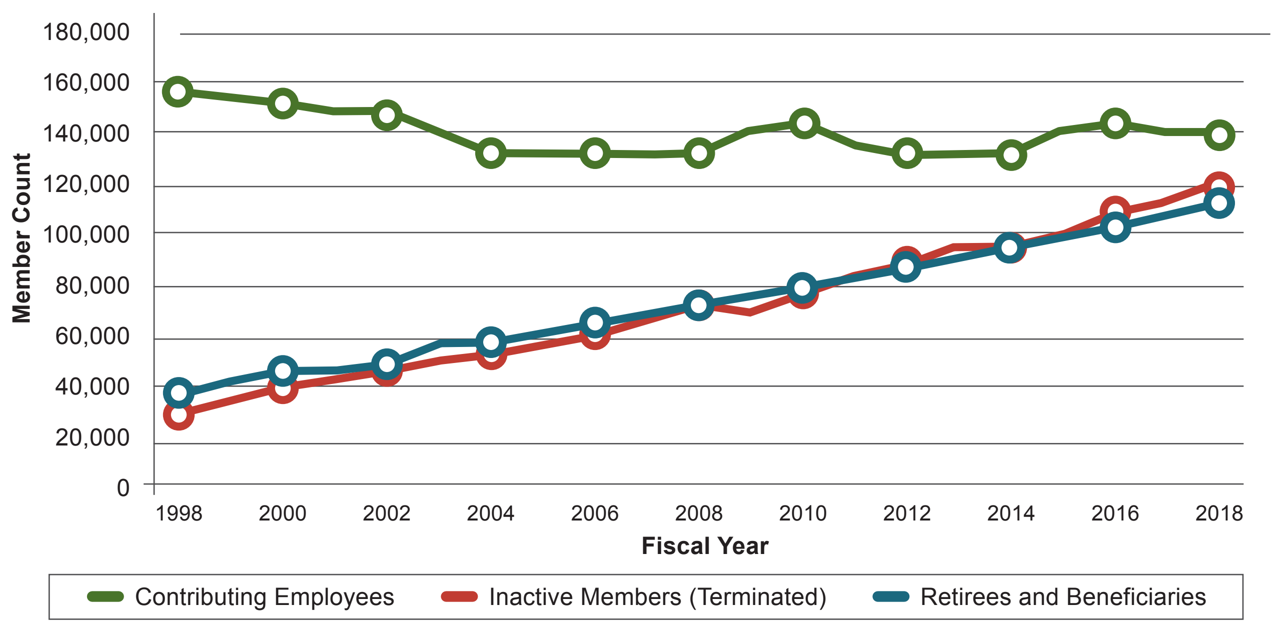
Membership of active employees in the ERS retirement plans has declined 8% over the last 20 years. Over that same period, the retirement population has grown 154%. The table below is a snapshot of membership by plan from Fiscal Year 2018.

ERS Membership by Plan – FY18

	Contributing Members 142,103	Non-contributing Members 119,736	Retirees and Beneficiaries 112,091
ERS	141,535	119,736	111,361
LECOSRF*	37,167	19,842	13,080
JRS 2	561	153	393
JRS 1	7	0	337

*LECOSRF is included in ERS count, as LECOS members also are members of ERS.

ERS Member Count by Type, Fiscal Years 1998-2018



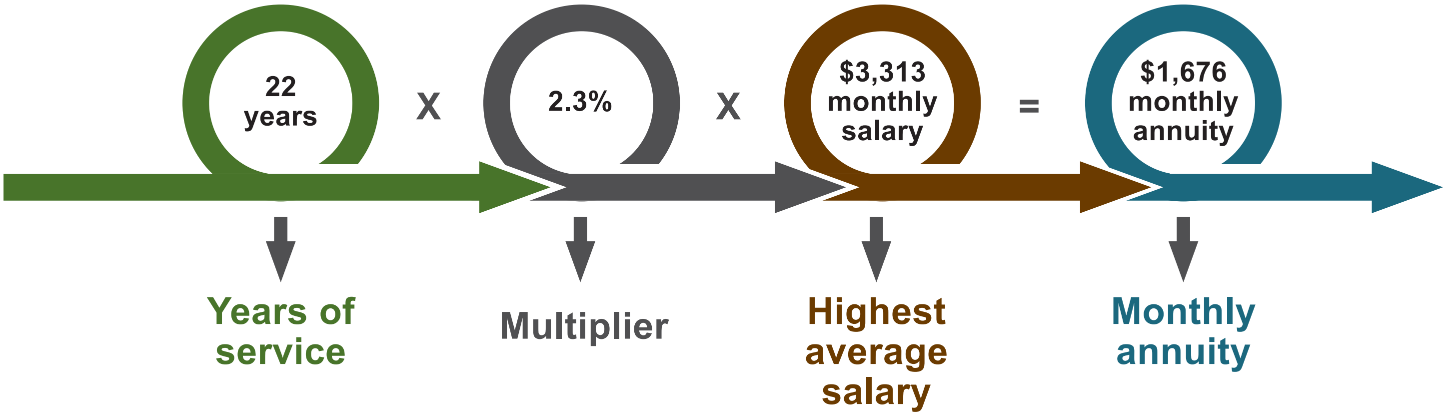
Retirement Benefits Calculations

The retirement plans administered by ERS use employer and employee contributions during the employee's working years to pre-fund the employee's pension benefits. Plan administrators invest received contributions in a trust fund. Investment earnings of the Trust Fund pay much of the cost of the eventual benefit. Appropriately funded, defined benefit plans are intentionally designed to weather market conditions.

This plan provides a specified monthly annuity at retirement, which continues for the lifetime of the member. The ERS annuity is tied to the number of years an employee works and their highest average salary amount.

The primary state employees' retirement plan calculation formula uses an employee's highest average monthly salary, years of service, and a benefit multiplier. The Texas Legislature established the current multiplier of 2.3%, effective Fiscal Year 2002, for Regular Class employees.

Sample monthly annuity calculation for a Regular Class state employee could be calculated as follows:



Currently, the average ERS plan retiree has 22 years of service and a monthly annuity of $1,676 per month or $20,285 per year. Approximately 68% of ERS retirees receive less than $2,000 a month in annuity benefits.

State law generally prohibits retirees from receiving more in retirement payments than they made while working. Regular Class state employees must work for the state more than 43 years before retirement checks can equal 100% of gross monthly salary.

Annuity formula factors vary by Employee Class

ERS Member Populations and Groups	Multiplier	Highest average salary
Group 1: Employees hired before 9/1/2009	2.3% - Regular Class 2.8% - LECO	Highest 36 months
Group 2: Employees hired 9/1/2009 – 8/31/2013	2.3% - Regular Class 2.8% - LECO	Highest 48 months
Group 3: Employees hired on/after 9/1/2013	2.3% - Regular Class 2.8% - LECO	Highest 60 months
Elected Class	2.3%	$140,000 (100% of current district judge salary)

Annuities are reduced for some employees who retire before Minimum Retirement Age

Group 1: Employees hired before 9/1/2009	No Reduction (no minimum age requirement)
Group 2: Employees hired 9/1/2009 – 8/31/2013	5% per year, 25% cap Before age 60 for Regular Class Before age 55 for LECO
Group 3: Employees hired on/after 9/1/2013	5% per year, NO cap Before age 62 for Regular Class Before age 57 for LECO
Elected Class	No Reduction (no minimum age requirement)

Law Enforcement and Custodial Officer Supplemental Retirement Benefits

Recognizing the level of risk that law enforcement and custodial officers assume to serve and protect the public, the Legislature created an enhanced retirement benefit for those officers. Law Enforcement and Custodial Officer Supplemental Retirement Fund (LECOSRF) benefits have higher costs that increase funding requirements for the state's retirement plans.

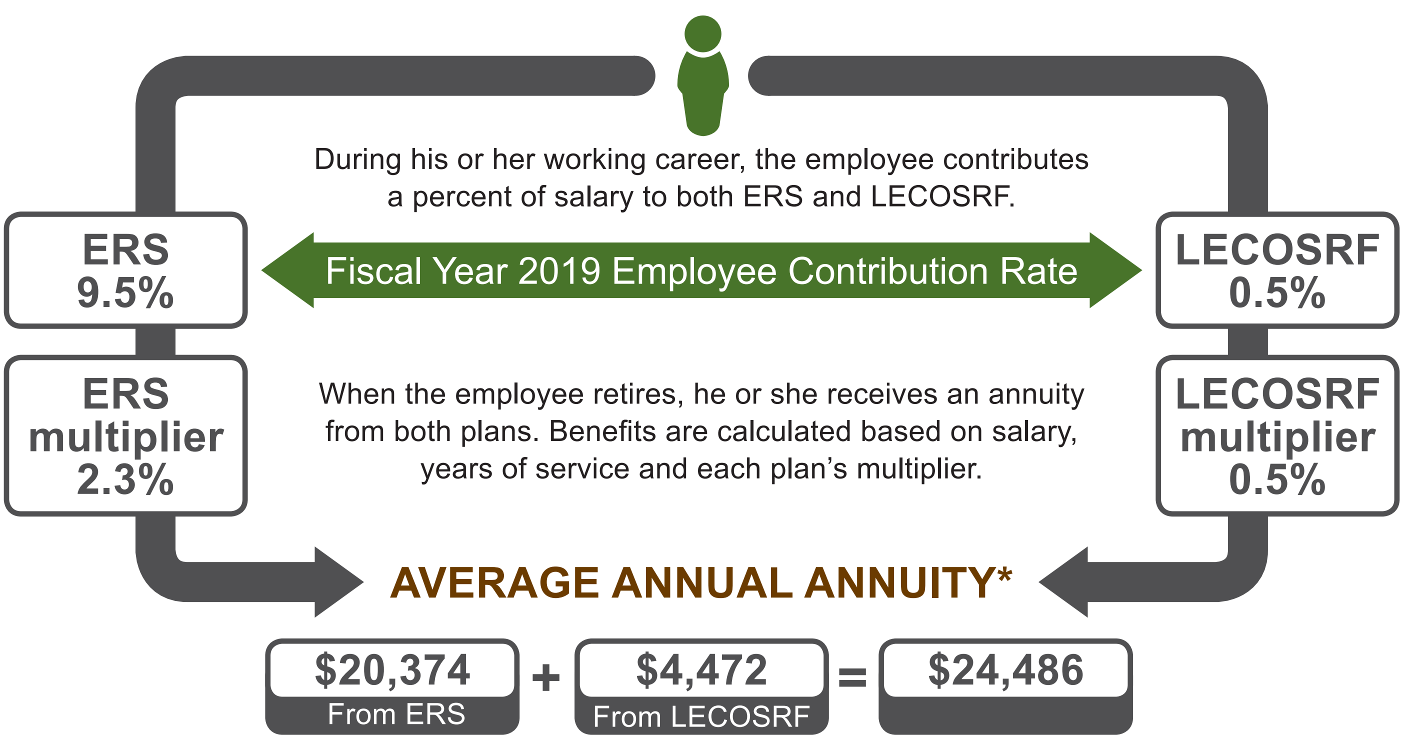
Employees eligible to receive LECOSRF benefits are:

- Law enforcement officers who are commissioned by the Texas Department of Public Safety, the Texas Alcoholic Beverage Commission, the Texas Parks and Wildlife Department, or the office of the inspector general at the Texas Juvenile Justice Department, and who are recognized as commissioned officers by the Commission on Law Enforcement
- Custodial officers employed by the Texas Department of Criminal Justice (TDCJ), including the Board of Pardons and Paroles, and certified by TDCJ as employees who are required to have contact with offenders

The ERS Retirement Trust pays most of a LECOSRF employee's retirement benefit, funding approximately 82% of their total annuity. In addition, employees receive supplemental retirement benefits from the LECOSR Fund, which provides an additional 0.5% benefit multiplier. This is in addition to the 2.3% multiplier used in calculating the benefit from the ERS Trust. For the average LECOSRF retiree, about 18% of his or her annuity is from LECOSRF.

LECOSRF benefits carry a higher actuarial cost than those provided to Regular Class state employees because law enforcement and custodial officers can retire at a younger age with fewer years of service. Despite the differences in costs, the two groups have always contributed the same amount to the ERS main plan (currently 9.5% since September 1, 2015). The state historically has contributed the same amount for both groups to the ERS main plan, currently 9.5%. LECOSRF employees began contributing an additional 0.5% of payroll in Fiscal Year 2010 to the LECOSRF trust fund.

A LECOSRF-eligible member will receive a benefit from the ERS and LECOSRF plans.



For the average LECOSRF retiree, about 82% of his or her annuity is from the ERS fund and about 18% is from LECOSRF.

*Based on August 31, 2018 valuation (most recent available)

Demographic trends among the two retiree and employee populations also highlight this benefit trend. As shown in the table below, LECOSRF employees may retire from the state at a younger age than Regular Class state employees, with fewer years of service, and a more generous benefit. Among current employees, LECOSRF employees on average are younger, have fewer years of service and make a lower salary than Regular Class state employees.

Key Demographics for state employees and LECOSRF Populations*

As of August 31, 2018

Average Regular Class Retiree	
Average Annuity	$20,116
Years of Service	22.2
Age Currently	69.8
Age at Retirement	59.1
Average Regular Class Employee	
Average Annual Salary	$49,742
Years of Service	8.8
Age Currently	44.5
Age When Hired	35.7

Average LECO Retiree**	
Average Annuity	$24,846
Years of Service	21.9
Age Currently	64.7
Age at Retirement	55.1
Average LECO Employee	
Average Annual Salary	$45,321
Years of Service	8.0
Age Currently	41.0
Age When Hired	33.0

*Statistics shown for Regular Class retirees and employees are separate and distinct from statistics shown for LECO retirees and employees.

**Annuitants with at least 10 years of Certified Peace Officer (CPO)/Custodial Officer (CO) service are identified as LECO annuitants. There are some annuitants who earned service as a CPO/CO who did not work long enough (20 years) to be eligible for a LECOSRF annuity, but receive an ERS annuity.

Source: Gabriel Roeder Smith.

Disability Retirement

Regular state employees, as well as Certified Peace Officers (CPO) and Custodial Officers (CO), who become disabled may be eligible for retirement and insurance benefits sooner than their normal retirement age. The ERS Medical Board must certify that the disability is likely to be permanent and prevents them from continuing their state job or any other occupation offering comparable pay. ERS has two different types of disability retirement: non-occupational and occupational.

Non-occupational disability retirement applies to regular state employees and CPO and CO members who:

- have at least 10 years of creditable state service,
- applied for retirement within two years of their last ERS retirement contribution,
- contributed to ERS at the time they became disabled, and
- sought and were denied a workplace accommodation from the employing agency.

Occupational disability retirement applies to regular state employees, CPOs and COs who become injured or disabled due to a specific event* occurring on the job, have at least one month of ERS or creditable state service, and meet certain other criteria.

Eligible members approved for disability retirement can receive:

- a monthly retirement payment and
- retiree health insurance through the GBP.

**Injury must be solely from an extremely dangerous risk or severe physical or mental trauma or disease uncommon to the public, or peculiar and inherent in a dangerous duty arising from the nature and in the course of the member's state employment.*

Retirement: FY20-21 Legislative Appropriations Request

Funding Status as of August 31, 2018

- The 84th and 85th Legislatures made substantial improvement in the health of the retirement fund
- Contributions exceed the normal cost but have not met the actuarially sound rate
- The agency's Legislative Appropriations Request includes exceptional items that bring all retirement funds to actuarially sound levels

Employee benefits are historically a small part of the state budget

- Retirement plan funding is 0.6% of the 2018-2019 state budget
- Retirement is pre-funded with investments representing approximately 62.2% of the trust assets

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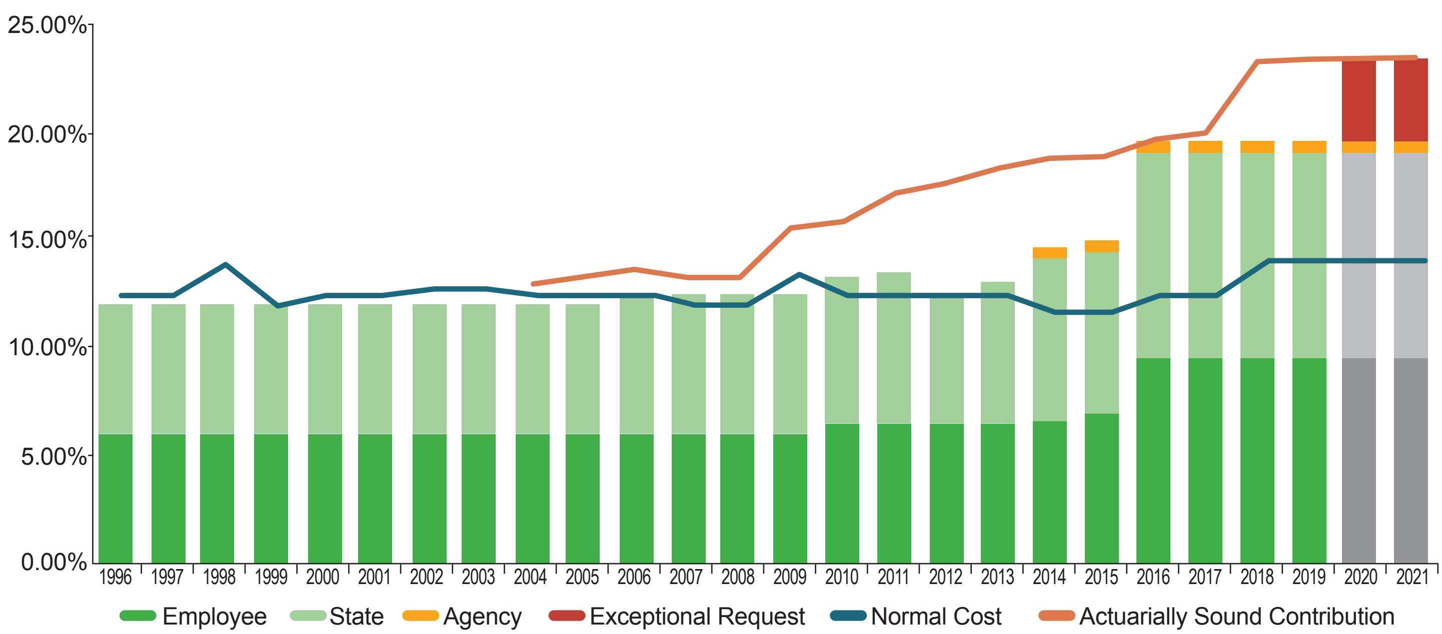
ERS Retirement Trust

Comparison of Historical Contributions Needed and Received



Optional Retirement Savings: Texa$aver℠ 401(k)/457 Program

In addition to the defined benefit plan, the state offers an optional defined contribution program that does not receive funding from the state. It is funded entirely by member contributions.

The Texa$aver program is a defined contribution retirement program that gives state and eligible higher education employees the opportunity to increase their retirement security by saving and investing in pre-tax or after-tax retirement accounts that can be allocated to low-fee mutual funds, collective trust funds, and self-directed brokerage accounts. Employees make 100% of the contributions to their Texa$aver accounts. The state does not match employee contributions nor does it appropriate funds for the administration of the Texa$aver program. Employees are encouraged to participate in these additional retirement savings plans, as the traditional retirement plan does not have automatic cost-of-living adjustments, which would increase the annuity as the cost of living increases.

The Texa$aver program consists of two deferred compensation plans:

- Texa$aver 401(k) - authorized by Section 401(k) of the Internal Revenue Code
- Texa$aver 457 - authorized by Section 457 of the Internal Revenue Code

As of January 1, 2008, new state employees are automatically enrolled in a Texa$aver 401(k) account at 1% of their salary, which is invested in a target date fund. Employees may opt out of the program or change their contribution levels and investment selections at any time. Participants decide how to invest their payroll contributions among the available fund choices.

The 457 plan originated in 1974 and is available to employees of state agencies and eligible public institutions of higher education. The 401(k) plan was launched in 1985 and is available to state agency employees only. Higher education employees may not participate in the 401(k), since they have access to similar 403(b) programs administered by their individual higher education institutions.

In addition to being a convenient method of saving, salary deductions allow 401(k) and 457 participants to defer paying income taxes on the contributions and investment earnings until withdrawals are made in retirement, when a participant is more likely to be in a lower income tax bracket. The ERS Board established a Roth contribution option in both the 401(k) and 457 plans effective January 1, 2012, allowing employees to designate all or a portion of their monthly Texa$aver contribution as a Roth after-tax contribution, in accordance with Section 402(a) of the Internal Revenue Code of 1986.

Funding

The Legislature does not appropriate funds for the administration of the Texa$aver program or match any employee contributions. Instead, participants are charged a monthly asset-based fee to cover administrative expenses. The monthly fees are based on the total value of the member's account. Administrative fees for certain investment options are offset by quarterly fund fee reimbursements credited directly back into participant accounts through revenue sharing agreements that ERS has with many of the Texa$aver fund managers.

Participation and Contributions

Both the 457 and 401(k) plans allow participants the opportunity to invest part of their income for retirement through salary deductions. Participants may choose to contribute either a monthly minimum 1% of salary or a minimum of $20. In Fiscal Year 2018, ERS conducted educational campaigns resulting in more than 6.5% of Texa$aver accountholders increasing their contributions.

IRS guidelines for Calendar Year 2019 allow maximum annual contributions of $19,000 per account, providing state employees the opportunity to save up to $38,000 a year if they choose to participate in both types of retirement accounts. Employees over age 50 may contribute an additional $6,000 per year per account, known as the Age 50 and Over Catch-up Provision. Participants can choose to automatically escalate their contributions each year up to the maximum allowable amount set by the IRS.

As of August 31, 2018, the Texa$aver program manages assets of $3.31 billion across all plan options. In FY18, the 401(k) plan has experienced a 5.55% increase in the number of participant accounts and an increase of 11.74% in plan assets over the previous year. In comparison, the number of 457 plan accounts increased by 2.69% and plan assets grew by 14.59%. In Fiscal Year 2018, Texa$aver retained 72.8% of members who had been automatically enrolled in Texa$aver 401(k) accounts.

Of the roughly 95,000 participants who contributed to the 401(k) plan, about 77,500 contributed at the auto-enrolled amount, 1% of salary. The median monthly contribution was $37 in the 401(k) plan, and the median balance was $766. For the 457 plan, whose participants are predominantly higher education employees, the median monthly contribution and median balance are higher at $56 and $2,678, respectively. About 25,000 401(k) and 457 accountholders have an outstanding loan average of $4,567 from their accounts.

The following table features some of the key statistics of the Texa$aver program.

Texa$aver 401(k) / 457 Program

As of August 31, 2018

	401(k) Plan		457 Plan	
Current assets	$2.45 billion		$869 million	
Participant balance, average	$11,852		$25,534	
Participant balance, median	$766		$2,678	
Monthly employee contribution, average	$116		$265	
Monthly employee contribution, median	$37		$56	
Total eligible to contribute	158,180[1]		264,616[2]	
Participants with a balance	206,617		34,023	
Accounts, active contributions	95,392	46%	18,591	55%
Accounts, non-active contributions	111,225	54%	15,432	45%

[1] Includes state employees only
[2] Includes both state and higher education employees

Investment Performance and Product Options

The Texa$aver program offers a diversified assortment of mutual funds and collective trust funds, as well as a self-directed brokerage account option, including core choices in equities, fixed income and cash equivalent investments. The program also offers a target date series as its Qualified Default Investment Alternative. Investment options in the 401(k) and 457 plans are the same. Overall, the program's 12-month rate of return through August 31, 2018 was 12.31%.

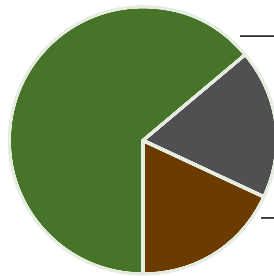
Investments and Assets of the ERS Trust Fund

ERS manages a retirement trust on behalf of state employees and retirees who are beneficiaries of the defined benefit retirement plan. The money employees and the state contribute each month not only adds directly to the ERS Trust, but also generates interest revenue and investment income for the long-term funding of retirement benefits. The ERS retirement plan has historically been a cost-effective way to provide reasonable retirement benefits that help attract and retain a workforce.

Investment earnings make up roughly two-thirds of the ERS Trust's payouts to annuitants, while member and state contributions make up the remaining third.

ERS Retirement Trust Assets by Revenue Source

Fiscal Years 1998-2018



Investment Performance

The ERS Trust achieved a net 9.54% investment return in Fiscal Year 2018. The fund netted $2.6 billion in investment earnings in Fiscal Year 2018.

ERS Investment Performance (period ending August 31, 2018)

Period	20-year	10-year	5-year	3-year	1-year
Annualized Return (Net)*	6.48%	7.02%	8.27%	8.94%	9.54%
Annualized Return (Gross)	6.56%	7.14%	8.33%	8.98%	9.58%

*The actuarial assumed rate of return of 7.5% is based on net return.

Fund Valuation

To determine a pension plan's funded status, both assets and liabilities are reviewed.

Assets are reported in two key ways in financial and actuarial reports. The first is the market value of assets – or book value – as of a certain day.

However, for funding purposes, annual actuarial valuations use the actuarial value of assets, which reflects investment gains and losses recognized over time. This helps offset short-term market volatility and stabilize the contribution rates needed from employees and the state. Because investment gains and losses are smoothed over time, the market value of assets and the actuarial value of assets are rarely the same. Over the past two decades, the market value has been both higher and lower than the actuarial value.

The retirement plan's actuarial accrued liability – or benefits owed – is an actuarial figure calculated using:

- the plan's membership as of the last day of the fiscal year
- adopted demographic and economic assumptions, and
- annual ongoing contributions to the fund.

The actuarial value of assets, or the smoothed value, is used for purposes of calculating the unfunded accrued liability.

During the legislative session, a mid-year partial update of the Trust Fund's valuation – its assets, but not its liabilities, – is completed, as required by statute. Results of this valuation as of the end February are available by April. The partial update ensures that the most current numbers are used during the final stages of the legislative budget process.

Fund Governance

Pursuant to the Texas Constitution and state law, the ERS Retirement Trust is professionally managed within the asset allocation and risk management parameters set by the ERS Board of Trustees. Over the last decade, ERS has evolved investment governance policies at the direction of the Board to be consistent with industry best practices and maximize competitive risk-adjusted returns at a reasonable cost.

The Board defines and approves the ERS Investment Policy to provide staff direction on how to execute the board-adopted asset allocation. The Investment Policy includes investment risk tolerance, investment objectives, approved asset mix, investment program management structure, and performance evaluation standards. The Investment Policy also defines the governance structure, with the Board setting policy and the staff executing with oversight by both management and the Board.

The nine-member Investment Advisory Committee (IAC) assists the Board in carrying out its fiduciary duty with regard to the investment of the assets of the system and related duties. The IAC reviews investment strategies and related policies of ERS to provide comments and recommendations to assist the Board in adopting prudent and appropriate investment policies.

Beginning in Fiscal Year 2018, the Board no longer delegated individual alternative investment decisions greater than 0.6% of the Fund to investment staff. These decisions are voted on directly by the Board.

In Fiscal Year 2018, ERS expanded investment governance oversight by creating and filling the position of an Investment Compliance Officer, who is responsible for identifying issues of non-compliance with the ERS Investment Policy and compliance program. This followed a Fiscal Year 2017 review of investment governance best practices by the Internal Audit Division staff.

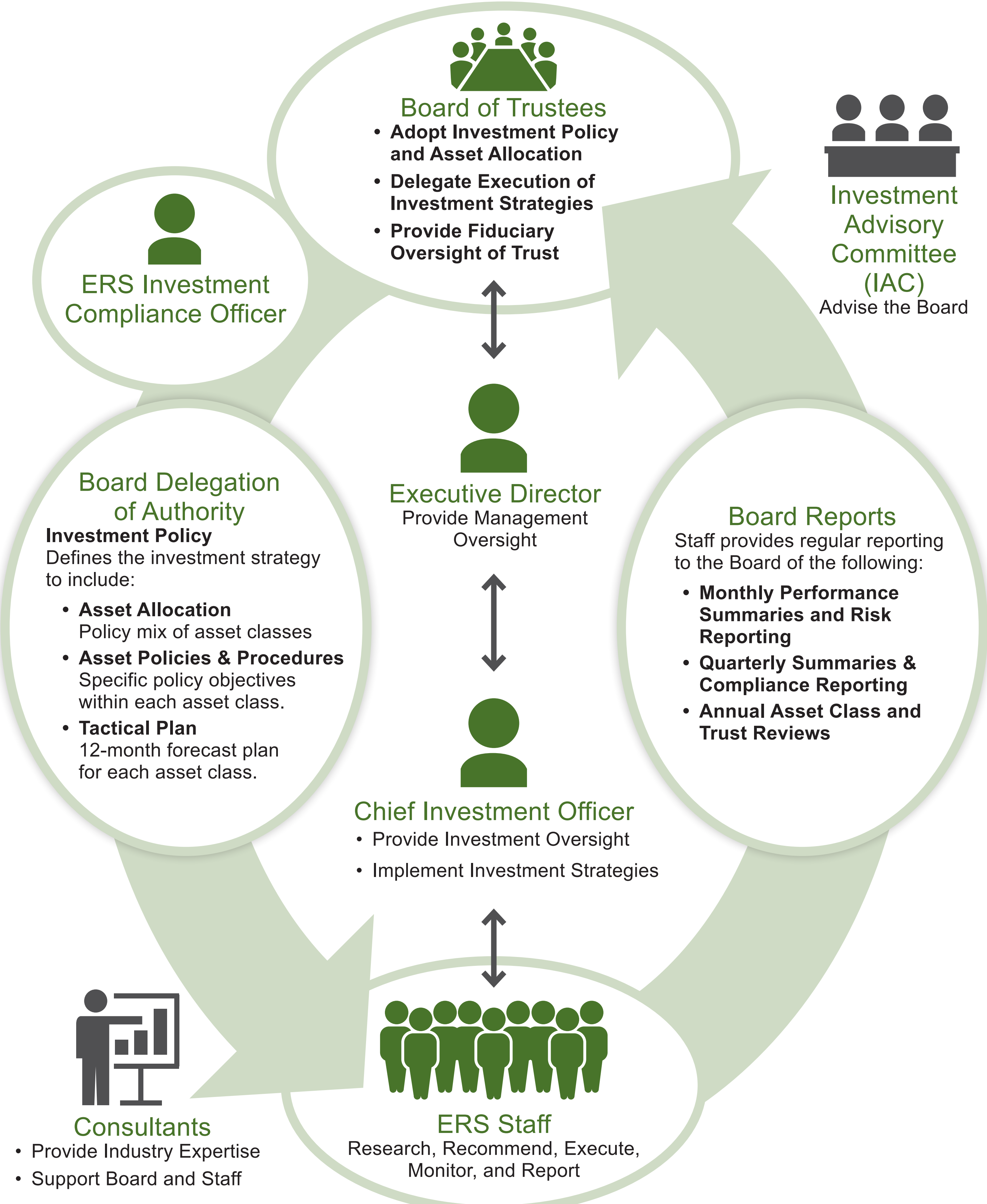
The Investment Compliance Officer, who is independent of the ERS Executive Director and works directly with the ERS Director of Internal Audit, is responsible for preventing and detecting compliance violations, aligning policies with high ethical conduct, and communicating the program to the organization. The Investment Compliance Officer also serves as a resource for staff on compliance-related questions and issues.

ERS Investment staff are delegated responsibility for numerous daily activities, including:

- managing the individual selection and negotiation of investment portfolio assets;
- performing corporate and investment analysis and research;
- reviewing and monitoring external investment consultants and advisors;
- executing daily investment trades;
- coordinating the voting of shareholder proxies and maintenance of ERS Proxy Voting Guidelines;
- developing recommendations for ERS investment policy;
- enacting implementation of asset allocation targets;
- structuring individual and asset class portfolios;
- selecting advisors and consultants to assist with program management and guidance;
- selecting bank custodians; and
- other areas of fund, liquidity, and risk management.

The following figure illustrates the full investments governance process at ERS.

Investment Governance Structure



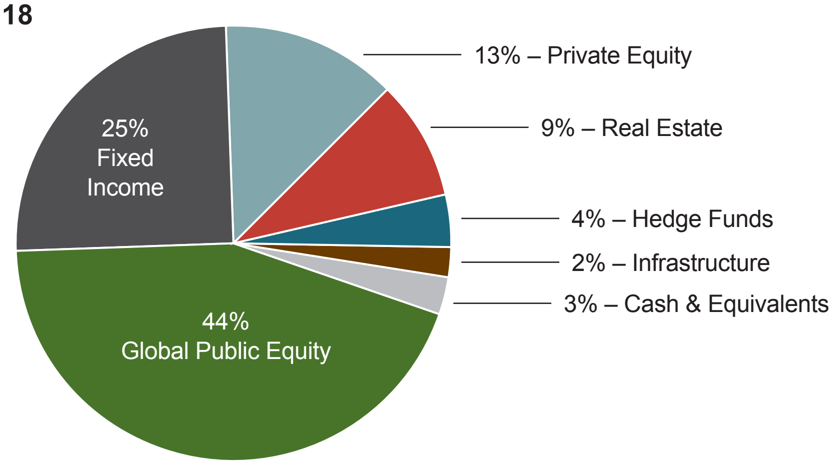
Fund Management

ERS' investment objective is set by the Board of Trustees based on the most recent asset liability and asset allocation studies. The Board sets long-term asset allocation targets to prudently meet the needs of plan beneficiaries. Formal asset allocation studies are conducted at least once every four years, based on the risk tolerance of the Board, updated capital market assumptions and experience, with annual reviews of the adopted allocation. The Board adopted the most recent asset allocation following the study that was completed by ERS staff, in consultation with a general investment consultant, in 2017. The Board can make adjustments to the asset allocation at any time and approves annual tactical plans for each asset class and any investment policy revisions.

The following graph provides the actual asset allocation of the ERS Trust in Fiscal Year 2018. The asset allocation is expected to achieve the best estimated total rate of return (capital appreciation and income) during the next five- to-10-year period within acceptable risk ranges. At least quarterly, ERS staff rebalance the asset allocation of the investment portfolios to remain within the target allocation bands indicated for the major asset classes. Allocation bands for individual asset classes may and do vary around the target by as much as 10% to allow staff the flexibility to maintain liquidity and risk targets as markets fluctuate over time.

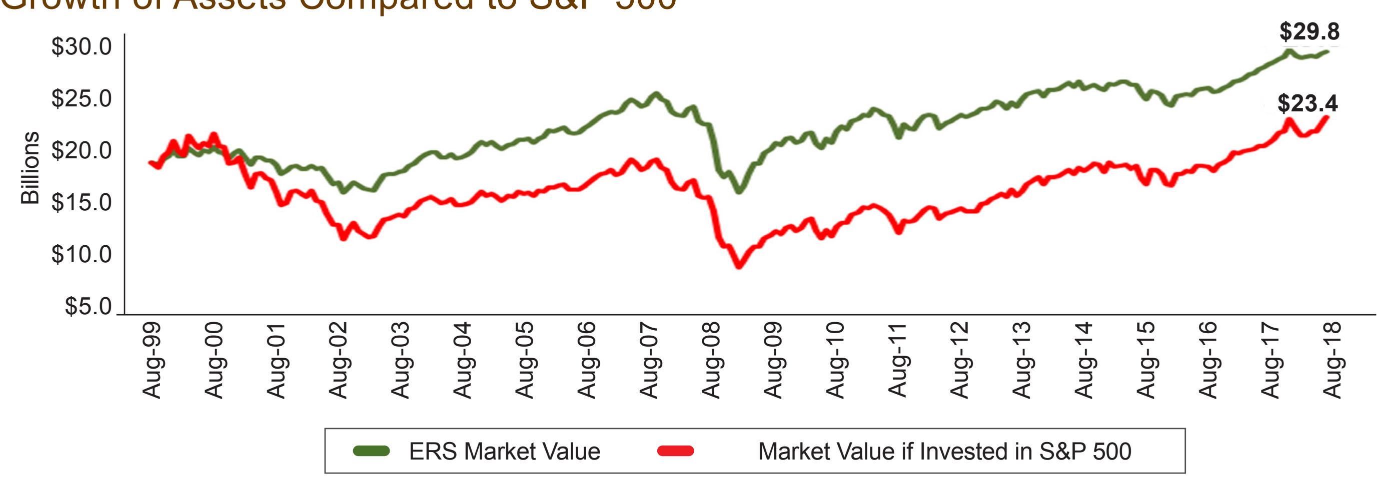
Total Fund Amount – $29 billion

as of August 2018



The ERS fund's allocation has outperformed the S&P 500 Index since August 1999, resulting in $6.4 billion more in returns than investment in the S&P 500 would have generated over the same period.

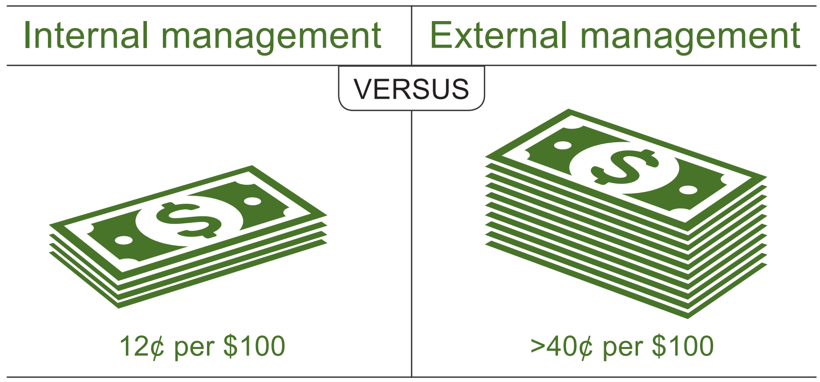
Growth of Assets Compared to S&P 500



Because an assumed rate of return is always based on expected performance of a particular asset allocation, the new assumed rate of return adopted by the Board of Trustees in August 2017 is based on a revised asset allocation.

Roughly, two-thirds (60%) of the ERS Trust is managed internally by the ERS Investments Division. Compared to the cost of external investment managers, experienced internal investment staff are able to significantly reduce costs, saving more than 28 cents per $100 invested while earning higher risk-adjusted rates of return. The division has 77 investment professionals with an average of 17 years' experience working in professional investment organizations. In addition to more than half of the division having obtained advanced graduate level degrees, ERS Investments Division staff maintains highly sought-after industry distinctions, including: Chartered Financial Analyst; Chartered Alternative Investment Analyst; Certified Public Accountant; Certified Treasury Professional; Certified Market Technician; Certified Hedge Fund Professional; and Certified Management Accountant.

The remaining third of Trust Fund assets are managed through contractual arrangements with external advisors and managers. ERS aggressively negotiates management fees, which average 0.4% for externally advised public investments and approximately 1.5% for private market investments. Aggressive fee negotiations have resulted in $175 million in savings in the past nine years.



External advisors complement internal resources by prudently diversifying Trust assets according to ERS' investment policy to reduce risk of loss and increase returns. ERS also leverages advisors to train internal staff and bring additional expertise in-house over the long term.

Texas Employees Group Benefits Program (GBP)

Overview

Health insurance is a core benefit for current and retired state and higher education employees who provide or have provided essential services for a growing state. By offering this benefit, Texas ensures its state workforce is productive and healthy, while attracting and retaining qualified employees for the future. In addition, the Texas Employees Group Benefits Program (GBP) supported Texas doctors, hospitals, and pharmacies with more than $2.6 billion in payments for health services throughout the state in FY18.

The GBP was created by the Legislature to:

- provide uniform insurance benefits for all state employees and their dependents,
- recruit and retain competent employees with benefits at least equal to private sector benefits,
- encourage employment and service to the state as a career profession,
- promote and preserve the economic security and good health of employees and dependents,
- foster and develop high standards of employee-employer relationships, and
- recognize long and faithful service and dedication of state officers and employees. (Texas Insurance Code §1551.002)

The GBP successfully provides benefits to more than 500,000 state and higher education employees, retirees and their families. The plan invests in resources and pilots innovative approaches designed to improve both member health and the healthcare experience, while lowering plan costs. In addition to employees of state executive, legislative, and judicial agencies, all Texas public higher education institutions participate in the GBP, except for The University of Texas and the Texas A&M University systems. Active and retired employees of the Texas Municipal Retirement System, Texas County and District Retirement System, local Community Supervision and Corrections Departments, and the Windham School District also participate.

Self-funded vs. fully insured

All insurance plans are either self-funded or fully insured structures. Self-funding means the employer—not an insurance company— assumes direct responsibility for providing health care benefits to employees. Employers and employees pay monthly contributions, which are pooled into an insurance fund managed by ERS. ERS holds and invests the fund within the insurance trust until these funds are needed to pay claims. The self-funding methodology allows for prudent fund management while eliminating insurance company commissions and profit margins. Self-funding provides greater cost control, flexibility in benefits design, and the ability to reduce claims through wellness and medical management.

ERS contracts with third-party administrators (TPAs) on behalf of the state to administer its self-funded health benefits plans. TPA contracts are bid and negotiated on a regular basis. Their services include the management and delivery of:

- a comprehensive provider network;
- processing claims;
- disease management and wellness programs;
- communications and customer service;
- data analysis and reporting, utilization review, and actuarial services; and
- medical and pharmacy benefits.

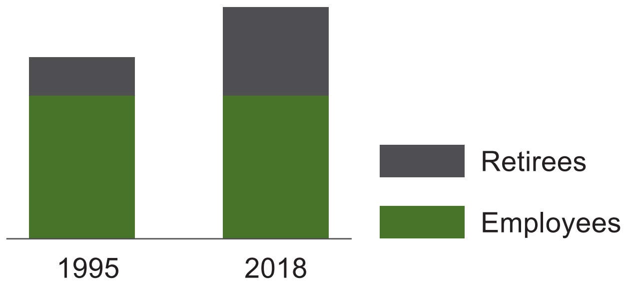
In contrast, HMOs are fully insured health insurance plans. In this model, the employer contracts with an insurance carrier to assume financial responsibility for claims and administrative costs.

The GBP offers numerous health insurance plan options for employees, retirees and their dependents, and a number of optional insurance coverages, such as dental, vision, life, and disability. Health and other insurance benefits for employees and retirees are subject to change based on available state funding.

Over the past 20 years, overall enrollment of retirees in the GBP has grown 173%, compared to a 1.3% increase in overall enrollment of employees. There are no indications that growth in the retiree population will slow.

Increased member enrollment since 1995 is almost entirely due to growth in the retiree population

GBP member enrollment *(not including dependents)*



	1995	2018	% Change
Employees*	209,026	211,644	1.3%
Retirees	41,556	113,478	173%
Total	250,582	325,122	29.7%

*Roughly one-third are employed by higher education institutions

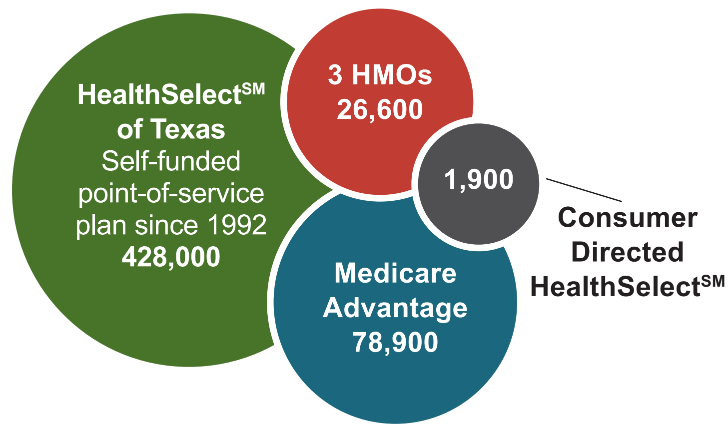
Health Insurance

The state pays 100% of health insurance premiums for full-time state agency employees, 50% of the premiums for part-time employees and eligible dependents of full-time employees, and 25% of the premiums for eligible dependents of part-time employees. The GBP health insurance plans covered 533,000 participants as of August 31, 2018, including active employees, retirees, and their eligible dependents.

The GBP offers several health insurance plan options for employees, retirees and their dependents, and two additional health insurance plan options for retirees. During Fiscal Year 2018 approximately 80% of participants were enrolled in HealthSelect of Texas; 15% in a Medicare Advantage plan; and 5% in an HMO plan.

80% of all participants enroll in HealthSelect of Texas

(August 31, 2018)



For the self-funded HealthSelect of Texas and Consumer Directed HealthSelect plans, the ERS Board of Trustees sets the annual contribution rates based on the projected cost of coverage, member cost-sharing, projected expenses, provider reimbursement arrangements, and available funding from the State of Texas.

ERS and its vendors actively manage plan costs to reduce the impact of cost increases on the state and its workforce as much as possible. Controlling costs is essential to maintaining competitive insurance benefits for members. Total cost-management reductions for HealthSelect were $9.4 billion in Fiscal Year 2018. The individual impact of these savings is significant – without cost management, the member-only premium would have been $3,017 a month, rather than $622 in Fiscal Year 2018.

The ERS Board of Trustees controls insurance costs in two ways: the plan design and the professional management of the program.

- The plan design is most visible to the people who rely on the benefits provided within the health plan. It determines what is covered and how much participants pay in deductibles, copays, and coinsurance. For example, starting September 1, 2018, ERS eliminated the $10 virtual visit copay.
- The professional management of the plan includes cost management and fraud control programs, contracting arrangements with providers, and disease management and wellness programs. Third-party administrators (TPAs) are responsible for the administration of the plan.

In Fiscal Year 2018, the self-funded medical and prescription plans paid $2.42 billion in claims, net of rebates. In addition, members spent an estimated $472.5 million in copays, co-insurance and deductibles. The HealthSelect projected health plan cost trend is 7.3% for Fiscal Years 2019-21.

HealthSelect℠ of Texas

The largest plan, HealthSelect of Texas (HealthSelect), is a self-funded health plan with 80% of all GBP health plan participants enrolled. This point-of-service plan requires participants to choose a primary care physician (PCP) to receive the highest level of benefits. The designated PCP is responsible for managing referrals to participating specialists. This type of plan also offers an out-of-network benefit that is less robust than the benefit provided by in-network providers. Following a 60-day waiting period, employees are enrolled in HealthSelect on the first day of the month, unless they have chosen an HMO plan, the Consumer Directed HealthSelect plan, or have decided to waive coverage.

HealthSelect offers health coverage throughout Texas and the United States, and in many parts of the world. Under a self-funded program, the plan sponsor, in this case ERS on behalf of the state, receives all of the contributions from both the participants and the state, and uses those dollars to reimburse the TPA as claims are paid for medical services received by plan participants. The TPA only receives direct payment for administrative services, such as processing claims and maintaining provider networks, and does not profit from the amount of claims paid.

Since September 1, 2017, Blue Cross and Blue Shield of Texas (BCBSTX) has served as the TPA for the HealthSelect medical plans. Regular rebidding and negotiation of TPA contracts for all plans helps ERS ensure that health plan participants and the State of Texas are receiving the best possible value and service.

Consumer Directed HealthSelect℠

Beginning September 1, 2016, the state offered an additional self-funded health plan, **Consumer Directed HealthSelect, to GBP participants not enrolled in Medicare**.

This plan has two distinct features:

- High-deductible health plan
- Health savings account (HSA)

With the exception of preventive services, which are covered at 100%, participants pay the full cost of doctor visits, prescriptions and other health care costs, until they reach the deductible, which renews on January 1. Participants are not required to choose a PCP or obtain referrals to see a specialist. Out-of-pocket maximums also apply. Participants can benefit by going to HealthSelect network providers and paying lower costs. Out-of-pocket expenses can be paid from a health savings account.

Consumer Directed HealthSelect Deductibles

(January 1 – December 31, 2019)

Description	Individual Coverage	Family Coverage
Annual in-network deductible	$2,100	$4,200
Annual out-of-network deductible	$4,200	$8,400

Once a participant meets the deductible, the plan pays a percentage of health expenses:

- 80% for in-network health and prescription services (the member pays 20%) and
- 60% for allowable out-of-network health and prescription services (the member pays 40%).

By selecting this high-deductible health plan, participants agree to pay higher out-of-pocket expenses up front, in exchange for the opportunity to make pre-tax contributions to an HSA, to which the state also contributes a monthly amount. Members may use their HSA account balances to pay for qualified medical expenses, or choose to save the funds to pay medical expenses later, since the balance stays with the member. Once enrolled in Medicare, HSA contributions can no longer be made, but funds in the HSA can be used for eligible medical expenses. At age 65, HSA funds can be used for other reasons without penalty, but are subject to income tax.

Features of the HSA are:

- monthly contribution from the state for Plan Year 2019
  - $45 for an eligible individual (full-time employee or non-Medicare retiree) or
  - $90 for an eligible family account
- annual maximum contribution limits set by Internal Revenue Service, for Calendar Year 2019
  - $3,500 for member-only coverage or
  - $7,000 for family coverage
  - an additional $1,000 catch-up contribution is allowed for members age 55 and older
- balance carries over from one year to the next
- HSA funds belong to the member, even if they change plans or leave state employment
- Optum Bank is the HSA administrator for the GBP, meaning only HSAs with Optum Bank can receive the monthly state contribution for members enrolled in this plan

As of August 31, 2018, 1,065 members and 801 dependents were enrolled in the Consumer Directed HealthSelect plan. Employees who choose the Consumer Directed HealthSelect plan are, on average, nine years younger and earn $11,400 more than the average employee enrolled in HealthSelect.

In FY18, both the state and employees contributed $1.8 million to HSA accounts, with almost half of employee accountholders contributing. Employees contributed a total of $1.37 million, while the state contributed roughly $460,000. Half of accountholders used portions of their HSA funds, roughly $790,000 in distributions.

HSA Activity

Plan Year 2018

Number of Active Accounts	1,068
Median Account Balance	$351
Percentage of accountholders contributing	46%
Median employee contribution	$990
Percent of accounts distributing	51%
Median distribution	$869

The monthly employer contribution is either $45 for a member with member-only coverage or $90 for a member with family coverage. The average state contribution is $55, given that the majority of members have member-only coverage.

Regional Health Maintenance Organizations (HMOs)

In addition to the self-funded HealthSelect plans, GBP health coverage also offers regional fully insured plans through three HMOs for participants who live or work in a covered HMO service area. These HMOs have a limited provider network, and benefits are available only by seeing providers within the HMO network, except for emergency care services.

Roughly 5% of GBP insurance plan participants were enrolled in HMOs in Fiscal Year 2018.

HMO Enrollment

As of August 31, 2018

	Coverage Area	Members	Dependents	TOTAL
Community First Health Plans	San Antonio area	2,314	2,087	4,401
KelseyCare powered by Community Health Choice	Houston area	2,688	2,768	5,456
Scott and White Health Plan	Central Texas	10,445	6,330	16,775
TOTAL		**15,447**	**11,185**	**26,632**

Health Insurance for Retirees

GBP retiree insurance is available to retirees with at least 10 years of service at a state agency or higher education institution participating in the GBP. A retiree meeting this requirement is eligible for GBP retiree health insurance benefits at age 65 or after meeting the Rule of 80.

For retirees eligible for GBP health insurance, state contribution levels vary depending on years of service. GBP participants with at least 20 years of service at a GBP-participating employer receive 100% state contribution for the member premium. Those with fewer than 20 years of service but at least 15 years receive a 75% state contribution. Those with fewer than 15 years of service but more than 10 years receive a 50% state contribution toward the member premium.

Service at Retirement	State pays for retiree insurance	State pays for dependents of retiree insurance	State pays for part time retiree insurance	State pays for dependents of part time retiree insurance
At least 20 years	100%	50%	50%	25%
At least 15 years	75%	37.5%	37.5%	18.75%
At least 10 years	50%	25%	25%	12.5%

Employees hired before September 1, 2009 who had at least five years of GBP coverage on September 1, 2014, are grandfathered and receive 100% state contribution with 10 years of service.

Retirees age 65 or older are eligible for and are expected to enroll in Medicare Part A, which covers hospitalization, and Medicare Part B, which covers medical services. Medicare-eligible retirees not enrolled in Medicare are responsible for any amounts Medicare would have paid, which is 80% or more of medical and hospitalization expenses.

GBP retiree insurance coverage pays secondary to Medicare for Medicare-eligible retirees, who may enroll in HealthSelect Secondary or an HMO. The most popular option among Medicare-primary retirees is a GBP Medicare Advantage plan, which provides coverage with no deductible, and takes the place of traditional Medicare with secondary GBP coverage. Medicare Advantage participants also contribute less for dependent coverage, resulting in members saving $53.7 million in contributions for dependent coverage in Fiscal Year 2018, when compared to the cost of coverage in HealthSelect.

Medicare-enrolled employees and retirees are not eligible to enroll in the Consumer Directed HealthSelect plan.

Medicare Advantage Plans for Retirees

Medicare-primary retirees and their Medicare-primary dependents and survivors have access to Medicare health plan options. Retirees can become eligible for Medicare beginning at age 65. Retirees enrolled in Medicare may enroll in a GBP Medicare Advantage (MA) plan with the option to switch back to another GBP health plan at any point during the plan year. Benefits offered to GBP retirees under a Medicare Advantage plan are comparable to HealthSelect℠ of Texas, but retirees who choose an MA plan pay lower dependent premiums.

The MA plans offer medical-only benefits, and plan participants receive prescription drug coverage through HealthSelect Medicare Rx.

More than 78,800 health plan participants are enrolled in GBP Medicare Advantage plans. This enrollment covers about 75% of Medicare-primary retirees in the GBP population. During Fiscal Year 2018, members choosing GBP Medicare Advantage plans over HealthSelect saved $53.7 million on premium contributions for spousal and dependent coverage.

HealthSelect℠ Medicare Advantage

HealthSelect Medicare Advantage is a Medicare Advantage preferred provider organization (MA PPO) option that has been available since January 1, 2012. Under this plan, medical-only benefits are available for the enrolled Medicare-primary population. A PPO differs from a point-of-service plan (like HealthSelect), in that it does not require participants to obtain a referral from their primary care doctor to see a specialist.

KelseyCare Advantage

KelseyCare Advantage is a regional Medicare Advantage health maintenance organization (MA HMO) available in eight counties within the greater Houston area. The MA HMO plan provides medical-only benefits to the enrolled population.

Enrollees in both plans receive prescription drug coverage through HealthSelect Medicare Rx.

Medicare Advantage Population

As of August 31, 2018

	Combined Medicare Advantage plans
Members	62,557
Dependents	16,322
TOTAL	78,879
Average Member Age	73
Average Dependent Age	72
Percentage with Spousal/Dependent Coverage	24%

Prescription Drug Benefits

GBP health plan coverage includes prescription drug coverage. The coverage is provided in different ways depending on the participant's medical coverage. Each HMO provides both health and prescription coverage.

The GBP program offers two prescription drug plans:

- HealthSelect[SM] Prescription Drug Program (PDP) covers non-Medicare participants in the HealthSelect and Consumer Directed HealthSelect plans
- HealthSelect[SM] Medicare Rx covers Medicare-enrolled retirees enrolled in a GBP health plan.

Both prescription drug plans are self-funded. This means ERS and the state – not an insurance carrier – assume financial responsibility for claims. The ERS Board of Trustees has the flexibility to make plan design changes and adjustments. For example, in 2014, ERS lowered the copay for generic drugs from $15 to $10 for a 30-day supply in an effort to encourage HealthSelect members to select generic drugs over name-brand alternatives.

Adjusted for both subsidies and rebates, the prescription drug cost trend for Fiscal Year 2018 was 6.6%, an eight-point rise after a dip in Fiscal Year 2017, when costs decreased with a change in the HealthSelect pharmacy benefit manager contract to UnitedHealthcare Services, Inc. (referred to as Optum Rx). This new contract is projected to save the plan $1 billion over six years through aggressively negotiated provider contracts.

HealthSelect[SM] Prescription Drug Program

HealthSelect participants, including those enrolled in Consumer Directed HealthSelect, receive pharmacy benefits through the HealthSelect Prescription Drug Program (PDP), administered by UnitedHealthcare Services, Inc. (referred to as OptumRx).

HealthSelect[SM] Medicare Rx

Participants in HealthSelect Medicare Advantage PPO and the Medicare Advantage HMO receive prescription drug benefits through HealthSelect Medicare Rx, which also provides self-funded prescription drug coverage for all Medicare-primary participants in the HealthSelect Secondary plan. The HealthSelect Medicare Rx plan is an Employer Group Waiver Plan with a Wrap (EGWP + Wrap), a Medicare Part D program containing a wraparound provision that ensures that Medicare retirees will receive benefits at least equal to those of the traditional HealthSelect PDP. This plan has been available since January 1, 2013, and is administered by UnitedHealthcare Services, Inc.

Health Plan Changes (Fiscal Year 2018 – present)

FY18	HealthSelect of Texas HealthSelect Out-of-State	Removed the $10 copay for in-network 24/7 virtual visits for medical care Reduced the copay (from $40 to $25) and removed the $75 limitation on visits to an in-network Airrosti provider, a medical group that focuses on non-surgical treatment of injuries Increased the copay for emergency care at an out-of-network freestanding emergency room (not affiliated with a hospital) from $150 to $300
	HealthSelect of Texas Consumer Directed HealthSelect HealthSelect Out-of-State HealthSelect Secondary	Added new benefit: a second virtual weight loss / diabetes prevention program, Naturally Slim at no cost to the participant
	HealthSelect Out-of-State HealthSelect Secondary	Split the prior HealthSelect Out-of-Area plan into HealthSelect Out-of-State and HealthSelect Secondary plans. The HealthSelect Out-of-State plan is available to employees, non-Medicare eligible retirees, and their dependents who live or work outside of Texas. HealthSelect Secondary is available to Medicare-eligible retirees and their Medicare-eligible dependents
	HealthSelect Secondary	Removed all copays previously in place to better allow this plan to coordinate with Medicare coverage
	Medicare Advantage plans	Added new benefit: telemedicine for medical care. Participants in this plan can now have a medical telemedicine visit at no cost to them
	HealthSelect of Texas Consumer Directed HealthSelect HealthSelect Out-of-State HealthSelect Secondary	Changed reimbursement method for all care at out-of-network freestanding emergency rooms (not affiliated with a hospital) from billed charges to the out-of-network allowable amount
	Prescription Drug Programs for: HealthSelect of Texas Consumer Directed HealthSelect	Added new benefit: allowed for coverage of preventive vaccinations at an in-network retail pharmacy through the pharmacy plan at no cost to participants (Coverage for this already existed under the medical plans)
FY19 (through 1/1/2019)	HealthSelect of Texas Consumer Directed HealthSelect HealthSelect Out-of-State HealthSelect Secondary	Added new benefit: virtual visits for mental health care at the same cost as an in-network mental health office visit
	All HealthSelect plans and HMOs (except Medicare Advantage plans)	Increased the total out-of-pocket maximums to federal limit of $6,650 per individual and $13,300 per family Removed the $1,000 maximum and replacement limits for hearing aids and cochlear implants for minors (85R House Bill 490) Removed coverage of elective pregnancy termination due to a criminal act (85R House Bill 214)
	Consumer Directed HealthSelect	Removed the out-of-network total out-of-pocket maximum for Calendar Year 2019 to better align with the other HealthSelect medical plans
	HealthSelect Medicare Advantage PPO	Added new benefit: coverage for virtual visits for mental health care at no cost

GBP Health Plan Financial Status

Summary of Actural and Projected* Health Plan Experience (through December 2018) $Millions									
	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24	FY25**
			Projected						
Revenue									
State Contributions	$2,875.0	$2,895.2	$2,947.5	$3,003.8	$3,061.1	$3,119.6	$3,179.2	$3,239.9	$3,301.8
Member Contributions	519.4	509.2	508.8	518.6	528.5	538.6	548.9	559.3	570.0
Other Revenue	388.1	422.7	489.1	561.7	639.5	688.9	737.0	783.2	827.3
Total Revenue	$3,782.5	$3,827.1	$3,945.4	$4,084.1	$4,229.1	$4,347.1	$4,465.1	$4,582.4	$4,699.1
Health Care Expenditures	**$3,483.7**	**$3,183.7**	**$3,582.0**	**$3,933.0**	**$4,320.5**	**$4,739.0**	**$5,203.4**	**$5,723.9**	**$6,296.7**
Net Gain (Loss)	**$298.8**	**$643.4**	**$363.4**	**$151.1**	**($91.4)**	**($391.9)**	**($738.3)**	**($1,141.5)**	**($1,597.6)**
Fund Balance	**$797.7**	**$1,441.1**	**$1,804.5**	**$1,955.6**	**$1,864.2**	**$1,472.3**	**$734.0**	**($407.5)**	**($2,005.1)**
Other Expenses Incurred Outside of the GBP Fund									
Member Cost Sharing	**$478.0**	**$481.0**	**$485.5**	**$494.8**	**$504.2**	**$513.9**	**$523.7**	**$533.7**	**$543.9**

* Assuming per capita funding remains at the FY19 level through FY25.

**Under this scenario, the GBP's invested assets would be fully depleted prior to the end of FY25. At that time, the GBP would be unable to pay expenses and would cease to operate. Therefore, the ending Fund Balance for FY25 is shown for illustrative purposes only.

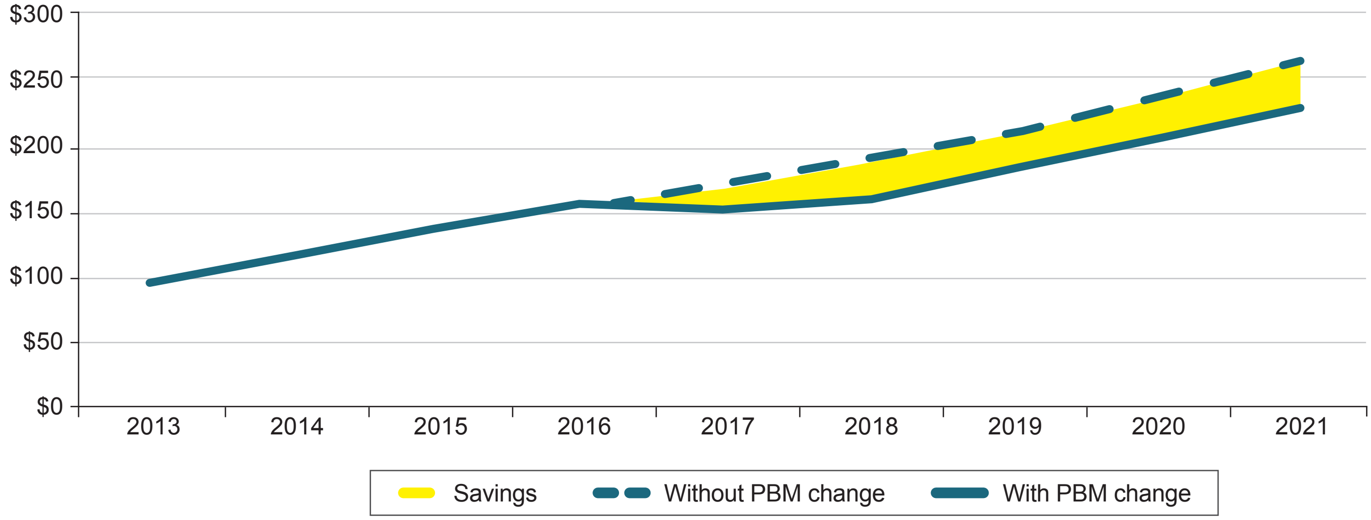
Texas Employees Group Benefits Program (GBP) FY20-21 Legislative Appropriations Request

Thanks to cost management initiatives and competitive contracting, ERS does not anticipate requiring an increase in appropriation in order to maintain current benefits.

Competitive Bidding Yields Savings for the Plan

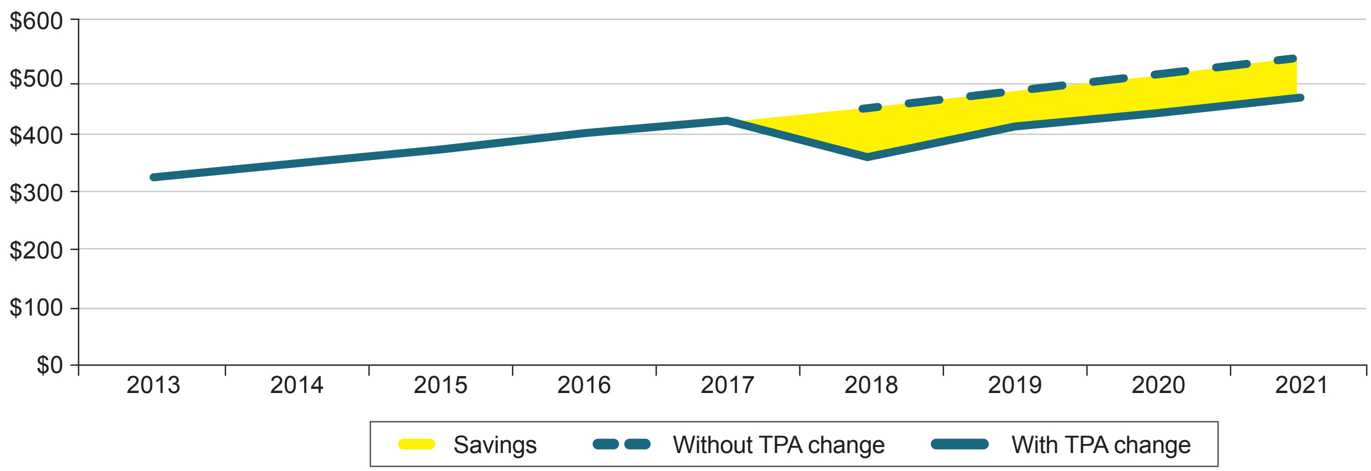
Pharmacy Cost Trend

(per participant per month)



Medical Cost Trend

(per participant per month)



Optional GBP Benefits

In addition to health insurance, the State of Texas offers a variety of optional benefits, which do not receive state funding. These benefits are funded solely by the participants who elect coverage.

Dental

The GBP offers three options for dental benefits. Two of these are insurance plans:

- **State of Texas Dental Choice Plan℠** a self-funded preferred provider organization (PPO) that covers services in the United States, Canada or Mexico if the participant resides in the United States. PPO participants may see any dentist, but receive a higher benefit by using a network provider. The dental insurance plan is funded through participant-paid premiums, copays, and deductibles for select services.
- **HumanaDental DHMO**, a fully insured dental health maintenance organization (DHMO) plan that is limited to dentists in the Texas service area and requires participants to select a primary care dentist from a list of approved providers.
- The **State of Texas Dental Discount Plan℠**, a non-insurance dental discount program, offers discounted prices on dental treatment and services at participating providers in the United States and the United Kingdom. Unlike insurance plans, there are no claim forms, copays, deductibles, annual maximums or limits on use. This plan is funded through participant-paid premiums.

Dental Benefit Enrollment

Dental Plan	Enrollment FY14	Enrollment FY15	Enrollment FY16	Enrollment FY17	Enrollment FY18
State of Texas Dental Choice Plan℠ (PPO)	271,708	271,787	299,886	307,414	318,604
DHMO	142,663	142,746	129,133	122,850	119,917
State of Texas Dental Discount Plan℠ (non-insurance option)	N/A*	9,249	10,368	11,003	9,902
Total	414,371	423,782	439,387	441,267	448,423

Source: ERS Business Intelligence Data Warehouse *FY14 was the first year that the discount plan was available.

Dental Benefit Changes

FY19 (through 12/31/2018)	State of Texas Dental Choice Plan℠ PPO plan	Increased annual individual maximum to $2,000 (from $1,500) for basic and restorative services Removed age limit for orthodontic services Removed exclusion and benefit limitations related to missing tooth replacement Removed coverage for out-of-network services at 40% once the benefit maximum is met

State of Texas Vision

In response to strong interest from state employees, ERS began offering a vision plan on September 1, 2016. The State of Texas Vision Plan covers all or a portion of the cost of eyeglasses and contact lenses as well as discounts for LASIK. The plan is funded through participant-paid premiums and co-payments. As with other optional benefits, the state does not contribute funds to this plan.

State of Texas Vision Plan Enrollment

State of Texas Vision Plan	Enrollment FY17	Enrollment FY18	% Growth
Members	76,110	104,369	37%
Dependents, Survivors and Others	61,179	82,074	34%
Total Participants	137,289	186,443	36%

Vision Benefit Changes

FY19 (through 1/1/2019)	Members who decline GBP health coverage may apply the Opt-Out Credit toward their vision insurance premium Reduced copay for annual eye exams from $25 to $15 Changed frequency limitations from once within a 12-month period to once each plan year (same as fiscal year)

Disability Insurance: Texas Income Protection Plan℠

The GBP offers the Texas Income Protection Plan (TIPP), optional insurance coverage for short- and long-term disability. These plans are self-insured and funded solely by plan participants. As directed by statute, ERS informs members about the benefits of short- and long-term disability coverage if an employee is unable to work as the result of disability.

Life and Accidental Death & Dismemberment Insurance (AD&D)

Term Life Insurance with AD&D coverage

Participating employees who elect GBP health coverage are automatically enrolled in $5,000 Basic Group Term Life Insurance and $5,000 Basic AD&D coverage. Each participating retired employee in the GBP is automatically enrolled in $2,500 Basic Group Term Life Insurance. AD&D coverage is not available to retired employees.

Active employees can also enroll in Optional Group Term Life Insurance and AD&D coverage based on the employee's salary. When newly hired, an employee may enroll in Optional Term Life Insurance at one or two times annual salary without Evidence of Insurability (EOI). An election of Optional Term Life Insurance at three or four times annual salary requires EOI. The combined amount of Optional Group Term Life Insurance may not exceed $400,000 with a corresponding amount of AD&D coverage. As directed by statute, ERS informs participants about the benefits of life insurance coverage.

Optional Group Term Life Insurance is also available to retirees. However, specific rules governing the maximum amounts available are dependent on date of retirement. Beginning at age 70, Optional Term Life coverage is reduced for both active and retired employees based on age. Retirees can choose a $10,000 Fixed Optional Life Insurance plan, instead of a term life plan.

Dependent Term Life Insurance with AD&D Coverage

Employees may purchase $5,000 of Dependent Group Term Life Insurance and $5,000 of AD&D for each listed eligible dependent.

Each participating retired employee may retain $2,500 of Dependent Group Term Life Insurance if they held coverage as an active employee. AD&D coverage is not available for dependents of retired employees.

Accidental Death & Dismemberment

Voluntary Accidental Death and Dismemberment (AD&D) is a separate insurance program available only to active employees and their dependents. For an additional premium, employees can enroll in AD&D coverage in incremental amounts up to $200,000. An employee is not required to enroll in Optional Group Term Life Insurance coverage in order to have Voluntary AD&D coverage. EOI is not required for Voluntary AD&D.

GBP Optional Insurance and Related Plans

As of August 31, 2018

Members pay 100% of the cost for voluntary benefit programs in which they enroll. There is no employer contribution.

Coverage	Plan Type	Funding	TPA/Insurer	FY18 Enrollment
Dental	PPO	Self-funded	HumanaDental	**318,604**
	HMO	Fully insured	DentiCare, Inc. (subsidiary of Humana HumanaDental)	**119,917**
Vision	Vision benefits	Self-funded	Superior Vision	**186,443**
Optional Life	Group term insurance	Fully insured	Securian	**322,424**
Voluntary Accidental Death & Dismemberment	Group term insurance	Fully insured	Securian	**129,478**
Texas Income Protection Plan (Disability)	Short-term	Self-funded	ReedGroup Management, LLC	**112,962**
	Long-term	Self-funded		**86,623**
State of Texas Dental Discount Plan℠	Discount (non-insurance) program	NA	Careington International	**9,902**
TexFlex	Flexible savings accounts	NA	WageWorks	**50,412**

Flexible Spending Accounts: TexFlex℠

Employees save on their federal income and payroll taxes by participating in TexFlex. TexFlex flexible spending accounts (FSAs) enable employees to pay out-of-pocket health and dependent care costs using pre-tax dollars. The state does not appropriate funds for the TexFlex program. Operating expenses and administrative costs are covered by monthly fees charged to participants.

Participation in TexFlex lowered the State's Federal Insurance Contributions Act (FICA) tax payments by $44.5 million in Fiscal Year 2018, while employee participants saved an estimated $131.7 million in federal income tax and FICA payroll tax.

FSAs are voluntary accounts into which employees may contribute up to a maximum amount. Participating employees contribute a portion of each paycheck into accounts for qualified expenses for health and dependent day care, vision and dental expenses, and costs incurred for an employee's commute to and from work. The Internal Revenue Service sets rules for which expenses qualify for reimbursement from the account. Qualified expenses paid through these accounts are not taxed. TexFlex offers employees (except dependent care accountholders) the use of a debit card equal to the account balance, which they can use to pay qualified expenses at the time of service.

ERS offers four types of FSAs:

- health care
- limited purpose health care
- dependent child care
- commuter

A limited flexible spending account (LFSA) was created for those enrolled in Consumer Directed HealthSelect and a health savings account (HSA). Under Internal Revenue Service rules, those participating in an HSA are ineligible to participate in a health care flexible spending account, but may contribute to the LFSA for eligible dental and vision expenses only.

Flexible spending accounts comparison chart

Fiscal Year 2019

	Health Care / Limited Purpose Flexible Spending Account	**Dependent Child Care Account**	**Commuter Spending Account** Calendar Year 2019
Annual Maximum Contribution	$2,650 per participant per fiscal year	$5,000 per household per fiscal year	$260 parking benefit $260 transit benefit Each benefit expected to increase by $5 in CY19
Fund Availability	Full annual amount available when contributions begin	Funds available monthly as they are added to TexFlex account from paycheck	Funds are available monthly as contributions are made from paycheck and posted to the TexFlex account
Carryover of Funds	Up to $500 of unused funds can be carried over from one plan year to the next when you are actively employed. You can still contribute up to $2,650 for that plan year.	No carryover of funds from one plan year to the next. However, you have a 2-½ month grace period after the end of the plan year in which you can incur new claims using previous plan year funds.	Funds carryover month-to-month while actively employed.

Surviving Family Member Death Benefits

In addition to administering retirement programs and benefits for state employees and retirees, ERS is entrusted with administering benefits to the survivors of certain public employees. The state appropriates money to pay these benefits. ERS does not currently receive a state appropriation to administer this program.

Retiree Lump Sum Death Benefit

The State of Texas appropriates funds to pay a death benefit to the family or estate of retired state employees when they die. The $5,000 benefit is paid by the Texas Comptroller of Public Accounts in a lump sum. State law requires that the benefit be paid within seven days of receipt of the death certificate, if there are no legal questions regarding the cause of death.

Chapter 615

Special Benefits to Survivors of Those Who Die in the Line of Duty

The Texas Legislature enacted Chapter 615 of the Texas Government Code to provide death benefits for eligible survivors of certain state and local law enforcement officers, fire fighters, and others who die in the line of duty. The program is fully funded by the state and administered by ERS.

Benefits paid under Chapter 615 are available only when a qualifying individual dies in the line of duty. The death must have resulted from exposure to a risk inherent in the particular duty performed or a risk to which the general public is not customarily exposed. There are no age or length-of-service eligibility requirements for this benefit. Payments made under Chapter 615 are in addition to any other benefits for which the survivors of deceased individuals may be eligible, such as federal or educational benefits.

Who qualifies for Chapter 615 benefits?

This program may be available to survivors of the following individuals:

- Commissioned Peace Officers (as defined by Article 2.12 of the Criminal Procedure Code),
- employees subject to certification by the Texas Commission on Fire Protection
- members of organized volunteer fire fighting, police reserve, or auxiliary units,
- members of Emergency Medical Service units,
- Custodial Officers of the Texas Department of Criminal Justice
- employees whose principal duties are aircraft crash and rescue firefighting,
- peace officers employed by a private institution of higher education, including a private junior college, that is located in Texas, and
- others as defined by Chapter 615 of the Government Code.

Chapter 615 benefits include:

- a Lump Sum Payment of $500,000 from the state for the surviving spouse, or in equal shares, to the surviving children or parents
- possible State-paid funeral expenses if the deceased was a Commissioned Peace Officer or was employed by TDCJ (TX Gov't Code Section 615.121)
- a possible monthly payment paid by the state to a surviving spouse if the deceased was a Certified Peace Officer or was employed by TDCJ (TX Gov't Code Section 615.121)—The monthly payment would be calculated based on the member's and surviving spouse's ages. The surviving spouse would not receive the payment if he or she receives a monthly payment from another entity
- a possible monthly payment paid by the state to surviving minor children if the deceased was a Certified Peace Officer or was employed by TDCJ (TX Gov't Code Section 615.122)—The state would pay a monthly payment to a parent or guardian until the surviving children reach age 18: for one surviving child, $400; for two surviving children, $600; or for three or more children, $800. These payments are made by the Texas Comptroller of Public Accounts

- possible health benefits for an eligible surviving spouse if the deceased was a Certified Peace Officer, was employed by TDCJ, or was a fire fighter certified by TCFP (TX Gov't Code Section 615.071)
- possible health benefits for an eligible surviving dependent child through the employer until the child reaches age 26 if the deceased was a Certified Peace Officer, was employed by TDCJ, or was a fire fighter certified by TCFP (TX Gov't Code Section 615.071)

Additional benefits that ERS does not administer:

- a possible education benefit for the surviving spouse or children. The benefit includes tuition, fees, books, and housing at any public college or university until the student receives a bachelor's degree or 200 hours of credit, whichever occurs first. This benefit is administered by individual colleges or universities.
- possible federal benefits available through the Public Safety Officers' Benefits Program.

ERS works directly with the employer and surviving family members to gather the required information for the Chapter 615 claim process and to determine if any other benefits are available. ERS notifies the employer about contacting the Texas Higher Education Coordinating Board for educational benefits.

DISCOUNT Purchase Program administered by BENEPLACE

Discount Purchase Program℠

An online Discount Purchase Program offers employees and retirees discounts on computers, electronics, appliances, cars, theme parks, sporting events, tax preparation services, and other goods and services. There is no sign-up, registration, or membership cost to employees and retirees. Participants visit the administrator's website, click on a category or company and receive savings offers based on specific items to be purchased. Offers change on a regular basis as seasonal discounts and new vendors are added.

The program is operated by Beneplace, Inc. at no cost to ERS or the state for either benefits or administration. Beneplace, Inc. maintains data security and provides a customer service unit to handle inquiries from members.

Section 218: Social Security for State and Local Government

Since January 1, 1951, Section 218 of the Social Security Act has made Social Security coverage available to state and local government employees through voluntary federal-state arrangements known as Section 218 Agreements. Each agreement allows government entities within the state to participate in Social Security coverage through a modification process to the state's initial agreement that specifically identifies the entity and the class(es) of employees to be covered or excluded. The original State of Texas Agreement was signed on November 30, 1951.

In 1966, Medicare was enacted and became available under the agreement at that time. In 1975, the 64th Legislature transferred responsibility for administration of the agreement to ERS from the Department of Public Works (SB 464). As the state agency responsible for administering the Section 218 Agreement, ERS works with governmental entities - including cities, counties, housing authorities, municipal hospitals, school districts and municipal utility districts - interested in modifying the agreement to include their employees. The modification process involves the entity conducting a referendum election among the affected employees to decide whether the entity will participate in the Social Security Program or decline participation. ERS oversees the elections. The cost of staffing and administering this program is partially offset by a $35 annual fee paid by participating entities to ERS.

As of January 1, 2019, there were 1,615 modifications to the state's Section 218 agreement, and approximately 2,000 entities had elected Social Security and/or Medicare-only coverage under the state's agreement.

ERS Constitutional Provisions

Constitutional Laws to ERS
The Texas Constitution Article XVI
Section 67 - STATE AND LOCAL RETIREMENT SYSTEMS

(a) General Provisions.

(1) The legislature may enact general laws establishing systems and programs of retirement and related disability and death benefits for public employees and officers. Financing of benefits must be based on sound actuarial principles. The assets of a system are held in trust for the benefit of members and may not be diverted.

(2) A person may not receive benefits from more than one system for the same service, but the legislature may provide by law that a person with service covered by more than one system or program is entitled to a fractional benefit from each system or program based on service rendered under each system or program calculated as to amount upon the benefit formula used in that system or program. Transfer of service credit between the Employees Retirement System of Texas and the Teacher Retirement System of Texas also may be authorized by law.

(3) Each statewide benefit system must have a board of trustees to administer the system and to invest the funds of the system in such securities as the board may consider prudent investments. In making investments, a board shall exercise the judgment and care under the circumstances then prevailing that persons of ordinary prudence, discretion, and intelligence exercise in the management of their own affairs, not in regard to speculation, but in regard to the permanent disposition of their funds, considering the probable income therefrom as well as the probable safety of their capital. The legislature by law may further restrict the investment discretion of a board.

(4) General laws establishing retirement systems and optional retirement programs for public employees and officers in effect at the time of the adoption of this section remain in effect, subject to the general powers of the legislature established in this subsection.

(b) State Retirement Systems.

(1) The legislature shall establish by law a Teacher Retirement System of Texas to provide benefits for persons employed in the public schools, colleges, and universities supported wholly or partly by the state. Other employees may be included under the system by law.

(2) The legislature shall establish by law an Employees Retirement System of Texas to provide benefits for officers and employees of the state and such state-compensated officers and employees of appellate courts and judicial districts as may be included under the system by law.

(3) The amount contributed by a person participating in the Employees Retirement System of Texas or the Teacher Retirement System of Texas shall be established by the legislature but may not be less than six percent of current compensation. The amount contributed by the state may not be less than six percent nor more than 10 percent of the aggregate compensation paid to individuals participating in the system. In an emergency, as determined by the governor, the legislature may appropriate such additional sums as are actuarially determined to be required to fund benefits authorized by law.

(c) Local Retirement Systems.

(1) The legislature shall provide by law for:

(A) the creation by any city or county of a system of benefits for its officers and employees;

(B) a statewide system of benefits for the officers and employees of counties or other political subdivisions of the state in which counties or other political subdivisions may voluntarily participate; and

(C) a statewide system of benefits for officers and employees of cities in which cities may voluntarily participate.

(2) Benefits under these systems must be reasonably related to participant tenure and contributions.

(d) Judicial Retirement System.

(1) Notwithstanding any other provision of this section, the system of retirement, disability, and survivors' benefits heretofore established in the constitution or by law for justices, judges, and commissioners of the appellate courts and judges of the district and criminal district courts is continued in effect. Contributions required and benefits payable are to be as provided by law.

(2) General administration of the Judicial Retirement System of Texas is by the Board of Trustees of the Employees Retirement System of Texas under such regulations as may be provided by law.

(e) Anticipatory Legislation. Legislation enacted in anticipation of this amendment is not void because it is anticipatory.

(f) Retirement Systems Not Belonging to a Statewide System. The board of trustees of a system or program that provides retirement and related disability and death benefits for public officers and employees and that does not participate in a statewide public retirement system shall:

(1) administer the system or program of benefits;

(2) hold the assets of the system or program for the exclusive purposes of providing benefits to participants and their beneficiaries and defraying reasonable expenses of administering the system or program; and

(3) select legal counsel and an actuary and adopt sound actuarial assumptions to be used by the system or program.

(g) If the legislature provides for a fire fighters' pension commissioner, the term of office for that position is four years. (Added April 22, 1975; Subsec. (f) added Nov. 2, 1993; Subsec. (g) added Nov. 6, 2001.)

ERS Statutory Citations

Texas Government Code

Chapter 609	Deferred Compensation Plan
Chapter 615	Financial Assistance to Survivors of Certain Law Enforcement Officers, Firefighters and Others
Chapter 803	Proportionate Retirement Program
Chapter 804	Domestic Relations Orders and Spousal Consent
Chapter 805	Credit Transfer between ERS and TRS
Chapter 808	Prohibition on Investment in Companies that Boycott Israel
Chapter 810	Miscellaneous Provisions
Chapters 811-815	Provisions Applicable to ERS
Chapters 831-835	Provisions Applicable to JRS 1
Chapters 836-840	Provisions Applicable to JRS 2
Chapter 2270	Prohibition on Investing Public Money in Certain Investments

Texas Insurance Code

Chapter 1551	Texas Employees Group Benefits Act
Chapter 1552	Group Long-term Care Insurance for State Employees

Texas Administrative Code:
Title 34 Public Finance, Part 4 Employees Retirement System of Texas

Chapter 61	Terms and Phrases
Chapter 63	Board of Trustees
Chapter 65	Executive Director
Chapter 67	Hearings on Disputed Claims
Chapter 69	Membership and Refunds
Chapter 71	Creditable Service
Chapter 73	Benefits
Chapter 74	Qualified Domestic Relations Orders
Chapter 75	Hazardous Profession Death Benefits
Chapter 77	Judicial Retirement
Chapter 79	Social Security
Chapter 81	Insurance
Chapter 82	Health Services in State Office Complexes
Chapter 85	Flexible Benefits
Chapter 87	Deferred Compensation

Resources

ERS Board of Trustees

Member Name	Term / Appointment Dates / Appointed by	Qualification
I. Craig Hester, Chair	Term Expires August 31, 2022 Appointed by Chief Justice of the Texas Supreme Court	Investment Professional
Ilesa Daniels, Vice-chair	Term Expires August 31, 2021 Elected Position	State Employee (Texas Health & Human Services Commission)
Doug Danzeiser	Term Expires August 31, 2019 Elected Position	State Employee (Texas Department of Insurance)
Cydney Donnell	Term Expires August 31, 2018 Appointed by Governor	Investment Professional
James Kee, Ph.D.	Term expires August 31, 2020 Appointed by Speaker of the Texas House of Representatives	Investment Professional
Catherine Melvin	Term Expires August 31, 2023 Elected Position	State Employee (Texas Department of Public Safety)

Your ERS contacts for the 86th legislative session

		Office	Mobile	Email
Jennifer Chambers	Director, Governmental Relations	(512) 867-7162	(512) 426-6732	jennifer.chambers@ers.texas.gov
William S. “Shack” Nail	Senior Policy Advisor	(512) 867-7178	(512) 921-0704	shack.nail@ers.texas.gov
Leah Erard	Constituent Services	(512) 867-7581	(512) 914-4742	leah.erard@ers.texas.gov
Machelle Pharr	Chief Financial Officer	(512) 867-7667	(512) 789-9823	machelle.pharr@ers.texas.gov

For your constituents:

ERS Contact Center (877) 275-4377
www.ers.texas.gov
200 E. 18th Street, Austin, Texas 78701

Contact Information

Health insurance

HealthSelect℠ of Texas
Consumer Directed HealthSelect℠
HealthSelect℠ Out-of-State
HealthSelect℠ Secondary

Administered by Blue Cross and Blue Shield of Texas
Group number – 238000
Toll-free: (866) 252-8039, TTY: 711
7 a.m. – 7 p.m. CT, Monday – Friday
7 a.m. – 3 p.m. CT, Saturday
24/7 NurseLine: (800) 581-0368
24/7 Mental Health Support Line: (800) 442-4093
See website for information about virtual visits for mental health care and 24/7 virtual visits for medical care
www.healthselectoftexas.com

For Consumer Directed HealthSelect members only:
Health Savings Account
Administered by Optum Bank
Toll-free: (800) 791-9361, TTY: 711
7 a.m. – 7 p.m. CT, Monday – Friday
www.optumbank.com

HealthSelect℠ Prescription Drug Program

(pharmacy benefits for HealthSelect of Texas and Consumer Directed HealthSelect)
Administered by UnitedHealthcare Services Inc. (referred to as OptumRx)
Toll-free: (855) 828-9834, TTY: 711
HealthSelectRx.com

Community First Health Plans

an affiliate of the University Health System
Group number – 0010180000
Toll-free: (877) 698-7032
TDD: (210) 358-6080
Local: (210) 358-6262
NurseLink: (210) 358-6262
members.cfhp.com

KelseyCare powered by Community Health Choice

Toll-free: (844) 515-4877, TTY: 711
Group number: 15000
NurseLine: (713) 442-0000
www.erskelseycare.com/

Scott and White Health Plan

Group number – 000058
Toll-free: (800) 321-7947
TTD: (800) 735-2989
VitalCare Nurse Advice: (877) 505-7947
ers.swhp.org

HealthSelect℠ Medicare Advantage

Administered by Humana Insurance Company
Group number – Check your ID card
(855) 377-0001, TDD: 711
HumanaFirst 24/7 Nurseline: (800) 622-9529
www.humana.com/ersmedicareadvantage

KelseyCare Advantage HMO

Group number – Check your ID card
(877) 853-9075, Local: (713) 442-2ERS (2377), TTY: (866) 302-9336: Nurselink: (713) 442-0000
www.kelseycareadvantage.com/ERS

HealthSelect℠ Medicare Rx

(pharmacy benefits for HealthSelect Medicare Advantage, HealthSelect Secondary and KelseyCare Advantage HMO)
Administered by UnitedHealthcare Services Inc.
Toll-free: (866) 868-0609, TTY: 711
7 a.m. – 7 p.m. CT, Monday - Friday
7 a.m. – 3 p.m. CT, Saturday
www.uhcretiree.com/ers/home.html

NOTE: Records of members, retirees, and their beneficiaries are confidential.

Contact Information

Optional benefits

Vision

State of Texas Vision

Administered by Superior Vision Services, Inc.
Toll-free: (877) 396-4128
www.stateoftexasvision.com

Dental plans

State of Texas Dental Choice℠

Administered by HumanaDental Insurance Company
Group number – 536957
Toll-free: (877) 377-0987, TTY: 711
humana.com/ers

HumanaDental DHMO

Insured by DentiCare, Inc, dba CompBenefits, a member of the HumanaDental family of companies
Group number – 538226
Toll-free: (877) 377-0987, TTY: 711
humana.com/ers

State of Texas Dental Discount Plan℠

Administered by Careington International Corporation
Toll-free: (844) 377-3368, TTY: 711
www.txdentaldiscount.com

Life and Accidental Death & Dismemberment Insurance

Administered by Securian
Toll-free: (877) 494-1716, TTY: 711
www.lifebenefits.com/plandesign/ers

Texas Income Protection Plan℠ (TIPP)

(short-term and long-term disability insurance)
Administered by ReedGroup Management, LLC
Toll-free: (855) 604-6230, TTY: 711
www.texasincomeprotectionplan.com

TexFlex℠

Administered by WageWorks
Toll-free: (844) 884-2364, TTY: 711
www.texflexers.com

Texa$aver℠ 401(k) / 457 Program

Administered by Empower Retirement™
Toll-free: (800) 634-5091,
TDD: (800) 766-4952
www.texasaver.com

Discount Purchase Program℠

Administered by Beneplace
Toll-free: (800) 683-2886
www.Beneplace.com/DiscountProgramERS

NOTE: Records of members, retirees, and their beneficiaries are confidential.

Notes:

Notes:

EMPLOYEES RETIREMENT SYSTEM OF TEXAS

200 E. 18th Street • Austin, Texas 78701
www.ers.texas.gov