



ERS

EMPLOYEES  RETIREMENT
SYSTEM OF TEXAS

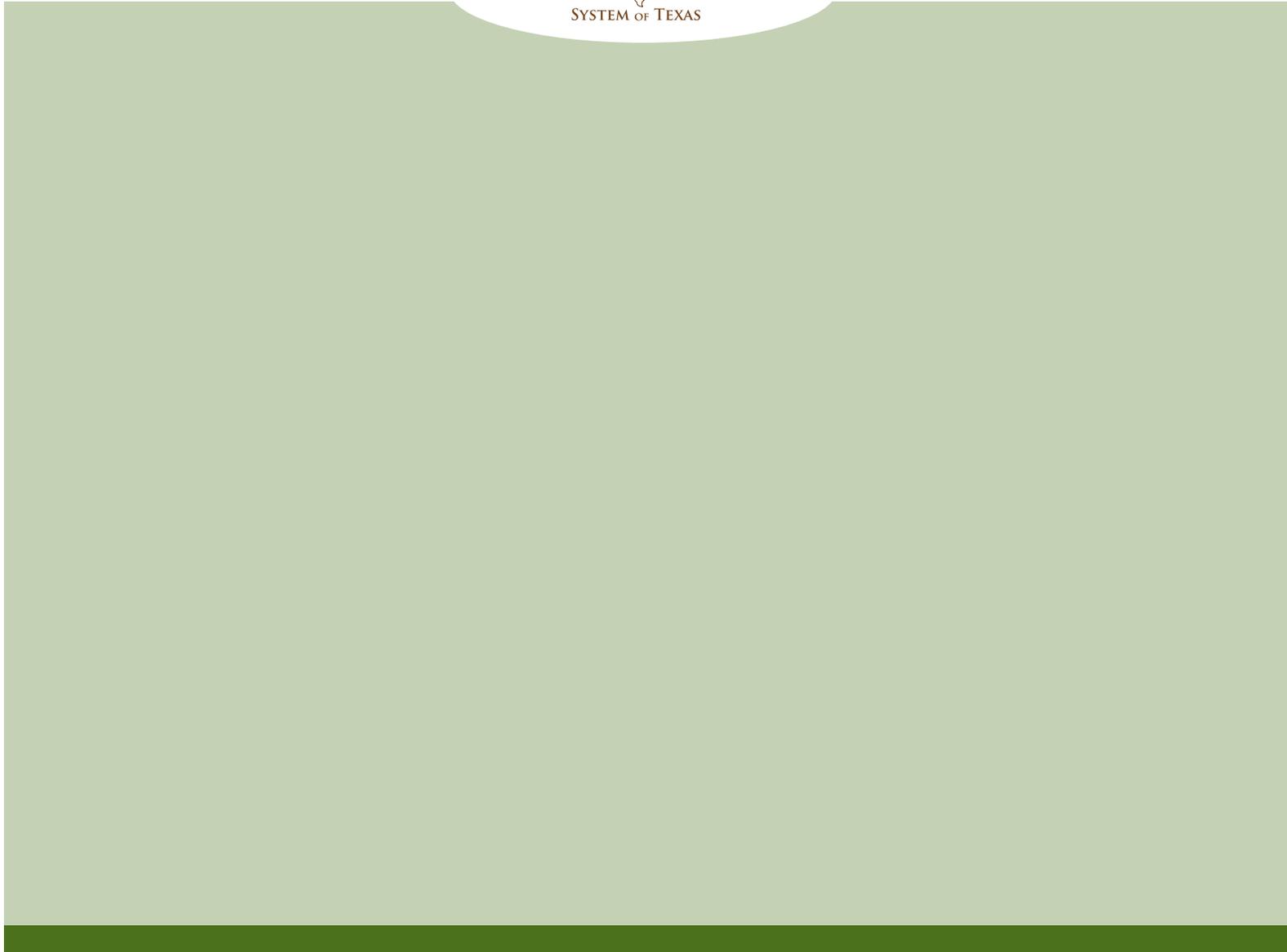


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**BOARD OF TRUSTEES MEETING
EMPLOYEES RETIREMENT SYSTEM OF TEXAS**

**December 6, 2013
ERS Board Room
ERS Building – 200 E. 18th Street
Austin, Texas 78701**

TRUSTEES PRESENT

Brian Ragland, Chair
Frederick E. Rowe, Vice-Chair
Cydney Donnell, Member
Yolanda Griego, Member
I. Craig Hester, Member
Cheryl MacBride, Member

TRUSTEES ABSENT

Frederick E. Rowe, Vice-Chair (December 6, 2013)

ERS STAFF PRESENT

Ann S. Bishop, Executive Director
Larry Zeplin, Chief Operating Officer
Tony Chavez, Internal Auditor
Paula A. Jones, General Counsel and Chief Compliance Officer
Robert P. Kukla, Director of Benefit Contracts
Mel Mireles, Chief Information Officer
Shack Nail, Deputy Director of Governmental Affairs
Ralph Salinas, Human Resources Director
Marc B. Sundbeck, Manager of Enterprise Risk Management
Catherine Terrell, Director of Governmental Affairs
Tom Tull, Chief Investment Officer
Debbie Warren, Director of Customer Benefits
Mike Wheeler, Chief Financial Officer
Carolyn Anderson, Investments
Bill Bittick, Internal Audit
Georgina Bouton, Benefit Contracts
Tracy Caraway, Benefit Contracts
Valerie Cardenas, Benefit Contracts
Kyla Cloutier, Benefit Contracts
Kelley Davenport, Executive Office
D'Ann DeLeon, Benefit Contracts
Blaise Duran, Benefit Contracts
Leah Erard, Governmental Affairs
Dana Jepson, Governmental Affairs
Sharmila Kassam, Investments
Deborah Legg, Benefit Contracts
Gilbert Mokry, Internal Audit
Lauren Russell, Benefit Contracts
Cheryl Scott Ryan, Legal Services
Kay Steed, Operations Support
Jackie Talley, Executive Office
Martha Wall, Governmental Affairs
Mary Jane Wardlow, Governmental Affairs

ALSO PRESENT

Steve Alexander, United HealthCare
Amy Barrett, Teacher Retirement System of Texas
Philip Dial, Rudd and Wisdom, Inc.
Justin Emerson, Caremark
Ryan Falls, Gabriel Roeder Smith & Company
Juan Garcia, Office of Governor
Bill Hamilton, Retired State Employees Association
Harrison Hiner, Texas State Employees Union
Alyssa Martin, Weaver L.L.P.
Wade McDonald, Legislative Budget Board
Emily Morgani, Legislative Budget Board
Liz Oberg, Scott & White Health Plan
John Wauson, Weaver L.L.P.

Ann S. Bishop, Employees Retirement System of Texas (ERS) Executive Director, opened the meeting with the following statement:

A public notice of the Joint Meeting of the Board of Trustees (Board) and Investment Advisory Committee (IAC) containing all items on the proposed agenda was filed with the Office of the Secretary of State at 10:47 a.m. on Tuesday, November 26, 2013 as required by Chapter 551, Texas Government Code, referred to as "The Open Meetings Law."

The Board of Trustees convened as a committee of the whole at 8:30 a.m. to consider Audit Committee agenda items.

XII. PRESENTATION, DISCUSSION AND CONSIDERATION OF AUDIT COMMITTEE AGENDA ITEMS:

a. *Internal Audit Quality Assurance Review* – Ms. Cydney Donnell introduced Mr. Tony Chavez, ERS Internal Auditor and Ms. Amy Barrett, Chief Audit Executive of the Teacher Retirement System of Texas to present the results of the peer review report for the ERS Internal Audit Division. The ERS Board of Trustees authorized the Internal Auditor to participate in the State Agency Internal Audit Forum (SAIAF) Peer Review Process in order to fulfill this requirement. Audit standards require external assessments (peer review) of the internal audit activity at least once every three years.

Ms. Barrett stated the objective of the peer review is to assess compliance with audit standards Internal Audit is required to follow by statute. Ms. Barrett reported Internal Audit received an overall rating of "pass with deficiencies". Work performed by the peer review team included: 1) review and evaluation audit activity supporting documentation; 2) interviews with the Internal Auditor, IA staff, selected Board members, and executive management; 3) review and evaluation of audit working papers and corresponding audit reports; 4) review of IA's policies and procedures; and 5) review of the annual audit plan process include the annual risk assessment.

Ms. Barrett reported Internal Audit agrees with results including recommendations for improvement. There were no questions or further discussion on this matter, and no action was required on this agenda item.

b. *Internal Audit Reports* – Mr. Chavez introduced Mr. Gilbert Mokry, Senior Auditor and Mr. Bill Bittick, Investment Compliance Auditor of the Employees Retirement System of Texas. Mr. Chavez reported two audit engagements were completed as part of the fiscal year 2014 audit plan. The first audit

engagement presented was a review of the records retention and disposition process at ERS. Mr. Chavez reported based on audit work performed the overall assessment of internal controls was satisfactory and controls were effective and working as intended. Mr. Chavez reported there were some control gap corrections and improvement opportunities. Audit observations reported were 1) no oversight over divisions for compliance with ERS records retention policy and division responsibility and 2) division responsibility and accountability not consistently communicated or understood. There were no questions or further discussion on this matter.

Mr. Bittick next discussed the quarterly investment compliance report. Contractually, ERS securities lending partner cannot load ERS securities greater than 90% of total holdings. Two instances of non-compliance with this provision identified during the quarter. No other instances of non-compliance identified.

Mr. Chavez presented the annual Internal Audit Report which is required by statute to be submitted to the Board, the Executive Director, the Governor's Office, the Legislative Budget Board, the Sunset Commission and the State Auditor's Office. The annual IA Report provides a summary of audit work performed in the prior year and the audit plan for the current year. Mr. Chavez reported ERS' internal audit plan and annual report was posted on the ERS public website in accordance with new reporting requirements in HB 16.

Chairman Ragland thanked Ms. Donnell for her leadership as Audit Chair and announced that Mr. Hester will take over as Chair of the Audit Committee. Ms. Donnell also thanked Mr. Chavez and stated what a pleasure it has been working with him.

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

XIII. ADJOURNMENT OF THE AUDIT COMMITTEE - FOLLOWING ADJOURNMENT OF THE AUDIT COMMITTEE, THE BOARD OF TRUSTEES WILL TAKE UP THE REMAINING AGENDA ITEMS

XIV. REVIEW AND APPROVAL OF THE MINUTES TO THE AUGUST 20, 2013 MEETING OF THE BOARD OF TRUSTEES

Chair, Brian Ragland opened the floor for a motion on the approval of the minutes to the Board of Trustees meeting held on August 20, 2013.

MOTION made by Yolanda Griego, seconded by Cheryl MacBride and carried unanimously by the present members that the Board of Trustees of the Employees Retirement System of Texas approve the Minutes to its meeting held on August 20, 2013

XV. REVIEW AND DISCUSSION OF ENTERPRISE RISK MANAGEMENT UPDATE

(This item was taken out of order and presented on Thursday, December 5, 2013 upon the adjournment of the Joint Board of Trustees and Investment Advisory Committee Meeting. To view the minutes to this agenda item, please refer to the Joint meeting minutes dated December 5, 2013)

XVI. REVIEW, DISCUSSION AND CONSIDERATION OF REQUIRED RULE REVIEW AND ADOPTION OF AMENDMENTS TO THE RULES OF THE BOARD OF TRUSTEES, TEXAS ADMINISTRATIVE CODE, TITLE 34, PART IV

Ms. Paula A. Jones, General Counsel and Chief Compliance Officer, presented the board with the next agenda item. Ms. Jones stated the Texas Supreme Court adopted a change in rule 91a of the Texas Rules of Civil Procedure (TRCP) regarding dismissal of baseless claims in contested cases effective March 1, 2013. ERS' hearings are conducted in accordance with the TRCP. Therefore, it is recommended that § 67.43 (Dismissal Without Hearing) be amended to provide the same standard of dismissal of baseless claims for contested case matters involving ERS as those provided in TRCP 91a. The notice of proposed amendments was published in the October 18, 2013 issue of the Texas Register and ERS did not receive any comments.

Ms. Jones reported that Texas law requires review of rules every four years, and staff reviewed Chapters 69 (Membership and Refunds) and 75 (Hazardous Profession Death Benefits) per § 2001.039, Tex. Gov't Code. The notices of rule reviews were published in the February 17, 2012 issue of the Texas Register and ERS did not receive any comments. Ms. Jones also reported that for Chapter 75, proposed amendments were recommended to update and clarify documents required for submission with an application for hazardous profession death benefits. The notice of proposed amendments was published in the October 18, 2013 issue of the Texas Register and ERS did not receive any comments.

Ms. Jones proceeded to discuss Chapter 81 (Insurance) in which amendments were proposed due to recent state legislation and the federal Patient Protection and Affordable Care Act (ACA). Ms. Jones stated that amendments to § 81.1 revise the definition of the GBP dependent so that a child younger than age 26, regardless of marital status, is eligible for coverage and extends eligibility for insurance coverage to disabled children, regardless of age, as long as they are dependent on the care and support of their parent/guardian who is also insured in the program. Proposed amendments to § 81.3 establish the standards to determine what individuals will be considered grandfathered for purposes of the tiered retiree insurance established in Tex. Ins. Code § 1551.3196. Tiered contributions become effective for persons who are not grandfathered on and after September 1, 2014.

Ms. Jones then continued to discuss the proposed amendments to §§ 81.1, 81.5 and 81.7 to codify the definition and eligibility requirements for the new HealthSelect Medicare Rx Plan, a plan providing prescription drug coverage to certain plan participants when they become eligible for Medicare. ERS may automatically enroll participants in the HealthSelect Medicare Rx when participants become eligible for Medicare. Ms. Jones also stated that if a participant decides to decline the HealthSelect Medicare Rx plan, then participants will not receive any Texas Employees Group Benefits Program (GBP) prescription coverage.

Ms. Jones briefly discussed the proposed amendments to clarify the applicability of the 90-day waiting period or beginning date of coverage for health benefits for certain retirees who do not retire directly from state service and also for those who retire under the age of 65 but do not meet the Rule of 80. Ms. Jones stated that retirees who are not eligible for a state contribution at the time of retirement are eligible for optional coverages and health coverage pursuant to Tex. Ins. Code § 1551.323. An amendment is also proposed to permit participants to drop a dependent from GBP coverage on the last day of the month if the dependent gains other coverage on the first day of the following month. Ms. Jones stated that this is a cost savings to participants and provides greater flexibility in dropping coverage when their dependents gain other coverage. The notice of proposed amendments to Rule 81 was published in the October 18, 2013 issue of the Texas Register and ERS did not receive any comments.

Ms. Jones discussed proposed amendments to § 85.3 concerning Eligibility and Participation (TexFlex Flexible Benefits Plan) to allow employees to decrease their health care reimbursement account contribution if there has been a change in marital status. The notice of proposed amendments was published in the October 18, 2013 issue of the Texas Register and ERS did not receive any comments.

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

MOTION made by Ms. Donnell, seconded by Mr. Hester and carried unanimously by the present members of the Board of Trustees of the Employees Retirement System of Texas to approve the following actions with regard to the Rules of the Board of Trustees, Texas Administrative Code, Title 34, Part IV, as presented:

- Adopt the proposed amendments to:
 - Chapter 67, Hearings on Disputed Claims, §67.43 Concerning Dismissal Without Hearing;
 - Chapter 75, Hazardous Profession Death Benefits, §75.1 Concerning Filing of Claims;
 - Chapter 81, Insurance, §§ 81.1, 81.3, 81.5 and 81.7 Concerning Definitions, Administration, Eligibility, and Enrollment and Participation; and
 - Chapter 85, Flexible Benefits, §85.3 Concerning Eligibility and Participation.
- Readopt the following chapters of the Rules of the Board of Trustees because the reasons to adopt the rules in these chapters continue to exist:
 - Chapter 69 (Membership and Refunds); and
 - Chapter 75 (Hazardous Profession Death Benefits), as Chapter 75 was amended by the Board as provided by this agenda item.

XVII. REVIEW AND DISCUSSION OF THE TEXA\$AVER DEFERRED COMPENSATION PROGRAM UPDATE AND CONSIDERATION OF PROPOSED FEE STRUCTURES EFFECTIVE FEBRUARY 1, 2014

Mr. Kukla introduced Ms. Georgina Bouton to present an overview of the TexaSaver program for the board. Ms. Bouton reminded the Board that the TexaSaver program is comprised of two plans: the 401(k) plan which is available to state employees and the 457 plan which is available to both state employees as well as higher education employees. Ms. Bouton reported that in January 2008 the automatic enrollment was implemented for the 401(k) plan. Newly hired employees were automatically enrolled at a 1% contribution rate into the TexaSaver 401(k) plan. Ms. Bouton announced that in January 2012 the board approved the establishment of a Roth contribution into the 401(k) and 457 plans. The legislature does not appropriate any funds into the administration of the TexaSaver program. Administrative costs are paid for by TexaSaver participants through monthly fees that are based on account balance.

Ms. Bouton began to report on the asset and participation for the TexaSaver program with a year-over-year comparison from August 31, 2012 to August 31, 2013. For the TexaSaver 401(k) plan, the assets at August 31, 2012 were reported at \$1 billion. Ms. Bouton stated at the end of fiscal year 2013, assets for the 401(k) were almost at \$1.6 billion which is due to the increasing number of participants as a function of the automatic enrollment feature. Assets for the 457 plan as of August 31, 2012 were reported at \$431 million, and, as of August 31, 2013 were almost at \$495 million. The TexaSaver Program reached \$2 billion in February 2013, a significant milestone for the Program. Both the 401(k) and 457 plans experienced an increase in enrollment and asset growth since fiscal year end 2012.

TexaSaver Deferred Compensation Program		
As of August 31, 2013		
	401(k) Plan	457 Plan
Current assets	\$1,593.8 million	\$494.7 million
Participant balances		
Average	\$11,785	\$20,029
Median	\$ 730	\$ 2,587
Monthly Deferrals		
Average	\$120	\$305
Median	\$ 30	\$ 50
Total eligible to participate	145,653 ¹	235,734 ²
Participants with a balance	135,237	24,689
Contributing	69,692 (52%)	14,385 (58%)
Non-contributing	65,545 (48%)	10,304 (42%)

¹ Includes state employees only

² Includes both state and higher education employees

Administration Fees were lowered and the Roth monthly flat fee was eliminated by the ERS Board in January 2013. Since then the Roth participation has grown over 100%.

Roth Participation			
As of August 31, 2013			
Plan Type	Roth Participant Accounts	Roth Assets	Average Monthly Deferral
401(k) Plan	888	\$ 2,087,472	5.4%
457 Plan	939	\$ 1,996,541	\$265
Totals	1,827	\$4,084,013	

Ms. Bouton reported that since its inception in January 2008, over 135,000 newly hired state employees have been automatically enrolled in the 401(k) plan and 90.5% or 122,000+ members remain in the plan. The following table shows the 401(k) automatic enrollment statistics since implementation in January 2008 and as of fiscal year end 2013:

Texa\$aver 401(k) Automatic Enrollment	
Since Implementation <i>January 2008 – August 2013</i>	FY 2013 <i>September 2012 – August 2013</i>
135,076 - eligible to be auto-enrolled 12,762 - opted out within 30 days 122,314 - auto-enrolled employees (90.5%)	25,950 - eligible to be auto-enrolled 3,287 - opted out within 30 days 22,663 - auto-enrolled employees (87%)
Behaviors of the Auto Enrollees: 787 - stopped deferrals & withdrew funds 18,497 - stopped deferrals 54,176 - separated from service 27,528 - increased deferrals above 1%	Behaviors of the Auto Enrollees: 112 - stopped deferrals & withdrew funds 4,817 - stopped deferrals 15,484 - separated from service 7,636 - increased deferrals above 1%
56,111 auto-enrolled employees continue to defer at the 1% payroll rate	

Ms. Bouton reported on the investment options provided for the Texa\$aver program. Texa\$aver currently offers 12 core investment options, 11 target date funds and a self-directed brokerage account option. These options allow participants to invest based on their savings needs, the risk tolerance and time horizon to retirement. The investment options for the 401(k) and 457 plans are identical. Ms. Bouton stated the Product Review Committee (PRC) is comprised of the ERS Executive Director, the Chief Operating Officer, Director of Benefit Contracts, Chief Investment Officer, Director of Public Equities, Director of Fixed Income and a member of the Investment Advisory Committee. The PRC reviews and recommends new investment options based on industry trends and following the Boards approval, the program implemented a real asset fund and a short term government bond fund in January 2013. Assets in these two funds are totaling over \$5 million.

As part of our annual review, the staff reviews the fees that were charged in the Texa\$aver program. Ms. Bouton informed the Board that the fees assessed on the 401(k) and 457 plans are assessed separately. The fees are designed to generate sufficient revenue to cover the record keeping and administrative cost of the program. Staff reviews the fee stratification on an annual basis and as a result of this review staff had determined that as of October 2013, the stratification tier has generated sufficient revenue to cover the program cost.

Ms. Bouton reported that staff is recommending that the board consider and adopt a revised stratification tier to be effective February 2014 which would lower the monthly fees paid by the higher balance tiers, while stilling providing sufficient revenue to cover plan administration costs. She added there are two options for the board to consider. One option would effectively generate the necessary revenue to cover the program cost while providing a fee reduction for over 17,000 participants with account balances over \$32,000. The chart for option one shows the proposed reduction and monthly fees in both dollar and percentages:

TexaSaver Proposed Fees - Option 1
Effective February 1, 2014

Account Balance*	Total Number of Accounts**	Current Monthly Fee Per Participation Per Account	Proposed Monthly Fee Per Participation Per Account	Proposed Change in Monthly Fee
\$10.00 or less	6,558	No fees	No fees	No Change
Between \$10.01 and \$1,000.00	72,261	\$1.18	\$1.18	No Change
Between \$1,000.01 and \$16,000.00	49,777	\$3.99	\$3.99	No Change
Between \$16,000.01 and \$32,000.00	9,593	\$6.32	\$6.32	No Change
Between \$32,000.01 and \$48,000.00	4,991	\$9.49	\$8.82	Reduction of \$0.67 monthly or 7.06%
Between \$48,000.01 and \$64,000.00	3,075	\$12.24	\$11.76	Reduction of \$0.48 monthly or 3.92%
\$64,000.01 and more	9,317	\$15.30	\$14.71	Reduction of \$0.59 monthly or 3.86%

*The Program administrative fee is based on the account balance

** Total Number of Accounts as of August 31, 2013

The second option would effectively generate the necessary revenue while providing a reduction in fees for 12,000 participants. Ms. Bouton reported this would impact members with account balances over \$48,000 or the highest 2 balance tiers.

TexaSaver Proposed Fees - Option 2
Effective February 1, 2014

Account Balance*	Total Number of Accounts**	Current Monthly Fee Per Participation Per Account	Proposed Monthly Fee Per Participation Per Account	Proposed Change in Monthly Fee
\$10.00 or less	6,558	No fees	No fees	No Change
Between \$10.01 and \$1,000.00	72,261	\$1.18	\$1.18	No Change
Between \$1,000.01 and \$16,000.00	49,777	\$3.99	\$3.99	No Change
Between \$16,000.01 and \$32,000.00	9,593	\$6.32	\$6.32	No Change
Between \$32,000.01 and \$48,000.00	4,991	\$9.49	\$9.49	No Change
Between \$48,000.01 and \$64,000.00	3,075	\$12.24	\$11.54	Reduction of \$0.70 monthly or 5.72%
\$64,000.01 and more	9,317	\$15.30	\$14.43	Reduction of \$0.87 monthly or 5.69%

*The Program administrative fee is based on the account balance.

** Total Number of Accounts as of August 31, 2013

Ms. Bouton stated that staff's recommendation is for the Option 1 to generate a fee reduction over a larger participant population, benefiting over 17,000 participants. There being no further questions or discussion, the Board then took the following action:

MOTION made by Ms. MacBride, seconded by Ms. Donnell and carried unanimously by the members of the Board of Trustees of the Employees Retirement System of Texas approve revising the fee schedule to the TexaSaver Proposed Fees Option 1 as presented and to be assessed to TexaSaver 401(k) and 457 accounts beginning on or after February 1, 2014.

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

a. *Actuarial Valuation of Retiree Health Insurance Benefits as of August 31, 2013 -*

Mr. Mike Wheeler, Chief Financial Officer introduced Mr. Phil Dial, Rudd and Wisdom, Inc. to present the next agenda item on actuarial valuation of retiree health insurance benefits. Mr. Dial reported that the valuation is conducted in order to provide the information required under the Governmental Accounting Standards Board Statement No. 43 (GASB 43), which provides the basis for financial reporting for state and local governmental entities that are providing post-employment benefits to their employees other than retirement benefits. Mr. Dial also reported that this is the seventh valuation of the Texas Employees Group Benefits Program (GBP) Other Post-Employment Benefits (OPEB). The GBP provides OPEB to retirees of state agencies, certain higher education institutions and "other" employers.

The OPEB that are provided through the GBP are the health benefits and the basic life plan. Mr. Dial reminded the board that the OPEB does not include retirement benefits. Retirees have access to other optional benefits, but those benefits are fully funded by member contributions and therefore, do not generate employer obligations under the GASB 43.

Mr. Dial stated that the information required under GASB 43 is reported by ERS in the notes and supplementary information contained in the Comprehensive Annual Financial Report (CAFR). ERS provides the information to the Comptroller and the Comptroller obtains similar information from TRS. Mr. Dial also reported that the Comptroller does not report the GASB 43 expense and liability information for ERS and TRS in the state's annual financial report, but instead they disclose that information in the notes to the financial statements. The Annual Required Contribution (ARC) that is defined by GASB is a major part of the funding progress that is being made for OPEB, but does not actually require the employer to contribute that number.

SB 1459 adopted by the 83rd Texas Legislature amends Article 1551 of the Insurance Code. Mr. Dial reported that SB 1459 requires insurance contribution rates for retirees vary based on length of service at retirement. The amendment to Article 1551 to the insurance code applies only to employees with less than 5 years of service on August 31, 2014 and to retirees retiring on or after September 1, 2014.

Mr. Dial reported that SB 1459 only has a small impact on the fiscal year 2014 OPEB liabilities and costs since it applies to only a small segment of the current membership, most of whom will not be eligible to retire for many years. The impact of the bill will gradually grow for many years as the employees to whom the requirements do not apply are replaced by those to whom it does apply. He added that as employees to whom the requirements apply get closer to retirement, the requirements of SB 1459 will reduce the states liability and cost for applicable employees who retire with less than 20 years of service. It will discourage some applicable employees and vested terminated members with less than 20 years of service from enrolling for insurance upon retirement. Mr. Dial also added that it would cause some employees to probably defer retirement to a later date so that they can qualify for full benefits.

The valuation is performed using actuarial cost methods and assumptions. Mr. Dial reported the entry age normal cost method is used for the retirement valuation. It's the same method used since inception of the GASB reporting requirements and for the ERS retirement plan valuation. The costs are calculated as a normal cost and the amount to amortize the unfunded accrued liability over a 30 year period, both as level percentages of pay. He also explained that the actuarial assumptions demographic and pay-related assumptions are the same as those used in valuing the retirement plans. The discount rate for a plan funded on a PAYGO basis is based on the rate of return on the employer's assets.

The demographic assumptions which include mortality, disability, termination, withdrawal, and retirement are the same demographic assumptions that the Board has adopted for the retirement plan valuation for fiscal year 2013. Mr. Dial reported the economic assumptions used include the inflation rate, the payroll growth and inflationary salary increase and salary increases for merit, promotion and longevity. The state agency employees are valued using the same economic assumptions as ERS uses for the retirement plan purposes, and likewise for higher education with the exception of the inflation assumption. TRS uses a lower inflation assumption for consistency with the retirement plan valuation.

Mr. Dial reported that since the OPEB benefits provided under the GBP are funded on a PAYGO basis (which means that the employer contributions are those that are required to provide the benefits in the current year and don't have any build up assets in the program), the GASB 43 requires that the discount rate be based on the expected yield of the "assets of the employer". For the State of Texas, the "assets of the employer" are the assets held in the Treasury Pool and managed by the Comptroller. The average real rate of return in excess of inflation for the Treasury Pool has been approximately 2.0% over the last 30 years. Mr. Dial reported that the 2% historical rate added to the 3.5% inflation rate has adopted a 5.5% discount rate for purposes of the OPEB valuation. It's the same assumed discount rate as was used for the fiscal year 2008 – fiscal year 2012 valuations.

The other unique assumption for the OPEB valuation is based on projected Per Capita Health Benefit Costs for fiscal year 2014. Since fiscal year 2011, Mr. Dial stated it has been necessary to use two sets of Per Capita Health Benefits Costs. One for HealthSelect (for participants for whom Medicare is not primary and for Medicare-primary participants who elect to remain in HealthSelect), and HealthSelect Medicare Advantage (for Medicare-primary participants who elect HealthSelect Medicare Advantage). Mr. Dial continued by stating a select and ultimate trend assumption is used which begins at the levels we are using for the current biennium and trends have been revised to reflect updated projections for fiscal year 2016 – fiscal year 2020. The trend is expected to remain at 8% through fiscal year 2016 and then decline over the next five years to a “sustainable” ultimate level. The ultimate level is the same as that used in previous OPEB valuations.

The results of the GBP OPEB actuarial valuation for fiscal year 2013 are summarized in the following tables:

	Members	Covered Spouses	Covered Dependent Children	Total
Actives	226,181 ¹	43,315 ²	127,708	397,204
Deferred Vested	11,255	0 ²	0 ²	11,255²
Retirees and Nominees	100,054 ³	26,928	8,902	135,884
August 31, 2013	337,490	70,243	136,610	544,343
August 31, 2012	332,416	70,675	137,569	540,660
Change from previous fiscal year	5,074	(432)	(959)	3,683

¹ Includes return-to-work retirees and employees who have not yet satisfied the 90-day waiting period.

² Rather than use current spouse/dependent child coverage information, actuarial assumptions are used to estimate the future number of spouses and dependent children that will be covered at retirement.

³ Includes 3,305 retirees who receive the Opt-Out Credit in lieu of health benefits.

\$ Millions

Actuarial Valuation Date	Unfunded Actuarial Accrued Liability	Normal Cost	Amortization	Annual Required Contribution
August 31, 2013	\$23,030	\$936	\$999	\$1,935
August 31, 2012	\$20,823	\$897	\$904	\$1,801
Change	\$2,207	\$39	\$95	\$134

Mr. Dial reported the actual employer contributions for fiscal year 2013 were \$550 million or 28% of the annual required contribution.

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

MOTION made by Ms. Cheryl MacBride, seconded by Ms. Cydney Donnell and carried unanimously by the present members of the Board of Trustees of the Employees Retirement System of Texas accept the actuarial valuation for retiree health benefits under the Texas Employees Group Benefits Program for fiscal year 2013 performed by Rudd and Wisdom, Inc., and presented with this agenda item.

b. Health Insurance Financial Status Update for Fiscal Year 2013 and Outlook for Fiscal Year 2014 – Mr. Kukla introduced Mr. Blaise Duran, Team lead of the

Underwriting Data Analysis unit in the Benefit Contracts division. Mr. Duran presented the health insurance financial status update noting there was a net gain of \$40 million versus a projected loss of \$27 million which was primarily due to a lower health benefit cost trend. The transition to UnitedHealthcare as the third party administrator (TPA) for HealthSelect of Texas resulted in \$6.5 million savings in administrative fees and found that the provider's discounts with United were approximately 1 point better which generated an estimated \$15 million in savings. This left a total of \$325 million in the contingency fund as of August 31, 2013.

The following table illustrates the experience in fiscal year 2012, 2013 and the projected fiscal year 2014 experience. Mr. Duran reported other potential factors that were not included in fiscal year 2014 projections included increased tobacco user fees estimated to generate an expected \$14.7 million in additional revenue; the impact of Medicare Advantage plans which is estimated to save retirees \$28.8 million in dependent contributions this year, as well as a renewal dependent eligibility audit. There was also acceleration in the HealthSelect per capita prescription drug cost trend.

Texas Employees Group Benefits Program Summary of Health Plan Experience Based on Experience through August, 2013			
<i>\$Millions</i>			
	FY12	Estimated FY13	Projected FY14
Revenue from State/Members			
State Contribution for State Agencies	\$1,257.5	\$1,351.0	\$1,477.7
1% agencies' payroll contribution	56.5	56.5	55.5
State Contribution for Higher Education	514.0	558.6	609.3
1% higher ed's payroll contribution	30.7	30.7	32.6
Employer Contribution – Other ¹	46.5	57.3	62.4
Employer Contribution - Total	\$1,905.2	\$2,054.1	\$2,237.5
Member Contribution	395.6	415.0	446.2
Total Contributions	\$2,300.8	\$2,469.1	\$2,683.7
Revenue from Other Funding Sources:			
Refunds, Rebates and Part D Subsidy	\$153.1	\$119.9	\$107.9
Net Investment Income ²	1.1	(18.6)	(9.6)
Total	\$154.2	\$101.3	\$98.3
TOTAL REVENUE³	\$2,455.0	\$2,570.4	\$2,782.0
HEALTH CARE EXPENDITURES³	\$2,398.2	\$2,529.8	\$2,802.8
Net Gain/(Loss)	\$56.8	\$40.6	(\$20.8)
Fund Balance	\$284.8	\$325.4	\$304.6
Other Expenses Incurred Outside of the GBP Fund			
Member Cost Sharing	\$568.2	\$554.8	\$565.9

¹ Non-state agencies

² Net investment income represents the excess of investment income over ERS operating expenses related to the insurance program.

³ Reduction in member cost sharing for FY12 reflects transfer of Medicare-primary participants to MA PPO.

Mr. Duran reminded the board at its May 2013 meeting the Board approved the 7% increase in the HealthSelect employer and member contribution rates for fiscal year 2014. This increase is expected to come close to breaking even with a projected loss of about \$21 million in fiscal year 2014. The projected loss is expected to reduce the contingency fund balance to about \$300 million as of August 31, 2014.

Mr. Duran reported that during fiscal year 2014, ERS will conduct the next phase of the Dependent Eligibility Audit (DEA). ERS is also currently developing a Request for Proposal (RFP) for Pharmacy Benefits Manager (PBM) services for both the regular prescription drug plan and the Employer Group Waiver Plan Plus Wrap (EGWP+Wrap). The RFP is expected to be published in the Spring for a projected implementation date in fiscal year 2016.

Mr. Duran reported that ERS continues to successfully run 4 medical home initiatives: The Austin Regional Clinic, Kelsey-Seybold, Trinity Clinic and newly added in July the Austin Diagnostic clinic. ERS is working with United to add another provider in Lubbock. For fiscal year 2012 ERS paid \$1.3 million to Austin Regional Clinic in shared savings. Fiscal year 2013 results will be finalized in early January 2014.

In March 2012 ERS issued a Request for Information (RFI) soliciting information from qualified contractors to re-open closed plan years of Retiree Drug Subsidy (RDS) Audit filings. The contract was awarded to Part D Advisors following a comprehensive RFI evaluation process. Mr. Duran reported that Part D Advisors has successfully completed the review and reopening of fiscal years 2006-2011, and ERS has requested and received a total of \$8.5 million in additional subsidy from the Centers for Medicare and Medicaid Services (CMS).

Mr. Duran reported to the board ERS is contracted with 2 Medicare Advantage (MA) plans for Medicare-primary retirees. Humana MA is the preferred provider organization (PPO) which was effective January 1, 2012 and Kelsey-Seybold MA Health Maintenance Organization (HMO) in the Houston area was effective September 1, 2011. Mr. Duran reminded the board that at its May 2013 meeting the Board approved increased rates for calendar year (CY) 2014. Rates are increasing for both plans in CY2014, due to the ACA Health Insurance Providers fee which is estimated to be \$19.22 per participant per month. He also stated that these plans saved members \$25.8 million in fiscal year 2013 in reduced contributions for dependent coverage. Currently 52,535 participants are enrolled in an MA plan as of September fiscal year 2013 up from 47,718 in September fiscal year 2012.

Mr. Kukla stated that even with the additional \$19.22 ACA Health Insurance Providers fee, this program still produces a lower cost to ERS and the state than if the individuals were in the traditional HealthSelect plan where we coordinated benefits.

Mr. Duran noted there is a continuing increase in the certifications with tobacco. Based on the self-certification completed through October 2013, ERS expects to collect \$14.7 million in fiscal year 2014.

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

c. Dental Plans Update – *(This item was taken out of order and presented on Thursday, December 5, 2013 upon the adjournment of the Joint Board of Trustees and Investment Advisory Committee Meeting. To view the minutes to this agenda item, please refer to the Joint meeting minutes dated December 5, 2013)*

d. Life Plans Update – *(This item was taken out of order and presented on Thursday, December 5, 2013 upon the adjournment of the Joint Board of Trustees and Investment Advisory Committee Meeting. To view the minutes to this agenda item, please refer to the Joint meeting minutes dated December 5, 2013)*

e. Disability Plans Update – *(This item was taken out of order and presented on Thursday, December 5, 2013 upon the adjournment of the Joint Board of Trustees and Investment Advisory Committee Meeting. To view the minutes to this agenda item, please refer to the Joint meeting minutes dated December 5, 2013)*

XIX. REVIEW AND DISCUSSION OF TEXFLEX FLEXIBLE SPENDING ACCOUNTS UPDATE

(This item was taken out of order and presented on Thursday, December 5, 2013 upon the adjournment of the Joint Board of Trustees and Investment Advisory Committee Meeting. To view the minutes to this agenda item, please refer to the Joint meeting minutes dated December 5, 2013)

XX. REVIEW, DISCUSSION AND CONSIDERATION OF CONTRACT AWARD RECOMMENDATIONS FOR DENTALPPO, DHMO, AND DISCOUNT DENTAL PROGRAM BEGINNING SEPTEMBER 1, 2014

Ms. Georgina Bouton presented with the next agenda item and reported that the GBP offers two voluntary dental plans: the self-funded Dental Preferred Provider Organization (PPO) plan which is referred to as the State of Texas Dental Choice PlanSM (Dental Choice) and a fully-insured Dental Health Maintenance Organization plan (DHMO). ERS' contract with the current third party administrator (TPA), HumanaDental Insurance Company (HumanaDental) as the administrator for the PPO plan and DentiCare, Inc., a wholly owned subsidiary of Humana, Inc., to underwrite the fully-insured DHMO. These contracts will expire August 31, 2014.

Ms. Bouton announced that on May 31, 2013 ERS staff issued a Request for Proposal (RFP) for the current services provided under the PPO and DHMO insurance plans. The RFP provided for 3 services, the PPO, DHMO and a new option being the Dental Discount option. ERS received ten responses from five providers: Careington International Corporation (Careington), Delta Dental Insurance Company and ALPHA Dental Programs, Inc (Delta), HumanaDental Insurance Company and DentiCare, Inc. (Humana), Metropolitan Life Insurance Company and SafeGuard Health Plans, Inc. (Metlife), and UnitedHealthcare.

Mr. Blaise Duran reported the RFP evaluation was held from July 2013 through November 2013 and during this time were clarification about the policy and plans, discussions over contract deviations, performed reference checks and had face-to-face interviews. During the interviews was discussion on claims processing, cost containment measures, customer service capabilities, communications, information technology and financial aspects "best and final" offers. The "best and final" offers were evaluated by ERS team subject matter experts as well as our consulting actuary Rudd and Wisdom. In November 2013 ERS conducted site visits to the finalist's customer service, operational and call center facility and data centers. Mr. Duran reported staff evaluation of the dental PPO focused on administrative price, customer service levels, network size and accessibility. For the Dental DHMO, staff evaluation focused on premium rates, network size and accessibility. The Dental Discount plan staff evaluation focused on fees and network size and accessibility.

In a response to a question asked by Ms. MacBride wanting to know the kind of percentage discounts there are for the discount dental plan, Ms. Bishop responded by saying it depends on the dentist and procedure and the discounts could range anywhere from 5% to 50%.

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

MOTION made by Ms. Cydney Donnell, seconded by Ms. Yolanda Griego and carried unanimously by the members of the Board of Trustees of the Employees Retirement System of Texas approve the selection of Humana as the Third Party Administrator (TPA) for the State of Texas Dental Choice PlanSM (Dental Choice) offered under the Texas Employees Group Benefits Program under a contract which will cover an initial four year term beginning September 1, 2014 through August 31, 2018.

I further move that the Board of Trustees of the Employees Retirement System of Texas authorize the Executive Director to negotiate and execute a contract with Humana with terms that are fully acceptable to ERS, and to authorize the Executive Director to thereafter administer the contract agreed to by the parties. In the event that a contract fully satisfactory to ERS is not timely executed with Humana, or if it appears to the Executive Director during the term of the contract that Human will not be capable of performing the required TPA services for the Dental Choice Plan to ERS' satisfaction, then the Board authorizes the Executive Director to resume contract negotiations with another vendor, and to negotiate and execute contract terms with that vendor that are fully acceptable to ERS, and to authorize the Executive Director to thereafter administer the contract agreed to by the parties.

Secondly, I move that the Board of Trustees of the Employees Retirement System of Texas approve the selection of Humana as the Carrier for the fully-insured Dental Health Maintenance Organization (DHMO) Plan offered under the Texas Employees Group Benefits Program under a contract which will cover an initial four year term beginning September 1, 2014 through August 31, 2018.

I further move that the Board of Trustees of the Employees Retirement System of Texas authorize the Executive Director to negotiate and execute a contract with Humana with terms that are fully acceptable to ERS, and to authorize the Executive Director to thereafter administer the contract agreed to by the parties. In the event that a contract fully satisfactory to ERS is not timely executed with Humana, or if it appears to the Executive Director during the term of the contract that Human will not be capable of performing the required Carrier services for the DHMO Plan to ERS' satisfaction, then the Board authorizes the Executive Director to resume contract negotiations with another vendor, and to negotiate and execute contract terms with that vendor that are fully acceptable to ERS, and to authorize the Executive Director to thereafter administer the contract agreed to by the parties.

Thirdly, I move that the Board of Trustees of the Employees Retirement System of Texas approve the selection of Careington as the Vendor to provide the Dental Discount services under the Texas Employees Group Benefits Program under a contract which will cover an initial four year term beginning September 1, 2014 through August 31, 2018.

I further move that the Board of Trustees of the Employees Retirement System of Texas authorize the Executive Director to negotiate and execute a contract with Careington with terms that are fully acceptable to ERS, and to authorize the Executive Director to thereafter administer the contract agreed to by the parties. In the event that a contract fully satisfactory to ERS is not timely executed with Careington, or if it appears to the Executive Director during the term of the contract that Careington will not be capable of performing the required Dental Discount services to ERS' satisfaction, then the Board authorizes the Executive Director to resume contract negotiations with another vendor, and to negotiate and execute contract terms with that vendor that are fully acceptable to ERS, and to authorize the Executive Director to thereafter administer the contract agreed to by the parties.

XXI. EXECUTIVE DIRECTOR'S REPORT

(This item was taken out of order and presented on Thursday, December 5, 2013 upon the adjournment of the Joint Board of Trustees and Investment Advisory Committee Meeting. To view the minutes to this agenda item, please refer to the Joint meeting minutes dated December 5, 2013)

XXII. EXECUTIVE SESSION – IN ACCORDANCE WITH SECTION 551.074, TEXAS GOVERNMENT CODE, THE BOARD OF TRUSTEES WILL MEET IN EXECUTIVE SESSION TO EVALUATE THE DUTIES, PERFORMANCE AND COMPENSATION OF THE INTERNAL AUDITOR OF THE EMPLOYEES RETIREMENT SYSTEM OF TEXAS. THEREAFTER, THE BOARD MAY CONSIDER APPROPRIATE ACTION IN OPEN SESSION.

Chair, Brian Ragland announced it is 10:32 a.m. on December 6, 2013 and in accordance with Section 551.074, Texas Government Code, the Board of Trustees will meet in executive session to evaluate the duties, performance and compensation of the Internal Auditor of the Employees Retirement System of Texas. Thereafter, the Board may consider appropriate action in open session.

The Board of Trustees returned to open session at 10:58 a.m. on December 6, 2013. Chair, Brian Ragland stated that no action, decision, or vote was taken by the Board while in Executive Session. Mr. Ragland further stated that he would entertain any motions from members of the Board.

MOTION made by Ms. Cydney Donnell, seconded by Ms. Cheryl MacBride and carried unanimously by the present members that the Board of Trustees of the Employees Retirement System of Texas increase the salary of the ERS Internal Auditor, Tony Chavez, by 11.13% and ask that the Human Resources Department of the agency place him in the appropriate classification.

Ms. Bishop commented on what a wonderful job Mr. Chavez has done during the past year in terms of the transitioning of ERS' Internal Audit Department, hiring staff, managing the vendors as well as improving the quality and the quantity of the audits.

Ms. Donnell thanked Mr. Chavez for the job he's done this year and looks forward to continuing to work with him.

XXIII. SET 2014 MEETING DATES FOR THE ERS BOARD OF TRUSTEES, INVESTMENT ADVISORY COMMITTEE AND AUDIT COMMITTEE

(This item was taken out of order and presented on Thursday, December 5, 2013 upon the adjournment of the Joint Board of Trustees and Investment Advisory Committee Meeting. To view the minutes to this agenda item, please refer to the Joint meeting minutes dated December 5, 2013)

XXIV. ADJOURNMENT OF THE BOARD OF TRUSTEES

The December 6, 2013 Board of Trustees meeting adjourned at 11:00 a.m.