

## A Few FY15 Accomplishments



With legislatively mandated contribution increases, the ERS Retirement Trust Fund is moving toward better financial status for the first time in 15 years



Increased in-house management of retirement fund assets, resulting in reduction of fees by \$3 million

### TEXFLEX

Implemented a new third-party administrator for TexFlex, ADP, LLC



Launched a new health maintenance organization for Houston-area members, KelseyCare powered by Community Health Choice



Provided extensive customer service and communications to members and retirees:



- Responded to nearly half a million calls
- Met with more than 6,000 visitors to ERS' office



- Answered 26,000 emails



Provided vital support to the Texas economy:



- Paid approximately \$2.8 billion to Texas doctors, pharmacies and other in-state health care providers through Texas Employees Group Benefits Program claims



- Invested more than 30% of the trust fund's equity assets in Texas-based businesses and companies with at least 200 employees in the state



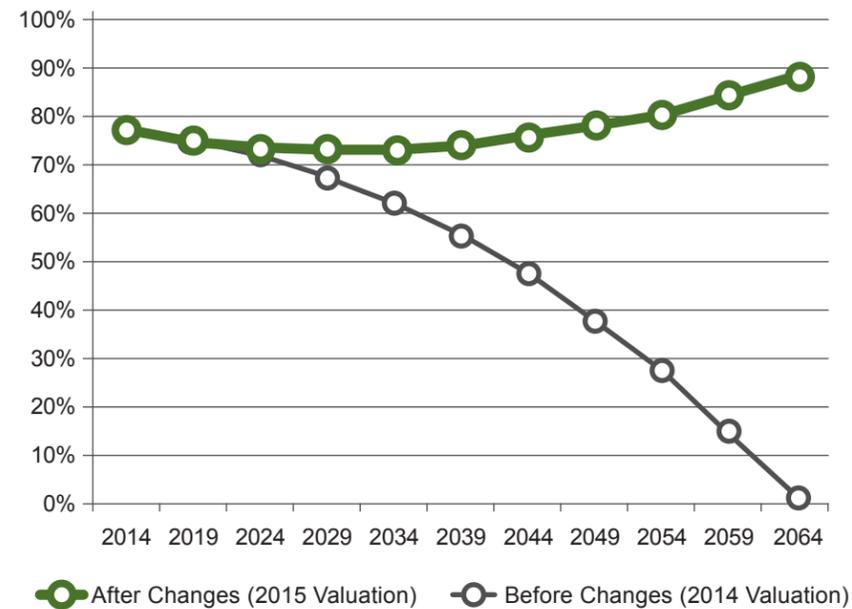
Awarded Public Pension Standards Award for Excellence in Funding and Administration



Received Certificate of Achievement for Excellence in Financial Reporting for the 25<sup>th</sup> year in a row

## ERS Retirement Trust Fund Projections FY14 vs. FY15 Valuation

Legislative changes significantly improve funding



The 84<sup>th</sup> Texas Legislature authorized increases in state and employee contributions to the ERS Retirement Trust Fund. With these important changes, the trust fund is on the path to actuarial soundness – preserving retirement benefits for current and future State of Texas retirees, with no new reductions in benefits.

**ERS**  
EMPLOYEES RETIREMENT  
SYSTEM OF TEXAS

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FISCAL YEAR 2015

# AT A GLANCE

**ERS**  
EMPLOYEES RETIREMENT  
SYSTEM OF TEXAS

## Retirement

Employees Retirement System of Texas plans provide retirement benefits for state employees and elected officials (ERS fund), law enforcement and custodial officers (LECOSRF), and judges (JRS 1 and JRS 2). They are designed to provide a reasonable and stable source of income for state employees during retirement at a low cost to the state.

- **\$25.2 billion trust fund**
- **0.49% gross** (0.44% net of fees) one-year rate-of-return on investments
- **142,982 contributing members** (ERS – 142,409; LECOSRF – 38,526\*; JRS 1 – 10; JRS 2 – 563)
- **101,273 non-contributing members** (ERS – 101,122; LECOSRF – 12,962\*; JRS 1 – 3; JRS 2 – 148)
- **100,716 retirees and beneficiaries** (ERS – 100,003; LECOSRF – 10,845\*; JRS 1 – 391; JRS 2 – 322)
- **\$2.1 billion in retirement payments annually** (for all plans)
- **76.3% ERS Trust funded ratio**
  - The 84<sup>th</sup> Texas Legislature increased the total state and employer contribution to 10% from 8% and the employee contribution to 9.5% from 6.9%. Contributing employees received a 2.5% salary increase to offset the retirement contribution increase.
  - The legislature also eliminated the 90-day waiting period to participate in the retirement system for state agency employees hired on or after September 1, 2015.

\*LECOSRF members included in ERS total.

## Retirement Contribution Rates

	Fiscal Year 2015	Fiscal Year 2016
<b>ERS</b>		
State	7.5%	9.5%
Agency	0.5%	0.5%
Employee	6.9%	9.5%
Total Contribution	14.9%	19.5%
<b>LECOSRF*</b>		
State	0.5%	0.5%
Dedicated Revenue (Court Cost)	1.2%	1.2%
Employee	0.5%	0.5%
Total Contribution	2.2%	2.2%
<b>JRS 2</b>		
State	15.66%	15.66%
Employee**	6.9%	7.2%
Total Contribution	22.56%	22.86%

\*LECOSRF-eligible employees also contribute to the ERS Trust Fund since LECOSRF is a supplemental benefit. LECOSRF annuitants receive about 80% of their benefit from the ERS Trust Fund.

\*\*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. Since not all members choose to do so, the effective contribution rate for FY16 was 7.16%.

## Investments

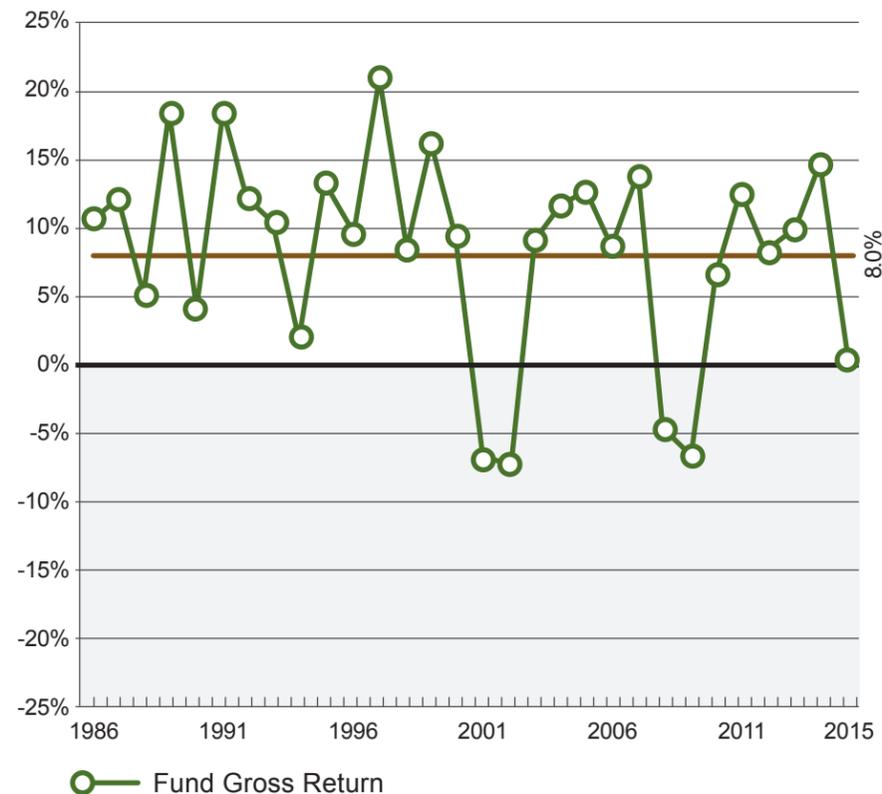
ERS manages a retirement trust valued at \$25.2 billion as of August 31, 2015 on behalf of state employees and retirees who are the beneficiaries of the trust. Investment returns continue to be the largest funding component of retirement benefits, accounting for about two-thirds of the value of the ERS trust.

ERS is a long-term investor that balances risk to achieve positive investment returns at a reasonable cost, with the ultimate goal of providing lifetime retirement benefits for State of Texas retirees. ERS' investment earnings do the heavy lifting to pay retirees' annuities – making the state's defined benefit program a cost-effective way to deliver retirement benefits. ERS continues to surpass its long-term investment goal of 8%, with a 30-year gross rate-of-return of 8.29%.

Despite a volatile financial environment in Fiscal Year 2015, ERS achieved the following, to the benefit of the Trust Fund and its members.

- The Trust Fund grew by \$376 million, due to staff's outperformance of the short-term policy investment targets.
- The Investments team prudently increased management of assets in-house, resulting in a reduction of external advisor fees by \$3 million. In-house management of many investments costs about one-third of what external management would.
- Staff aggressively negotiated private equity, hedge fund and private real estate fees, resulting in \$12.5 million in realized savings and estimated deferred savings of \$50.7 million.

## 30-Year Gross Investment Return



## TexaSaver

Tax-deferred supplemental 401(k) / 457 retirement program

<b>\$2.4 Billion in Total Assets</b>			
<b>401(k)</b>	<b>401(k) Roth</b>	<b>457</b>	<b>457 Roth</b>
\$1.84 billion	\$9.0 million	\$603.7 million	\$8.1 million
165,513 accounts	2,614 Roth accounts	29,159 accounts	2,320 Roth accounts
82,851 accounts contributing	1,936 Roth accounts contributing	16,685 accounts contributing	1,649 Roth accounts contributing

## Insurance

The Texas Employees Group Benefits Program (GBP) provides coverage for health, life, dental, Voluntary Accidental Death & Dismemberment (AD&D) and, through the Texas Income Protection Plan (TIPP), short-term and long-term disability.

GBP health insurance plans cover about one of every 52 Texans. Plan participants share health costs through dependent premium contributions, copays, coinsurance, prescription deductibles and other means. In addition to designing health plans in which the state and participants share costs, ERS strives to keep administrative expenses low. In HealthSelect<sup>SM</sup> of Texas (HealthSelect), by far the largest GBP health plan, only 3% of overall expenditures go toward administration – far less than the 12% average for large, private health plans.

- 541,584 participants (228,459 employees, 108,722 retirees, 203,291 dependents and 1,112 COBRA)
- The self-funded plans – HealthSelect of Texas, HealthSelect Prescription Drug and HealthSelect Medicare Rx – paid about \$2.75 billion in claims.
- Participants in those plans paid \$456 million in out-of-pocket expenses, including copays, coinsurance and deductibles.

## TexFlex

Flexible spending accounts program, authorized and regulated by the Internal Revenue Service (IRS) under Section 125, for health and dependent care expenses

- \$80.5 million contributed to TexFlex accounts by state employees
- 52,835 health and dependent care accounts
- \$441.5 million in insurance premiums redirected
- \$118.3 million\* in tax savings for participants (FICA and FIT)
- \$40 million\* in tax savings for State (FICA)

FICA: Federal Insurance Contributions Act tax

FIT: Federal Income Tax

\*estimated