

# Employees Retirement System of Texas Self Evaluation Report

Submitted to the Sunset Commission September 1, 2015





# Table of Contents

- I. Agency Contact Information . . . . . 3
- II. Key Functions and Performance . . . . . 4
- III. History and Major Events . . . . . 13
- IV. Policymaking Structure. . . . . 15
- V. Funding . . . . . 20
- VI. Organization . . . . . 24
- VII. Guide to Agency Programs. . . . . 27
  - Executive Office . . . . . 28
  - Benefits Communications . . . . . 37
  - Governmental Affairs . . . . . 45
  - Human Resources. . . . . 51
  - Investments . . . . . 58
  - Legal Services. . . . . 72
  - Benefit Contracts . . . . . 80
  - Customer Benefits. . . . . 102
  - Finance . . . . . 112
  - Information Systems. . . . . 117
  - Operations Support . . . . . 126
- VIII. Statutory Authority and Recent Legislation. . . . . 133
- IX. Issues for Consideration . . . . . 139
- X. Other Contacts. . . . . 142
- XI. Additional Information . . . . . 145
- XII. Agency Comments. . . . . 153

# Table of Contents

Appendix A: Evaluation of Agency Reporting Requirements . . . . .	154
Appendix B: Biographical Information of Governing Body Members . . . . .	163
Board of Trustees . . . . .	164
Investment Advisory Committee . . . . .	167
Appendix C: Sample Customer Benefits Performance Metric Documents . . . . .	168
Fiscal Year 2014 Performance Measures Summary Report . . . . .	169
May 2015 Member Satisfaction Survey Report . . . . .	175
Appendix D: Supplemental Resource Documents . . . . .	179

# Employees Retirement System of Texas Self-Evaluation Report

## I. AGENCY CONTACT INFORMATION

### Exhibit 1: Agency Contacts

	Name	Address	Telephone Numbers	Email Address
<b>Agency Head</b>	Porter Wilson Executive Director	200 E. 18th St. Austin, Texas 78701	(512) 867-7176	porter.wilson@ers.state.tx.us
<b>Agency's Sunset Liaison</b>	Keith Yawn Office of Management Support	200 E. 18th St. Austin, Texas 78701	(512) 867-7193	keith.yawn@ers.state.tx.us

Exhibit 1 Agency Contacts

## II. KEY FUNCTIONS AND PERFORMANCE

### **A. Provide an overview of your agency's mission, objectives, and key functions.**

The Employees Retirement System of Texas (ERS) is a service-oriented trust agency established in 1947 by the Texas Constitution and laws of the State of Texas. ERS provides retirement, deferred compensation, health, dental and optional insurance coverage, and other benefit programs for state employees, retirees and their dependents. ERS trust funds are invested by agency staff on behalf of member beneficiaries. Through ERS, the state provides competitive benefits that are an important recruitment and retention tool supporting the state workforce's employees and employers.

### **B. Do your key functions continue to serve a clear and ongoing objective? Explain why each of these functions is still needed. What harm would come from no longer performing these functions?**

Yes, employee benefits administered by ERS continue to support the state's diverse workforce and are valued by state agencies as a powerful tool in the recruitment and retention of high-quality employees. The absence of this function could be detrimental to those efforts and undermine the mission and goals of all of state agencies and institutions of higher education by negatively impacting their ability to maintain a qualified workforce to meet the numerous and complex needs of serving nearly 27 million Texans.

### **C. What evidence can your agency provide to show your overall effectiveness and efficiency in meeting your objectives?**

As the data provided in this report attests, ERS has been highly effective and efficient in meeting the objectives laid out for it by its members, Board of Trustees and management, and state officials, often under challenging conditions and limited resources. Accomplishments and specific performance measures for individual programs and divisions are included as appropriate in Section VII of this report, and full fiscal year accomplishments and achievements are detailed in the annual ERS Operating Budget by strategy. The following highlights the success of ERS' two major service lines, retirement operations and employee benefits programs.

During the 30-year period ending August 31, 2014, the retirement trust exceeded actuarial return assumptions of 8% by posting actual returns of 8.65%. The most recent one-year returns, for the year ending August 31, 2014, were even stronger at 14.70% (14.58% net of fees). This success in sustained growth allows ERS to make approximately two-thirds of all benefit payments to retirees from investment returns, with approximately one-third coming from combined state and employee contributions.

ERS lowered health plan costs by \$5.8 billion during Fiscal Year 2014 through tough cost-management practices, aggressive negotiation of contracts, and maintenance of low administrative overhead. HealthSelect<sup>SM</sup> of Texas program administrative costs represent less than three cents of every health plan dollar spent, far below the 14-cent national average. ERS and its vendors actively manage plan costs to reduce the impact of industry cost increases on the state and its workforce as much as possible. The Benefit Contracts division works to maintain a high level of benefits while controlling increasing costs. The individual impact of these savings is significant – without cost-management programs, Fiscal Year 2014 per member state insurance contributions would have increased by 349%, from \$500.92 a month to \$1,749.82 a month (for member only coverage). Greater detail regarding ERS' cost management activities and results can be found in the annual Cost Management and Fraud Report, available on the ERS public website.

**D. Does your agency's enabling law continue to correctly reflect your mission, objectives and approach to performing your functions? Have you recommended changes to the Legislature in the past to improve your agency's operations? If so, explain. Were the changes adopted?**

Yes, the ERS enabling law continues to correctly reflect the agency's mission, objectives and approach to performing required functions. The agency has recommended changes to the Legislature from time to time in the past. Statutory changes recommended by ERS over the decades are too numerous and complex to list in total in this report. During the past several legislative sessions, at legislators' request, ERS has provided various options and alternatives to statutory provisions governing the retirement and insurance programs to further control costs or enhance the effectiveness and efficiency of administered benefits. In most instances, the Legislature adopted ERS' proposed changes or changes significantly similar to those proposed by ERS. Examples of proposed changes adopted by the legislature in recent years include:

- Increasing retirement contributions made by both the state and ERS members to bring the trust fund to actuarial soundness;
- Changing service retirement benefits applicable to new members who joined ERS on or after September 1, 2009 and September 1, 2013 to address the long-term costs of pension benefit structures;
- Completing various technical changes to clarify statutory provisions regarding accrual of, and payment for, ERS member service;
- Changing eligibility considerations for ERS disability retirement benefits; and
- Tying state contributions for ERS retiree health insurance benefits to length of state service accrued by retirees to reduce ongoing health program costs.

**E. Do any of your agency's functions overlap or duplicate those of another state or federal agency? Explain if, and why, each of your key functions is most appropriately placed within your agency. How do you ensure against duplication with other related agencies?**

ERS functions and responsibilities do not duplicate those of other state or federal agencies. Other state agencies perform similar functions, such as administering retirement benefits or health insurance programs, but the populations for which each agency performs those functions are unique and distinct from each other. During the early 1990s, ERS was assigned responsibility for administering insurance benefits for employees of all public Texas colleges and universities, except for the University of Texas and Texas A&M University systems. Public school teacher insurance benefits are administered by the Teacher Retirement System of Texas (TRS).

Money in the ERS trust fund, by law, must be invested solely on behalf of trust beneficiaries. Other entities also manage diversified investments for defined investment portfolios, including TRS administration of retirement benefits for public school employees, the Texas Treasury Safekeeping Trust's management of state revenue accounts, the University of Texas Investment Management Corporation's maintenance of the second largest university endowment in the country, and the General Land Office's oversight of state investments contributing to public school funding. Texas also has two statewide retirement systems for local public employees, each serving a different member population: the Texas Municipal Retirement System covering municipal workers; and the Texas County and District Retirement System covering county, utility and hospital district employees.

**F. In general, how do other states carry out similar functions?****Employee Insurance Benefits:**

Most states assign the management of state employee insurance benefits to an executive branch agency dedicated to administrative, finance or personnel matters. A handful of states assign this responsibility to the state retirement system, including California, North Dakota and Wisconsin. It is even less common for the state retirement system to manage health insurance benefits for higher education employees – currently the case in North Carolina – as this responsibility is almost always delegated to the colleges or university system. A sample of primary agencies responsible for managing state employee insurance benefits in other states includes:

- **Administrative Agencies:** Department of Administration (Arizona, Idaho, Missouri, and Rhode Island), Department of Administrative Services (Iowa, New Hampshire), Department of Administration and Information (Wyoming), Executive Office for Administration and Finance (Massachusetts), Department of Management Services (Florida and Illinois);
- **Personnel Agencies:** Department of Personnel (Indiana), Department of Personnel and Administration (Colorado), State Personnel Cabinet (Kentucky), State Bureau of Personnel (South Dakota), Department of Human Resource Management (Virginia and Vermont) Department of Employee Relations (Minnesota); Department of State Civil Service (Louisiana);
- **Finance Agencies:** Department of the State Treasurer (North Carolina), Office of Management and Budget (Delaware and Maryland), State Budget and Control Board (South Carolina), Office for Risk Management (Nebraska), and Department of Finance and Administration (Arkansas and Tennessee).

A few states designate employee insurance to the State Comptroller (Connecticut), the State Insurance Administrator (Mississippi), or the State Employees Insurance Board (Alabama). State of Pennsylvania employee benefits are managed by a tax-exempt nonprofit called the Pennsylvania Employees Benefit Trust Fund, which divides active and retired employee benefits into two separate programs.

Most states provide health benefits to state employees and retirees only, although some states manage public employee and teacher benefits under the same umbrella (Georgia and North Carolina). California provides benefits to more than 1.3 million state, local and public school employees, retirees and their families through the retirement system, but higher education benefits are administered separately through the university system. At least two states have experimented with providing insurance to part of the general population (Connecticut and West Virginia).

Plan benefits vary widely from state to state, with offerings ranging from a single basic plan to others with up to 16 differentiated regional plans. Twenty-four states now offer employees a high-deductible health plan that can be paired with a tax-free health savings account (HSA) – a plan type that will be offered as a voluntary option by ERS beginning in Fiscal Year 2017 after the passage of HB 966 during the 84th Texas Legislature. Half of those states contribute to the HSA, while the others let employees know that they are eligible for a self-funded account. Most states offer a Section 125 tax-advantaged savings vehicle like a flexible spending account (FSA) for medical expenses (in Texas, this benefit is called TexFlex) and a dependent care account to cover child care expenses and adult care services. In many states where an HSA is available, the state will also offer a limited-purpose flexible spending account for dental and vision care.

Ninety-two percent of states – including Texas – self-insure or self-fund at least one of their employee health plans while about 40% self-fund all of their health plan offerings. Most states contract with outside vendors to provide third-party administrator services for their health and pharmacy benefits administration and management. Louisiana handles claims administration and payments in-house and West Virginia has begun direct contracting with specialty pharmacies to reduce the cost of specialty drugs. Most states manage their own benefits enrollment and eligibility processes, although a few states outsource all or part of this responsibility. Some states also outsource their member communications responsibilities.

### Employee Retirement Programs:

Every state has a public retirement system or plan for state employees, but there are often variances in administration, plan types and the determination of specific populations served. Most public retirement plans are part of a separate and independent retirement system, but in some cases the retirement plan or system may be part of a larger department, such as the state treasury. For example, North Carolina, Tennessee and Washington manage their state employee retirement plan operations as part of the state treasury program. State retirement programs also vary in their coverage of different types of employees, some covering only state employees while others cover a larger, expanded definition of public employees including local government employees, school district staff and/or university employees. In some cases, states maintain separate public safety or police plans or systems, such as Arizona's Public Safety Personnel Retirement System.

There are several plan types offered as the primary or mandatory plan for state employees, including: defined benefit plans – like the ERS plan – where variable contributions are made into an account that will provide a formula driven benefit upon retirement regardless of the final value of the employee's account; defined contribution plans – such as a 401(k) plan – where the amount of contributions into an employee's account, and therefore the final account value, will define the retirement benefit received; or hybrid plans, which combine elements of both defined benefit and defined contribution plans into a single program.

### Exhibit 2: Retirement Plan Type Offered to New State Employees

Plan Type	Number of States	Which States
Defined Benefit	30	Alabama, Arkansas, Arizona, California, Connecticut, Delaware, Hawaii, Idaho, Illinois, Iowa, Louisiana, Maine, Maryland, Massachusetts, Minnesota, Mississippi, Missouri, Nevada, New Hampshire, New Jersey, New Mexico, New York, North Carolina, Oklahoma, Pennsylvania, South Dakota, Texas, Vermont, West Virginia and Wyoming
Defined Contribution	3	Alaska, Michigan (Regular state employees) and Minnesota
Hybrid (Cash Balance)	3	Kansas, Kentucky and Nebraska
Hybrid (DB/DC)	6	Georgia, Michigan (State Police), Oregon, Rhode Island, Tennessee and Virginia
Choice among several plan types	9	Colorado, Florida, Indiana, Montana, North Dakota, Ohio, South Carolina, Utah and Washington

#### Exhibit 2 Retirement Plan Type Offered to New State Employees

Source: NASRA, NCSL, Pew Center on the States, and state retirement system websites.

### Deferred Compensation:

As in Texas, state government employees in other states are often offered deferred compensation, or supplemental retirement plans, that they may contribute to on a voluntary basis. These are generally administered by the same agency or entity that administers the public retirement plan. Most state and local governments offer only a 457 plan to employees. Texas is somewhat unusual in that it is able to offer both 401(k) and 457 plans, because it was grandfathered before state and local governments were required to only offer 457 plans.

### **Investments:**

Investments of retirement plan assets are most commonly administered by the agency that also administers the retirement plan, but there are exceptions. For example, in Alaska, the retirement system is a stand-alone agency, but the investment of system assets is handled by an investment board that is a part of the state's Department of Revenue.

In instances where the agency is a public retirement system, the board of that system generally manages investment allocations and selections, with input and various levels of delegation to system staff. In cases where the treasury department administers the plan, this role can be held by the state treasurer. For example, in North Carolina the retirement system operates as a division within the state treasury department and the treasurer, a statewide elected official, acts as the sole trustee for disposition of system assets.

### **G. What key obstacles impair your agency's ability to achieve its objectives?**

#### **Retirement Plan Obstacles:**

- ERS' lack of control over the amount of appropriations available for funding long-term pension obligations complicates the process of successfully managing a solvent and stable fund. This goal is further hindered by the state's lack of a stated pension funding policy to ensure consistency of appropriations. While the Texas Constitution requires funding necessary for the fund to achieve actuarial soundness, and state statute sets an intended base level of funding, neither requirement was met by budgeters in 19 out of 20 years in the fund's most recent history. While the 84th Texas Legislature worked diligently to return the fund to actuarial soundness, there is no structural guarantee that necessary levels of funding will be maintained in the future, especially if the state were to face an economic downturn resulting in tighter revenue flows.
- Continuing stock market volatility and erratic or depressed global economic environments create increased investment risks, making investment return goals more challenging to reach. ERS investment operations are strong enough that 66% of retirement benefit payments are made from investment earnings. The more volatile the market, the more difficult it is to depend on such stable returns, increasing the potential need for additional state or employee revenue streams.

#### **Health Care and Regulatory Obstacles:**

- The Governmental Accounting Standards Board (GASB) is requiring governments to recognize more quickly the net liabilities for future retiree insurance benefits. Because Texas does not pre-fund retiree health care obligations, this may add an unfunded expense to the agency and the state's financial statements. This change could increase external pressures to alter health benefit designs for future retirees to address the financial impact.
- The aging workforce and growing retiree population combine to increase health care costs, making it more difficult for agency staff to continue to find cost savings measures while meeting the health care needs of the programs' membership. Between 1995 and 2013, employee enrollment stayed flat (-0.2% change) while retiree enrollment greatly increased (+131%).
- The current contribution strategy pays 100% of member-only premiums. This defined funding structure somewhat limits ERS' ability to create variable plan offerings and competitively price different levels of benefit plans, or from offering certain types of wellness incentives. Even though such programs might result in additional cost savings for the health care operations, the funding structure would require the agency to request additional appropriations to implement the programs.

- Exponential price inflation for specialty drugs and new brand name drugs is the principle cost driver in the prescription drug program.
- Because of the state plan's size and complexity, there are few qualified vendors who can reasonably bid on third-party administrator services for the health plan, resulting in significant questions of reduced competition. Only two companies bid on the last HealthSelect Third Party Administrator (TPA) contract, and with increasing merger and acquisition activity in the health care field, there may be fewer qualified vendors available when the contract is rebid.
- Hospital-based providers – especially radiologists, anesthesiologists, pathologists, emergency room doctors and surgical assistants – have shown a consistent unwillingness to contract with insurance companies, which can lead to increased, often extremely burdensome, out-of-network charges for participants. While ERS health plans have had some success with negotiating contracts with individual provider groups, outside of their network administrators, these groups represent a significant and increasing out-of-network cost to ERS plan members.
- Hospital mergers and consolidations decrease capacity and reduce competition, which limits the Texas Employees Group Benefits Program (GBP) negotiating leverage in provider-contracting. A large majority of Texas counties have only one hospital. This is a problem faced by many of the state's health care provision programs, many of which must continuously seek waivers to pay higher reimbursement rates to hospitals who refuse to negotiate lower rates due to lack of geographic competition.
- A fee-for-service reimbursement strategy rewards doctors who prescribe more diagnostic tests and perform more procedures, not doctors who focus on low-cost preventive care, patient wellness, and improved results. The fee-for-service model continues to push health care costs up without providing necessary enhancements to quality of care or improvements to patient outcomes.
- While ERS has a successful Patient-Centered Medical Home program with five multi-specialty practices, the expansion of integrated health systems to include partnerships between doctors and hospitals has been more controversial. Texas' Corporate Practice of Medicine Doctrine, which prevents corporations from practicing medicine, creates additional legal hurdles to the creation of Accountable Care Organizations.
- Texas has the greatest number of physician-owned hospitals in the nation, which creates incentives for physicians to refer patients to their own facilities, even when they may not provide the most cost-effective care. The impact of such actions is magnified by the fact that these hospitals are often geographic monopolies that may not negotiate reasonable costs with even large health plans.

**Workforce Obstacles:**

- Rapid growth in the Texas population combined with flat state employment has resulted in higher per-capita service needs. Past retirement incentives allowed the state to restrict the growth in employee levels, but they also resulted in loss of program knowledge and operational history.
- Improved economic conditions and movement of new private sector companies to Texas is leading to increased competition for qualified workers and higher turnover in key positions. This is especially true among highly educated employees in information technology, industrial regulation, strategic management and legal positions. It is becoming more costly to recruit and retain these types of employees, with retirement and health benefit coverage two of the few remaining incentives the state possesses.
- ERS serves as the "HR department" for the retiree population. The rapidly growing number of retirees creates operational and logistical pressures among a stable program employee base.

**H. Discuss any changes that could impact your agency's key functions in the near future (e.g., changes in federal law or outstanding court cases).**

Generally, ERS sees the greatest impact to key functions from changes to the myriad of IRS regulations agency operations fall under. These include the regulations that ERS must follow to ensure the retirement plan remains a "qualified plan" under the Internal Revenue Code. Federal lawmakers have discussed potential changes in federal tax laws that would eliminate or alter the current structure for capital gains treatment of carried interest. Such a change could spur private investment funds to attempt to change how they are compensated in a manner likely unfavorable to investors like ERS. Federal lawmakers have also discussed changing tax laws and regulations regarding unrelated business tax income to make such laws applicable to public pension plans like ERS. Any such change could require ERS to begin filing federal tax returns and would make certain ERS private fund investments less profitable due to new taxes imposed on applicable investments. Any federal tax changes that result in costs or negative impacts to investment returns could alter actuarial projections of the pension fund and result in increased revenue or appropriation needs to maintain fund solvency. IRS regulations can also impact health plan operations, specifically related to the implementation of a new consumer-directed health plan (CDHP) following changes to Texas law in 2015.

ERS may also see impact from changes or updates to the Affordable Care Act (ACA), as Congress continues to debate the program nationally. Several provisions of the ACA are expected to impact ERS' administration of employee health plans, including: reporting requirements regarding the new Sections 6055 and 6056 of the Internal Revenue Code setting up the new Form 1095 reporting process for all participants of health plans; changes to the limits for FSAs and a new \$500 carryover provision; and changes to the requirements to qualify as a wellness program and prohibiting charges for preventative care.

Beginning January 1, 2018, the "Cadillac Tax" provisions of Internal Revenue Code Section 4980I will impose a 40% excise tax on any plan participant benefits that exceed certain thresholds. With continued health care inflation, this may initially impact FSAs and later impact the health plan itself, effectively limiting the benefits that may be provided without being subject to the federal excise tax.

New GASB regulations affect both the retirement and the insurance programs. The regulations change reporting requirements and the methodology for calculating reported liabilities. GASB reporting standards have changed dramatically in recent years and now require government programs to report much higher levels of liabilities than in the past. These changes create not only a technical challenge for ERS financial staff, but a significant communications challenge in working with internal and external stakeholders to understand the actual operational needs of the agency's various programs.

The Supreme Court's ruling in *Obergefell v. Hodges* creating a right to same-sex marriage, along with the state's standards for the provision of spousal and family insurance benefits, resulted in ERS providing benefits for same-sex spouses on the same terms and conditions as for opposite-sex spouses. The change will likely increase the number of participants receiving insurance coverage in the GBP, although the increase is not currently expected to include a large number of people. While ERS members are already permitted to choose anyone as a retirement beneficiary, a spousal relationship will change the way some retirement benefits are administered.

ERS is also one of thousands of defendants in a federal lawsuit pending in New York brought by the bankruptcy trustee and creditors of the Chicago Tribune Company. The suit challenges the reliability of market transactions by institutional investors who may sell securities in good faith and without notice of malfeasance by a company's management.

## I. What are your agency's biggest opportunities for improvement in the future?

ERS considers its strengths in conjunction with identified challenges to maximize opportunities during the strategic planning process every other year. During this process, a planning group establishes strategic directions that are then expanded by the group to identify supporting objectives. Each agency division uses this plan as a guideline in developing road map items in the administrative operating budget to define and support continuous agency and programmatic improvements. In addition to the following three strategic opportunities for improvement, ERS continually seeks opportunities to enhance agency performance and accountability.

**1. Support Retirement Security:** Attain actuarially sound retirement plans that support the current and future workforce, provide tools and assistance to enhance retirement readiness, and administer and manage trust assets in innovative yet prudent ways for a premier investment program, keeping with fiduciary responsibilities. This strategy directs the activities of the defined benefit plan, the deferred compensation program, and investment activities. Related tasks include:

- develop a sound statewide funding policy statement for ERS retirement plans;
- explore competitive plan design options and changes that support the workforce and reduce the unfunded liability;
- align retirement plan designs with employer and employee needs to attract and retain employees;
- promote participant understanding of the retirement “big picture” or how all retirement, insurance and death benefit programs interact and work together;
- enhance investment and financial literacy among ERS membership populations;
- expand existing core competencies for innovative investment management; and
- Improve access and expand options for deferred compensation auto-enrollment and rollover functions.

The potential receipt of additional future contributions to the retirement plan, from either the employees or employers, would further reduce the amount of time required to completely eliminate the Trust's unfunded liability. Following actions taken by the 84th Texas Legislature, the funding amortization period is expected to be reduced from an infinite horizon to about 32 years depending on fund performance and other experience. This will cut the state's liabilities for the state pension roughly in half when it is required to be reported on the state's balance sheet in January 2016. Any additional contributions received during this period, or achievement of investment returns greater than the historical assumptions, would pay down the unfunded liability faster.

**2. Sustain a Competitive Group Benefits Programs:** Manage a group benefits program that is compliant with regulations and offers the best value to participants. Related tasks include:

- provide competitive benefits at a reasonable cost;
- align benefits with member and employer needs;
- provide members with additional choices when opportunities exist to add value;
- provide benefits consistent with, and complementary to, regulatory environments and market trends;
- apply alternative provider reimbursement arrangements to reward providers for meeting cost and quality targets;

- encourage participants to take responsibility for better health;
- align incentives with health risks to encourage appropriate health care use and risk sharing;
- establish a comprehensive wellness program that complements existing initiatives;
- increase awareness of and participation in wellness and condition management programs; and
- enhance research and data analytics within the GBP by expanding data analysis capabilities, with the ultimate goal of providing policy makers with relevant information about the program for informed decision making.

**3. Engage Stakeholders for Informed Decision Making:** Increasing understanding of program elements among employers, employees, retirees, associations and external stakeholders by determining what role benefits play in attracting and retaining qualified employees, educating policy makers on the impact of benefits to the workforce, and identifying and addressing competing interests and issues for informed decision-making. Related tasks include:

- increase relevance and context of information provided in communications;
- use marketing concepts to clarify messaging;
- target program communications to specific audiences;
- build on available member and industry research;
- increase understanding of marketplace benefits;
- improve outreach through the exploration of mobile applications and other technical strategies; and
- leverage technology and news sources for current and additional communication channels.

**J. In the following chart, provide information regarding your agency’s key performance measures included in your appropriations bill pattern, including outcome, input, efficiency and explanatory measures.**

**Exhibit 3: Key Performance Measures — Fiscal Year 2014**

Key Performance Measures	FY14 Target	FY14 Actual Performance	FY14 % of Annual Target
Percent of ERS Retirees Expressing Satisfaction with Member Benefit Services	97%	97.10%	100.10%
Investment Expense as Basis Points of Net Position	15.0	13.7	91.33%
Number of ERS Accounts Maintained	236,000	233,569	98.97%
Percent of HealthSelect Participants Satisfied with Network Services	80%	87.10%	108.88%
Percent of Medical Claims Processed within thirty days	99%	99.86%	100.77%
Total Cost Paid per HealthSelect Member for Administration and Claims Processing	\$18.04	\$17.78	98.56%

**Exhibit 3 Key Performance Measures**

### III. HISTORY AND MAJOR EVENTS

The Employees Retirement System of Texas (ERS) oversees retirement and health benefits for State of Texas employees to provide for, protect and enhance the economic well-being of members, retirees and their beneficiaries through effectively managing benefit programs, using sound actuarial principles and available resources consistent with applicable laws. The programs offered by ERS include benefit payments for both service-related and disability-related retirements, benefits for survivors of active and retired members, and health and insurance benefits for various groups of both active and retired state employees.

During 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 or reject the formation of a Retirement, Disability and Death Compensation Fund for state employees. The ballot measure passed, and, following two House-Senate Conference Committees, ERS was created effective September 1, 1947 by House Bill 168, 50th Texas Legislature, Regular Session, as mandated by the Texas Constitution pursuant to a constitutional amendment (Article XVI, Section 67).

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 (based on employer and employee contributions and interest earned divided by life expectancy), to a defined benefit plan (with retirement payments based on length of service and a final average salary). The old system remained in effect for 10 years, effectively 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 included by the 60th Texas Legislature in 1967 (Senate Bill 281, Regular Session).

ERS was initially 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, 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, except where specifically directed otherwise by the state constitution and statutes, are guided by the "Prudent Person" rule set forth in the state constitution. The ERS Board of Trustees have 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.

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 in UGIP 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 systems, which have their own insurance programs and have retirement benefits through the Teacher Retirement System of Texas.

Beyond the state employee retirement system and Group Benefits Program, the ERS Board of Trustees administers the following additional programs:

- Judicial Retirement System of Texas Plan 1 (pay-as-you-go plan established in 1955) and Plan 2 (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 (established in 1979);
- Internal Revenue Code Section 125, Flexible Benefits (Cafeteria) Program (“TexFlex,” established in 1988);
- Proportionate Retirement Program (PRP) (established in 1991) and
- TexaSaver 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 eligibility requirements for ERS programs and plan offerings. The GBP currently serves employees of 120 state agencies, 25 universities, 50 junior and community colleges and 7 local governmental entities.

Between 1947 and 1957, the ERS Board of Trustees consisted of seven members, including four ex officio members (the State Life Insurance Commissioner, the Chairman of the Board of Control, the Chairman of the Texas Highway Commission, and the Attorney General) and three members nominated and elected by ERS members. The composition of the Board of Trustees was changed in 1957 to consist of the Attorney General or an Assistant Attorney General (ex officio), 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. In 1963, the Attorney General was removed from the Board of Trustees, leaving the current six board members. Appointed members must be confirmed by the Texas Senate and all board members hold office for staggered six year terms. Board member positions are non-salaried and the Board of Trustees elects a chairman and vice chairman from among their own ranks each fiscal year.

Eight executive directors have led ERS through the various phases of its history to-date:

Gordon H. Lloyd	1947-1970	(Executive Secretary)
Everett L. Anschutz	1970-1977	
Joseph N. Murphy Jr.	1977-1980	
Clayton T. Garrison	1980-1990	
Charles D. “Dickey” Travis	1990-1996	
Sheila W. Beckett	1996-2004	
Ann S. Bishop	2004-2015	
Porter Wilson	2015-present	

ERS began its operations with a \$25,000 state appropriation and was housed in several rooms on Congress Avenue, north of the Capitol, in an apartment building behind a drug store. ERS built and occupied its first building in 1966, later expanding and renovating the property into the current headquarters location within the state Capitol Complex.

## IV. POLICYMAKING STRUCTURE

### A. Complete the following chart providing information on your policymaking body members.

#### Exhibit 4: Policymaking Body – ERS Board of Trustees

Member Name	Term / Appointment Dates / Appointed by	Qualification
Brian D. Ragland, Chair	Term Expires August 31, 2017 Elected	Employee Representative (Texas Department of Transportation)
Frederick E. Rowe, Jr., Vice-Chair	Term Expires August 31, 2020 Appointed by Speaker	Investment Professional
Doug Danzeiser	Term Expires August 31, 2019 Elected	Employee Representative (Texas Department of Insurance)
Cydney Donnell	Term Expires August 31, 2018 Appointed by Governor	Investment Professional
Yolanda Griego	Term Expires August 31, 2015 Elected	Employee Representative (Texas Health and Human Services Commission)
I. Craig Hester	Term Expires August 31, 2016 Appointed by Supreme Court Chief Justice	Investment Professional

#### Exhibit 4 Policymaking Body

**Note 1:** Yolanda Griego's term on the board as an elected representative ends as of the publication of this report. Pursuant to an election held by ERS during the spring of 2015, Ilesa Daniels was selected by ERS members and retirees to serve as a trustee from September 1, 2015 through August 31, 2021. Trustee Daniels is employed by the Texas Health and Human Services Commission.

**Note 2:** The ERS Board of Trustees annually elects a Chair and Vice-Chair from among the existing trustees. This election typically takes place during the August quarterly meeting. As of the publication of this report, a new chair and/or vice-chair may have been selected by the board members to lead the Board of Trustees during Fiscal Year 2016.

### B. Describe the primary role and responsibilities of your policymaking body.

The ERS Board of Trustees oversees the investment and administration of the retirement trust fund and the administration of state employee and retiree health insurance benefits, as well as a deferred compensation plan, a flexible benefits program, dental coverage and other optional insurance for the benefit of state employees. The Board of Trustees holds responsibility for appointing the Executive Director and Director of Internal Audit, delegating executive authority and approval powers, and offsets the policies and direction of ERS programs and staff operations.

### C. How is the chair selected?

The ERS Board of Trustees chair and vice-chair are selected annually, during the August quarterly meeting, by the standing board members.

**D. List any special circumstances or unique features about your policymaking body or its responsibilities.**

Three members of the ERS Board of Trustees are appointed; one each by the Governor, the Speaker of the House, and the Chief Justice of the Texas Supreme Court; and confirmed by the Texas Senate. The remaining three members are elected by ERS members and retirees, and must be active state employees. Both appointed and elected members serve staggered six-year terms. The terms of appointees expire on August 31 of even-numbered years. The terms of elected members expire on August 31 of odd-numbered years.

The ERS Board of Trustees has a strict fiduciary duty to ERS members that must be maintained at all times. The Texas Constitution, Article 16, Section 67, requires board members to administer the system with the same judgement and care each would use to manage their own affairs. The board members, as well as agency staff advising and assisting them in the execution of their duties, take this fiduciary responsibility very seriously and seek to serve the best interests and needs of the members and the trust in each decision and action.

**E. In general, how often does your policymaking body meet? How many times did it meet in Fiscal Year 2014? In Fiscal Year 2015?**

The ERS Board of Trustees currently meets quarterly, during December, February, May and August of each fiscal year, although the Board of Trustees retains the ability to meet at other times as necessitated by the needs of agency or trust operations. This quarterly schedule was followed in both Fiscal Year 2014 and Fiscal Year 2015. The Board of Trustees also met twice during Fiscal Year 2015, in October and November, outside of the regular quarterly meetings to consider the replacement of a retiring board member, consider the selection of an executive director, and receive available operational updates. Major strategic decisions – such as significant vendor selections; fee setting; asset allocations; and executive staffing and agency budgets – are balanced across the four quarterly meetings as necessary to allow board members to concentrate on, and understand the potential impacts, of the decisions placed before them, while respecting the time and effort that goes into making such decisions on behalf of such a large and diverse constituent population. All meetings during Fiscal Year 2014 and Fiscal Year 2015 were held at the ERS headquarters building in Austin, Texas and were open to the public, with the exception of executive session agenda items.

**Fiscal Year 2014 ERS Board of Trustee Meetings:** December 5, 2013  
February 25, 2014  
May 20, 2014  
August 19, 2014

**Fiscal Year 2015 ERS Board of Trustee Meetings:** October 27, 2014  
November 18, 2014  
December 4, 2014  
February 24, 2015  
May 19, 2015  
August 18, 2015

**F. What type of training do members of your agency's policymaking body receive?**

The Board of Trustees receives a variety of continuous training in their role as board members. Select training is required for all state agency boards, such as the Governing Bodies training and Contract Management process training (Texas Government Code §2262.0535), produced by the Texas Comptroller of Public Accounts as well as the Open Meetings Act and Public Information Act trainings, produced by the Office of the Attorney General. New statutory requirements administered by the Texas Pension Review Board (PRB) (Texas Government Code §801.211) require trustee training on certain core subjects. ERS has been accredited by the PRB as a provider of

this training. The core program is designed to cover fundamental competencies of public pensions necessary for trustees and system administrators to successfully discharge their duties, while the non-core program includes topics that go beyond required basics and are designed to allow trustees and administrators to gain further expertise in additional areas related to their duties. ERS staff ensures that each trustee attends the required training and maintains appropriate documentation of their attendance.

Additional training is offered internally, through regular Board of Trustees meetings or special training sessions provided by ERS subject matter expert staff. Upon a new board member's appointment or election, ERS staff provides intensive orientation training, walking the new board member through all the programs and services operated by the agency and explaining the agency's structure, management and interaction with various stakeholder groups. ERS also offers board members annual ethics and fiduciary training, typically during the December quarterly Board of Trustees meeting. Almost every Board of Trustees meeting features an extensive discussion of investment operations, reviewing each quarter's performance (annual performance is reviewed during the December meeting), providing special focus on one or two asset classes per meeting, and reviewing other investment policies or procedures as needed. Additionally, board members often seek individual outside training to enhance their knowledge of subject matter areas that tie back to their roles as board members, often through their professional responsibilities and related careers.

**G. Does your agency have policies that describe the respective roles of the policymaking body and agency staff in running the agency? If so, describe these policies.**

The ERS Investment Policy governs investment program activities and describes the roles of the ERS Board of Trustees and agency staff in the following areas:

- administration of ERS Trust Fund and investment of trust assets for the purpose of preserving and maintaining the value of the trust and fulfilling promised benefits;
- establishing and assuring adherence to ERS investment policies including the allocation of trust assets and standards for risk management;
- quarterly review of investment performance;
- evaluating and selecting advisors for externally-advised portfolios;
- evaluating and selecting plan investment consultants and custodians of trust assets; and
- appointing members to the ERS Investment Advisory Committee as permitted under §63.17, Texas Administrative Code and subject to §815.0031, Texas Gov't Code.

Other relevant operational and administrative policies are defined in ERS statutes and rules. Examples of the relevant functions performed by the board include the following:

- administration of ERS retirement (defined benefit) and defined contribution (Texa\$aver) plans while maintaining the highest standard of loyalty to all beneficiaries of the ERS plans as a whole;
- evaluation of the actuarial status of defined benefit plans annually and review of plan experience at least every five years, making adjustments to economic and demographic actuarial assumptions as necessary;
- evaluation and selection of investment options, third party administrators, advice providers, and custodians for the Texa\$aver 401(k) and 457 deferred compensation plans;
- administration of benefit programs under the Texas Employees Group Benefits Program (GBP), including setting insurance plan design and annual contribution rates based on expected plan costs relative to available funds, setting annual rates for dental, life, disability and accidental death & dismemberment plans, and evaluating annual actuarial costs of other post-employment benefits;
- approving major contracting decisions through the evaluation of due diligence processes for retirement and insurance consulting actuaries and the third-party administration of benefit plans;

- appointment and annual evaluation of the ERS Executive Director;
- approval of the agency's annual operating budget;
- promulgation of Texas Administrative Code rules governing ERS plans and programs;
- assuring the existence of, and adherence to, auditing standards for the purpose of providing independent assessment of risk management, control, and governance processes for the ERS operations;
- appointment of the ERS internal auditor;
- review of internal and third-party audits and assure any concerns are addressed and appropriate actions taken; and
- representing the agency by testifying before legislative committees as requested.

Agency rules also specifically delineate the separate duties of the Board of Trustees (34 Texas Administrative Code, Chapter 63) and the duties of the Executive Director (34 Texas Administrative Code, Chapter 65). In 2006, the board delegated authority to make final agency decisions in administrative appeals to the Executive Director (34 Texas Administrative Code §67.87 and §67.89).

#### **H. What information is regularly presented to your policymaking body to keep them informed of your agency's performance?**

Board meetings are held at regular intervals throughout the year with a series of agenda items that cover the range of the board's responsibilities. Agenda items can include, but are not limited to: investment strategies and performance; financial status metrics of the GBP and other benefit programs; changes to policies and procedures in retirement or health programs; and performance standards related to the daily operation of ERS, including budget detail and legislative appropriation requests.

#### **I. How does your policymaking body obtain input from the public regarding issues under the jurisdiction of the agency? How is this input incorporated into the operations of your agency?**

ERS Board of Trustee meetings are open to public attendance and are streamed online, through the agency's website. Public agendas are posted in advance and interested parties may attend and register to provide public comments during the meeting. Rules adopted by the Board of Trustees also allow interested parties to petition the Board of Trustees to consider amendment or adoption of new or different rules. ERS Board members often attend ERS constituent events to meet with members, answer questions, and listen to personal stories. Elected board members also regularly make themselves available to state employees, both inside and outside their own employer agencies, to discuss member concerns or experiences with ERS programs. ERS staff have toured the state for a series of member feedback sessions, with at least one board member present at each gathering.

New rules or amendments to the Texas Administrative Code that are developed internally are posted in the Texas Register, initiating an opportunity for a 30-day public comment period. Any comments received are presented to the Board of Trustees during their consideration of the rule changes. The ERS contact center and mailroom staff are trained and equipped to pass concerns from ERS members and the public through ERS executive management to the Board of Trustees as they arise. ERS members may also file complaints or suggestions online through the ERS website. Complaints about vendors are considered as part of the contract renewal and review process and reported to the Board of Trustees during procurement cycle activities. Various ERS programs conduct periodic surveys regarding the benefits administered by the agency. The surveys are directed to ERS' members, retirees, GBP participants, and other interested stakeholders as appropriate to the survey's content and intended purpose. ERS hosts "town hall" meetings to solicit public and member input on program operations or proposed changes. The agency also regularly makes use of social media, websites and seminars to provide information and obtain input from a wide range of ERS stakeholders.

ERS considers the interests and concerns of its beneficiaries and other stakeholders in developing and refining policies that are within the agency's discretion. When such input identifies areas where ERS may improve the effectiveness or efficiency of service provision, the agency may revise its procedures and processes to address the expressed concerns. However, ERS cannot make changes based on stakeholder feedback where to do so would violate applicable law, or be inconsistent with the agency's fiduciary obligations. In that regard, ERS has more legal discretion to make changes within the GBP insurance programs than with respect to defined benefit retirement plans.

**J. If your policymaking body uses subcommittees or advisory committees to carry out its duties, fill in the following chart.**

### Exhibit 5: Subcommittees and Advisory Committees

Name of Subcommittee or Advisory Committee	Size / Composition / How are members appointed?	Purpose / Duties	Legal basis for committee
Investment Advisory Committee	8 members, appointed by the board Members must have expertise in financial management or be prominent educators of investment or finance related fields.	Consults and advises the board on investments and investment related issues.	Government Code, Chapter 815, §509 Advisory Committees
Audit Committee	Composed of all six members of the ERS Board of Trustees.	Responsible for monitoring the internal audit function to assure compliance.	Government Code, Chapter 815, §509 Advisory Committees
Medical Board	3 members appointed by the board Members must be licensed to practice medicine in Texas, be in good professional standing and not be eligible to participate in the ERS retirement system.	Reviews and provides recommendations on applications for disability retirement.	Government Code, Chapter 815, §204 Medical Board

Exhibit 5 Subcommittees and Advisory Committees

## V. FUNDING

### **A. Provide a brief description of your agency's funding.**

Funding for ERS programs primarily consists of member, state, and agency contributions for retirement and insurance programs as well as investment earnings. State and employer contributions comply with requirements that benefits be paid proportional to payroll funding sources. The agency also receives smaller amounts of local contributions and federal monies (see response to Question E in this section for additional detail) for the employees group benefits program.

### **B. List all riders that significantly impact your agency's budget.**

The following riders, included in the 2016-17 General Appropriations Act, 84th Texas Legislature, Regular Session, apply to or govern ERS program operations:

#### **Article I: Employees Retirement System of Texas, Agency Specific Bill Patterns**

- Rider 1 Information Listing of Appropriated Funds
- Rider 4 State Contribution to Employees Retirement Program
- Rider 5 State Contribution to Judicial Retirement Program (JRS 2)
- Rider 6 State Contribution to Group Insurance for General State Employees
- Rider 7 Excess Benefit Arrangement Account
- Rider 8 Transfer of Retirement Contributions and Group Insurance
- Rider 9 Federal Funds for Medicare Part D Prescription Drug Program
- Rider 10 Appropriations for the Deferred Compensation Trust Fund and the TexaSaver Trust Fund
- Rider 11 Tobacco-User Monthly Premium Fee
- Rider 12 State Contribution to the Law Enforcement and Custodial Officer Supplemental Retirement Fund (LECOSRF)

#### **Article IX: General Provisions**

- Sec. 6.07 Employee Benefit and Debt Service Items
- Sec. 6.08 Benefits Paid Proportional by Fund
- Sec. 8.02 Reimbursements and Payments
- Sec. 8.04 Refunds of Deposits
- Sec. 8.12 Bank Fees and Charges
- Sec. 17.04 Payroll contribution for Group Health Insurance
- Sec. 17.05 Appropriation for Salary Increase for Certain State Employees in Salary Schedule C
- Sec. 17.08 Additional Payroll Contribution for Retirement Contribution
- Sec. 18.02 Appropriation for a Salary Increase for General State Employees
- Sec. 18.04 Additional Benefits for FTE increases
- Sec. 18.11 Contingency for HB9 (elimination of 90-day waiting period)

**C. Show your agency's expenditures by strategy.****Exhibit 6: Expenditures by Strategy — 2014 (Actual)**

Goal / Strategy	Amount spent	Percent of total	Contract expenditures included in total amount <sup>3</sup>
1.1.1 ERS – Retirement <sup>1</sup>	\$2,064,035,786	39.98%	
1.1.2 LECOS Retirement Program <sup>2</sup>	\$58,470,659	1.13%	
1.1.3 Judicial Retirement System – Plan 2 <sup>1</sup>	\$16,686,562	0.32%	
1.1.4 Judicial Retirement System – Plan 1 <sup>1</sup>	\$27,715,232	0.54%	
1.1.5 Death Benefits Program For Commissioner Peace Officer, Firemen, etc. <sup>2</sup>	\$5,737,933	0.11%	
1.1.6 Retiree Lump Sum Death Benefit Fund <sup>2</sup>	\$8,845,762	0.17%	
2.1.1 GBP – Group Benefits Program <sup>1</sup>	\$2,896,689,818	56.11%	\$78,338,121
<b>Sub-Total</b>	<b>\$5,078,181,752</b>		<b>\$78,338,121</b>
Social Security Administration Fund <sup>2</sup>	\$156,587	0.00%	
TexaSaver 401(K) Trust Fund <sup>1</sup>	\$590,212	0.01%	
TexaSaver 457 Trust Fund <sup>1</sup>	\$334,265	0.01%	
State Employees Cafeteria Plan Trust Fund <sup>1</sup>	\$81,180,019	1.57%	\$1,968,360
Excess Benefit Arrangement <sup>1</sup>	\$492,952	0.01%	
Compensation to Victims of Crime <sup>2</sup>	\$1,625,000	0.03%	
<b>GRAND TOTAL:</b>	<b>\$5,162,560,787</b>		<b>\$80,306,481</b>

**Exhibit 6 Expenditures by Strategy**Measurement Focus – Basis of Accounting (GASB34)<sup>1</sup> Full accrual basis of accounting and the economic resources measurement focus.<sup>2</sup> Modified accrual basis of accounting and current financial resources measurement focus<sup>3</sup> Administrative fees

**D. Show your agency’s sources of revenue. Include all local, state, and federal appropriations, all professional and operating fees, and all other sources of revenue collected by the agency, including taxes and fines.**

**Exhibit 7: Sources of Revenue**

Source	Amount
State and Employer Contributions*	\$2,759,726,262
Member Contributions	\$1,165,025,458
Legislative Appropriations	\$43,924,759
Service Contributions Transferred from TRS	\$80,163,847
Investment and Interest Income	\$3,421,450,600
Federal Funds	\$63,361,490
Other	\$2,536,912
<b>TOTAL</b>	<b>\$7,536,189,328</b>

**Exhibit 7 Sources of Revenue**

\* Includes Court Cost Fees of \$20,166,269 for LECOSRF.

**E. If you receive funds from multiple federal programs, show the types of federal funding sources.**

**Exhibit 8: Federal Funds — Fiscal Year 2014 (Actual)**

Type of Fund	Federal Share	Total Funding
<b>State Retiree Health Plan<sup>1</sup></b>		
Medicare Part D <sup>2</sup>	\$15,128,235	\$15,128,235
Low Income Premium Subsidy (LIPS) <sup>3</sup>	\$445,206	\$445,206
Direct Subsidy (DIR) <sup>4</sup>	\$25,906,108	\$25,906,108
Coverage Gap Discount Program (CGDP) <sup>5</sup>	\$4,773,252	\$4,773,252
Low Income Cost Share (LICS) <sup>6</sup>	\$17,108,690	\$17,108,690
<b>TOTAL</b>	<b>\$63,361,491</b>	<b>\$63,361,491</b>

**Exhibit 8 Federal Funds**

**Notes:**

<sup>1</sup> Pension and Other Employee Benefit Trust Funds, and Internal Service Funds are maintained on the full accrual basis of accounting and the economic resources measurement focus.

<sup>2</sup> Medicare Part D – The cost threshold and cost limit for plan year 2014 are \$310 and \$6,350 respectively. The Allowable Cost is defined as the gross drug cost reduced by (a) any amount under the cost threshold per member, (b) any amount over the cost limiter per member, and (c) estimated rebates or guarantees recovered by the plan. The subsidy is calculated as the Allowable Cost multiplied by 28%.

<sup>3</sup> Low Income Subsidy (LIPS) – LIPS funding is provided by the Centers for Medicare and Medicaid Services (CMS) to economically disadvantaged members to help with monthly prescription benefit premiums. Members apply through the Social Security Administration (SSA) and member status may change at any point during the year. The SSA sends approved members to CMS and CMS remits a subsidy monthly to the Plan Sponsor for the approved members. Members may gain or lose LIPS retrospectively over time. CMS creates a national benchmark premium amount each year. There are four LIPS levels: 25%, 50%, 75% and 100%. If the member is charged a premium, the subsidy must be passed back to the member either by direct reimbursement or by offsetting the monthly premium by the amount of the subsidy. If the member is not charged a premium, the Self-Funded EGWP may absorb the subsidy amount.

<sup>4</sup> Direct Subsidy – The Direct Subsidy is provided by CMS to all Medicare Part D members. CMS uses a complex formula based on the member’s medical history and other demographics to calculate a summary risk score. This score determines the amount of the monthly subsidy ceded to the Plan Sponsor to cover some of the expected drug costs of the member.

<sup>5</sup> Coverage Gap Discount (CGDP) – CGDP is a program where drug manufacturers provide a 50% rebate for claims filled while the member is in the “GAP” between the initial coverage phase and the catastrophic phase during the plan year. Claims are submitted to the third party administrator for CMS. On a quarterly basis, the drug manufacturers remit payments back to the Plan Sponsor via the third party administrator. Payments begin the third quarter of a calendar year for the first quarter discounts and continue quarterly thereafter.

<sup>6</sup> Low Income Cost Share (LICS) – LICS funding is provided by CMS to economically disadvantaged members to help with prescription drug costs and co-pays. Members apply through the SSA and member status can change at any point during the year. The SSA sends approved members to CMS and CMS sends a status update to the Plan Sponsor. Members may gain or lose LICS retrospectively over time.

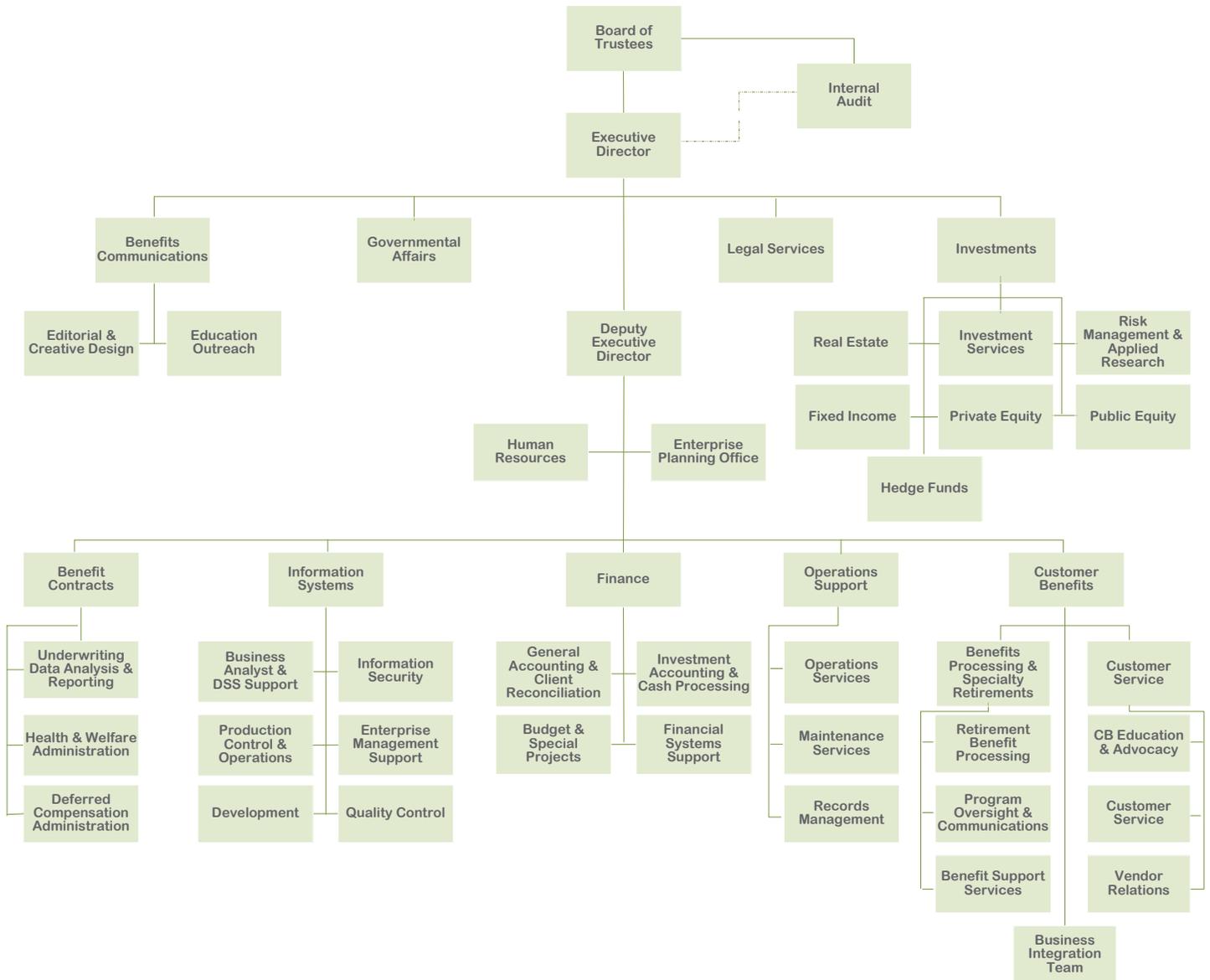
**F. If applicable, provide detailed information on fees collected by your agency. See Exhibit 8 Example.****Exhibit 9: Fee Revenue — Fiscal Year 2014**

Fee Description/ Program/ Statutory Citation	Current Fee/ Statutory Maximum	Number of persons or entities paying fee	Fee revenue	Where fee revenue is deposited
Fee for Original Plan 457 Vendors/ TexaSaver Trust Fund TX Government Code §609.511	0.22% per year	20	\$27,369	Deferred Compensation Trust Fund, ERS (Fund #0945)
Social Security Fees from Political Subdivisions/Social Security Administration Fund TX Government Code §606.028	\$500 one time Referendum Fee	1	\$500	Social Security Administration Local Trust Fund (Fund # 0929)
Social Security Fees from Political Subdivisions/Social Security Administration Fund TX Government Code §606.028	\$35 per year	2,056	\$72,488 (includes late fees)	Social Security Administration Local Trust Fund (Fund # 0929)
Membership Fees/Judicial Retirement System Plan 1 TX Government Code §§832.002 & 853.003(a)	\$10 per year	10	\$100	State Employees Retirement System Trust Account (Fund # 0955)
Membership Fees/Employees Retirement Fund TX Government Code §815.401	\$3 per year	155,625	\$466,875	State Employee Retirement System Trust Account (Fund # 0955)
Interest on Creditable Services/ Employees Retirement Fund TX Government Code §813 Creditable Service	10 %	1,387	\$8,587,005	State Employee Retirement System Trust Account (Fund # 0955)
Interest on Creditable Services/ Judicial Retirement System Plan 2 TX Government Code §838 Creditable Service	10 %	5	\$30,065	Judicial Retirement System Plan Two Trust Fund (Fund # 0993)

**Exhibit 9 Fee Revenue**

## VI. ORGANIZATION

A. Provide an organizational chart that includes major programs and divisions. (Detail regarding divisional FTE levels, leadership and expenditures can be found in Section VII of this report and in the ERS annual operating budget.)



**B. If applicable, fill in the chart below listing field or regional offices.**

### Exhibit 10: FTEs by Location — Fiscal Year 2014

Headquarters, Region, or Field Office	Location	Co-Location? Yes / No	Number of Budgeted FTEs FY 2014	Number of Actual FTEs as of August 31, 2014
ERS Headquarters Building	200 E. 18th St. Austin, Texas 78701	No	362	332
			<b>TOTAL: 362</b>	<b>TOTAL: 332</b>

Exhibit 10 FTEs by Location

### C. What are your agency's FTE caps for fiscal years 2014–2017?

The Employees Retirement System of Texas FTE caps for fiscal years 2014-2017 as set by the General Appropriations Act each biennium are:

FY2014	332
FY2015	332
FY2016	356
FY2017	360

### D. How many temporary or contract employees did your agency have as of August 31, 2014?

As of August 31, 2014, ERS employed 23 temporary workers, primarily within the Customer Benefits division's member contact center, and 24 contract workers, primarily within Information Systems division operations. The ERS contact center uses an intentional temp-to-hire employment model to create a trial period to monitor actual employee performance and to ensure candidates have a clear understanding of the work involved in contact center operations before being offered permanent full-time positions. Contract employees are engaged to acquire specific or unique skill sets that the agency requires for only short periods of time.

**E. List each of your agency’s key programs or functions, along with expenditures and FTEs by program.**

**Exhibit 11: List of Program FTEs and Expenditures — Fiscal Year 2014**

<b>Program</b>	<b>Number of Budgeted FTEs FY 2014</b>	<b>Actual FTEs as of August 31, 2014</b>	<b>Actual Expenditures</b>
Executive Office	11	10	\$1,653,178
Legal Services	17	16	\$3,475,442
Governmental Affairs*	3	7	\$977,810
Human Resources	4	4	\$535,467
Benefits Communications*	17	12	\$1,132,480
Investments	67	63	20,181,568
Benefit Contracts	21	17	\$2,572,957
Customer Benefits	98	85	\$7,011,844
Finance	37	35	\$3,496,921
Information Systems	71	68	\$11,941,066
Operations Support	16	15	\$3,059,035
<b>TOTAL</b>	<b>362</b>	<b>332</b>	<b>\$56,037,768</b>

**Exhibit 11 List of Program FTEs and Expenditures**

\* Actual FTEs in the Governmental Affairs division for Fiscal Year 2014 exceeded budgeted levels due to staffing change related to a larger reorganization of the agency’s external communications activities. The changes relocated several FTEs from the Benefits Communications Division (then known as the Communications and Research Division) into the Governmental Affairs Division.

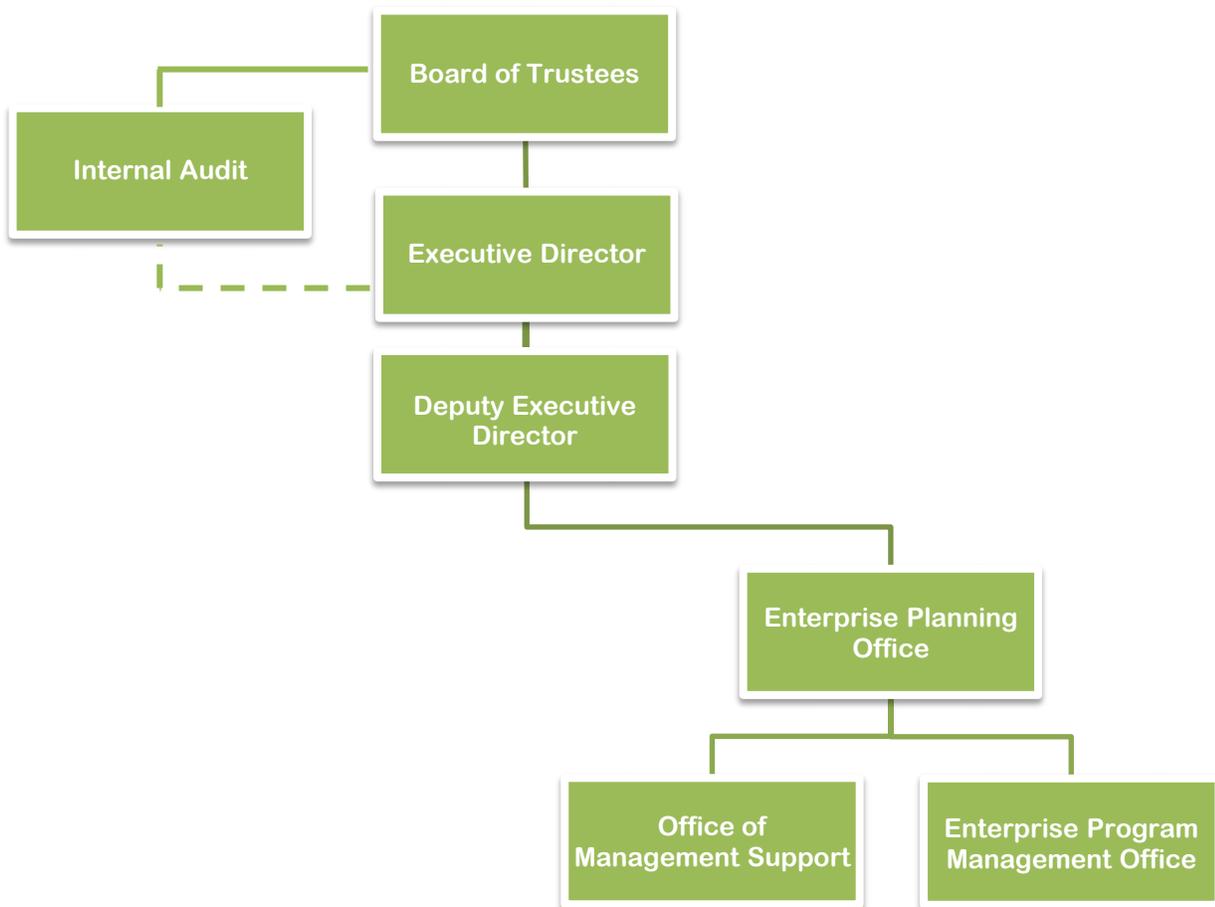
## VII. GUIDE TO AGENCY PROGRAMS

Section VII of this report provides detailed descriptions of the major divisions and programs that allow the Employees Retirement System of Texas (ERS) to efficiently and effectively serve trust members and stakeholders while meeting the agency's primary goal of supporting the state workforce by offering competitive benefits at a reasonable cost.

The following ERS divisions are detailed within this section:

1. Executive Office
2. Benefits Communications
3. Governmental Affairs
4. Human Resources
5. Investments
6. Legal Services
7. Benefit Contracts
8. Customer Benefits
9. Finance
10. Information Systems
11. Operations Support

## Executive Office



**A. Provide the following information at the beginning of each program description.**

**Name of Program or Function:** Executive Office

**Contact Name:** Porter Wilson, Executive Director

**Actual Expenditures, Fiscal Year 2014:** \$1,653,177

**Number of Budgeted Full time employees (FTEs), Fiscal Year 2014:** 11

**Number of Actual FTEs as of August 31, 2014:** 10

**Statutory Citation for Program:** Chapter 815, Texas Government Code

**B. What is the objective of this program or function? Describe the major activities performed under this program.**

The ERS Executive Office is tasked with overseeing the daily operations of all agency programs, providing strategic direction and guidance to agency programs, and managing interdivisional projects and initiatives. The following description provides additional detail regarding the Executive Management, Internal Audit and Enterprise Planning programs.

**Executive Management**

The ERS executive management team is comprised of the Executive Director, the Deputy Executive Director, Senior Executive Advisors and related administrative staff. The Executive Management team provides strategic direction and management oversight to all operations, functions and activities of the agency including serving as the principle liaison to the ERS Board of Trustees.

**Internal Audit**

The Internal Audit Division is an independent, objective team providing assurance and consulting services designed to add value to and improve ERS operations. Audit assists the agency to accomplish its objectives by offering a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes. The division provides continuous evaluation of the adequacy and effectiveness of the agency's internal management controls including the reliability and integrity of financial and operational information; the effectiveness and efficiency of operations; the safeguarding of assets and compliance with laws, regulations and contracts. Internal Audit staff reports directly to the ERS Board of Trustees but is administratively attached to the Executive Office; this structure allows the agency to manage audit activities effectively while maintaining the independence of audit staff in reviewing ERS programs and operations.

The division annually develops a risk-based audit plan, which is then presented to and approved by the Board of Trustees. The audit plan is designed to provide coverage of key risks to the agency, within the context of available staffing and budgetary resources. Key risks are determined through a systemic approach incorporating management input, audit staff analysis, and consideration of ERS strategic objectives. The division has four full-time equivalent employees certified in specialized audit and assurance fields including: Certified Internal Auditor; Certified Fraud Examiner; Certified Government Auditing Professional; and Certification in Risk Management Assurance. External auditors, with specific expertise in information systems and other specialized areas are engaged as needed. The division director achieves the best possible value in audit coverage by actively coordinating internal and external audit work.

**Enterprise Planning Office**

The Enterprise Planning Office (EPO) serves as a centralized authority for the coordination and oversight of agency wide initiatives and cross-divisional projects. EPO is divided into two programs: the Enterprise Program Management Office and the Office of Management Support. These programs collectively assist executive staff in coordinating agency-wide and cross-divisional projects to ensure the strategic direction and goals of the agency are addressed consistently and continuously.

The Enterprise Program Management Office (EPMO) is staffed by project management professionals who oversee the development, planning, oversight, management, documentation and evaluation of agency projects ranging in size from program specific technology upgrades to agency-wide legislative implementations. EPMO staff work closely with business leaders and operational staff from the various divisions incorporated in the project to define and coordinate necessary agency resources and timelines to accomplish the tasks and related goals effectively and efficiently. Having the program's management tied into the executive leadership structure helps insure that projects and initiatives throughout the agency maintain similar direction and focus on top-level developed organizational goals while allowing for regular adjustment of resources as agency priorities shift subtly throughout the year to meet the needs of stakeholders.

The second program within the Enterprise Planning Office is the Office of Management Support (OMS). OMS serves a dual function within the agency, providing a small pool of management level staff to assist executive officers with priority projects or strategic initiatives while providing a structured environment in which to cross-train existing staff for potential promotion or transfer to divisions outside their current responsibilities to address transitional staffing and succession planning needs. For example, the Sunset process is being managed by providing a dedicated full-time OMS resource to this important effort with the authority to direct cross-divisional efforts, while maintaining a direct link to Executive Management and related oversight. The program maintains a limited number of fulltime employees with staff participating in cross-functional training who remain employed by their sponsoring division while they temporarily work in areas throughout the agency. Learning operational details about various parts of the organization, outside their direct responsibility, provides employees with a foundation to base potential promotions or transitions to other parts of the organization as well as improves the daily coordination and general understanding between functional programs within the agency. The primary goal of the OMS program is to expose skilled staff with the potential to take on managerial assignments to job functions, assignments and projects that will contribute to their leadership development and benefit the agency by ensuring leadership continuity for key positions throughout the organizational structure.

OMS operations include the agency's Enterprise Risk Management function (ERM) to help identify, assess and manage mission-critical risks in support of ERS' goals and objectives. The program seeks to raise risk awareness throughout the organization, integrate risk mitigation and management thinking into the agency's culture and strategic direction, and provide ongoing support to Executive Management and Board of Trustees regarding the status of critical enterprise-wide risk. In this role, ERM staff also assists agency leadership with the development, maintenance, and implementation of the Continuity of Operations Plan, the Disaster Recovery Plan, and serves as the lead coordinator for the Privacy Incident Response Plan to address concerns over data breaches and risks to sensitive information.

**C. What evidence can you provide that shows the effectiveness and efficiency of this program or function? Provide a summary of key statistics and outcome performance measures that best convey the effectiveness and efficiency of this function or program.**

It is difficult to evaluate the effectiveness and efficiency of the Executive Office on its own without considering the collective performance of the divisions and programs that make up the total operations of the Employees Retirement System of Texas. Subsequent sections of this report describing the individual divisions and programs of the agency provide detail and support for the effectiveness and efficiency of the agency's operations and staff.

The ERS Internal Audit division (IA) has a primary goal of optimizing process improvement while meeting professional audit standards. In an effort to measure progress towards this goal, the division implemented eight unique performance measures to be evaluated during FY15 including: a goal of completing 90% of the approved audit plan; achieving 80% of customer service levels; tracking audit customer utilization rates and the number of days spent in reporting processes; reaching 100% of staff continuing professional education requirements; meeting audit engagement milestones within a window of +/- 5 business days; spending 75% of staff time on added-value services; and obtaining management approval of 85% of recommendations.

**D. Describe any important history regarding this program not included in the general agency history section, including how the services or functions have changed from the original intent.**

Several of the individual offices and programs within the Executive Office are relatively new within the ERS structure including the EPO, the OMS and the ERM program. EPMO was created in October 2006, followed by OMS in October 2012 and ERM in December 2012. In February 2015, these three functions were included in a minor reorganization of the Executive Office that moved the EPMO from the Information Systems division, where it had been housed since its creation. EPMO was then combined with OMS and ERM to create the EPO within the Executive Office. This structure is designed to provide senior executive officers with direct access to these

oversight programs while encouraging a focus on agency-wide strategic direction and goals into each area's daily activities. Rather than altering the original intent of these entities, the organizational changes were part of the programs' development and natural progression necessary to achieve their full impact in assisting executive staff in guiding the strategic direction of the agency.

**E. Describe who or what this program or function affects. List any qualifications or eligibility requirements for persons or entities affected. Provide a statistical breakdown of persons or entities affected.**

The activities and operations of Executive Office programs directly affect ERS members, stakeholders and external interest groups, as well as serve primary internal management support functions for all agency divisions and programs. While employees within the Executive Office often serve as direct points of contact and communication to agency stakeholder groups, ERS member populations, elected officials and other government administrators, the impact of their decisions on these groups can also be felt indirectly through the actions of the divisions carrying out the management and operations of agency programs under executive guidance and oversight. The following tables provide statistical detail about ERS program member population during Fiscal Year 2014.

### Exhibit 12: Employees Retirement Fund

Active Contributing Members	134,162
Non-Contributing Members	96,507
Retirees and Beneficiaries	95,840
Service Retirements	6,180
Disability Retirements	51
Resignation Refunds	14,282
Death Refunds	431

Exhibit 12 Employees Retirement Fund

### Exhibit 13: Law Enforcement & Custodial Officer Supplemental Retirement Fund

Active Contributing Members	37,084
Non-Contributing Members	11,311
Retirees and Beneficiaries	10,024
Service Retirements	1,071
Disability Retirements	0
Resignation Refunds	1
Death Refunds	5

Exhibit 13 Law Enforcement & Custodial Officer Supplemental Retirement Fund

### Exhibit 14: Judicial Retirement System of Texas Plan One

Active Contributing Members	12
Non-Contributing Members	3
Retirees and Beneficiaries	406
Service Retirements	1

Exhibit 14 Judicial Retirement System of Texas Plan One

### Exhibit 15: Judicial Retirement System of Texas Plan Two

Active Contributing Members	554
Non-Contributing Members	139
Retirees and Beneficiaries	267
Service Retirements	14
Disability Retirements	0
Resignation Refunds	9
Death Refunds	1

Exhibit 15 Retirement System of Texas Plan Two

### Exhibit 16: Group Benefits Program

Active Members	228,805
Active Member Dependents	169,282
COBRA	1,144
Retirees	104,770
Retiree Dependents	36,933
Resignation Refunds	1
Death Refunds	5

Exhibit 16 Group Benefits Program

### Exhibit 17: TexaSaver 401(k) and 457 Deferred Compensation Plans

TexaSaver 401(k) Plan – Total Participants	151,034
TexaSaver 457 Plan – Total Participants	26,902
Original 457 Plan – Total Participants	580

Exhibit 17 TexaSaver 401(k) and 457 Deferred Compensation Plans

### Exhibit 18: TexFlex (Section 125 Cafeteria Plan)

Reimbursement Accounts – Health care	46,173
Reimbursement Accounts – Dependent care	3,785
Premium Conversion	221,876

Exhibit 18 Cafeteria Plans

**F. Describe how your program or function is administered. Include flowcharts, timelines or other illustrations as necessary to describe agency policies and procedures. Indicate how field/regional services are used, if applicable.**

Executive Office oversight of agency division and programs is managed through a multi-pronged structure of regular meetings, group briefings, strategic planning sessions, and cross-divisional communications regarding specific issues or activities. The Executive Director, Deputy Executive Director and/or their designees meet with agency division directors or senior leadership, individually on a bi-weekly basis to discuss ongoing operations, implementation of policy changes, division resources needs or program concerns, and provide adjustments to strategic direction or clarify executive approvals or intentions. The Executive Director also holds weekly operations meetings with all division directors as a group to discuss general issues facing the agency and to ensure all program areas are informed of projects and operational concerns throughout the organization. Program managers and other agency leadership and issue specialists participate in these meetings as necessary to provide technical details or informational briefings.

Beyond these regular organizational update meetings, and for special projects and strategic initiatives overseen by EPMO, OMS and staff throughout operational divisions, executive oversight is administered through issue specific, ad hoc meetings and written communications between staff, either informal email transmissions or formal memo distributions of instructions, reports, and directives. Projects and initiatives of sufficient size and complexity, including most cross-divisional initiatives, are assigned project managers from either EPMO or OMS to assist executive officers in ensuring the project's alignment with the agency's strategic direction and provide executive level proxy authority to decisions and coordination efforts. The resources, accomplishments and alterations of these projects are closely tracked by the project management teams who provide regular reports to the Executive Management team and convey additional directions or course corrections back to the project's operational division staff members.

During the spring of each even-numbered year, the Executive Office leads an agency-wide effort to develop the ERS strategic plan. Bringing together executive administration, division directors, program managers and employees representing all agency functions, the strategic plan is constructed through a series of planning sessions and collaborative meetings to produce a clear direction for the agency's mission, vision, principles and philosophy moving into the future. The final plan is presented to and approved by the Board of Trustees and becomes the primary source document in the development of major roadmap projects, budgeting processes and related agency and program planning activities.

The Executive Director also holds a yearly all-staff agency meeting to discuss the achievements of the past year and the direction for the agency in the upcoming year. Employees can attend this meeting either in-person or through a web-simulcast. The state-of-the-agency meeting is then followed up with periodic articles posted to the internal website informing staff of agency initiatives, special projects and major staffing changes that tie into the stated goals for the year, as well as instructional emails to communicate process or policy changes.

IA functions report directly to the ERS Board of Trustees with a secondary reporting line to the Executive Director. The annual audit plan is developed by the IA division staff using multiple risk assessment tools, and is presented to the board during the August quarterly meeting for review and approval. Completed audits are presented to the board during regular quarterly meetings, as completed throughout the year and after audit staff has worked with the divisions or programs under review to receive appropriate management responses and understand the available or intended corrective actions that may be necessary in response to the findings.

**G. Identify all funding sources and amounts for the program or function, including federal grants and pass-through monies. Describe any funding formulas or funding conventions. For state funding sources, please specify (e.g., general revenue, appropriations rider, budget strategy, fees/dues).**

Although the agency receives funding through multiple revenue streams as detailed in Section V of this report, all revenue is deposited to one of eight trust funds, the special revenue fund or the proprietary fund defined by program use for later expenditure. Due to this accounting structure, ERS does not track program or division funding by original revenue stream but rather by fund source of payment. The accounting process begins with administrative expenses for agency operations being initially paid from the Employees Retirement System Trust (Fund 0955). Each month paid expenses are allocated to the various funds as defined by the type and purpose of the expenditure. This cost allocation process uses the monthly reported percentages from the agency's internal time accounting system to determine the needed allocation of employee salaries by fund and department, by identifying tasks on which the employee spent their time performing and charging the appropriate fund for the resulting expenditure. The cost allocation process then applies the average of these reported percentages of work performed to the allocation of non-salary and other administrative expenses incurred to each division by fund. There are exceptions to this process when an entire expenditure clearly relates to a single trust fund purpose, for example the payment of invoices received by the agency's health insurance actuary are automatically allocated entirely to the Employees Life, Accident, Health Insurance, and Benefits Fund (Fund 0973).

Actual fund source breakdown for Executive Office expenditures during Fiscal Year 2014 was:

Funding Source	2014 Amount
Employees Retirement System Trust (0955)	\$ 1,050,116
LECOS Retirement Trust (0977)	59,400
Judicial Retirement System Plan Two (0993)	14,714
TexasSaver 401(k) Trust (0946)	22,781
TexasSaver 457 Trust (0945)	12,367
State Employee Cafeteria Plan Trust (0943)	24,573
Employees Life, Accident, Health Insurance and Benefits Trust (0973)	463,280
Social Security Trust (0929)	5,946
<b>Total</b>	<b>\$ 1,653,177</b>

Exhibit 19 Executive Office expenditures

**H. Identify any programs, internal or external to your agency, that provide identical or similar services or functions to the target population. Describe the similarities and differences.**

With the exception of the IA function, there are no programs, either internal or external to ERS, which provide identical or similar services or functions as the Executive Office to the same target population. The State Auditor’s Office (SAO) provides similar oversight and compliance review work as the ERS IA staff; however, the SAO work is conducted from a different perspective and for a different audience. While SAO audit and review work is defined and approved by the Legislative Audit Committee to ensure government functions are in compliance with state statutes and other relevant rules and requirements, ERS Internal Audit work is directed by the Board of Trustees and Executive Director to ensure both compliance with applicable law and that the agency is achieving available efficiency and effectiveness in serving the needs of the program members and larger stakeholder groups. While there have been cases of both entities auditing or reviewing the same agency programs or functions during overlapping periods of time, the activities of each group serve a unique and important need to the respective members of the oversight entities and should not be seen as duplicative or unnecessarily redundant.

**I. Discuss how the program or function is coordinating its activities to avoid duplication or conflict with the other programs listed in Question H and with the agency’s customers. If applicable, briefly discuss any memorandums of understanding (MOUs), interagency agreements or interagency contracts.**

ERS Executive Office and IA staff work regularly with SAO to coordinate any work the legislative oversight entity is charged with regarding ERS programs or operations. ERS staff works to reduce duplication by providing SAO auditors with copies of all issued audit reports and access to any requested Internal Audit work papers. ERS’ member population is in no way affected or impacted by SAO work, so there is no conflict to be mitigated in that regard. Depending on the type of audit or review conducted, ERS and SAO may enter into an MOU or interagency agreement outlining the terms for ERS to reimburse SAO for the costs of the service; for Fiscal Year 2016 these costs are estimated at \$178,000. SAO also maintains delegation of authority for any audit of the agency that ERS elects to outsource to a private vendor (additional information on outsourced audit and compliance work is provided below in response to Item K.)

**J. If the program or function works with local, regional or federal units of government, include a brief description of these entities and their relationship to the agency.**

While ERS Executive Office staff is often called on to represent the agency and its programs before broad groups of plan members, stakeholders and government officials, these employees do not have regular defined or ongoing responsibilities working directly with local, regional or federal units of government. The interaction of

ERS staff and program operations with these entities is described in subsequent sections of this report to the extent such activities exist. As would be expected, most agency programs have some level of interaction with other state agencies, institutions of higher education and Texas political offices; these activities and work are further described in the appropriate program descriptions following this section, with heavier prevalence in the Governmental Affairs, Customer Benefits and Benefits Communications divisions.

**K. If contracted expenditures are made through this program, please provide:**

- a short summary of the general purpose of those contracts overall;
- the amount of those expenditures in FY14;
- the number of contracts accounting for those expenditures;
- top five contracts by dollar amount, including contractor and purpose;
- the methods used to ensure accountability for funding and performance; and
- a short description of any current contracting problems.

Although, the ERS Executive Director approves the majority of contracts entered into by the agency, contract expenditures are generally made through the functional divisions of the agency and not directly through the Executive Office. Therefore, applicable responses to the above contracting questions can be found throughout the subsequent sections of this report detailing the division and program level operations of the agency. ERS maintains significant contracting operations primarily in the area of benefits administration. Agency staff is constantly monitoring the compliance of these operations with existing state law as well as improving the efficiency and effectiveness of contracted services provided to ERS members.

Along with many other agencies throughout the state with large contracting operations, ERS is currently addressing and implementing the significant contracting reforms put in place by the 84th Texas Legislature. At the time of the development of this report, ERS legal counsel and contracting professionals were working to analyze the new requirements, in some instances awaiting guidance from other state agencies statutorily responsible for providing contract-related review. ERS is also reviewing its processes and procedures to determine what changes are necessary to meet the intent of the reforms. The reforms' full extent and impact on ERS operations will not be known until all the processes and requirements go into effect during Fiscal Year 2016. ERS has developed a project team to coordinate and manage the implementation of contract management reforms and ensure the agency remains in compliance as new requirements go into effect.

The one Executive Office program discussed in this section that does maintain regular contracting operations with related expenditures is the Internal Audit Division. IA leverages contracting and outsourcing opportunities to compliment the skills and expertise of program staff with knowledge bases that it may not make sense for ERS to maintain on a full-time basis. The most common needs for external audit and compliance consultants stem from reviews of information technology systems – where the necessary skill set and knowledge base can change from review to review – and investment operations. During FY14, IA expended a total of \$171,000 on external audit contracts and outsourcing engagements; this amount includes two contracts: Weaver Assurance, Tax and Advisory for \$140,000; and Gabriel Roeder Smith, Consultants and Actuaries for \$31,000. Additionally, SAO completed an external financial opinion audit but did not charge ERS for the work. The IA Director exercises direct oversight and authority over most outsourcing engagements to ensure accountability to time, resource and deliverable constraints. In recent years the largest contracting problem faced by Internal Audit has been a lower than expected response rate for bids posted regarding outsourcing and contract work.

**L. Provide information on any grants awarded by the program.**

This program does not award grants.

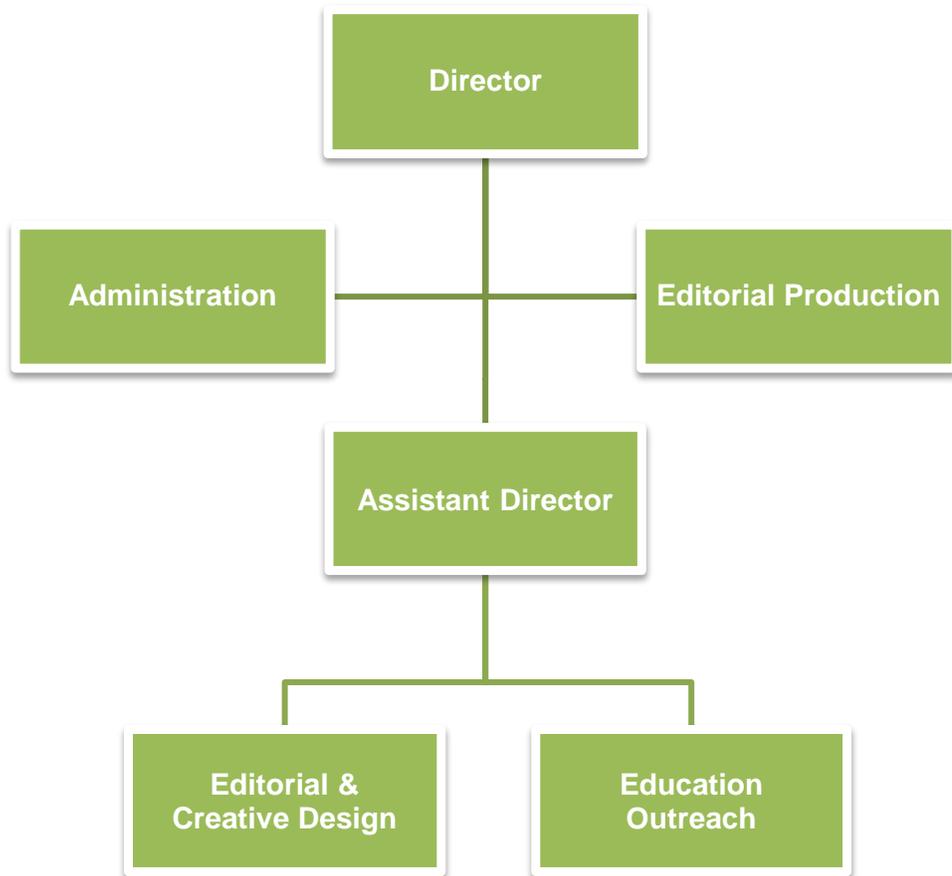
**M. What statutory changes could be made to assist this program in performing its functions? Explain.**

Information regarding beneficial statutory changes or other considerations to accomplish programmatic improvements can be found in Section IX Issues for Consideration, later in this report.

**N. Provide any additional information needed to gain a preliminary understanding of the program or function.**

No further information is provided to describe this program.

## Benefits Communications



**A. Provide the following information at the beginning of each program description.**

**Name of Program or Function:** Benefits Communications

**Contact Name:** Kathryn Tesar, Division Director

**Actual Expenditures, Fiscal Year 2014:** \$1,132,480

**Number of Budgeted Full time employees (FTEs), Fiscal Year 2014:** 17

**Number of Actual FTEs as of August 31, 2014:** 12

**Statutory Citation for Program:** Chapter 815, Texas Government Code

**B. What is the objective of this program or function? Describe the major activities performed under this program.**

The ERS Benefits Communications Division (BCOM) conducts ongoing communications operations directed to members, retirees, employers and other stakeholders. The division's goal is to provide accurate, understandable and engaging information about how State of Texas employee and retiree benefits work within a context that helps diverse audiences recognize the value and importance of those benefits. To achieve that goal, division staff develops and implements integrated communication strategies to tell the ERS story through a wide variety of communication methods. Communications efforts can be either wholly contained within BCOM or be provided in support of other ERS divisions' work, primarily Customer Benefits, the Executive Office or Governmental Affairs. Division staff also works closely with the contract administrators of ERS benefits programs, and member employers, to ensure that participants receive current, accurate information about their benefits in a timely way. Although not a key function of the division, BCOM also assists with internal communications to ERS employees.

As part of these efforts, BCOM activities regularly include:

- conducting comprehensive statewide communications campaigns on significant developments or changes related to state employee and retiree benefits;
- engaging stakeholders in ERS programs, using multi-media platforms, including a comprehensive website and a limited social media presence, to gauge interest in and knowledge of programs, answer questions, and receive feedback on benefits-related concerns;
- providing computer-based materials and training for hundreds of benefits coordinators and human resources (HR) professionals at state agencies and institutions of higher education;
- conducting in-person and web-based informational benefits presentations for state agency and higher education employees throughout the State, including retirement planning sessions and benefit program overviews designed to explain the value of the state benefits package;
- producing both regular and special informational, educational and operational publications for active employees, retirees, employers, and other external stakeholders;
- developing and directing the implementation of research-driven communications for internal and external target audiences; and
- collaborating with the Executive Director and senior executives to develop key messages, talking points, strategy guidelines and presentations for internal and external activities.

These activities result in division staff's creation of the following regular publications:

- *Update-express*, a biweekly electronic newsletter for state agency benefits coordinators and other staff in HR or payroll functions at state agencies and institutions of higher education;
- *News about Your Benefits*, a monthly electronic newsletter for active employees at state agencies and institutions of higher education, who are eligible for ERS-administered benefits;
- *Your ERS Connection*, a quarterly newsletter distributed by mail and email to retirees who receive ERS-administered benefits;
- *New Employee Benefits Guide*, updated annually and available on ERS' website and distributed in hard copies to member employers;

- *Planning Your Retirement*, a guide to retirement processes updated as needed and available on ERS' website as well as in hard copy by request;
- various annual enrollment guides for employees, retirees not eligible for Medicare, Medicare-eligible retirees and special populations (such as those in COBRA); and
- *ERS at a Glance*, providing information and statistics about ERS' programs over the previous fiscal year, primarily distributed to external stakeholder audiences and decision makers, such as legislators and other elected officials.

Regular presentations and events provided or coordinated by BCOM staff include:

- "Ready, Set, Retire!" for employees nearing retirement, conducted in person and via webinar throughout the year;
- "Medicare Preparation" to help members nearing Medicare eligibility understand how their State of Texas health benefits coordinate with Medicare and explaining the member's responsibility for enrolling in Medicare, conducted in person and via webinar throughout the year;
- enrollment presentations and fairs conducted in person and via webinar during ERS' two enrollment periods annually – July for active employees and non-Medicare retirees, and November for Medicare-eligible retirees;
- "Be Benefits Wise," an educational presentation for new state agency and institution of higher education employees, conducted in person at the request of agencies or institutions; and
- "Ask ERS," a bimonthly webinar in which participants, from direct members to state agency benefits coordinators and HR professionals, can ask ERS staff benefits-related questions.

**C. What evidence can you provide that shows the effectiveness and efficiency of this program or function? Provide a summary of key statistics and outcome performance measures that best convey the effectiveness and efficiency of this function or program.**

The division measures the effectiveness of programs differently depending on the media type used to present the communication. For ERS website operations, the most comprehensive and frequently used means of communication to all stakeholder groups, BCOM reviews unique visitors and the number of pages viewed weekly, as well as counting PDF document downloads. To gauge the agency's need to adopt emerging technologies, the division also reviews the percentage of viewers visiting the site via mobile devices and the specific types of browsers used. For the six months ending June 26, 2015, the ERS website averaged 81,000 unique visitors and 600,000 pages viewed per month, with approximately 3.7 pages viewed per session.

For electronic newsletters and other email communications, the division measures the "open rate", or the percentage of recipients opening the email, with a rate of 20% or higher generally considered good by industry electronic communication standards. For the six months ending June 26, 2015, the average open rates for major publications were: 30% for the *Update-express*; 24% for *News about Your Benefits*; and 41% for the electronic edition of *Your ERS Connection*. A printed version of *Your ERS Connection* is also mailed to almost all retirees, with approximately three-quarters receiving the electronic version by email. The division also manages a limited social media presence. As of June 30, 2015, ERS maintained almost 6,000 followers on Facebook's social network and more than 730 on the LinkedIn professional networking site. ERS' educational videos on YouTube are viewed an average of 3,500 times per month, for a total of 9,060 viewing minutes.

**D. Describe any important history regarding this program not included in the general agency history section, including how the services or functions have changed from the original intent.**

Over the years, the communications function of ERS has been through a number of changes. Throughout the 1990s, the agency maintained a benefits communications division that developed and distributed information for members and retirees. In 1998, communications was combined with other member program divisions to become the customer service division. In November 2008, communications again became a separate division within the agency and took on additional responsibilities along with benefits communications. The new Communications and Research Division continued producing general member communications – such as the website, newsletters and other publications – in addition to adding media relations and general policy and program research functions. Media relations and research functions were relocated to the Governmental Affairs Division in 2014.

At various times in the past, the communications division has also managed employer training functions - providing in-person, hands-on training to benefits coordinators across the State through an annual conference scheduled immediately prior to the annual enrollment period, and also at sessions for new benefits coordinators. Much of the training was conducted at ERS, with coordinators traveling to Austin, but in some cases, ERS trainers traveled to agencies and institutions to conduct the training sessions. With statewide budget cuts following state economic downturns, fewer agencies were able to send staff to attend training sessions. ERS replaced the in-person training with a learning management system. The large-scale, hands-on training previously provided at ERS and in the field was discontinued and trainers began traveling to an employer's site and used the production database to train coordinators. This training was limited to transactions for that employer and was not very efficient. As an alternative, ERS placed all training information – including processing and reference manuals, specialized job aids, training presentations, and Summer Enrollment processing instructions – online to provide benefits coordinators with constant access to learning materials for self-study. ERS developed a secure website with comprehensive resources for coordinators, called the Benefits Coordinator Community Group (BCCG). With the suspension of in-person training and the creation of an online training environment, the BCCG is now the primary training and information resource for benefits coordinators at state agencies and institutions of higher education. Additionally, responsibility for direct communications with, and assistance to, state agency benefits coordinators was moved to the Customer Benefits Division's Benefits Coordinators Assistance program.

**E. Describe who or what this program or function affects. List any qualifications or eligibility requirements for persons or entities affected. Provide a statistical breakdown of persons or entities affected.**

The division's function affects the hundreds of thousands of participants and members in ERS-administered programs, who receive communications that BCOM develops and distributes. In addition, BCOM also develops critical communications that help employers meet the informational and benefit processing needs of their employees. To receive communications directly from BCOM, each recipient needs only to be a participant in at least one ERS-administered program and have an email or physical mailing address on file with ERS. A coordinator must pass through certain security protocols to access the Benefits Coordinator Community Group (BCCG) and receive ERS emails related to their job responsibilities. BCOM currently distributes communications directly to: 252,552 active employees of state agencies and institutions of higher education; 121,600 retirees; and 1,726 benefits coordinators and human resources professionals. In addition, stakeholders – such as Texas legislators or staff at state employee organizations – receive BCOM communications from ERS leadership and staff in the Governmental Affairs Division. The ERS website is accessible to the general public.

**F. Describe how your program or function is administered. Include flowcharts, timelines or other illustrations as necessary to describe agency policies and procedures. Indicate how field/regional services are used, if applicable.**

The division director oversees all team activities, develops strategic communications and participates in agency strategic planning. The Director is aided by an Assistant Director, who participates in staffing and administrative functions, such as staff development and divisional policy implementation, and implements communications for new programs or key program changes. The editorial team lead oversees day-to-day editorial functions, develops high-level communications and coordinates the work of content writers, who develop the bulk of member communications – including newsletters, other publications, web-based communications and social media outreach. The editorial team is additionally supported by graphic designers, who also assist with the development of video production and provide audio-visual support for agency events. The division also maintains dedicated staff to administer the agency’s web presence and to develop and deliver presentations about ERS-administered benefits, and coordinate benefits education events for ERS members and retirees.

In addition to their technical duties, each BCOM team member (with the exception of administrative staff and the graphic designers) serves as a subject-matter expert (SMEs) for at least one of the benefit programs offered by ERS to ensure that communications about the programs are accurate, relevant, and timely. The SMEs’ responsibilities include reviewing all communication materials developed and distributed by each program for clarity, content and understanding. Assignments within the division are rotated among team members to encourage cross-training and the development of broad agency knowledge for all staff.

**G. Identify all funding sources and amounts for the program or function, including federal grants and pass-through monies. Describe any funding formulas or funding conventions. For state funding sources, please specify (e.g., general revenue, appropriations rider, budget strategy, fees/dues).**

Although the agency receives funding through multiple revenue streams, as detailed in Section V of this report, all revenue is deposited to one of eight trust funds, the special revenue fund, or the proprietary fund, defined by program use, for later expenditure. Due to this accounting structure, ERS does not track program or division funding by original revenue stream but rather by fund source of payment. The accounting process begins with administrative expenses for agency operations being initially paid from the Employees Retirement System Trust (Fund 0955). Each month, paid expenses are allocated to the various funds as defined by the type and purpose of the expenditure. This cost allocation process uses the monthly reported percentages from the agency’s internal time accounting system to determine the needed allocation of employee salaries by fund and department, by identifying what tasks the employee spent their time performing and charging the appropriate fund for the result expenditure. The cost allocation process then applies the average of these reported percentages of work performed to the allocation of non-salary and other administrative expenses incurred to each division by fund. There are exceptions to this process when an entire expenditure clearly relates to a single trust fund purpose, for example the payment of invoices received by the agency’s health insurance actuary are automatically allocated entirely to the Employees Life, Accident, Health Insurance, and Benefits Fund (Fund 0973).

Actual fund source breakdown for Benefits Communications Division expenditures during FY14 was:

Funding Source	2014 Amount
Employees Retirement System Trust (0955)	\$ 380,593
LECOS Retirement Trust (0977)	28,684
Judicial Retirement System Plan Two (0993)	5,954
Texas\$aver 401(k) Trust (0946)	36,180
Texas\$aver 457 Trust (0945)	17,520
State Employee Cafeteria Plan Trust (0943)	33,379
Employees Life, Accident, Health Insurance and Benefits Trust (0973)	627,816
Social Security Trust (0929)	2,354
<b>Total</b>	<b>\$ 1,132,480</b>

Exhibit 20 Benefits Communications Division expenditures

**H. Identify any programs, internal or external to your agency, that provide identical or similar services or functions to the target population. Describe the similarities and differences.**

With regard to the specific communications developed and distributed by BCOM, discussed above, there are no internal or external programs providing identical or similar services to the identified target population. However, ERS' Customer Benefits Division develops and distributes two stand-alone personalized benefit statements annually to members. The *Personal Benefits Enrollment Statement* is sent to every participant in the Texas Employees Group Benefits Program and the *Statement of Retirement Benefits* is distributed to all members actively contributing to an ERS-administered retirement plan. These statements provide health insurance or retirement benefit information personalized to each recipient's individual account, however, and do not include general information or informational updates about ERS programs.

Individual state agencies, institutions of higher education, employee groups and retiree associations (such as the Texas Public Employees Association and the Texas State Employees Union) occasionally provide summary benefit information to their employees and members, generally following legislative sessions, significant program changes or prior to annual enrollment periods. These entities historically obtain the presented information from ERS (as prepared by BCOM staff), although they may tailor it slightly to their audience's needs.

**I. Discuss how the program or function is coordinating its activities to avoid duplication or conflict with the other programs listed in Question H and with the agency's customers. If applicable, briefly discuss any memorandums of understanding (MOUs), interagency agreements or interagency contracts.**

Because ERS is the primary agency charged with implementing laws pertaining to State of Texas employee insurance and retirement benefits and setting policies related to those benefits, ERS staff serves as the State's subject matter experts on benefit programs. Most ERS external stakeholder groups – such as employers and employee/retiree organizations – recognize this and defer to ERS to communicate directly with member populations, or to provide the primary, or initial communication. ERS staff often provides the information from these initial communications to external stakeholder groups to be used in supplemental communications to individual, targeted publications to their employees or membership.

Employers, state agencies and institutions of higher education are the most frequent communicators of employee/retiree benefits information to members and participants after ERS. ERS has no formal agreements with agencies and institutions with regard to what information BCOM provides and what information the agencies and institutions will communicate to state employees regarding benefits. By providing employers with frequent and regularly updated information, ERS tries to mitigate any need for employers to develop their own communications about ERS-administered benefits, which could potentially introduce incorrect or misaligned information or language into member communications. Coordinating through the Governmental Affairs Division and Executive Office, BCOM also works to maintain strong relationships with employee organizations and retiree associations, and encourages those organizations to work with ERS when they have a need to send targeted communications about ERS-administered benefits to their constituent populations.

**J. If the program or function works with local, regional, or federal units of government, include a brief description of these entities and their relationship to the agency.**

The division rarely works with non-State of Texas governmental entities. A recent exception is that the division will occasionally need to seek information from the federal Centers for Medicare & Medicaid Services (CMS) or the Social Security Administration (SSA), to facilitate the provision of accurate information to ERS members about how retiree health insurance coordinates with Medicare. BCOM has invited CMS to participate in informational presentations at ERS, to educate ERS staff about any changes to Medicare and incorporates relevant information from CMS and SSA into its communications.

**K. If contracted expenditures are made through this program please provide:**

- a short summary of the general purpose of those contracts overall;
- the amount of those expenditures in Fiscal Year 2014;
- the number of contracts accounting for those expenditures;
- top five contracts by dollar amount, including contractor and purpose;
- the methods used to ensure accountability for funding and performance; and
- a short description of any current contracting problems.

The division contracts with private communications vendors and consultants to supplement the experience and technical skills of ERS communications staff or provide specialty, or one-time, communication services. For example, BCOM recently contracted for services to develop animated videos explaining the funding and administrative challenges inherent in the agency's benefit programs. Contracts may also be necessary to meet peak, or high-demand, work periods instead of bringing on full-time employees who are needed only during short, specific times of the year. Communications vendors can also offer an outside perspective to the division that is beneficial to a specific project, such as reviewing historical documents or developing tactical strategies. During FY14 the division managed six contracts with a total value of \$147,015. The largest five contracts were with:

- University of Texas (\$55,421): Printing services for producing four editions of the quarterly *Your ERS Connection* newsletter, mailed to most ERS retirees. (This contract is solicited, managed and maintained as a statewide use contract by the Council on Competitive Government.)
- GovDelivery, Inc. (\$25,840): Annual contract (solicited through a competitive request for proposals) for mass email processing services; used to email newsletters to benefits coordinators and active employee members, as well as for occasional special alerts to these groups.

- AMS Pictures, Inc. (\$21,600): Statement of work (solicited through an inquiry to relevant companies on the Comptroller of Public Accounts' Centralized Master Bidders List) for production of two animated videos educating member and stakeholder audiences about issues with the ERS Retirement Trust Fund.
- Texas Creative, Inc. (\$11,085): Statement of work (solicited through an inquiry to relevant companies on the State's TXMAS list) for development of ERS communications strategy message maps for use during fiscal years 2015 and 2016, including research, interviews with internal stakeholders, drafting of messages, graphic design, and product finalization.
- CoreStaff Services (\$10,000): Agency-wide contract (solicited through a competitive request for proposals) for a temporary technical writer during October and November 2013, while interviewing for a permanent employee.

When possible, BCOM contracts with companies and organizations that are made available through certified statewide contract lists, such as the State's Master Bidder List, TXMAS program, and Council on Competitive Government offerings. For large-batch scheduled printing services, the division makes use of operations provided by state agencies or institutions of higher education. All other contract offerings are solicited broadly, and developed contracts contain strictly defined budgets, scopes of work, timelines and performance standards. Most of the division's contract work takes place over relatively short time periods – typically a few months at most – allowing division staff to work closely with contractors to ensure performance standards are maintained and timelines are met.

**L. Provide information on any grants awarded by the program.**

This division does not grant awards.

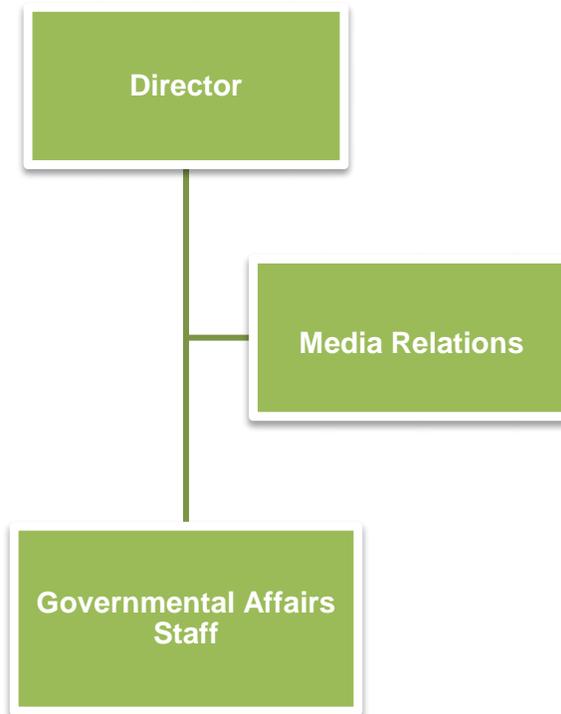
**M. What statutory changes could be made to assist this program in performing its functions? Explain.**

Information regarding beneficial statutory changes or other considerations to accomplish programmatic improvements can be found in Section IX Issues for Consideration, later in this report.

**N. Provide any additional information needed to gain a preliminary understanding of the program or function.**

No further information is provided to describe this program.

## Governmental Affairs



**A. Provide the following information at the beginning of each program description.**

**Name of Program or Function:** Governmental Affairs

**Contact Name:** Catherine Terrell, Division Director

**Actual Expenditures, Fiscal Year 2014:** \$977,809

**Number of Budgeted Full time employees (FTEs), Fiscal Year 2014:** 3

**Number of Actual FTEs as of August 31, 2014:** 7

Note: An agency reorganization conducted during Fiscal Year 2014 transferred a group of research and media relations positions from the Benefits Communications Division to Government Affairs, resulting in actual FTEs above the originally budgeted levels.

**Statutory Citation for Program:** Chapter 815, Texas Government Code

**B. What is the objective of this program or function? Describe the major activities performed under this program.**

The ERS Governmental Affairs Division (GA) is the central point of contact between the agency and the Legislature, employee and retiree organizations, and the media. GA staff holds the primary responsibility for establishing and maintaining open lines of communication between ERS and elected state officials, oversight agencies, employee and retiree associations, research and trade groups, and the media. By developing positive working relationships with key stakeholders, the staff provides education, information and research data to these groups and serves as a resource for activities ranging from preparing legislation to resolving individual constituent concerns. GA also serves as the central policy development office within the agency, working closely with all functional divisions to ensure ERS operations meet legislative requirements, and that new requirements or directives are implemented within the intent of state government officials. GA division activities are divided between four primary functional areas: governmental relations, media relations, stakeholder relations, and research and data control.

**Governmental Relations Activities:**

- Serve as the primary agency liaison with elected state officials, key committee members and their staff and certain oversight agencies such as the Legislative Budget Board;
- Coordinate information requests from committees and individual members that have oversight, or interest, of ERS and its programs;
- Manage internal legislative tracking and monitoring during a legislative session to ensure each bill impacting ERS programs is analyzed for operational and program costs and impact to the agency's members;
- Monitor legislative activity related to pension and healthcare policies nationwide; with a focus on federal initiatives; and
- Provide ombudsman services for constituent concerns originating from stakeholder groups, elected officials and direct member requests.

**Media Relations Activities:**

- Respond to media inquiries and prepare executive and subject matter expert staff for media interviews;
- Initiate and maintain working relationships with members of the news media;
- Monitor news coverage and gather and distribute articles relevant to ERS programs and operations; and
- Prepare public statements for both general and specific use in response to policy positions and administrative decisions enacted by the agency.

**Stakeholder Relations Activities:**

- Initiate and maintain working relationships with public employee groups, retiree associations and policy organizations interested in state employment and benefits issues;
- Maintain an active outreach schedule providing briefings on ERS programs, policies, finances, research findings and trends in state workforce issues to interested groups;
- Develop strategic communications and messaging for key agency initiatives involving or impacting external stakeholders; and
- Respond to requests for information from interested groups and attend stakeholder functions, including presenting educational information or agency activity updates at stakeholder meetings and events.

**Research, Policy Development, and Data Control Activities:**

- Create legislative communication and educational materials, including presentations, handouts, infographics, policy reports, financial analyses and talking point memos;
- Prepare and present research reports and position papers on topics affecting all ERS programs to both internal and external audiences;
- Conduct legislatively directed policy research projects, such as interim studies and reports evaluating the cost effectiveness and sustainability of ERS benefit programs;
- Produce original qualitative and quantitative analysis through member surveys and benchmarking studies; and
- Lead data control initiatives within the agency to centralize the production, collection, and management of accurate metrics, reports, research, statistics, and historical data, directly contributing to the success of all previous activities listed by reducing the risk of sharing incorrect or inconsistent information to either internal or external users.

**C. What evidence can you provide that shows the effectiveness and efficiency of this program or function? Provide a summary of key statistics and outcome performance measures that best convey the effectiveness and efficiency of this function or program.**

The division does not maintain or report on specific outcome measures. As with all ERS programs, the division maintains documentation related to how staff members allocate their time among program activities. According to these records, most staff hours are allocated to activities related to legislation and elected official interactions. This includes monitoring and analyzing legislation, attending hearings, preparing documents, educating elected officials' staff on agency operations, and responding to legislative inquiries. The second largest category of time is allocated to external communications and reflects the work that is done with stakeholder groups, as well as media and constituent relations. In general, the GA division's success can be seen in the recent legislative actions to improve and support agency program's and the agency's continuing ability to successfully implement legislative requirements in a timely and responsive manner while maintaining the support of major stakeholder groups and trust members.

**D. Describe any important history regarding this program not included in the general agency history section, including how the services or functions have changed from the original intent.**

The division was reorganized and expanded during FY13 to include functions beyond traditional governmental relations activities. This change included the addition of media relations and research and policy functions to the historic legislative activities performed by division staff. The department also manages the agency's relationship with the consulting pension actuarial firm, Gabriel Roeder Smith, who provides annual official pension fund valuation reports, fiscal impact analysis of proposed pension legislation, and ad hoc reporting and analysis for policy and research reports undertaken by the agency or requested by legislative directive.

**E. Describe who or what this program or function affects. List any qualifications or eligibility requirements for persons or entities affected. Provide a statistical breakdown of persons or entities affected.**

This is a support division for ERS operational divisions, with the division's work primarily targeted to elected officials and their staffs, state and federal oversight entities, external stakeholder, and media groups. The results of Governmental Affairs activities impact the full ERS membership through staff's interactions with the Legislature and state executive leadership on statutory changes.

**F. Describe how your program or function is administered. Include flowcharts, timelines, or other illustrations as necessary to describe agency policies and procedures. Indicate how field/regional services are used, if applicable.**

Division staff are located in Austin. The division has a Director, with five direct reports who are assigned specific functional areas of expertise, such as: retirement operations; health care operations; media relations; legal review and advisory services; and external stakeholder coordination. Division employees are highly cross-trained to be able to work interchangeably during periods of peak work demand, such as regular legislative sessions, ensuring that the needs of the agency are consistently and timely communicated to both internal and external stakeholders and audiences at the leanest resource cost available.

**G. Identify all funding sources and amounts for the program or function, including federal grants and pass-through monies. Describe any funding formulas or funding conventions. For state funding sources, please specify (e.g., general revenue, appropriations rider, budget strategy, fees/dues).**

Although the agency receives funding through multiple revenue streams, as detailed in Section V of this report, all revenue is deposited to one of eight trust funds, the special revenue fund, or the proprietary fund, defined by program use, for later expenditure. Due to this accounting structure, ERS does not track program or division funding by original revenue stream but rather by fund source of payment. The accounting process begins with administrative expenses for agency operations being initially paid from the Employees Retirement System Trust (Fund 0955). Each month paid expenses are allocated to the various funds as defined by the type and purpose of the expenditure. This cost allocation process uses the monthly reported percentages from the agency's internal time accounting system to determine the needed allocation of employee salaries by fund and department, by identifying what tasks the employee spent their time performing and charging the appropriate fund for the result expenditure. The cost allocation process then applies the average of these reported percentages of work performed to the allocation of non-salary and other administrative expenses incurred to each division by fund. There are exceptions to this process when an entire expenditure clearly relates to a single trust fund purpose, for example the payment of invoices received by the agency's health insurance actuary are automatically allocated entirely to the Employees Life, Accident, Health Insurance, and Benefits Fund (Fund 0973).

Actual fund source breakdown for Government Affairs Division expenditures during Fiscal Year 2014 was:

<b>Funding Source</b>	<b>2014 Amount</b>
Employees Retirement System Trust (0955)	\$ 490,237
LECOS Retirement Trust (0977)	38,634
Judicial Retirement System Plan Two (0993)	6,558
Texa\$aver 401(k) Trust (0946)	10,855
Texa\$aver 457 Trust (0945)	6,031
State Employee Cafeteria Plan Trust (0943)	8,843
Employees Life, Accident, Health Insurance and Benefits Trust (0973)	414,841
Social Security Trust (0929)	1,810
<b>Total</b>	<b>\$ 977,809</b>

**Exhibit 21 Government Affairs Division expenditures**

**H. Identify any programs, internal or external to your agency, that provide identical or similar services or functions to the target population. Describe the similarities and differences.**

The division provides services which are similar or complimentary to those of some of the operational divisions at ERS. For example, GA receives direct calls from legislative offices requesting assistance for their state employee/ retiree constituents who have questions about, or issues with, ERS programs; these requests can be similar to inquiries received directly by the ERS Customer Benefits (CB) contact center. GA staff will often work closely with CB employees to resolve a legislator's constituent concerns or answer educational questions regarding the related program. GA staff also presents benefits information, as do staff in Benefits Communications, but to largely different, and unique, audiences.

Staff prepares external communication materials specifically for unique strategic audiences, such as elected officials. The division regularly seeks assistance with graphic design and editing activities from Benefits Communications staff and works with that division to coordinate consistent and effective messaging. Finally, given the responsibility for the research, writing and production of legislatively required reports, the division works with subject matter experts in other divisions, such as Benefit Contracts and Legal Services, to ensure quality accurate data is prepared and presented in the appropriate context.

**I. Discuss how the program or function is coordinating its activities to avoid duplication or conflict with the other programs listed in Question H and with the agency's customers. If applicable, briefly discuss any memorandums of understanding (MOUs), interagency agreements, or interagency contracts.**

GA staff regularly participates in ERS program review meetings to ensure division staff is knowledgeable about the programs that directly affect state employees and retirees, and that communications are consistent, accurate, and up-to-date with recent operational activities or program changes. The division avoids duplication or conflict in resolving legislative constituent inquiries by working directly with the Customer Benefits division and the Benefit Contracts division to track and resolve individual member issues that have been received by GA staff; ensuring all related staff are informed of the issue and the surrounding activities eliminates duplication, cross-communications and inconsistent responses. GA staff uses the ERS centralized complaints and issues tracking system (CAITS) in coordination with staff in other ERS areas to more easily coordinate resolution activities.

**J. If the program or function works with local, regional or federal units of government, include a brief description of these entities and their relationship to the agency.**

Staff primarily directly interacts with other state agencies and state elected officials, including coordinating the agency's interaction with the Texas Legislature during legislative sessions and working with the Pension Review Board to develop actuarial impact statements for bills relating to retirement benefits administered by ERS. The division works regularly with all state agencies and institutions of higher education to assist in the communication of program changes to member populations. While the division does maintain relationships with local pension organizations and various entities involved in the development of federal retirement and health care policy, these relationships are primarily informational in nature and do not routinely rise to the level of coordinated operational activity.

**K. If contracted expenditures are made through this program please provide:**

- a short summary of the general purpose of those contracts overall;
- the amount of those expenditures in Fiscal Year 2014;
- the number of contracts accounting for those expenditures;
- top five contracts by dollar amount, including contractor and purpose;
- the methods used to ensure accountability for funding and performance; and
- a short description of any current contracting problems.

The division maintains few contractual relationships, and primarily uses contracting operations in ad hoc engagements to supplement the division's skill sets with unique research tools or subject matter expertise that is unnecessary to maintain on an ongoing basis. Typical division contracts are for communication or research services.

During FY14, the ERS Governmental Affairs division held two contracts. The first was in the amount of \$14,963 to Brightleaf Group, Inc. for communication consulting services for a number of communications deliverables, including updating a study on the state workforce, producing research infographics, and developing issue papers on pension funding considerations. The work was done according to a Statement of Work, with regular progress reports and deliverables managed by division management. Brightleaf Group is a participating contractor through DIR.

The second contract, in the amount of \$14,725, was executed through a Memorandum of Understanding (MOU) with The University of Texas Institute for Organizational Excellence (UT-IOE) for consulting services related to a legislatively mandated interim study on the impact of providing alternative health plans to state employee groups. The MOU documents the vendor's required Scope of Work, which included project planning, developing survey methods and instruments, deploying online and paper survey tools to 136,000 employees, conducting focus groups, producing a detailed analysis and interpretation of the collected survey data, and providing consultative review on the final legislative report, submitted to legislative leadership on September 1, 2014. UT-IOE conducts the biennial Survey of Employee Engagement for the State of Texas.

**L. Provide information on any grants awarded by the program.**

This program does not award grants.

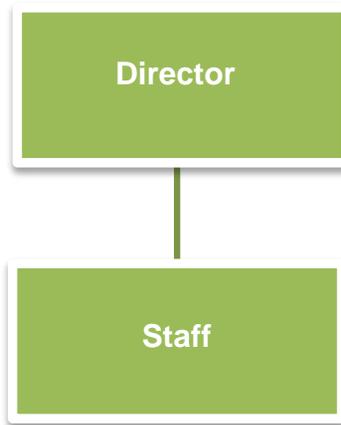
**M. What statutory changes could be made to assist this program in performing its functions? Explain.**

Information regarding beneficial statutory changes or other considerations to accomplish programmatic improvements can be found in Section IX Issues for Consideration, later in this report.

**N. Provide any additional information needed to gain a preliminary understanding of the program or function.**

No further information is provided to describe this program.

## Human Resources



**A. Provide the following information at the beginning of each program description.**

***Name of Program or Function:*** Human Resources

***Contact Name:*** Ralph Salinas, Division Director

***Actual Expenditures, Fiscal Year 2014:*** \$535,467

***Number of Budgeted Full time employees (FTEs), Fiscal Year 2014:*** 4

***Number of Actual FTEs as of August 31, 2014:*** 4

***Statutory Citation for Program:*** Chapter 815, Texas Government Code

**B. What is the objective of this program or function? Describe the major activities performed under this program.**

The Employees Retirement System (ERS) Human Resources Division (HR) supports the agency's mission by: planning and administering a sound personnel program based on fair employment laws; using modern human resource management principles to attract and retain a skilled, productive, informed, and committed work force; and ensuring the development and delivery of quality services through employees within the framework of a positive work environment. HR's core responsibilities include:

- **Employment Management** – HR manages all aspects of ERS' employment process, including: job vacancy postings; advertising job vacancies; selecting candidates from the Work-in-Texas website or from previous job vacancies; screening job applications; facilitating interviews; reviewing and approving candidate selection recommendations from hiring divisions; ensuring compliance with state and federal law in the candidate selection process; coordinating necessary history and background checks; and maintaining all relevant records generated during the employment process.
- **Onboarding** – ERS has developed an effective onboarding process to create a smooth, positive transition into the agency for new hires and the existing ERS employees they work with. On their first day of employment, HR devotes several hours of the day to meet with the new employee to discuss employee benefits, secure signatures for required documentation and orient the new employee to the building. New employees are also provided supporting documentation for applicable agency policies and procedures as well as supplemental, or discretionary, benefit programs in which they may wish to consider participating. HR staff will also walk a new employee through their specific job description to ensure that performance expectations are clear and understood by the new employee.
- **Career Development and Training** – ERS invests in its employees by providing diverse training opportunities and access to educational resources that enrich their knowledge, skills and abilities to perform their jobs. The ultimate goal is to provide employees with the tools and resources necessary to perform higher-level job responsibilities that develop careers as well as support ERS' strategic directions, projects, and initiatives. ERS has also developed career ladders, formalized succession planning, and created the Office of Management Support program to develop internal employee careers and anticipate future staffing needs.
- **Employee Relations** – Employee relations activities encompass several different programs. Within the agency's Equal Employment Opportunity program (discussed in more detail in Section XI: Additional Information of this report), ERS has a structured complaint process for employees to report discrimination or harassment in the workplace that begins with HR staff investigating any such reports. ERS is also committed to the principles of the Americans with Disabilities Act (ADA) of 1990, the ADA Amendments Act (ADAAA) of 2008 and in prohibiting related discrimination. ERS prohibits discrimination in its employment practices with respect to qualified individuals with disabilities and will provide reasonable accommodation for any employee having a known physical or mental impairment as defined under the Rehabilitation Act of 1973, the Americans with Disabilities Act of 1990, the Texas Commission on Human Rights Act, or the ADA AA of 2008. HR is responsible for reviewing requests for reasonable accommodation.

HR maintains standards of performance and conduct that every ERS employee must meet. Disciplinary action is a managerial tool the supervisor uses to bring employee performance up to these standards when a deficiency is identified, to correct inappropriate behavior or to remove the employee from the work area. Direct violation of ERS policies and rules may also warrant disciplinary action. All disciplinary actions must be reviewed and approved by the Director of Human Resources and the employee's division director before it is administered, and all disciplinary actions involving a dismissal must be additionally reviewed and approved by the Deputy Executive Director and the General Counsel/Chief Compliance Officer. On the other side, employees can file general complaints about conditions of employment that the complainant believes is a violation of policy, law or a conflict that requires a formal investigation, but is not identified as a discrimination

complaint. Employees can file a written general complaint either with their supervisor, with a copy to the Director of Human Resources, or directly with the Director of Human Resources. The Director is responsible for conducting an investigation into any general complaints received.

Finally, the grievance process exists to allow eligible employees recourse for adverse personnel actions that result in a loss of salary. Eligible employees can file a grievance if they have received a qualified adverse personnel action such as suspension without pay, disciplinary salary reduction, disciplinary demotion resulting in reduction in salary, and dismissal. A grievance must be filed with the HR office, within ten calendar days of the employee's receipt of written notice that disciplinary action is being taken against him or her. The Director of Human Resources works with the Executive Director or Deputy Executive Director to question witnesses or involved parties and prepares a response to the grievant.

- **Job Performance Management** – ERS' performance planning and evaluation system is a tool designed to provide a standardized method for developing performance standards and goals and evaluating employees' job performance. HR works with division management to ensure performance evaluations are reflective of the employees' actual defined job description and include appropriate performance standards. The system is designed to achieve multiple goals, including: increasing two-way communication between supervisors and employees by requiring discussion on performance standards, goals and perceived performance; achieving and maintaining a minimum satisfactory level of employee performance by requiring supervisors to discuss with employees, and to document, performance standards, perceived performance, accomplishments, strengths and weaknesses, and training needs and to provide an action plan for performance improvement; motivating employees by providing a clearer understanding of the relationship between individual job performance, the division's goals, and ERS's strategic objectives; documenting performance that substantiates why a personnel action was or was not taken.
- **Organizational Management** – Organizational management functions include monitoring position control and developing organizational charts that realistically reflect the management and communications links within the agency. The division holds primary responsibility for ensuring all internal transfers, organizational restructuring, and creation of new work units are accurately reflected in the organizational charts updated monthly.
- **Salary Administration** – ERS is committed to providing total compensation packages that enable the agency system to attract and retain highly skilled and talented employees to the benefit of the system's fiduciary duties. ERS uses the state's Position Classification Act to guide compensation decisions while reserving the right to approve positions and compensation levels that may differ from the Act when in the best interests of the retirement system and trust operations. The division ensures that all personnel action forms, submitted for a salary action, have been routed through a budget review process and are in compliance with the agencies policies and procedures. Staff also ensures that special types of pay and allowances – such as longevity pay, benefit replacement pay, and incentive compensation awards – are accurately calculated and included in employees' monthly paychecks. In addition, staff oversees compliance with the Fair Labor Standards Act of 1938, which regulates minimum wages, overtime, equal pay, record keeping and child labor standards for those employees who are covered under the Act.
- **Time and Leave Management** - Texas Government Code, Chapters 661 and 662 specify the types and amounts of leave a state employee is eligible for and under what conditions the leave can be used. Staff administers the work leaves available to employees such as vacation, sick, state and federal holidays, administrative leave, emergency leave, Family Medical Leave, foster parent leave, jury duty leave, leave without pay, military leave, parental leave and sick leave pool. ERS is required to keep a record of each employee's time, attendance, vacation and sick leave accruals, and absences and the reasons for employee absences, regardless of the type of leave used.

- **Employee Data Tracking and Reporting** – Staff are responsible for tracking various records for Affirmative Action reports, ethnicity and gender data for the various job categories and departments, veteran and foster child status, contractor and temporary worker status, and workforce summaries for the agency.
- **Managing Employee Separations** – Upon notice of an employee’s voluntary or involuntary separation from the agency, division staff must initiate and complete a series of actions that include: terminating the employee’s employment from ERS online (benefits), USPS (payroll), and ERS’ human resources information systems; auditing leave accounting records; explaining insurance and COBRA rights to the separating employee; explaining the employee’s TexaSaver and pension options; recovering ERS equipment, building passes, keys assigned to the employee; and providing the separating employee with information relating to their TexFlex account, life insurance conversion, and opportunities to donate to the Sick Leave Pool.

**C. What evidence can you provide that shows the effectiveness and efficiency of this program or function? Provide a summary of key statistics and outcome performance measures that best convey the effectiveness and efficiency of this function or program.**

ERS’ most recent workforce plan shows that the ERS workforce is comprised of 56% females and 44% male employees and more than 72% of the agency’s employees are over the age of 40. Over 71% of ERS’ workforce has five years or more of state service and 29% of the workforce has less than four years of state service. The effectiveness and efficiency of the division core functions are regularly illustrated in various agency and state reports, such as the Workforce Summary Report (prepared by the State Auditor’s Office), ERS Turnover reports, ERS Workforce Plan and the Survey of Employee Engagement (SEE). The most recent SAO Workforce Summary Report shows that ERS’ turnover rate is consistently less than statewide rates:

Fiscal Year	ERS Turnover Rate	Statewide Turnover Rate
2014	8.7%	17.5%
2013	10.2%	17.6%
2012	11.6%	17.3%
2011	12.0%	16.8%
2010	9.7%	16.6%

Exhibit 22 Turnover Rate

The SEE is an important tool to gauge employee job satisfaction, identifying what the agency does well, and where improvements could be made to enhance employee engagement and satisfaction. The survey is streamlined to focus on the key drivers an organization needs to engage employees toward successfully fulfilling the vision and mission of the organization. ERS employee participation in the survey is historically exceptional, with response rates above 80% since 2010, including a response rate of 81% in 2014. High response rates suggest employees have an investment in the organization, want to see the organization improve, have a sense of responsibility to the organization and have a high expectation that agency leadership will act on the survey results.

The SEE score is a broad indicator for overall comparison with other entities and is composed of the average of all survey items, representing the overall score for the organization. Scores for average organizations typically range from 325 to 375. The ERS overall survey score in 2014 was 401, an increase over the 2012 score of 387, indicating a high level of employee satisfaction with agency activities and policies. The survey is organized into 14 categories or concepts most utilized by leadership and which drive organizational performance and engagement. Scores above 375 are areas of substantial strength for an organization, while scores between 325 and 349 are viewed less positively by employees and scores below 325 are areas that should be a significant concern for an organization and require immediate attention. ERS scored above 375 in 13 out of the 14 categories and improved on the 2012 score in every category, including: strategic planning, supervision, employee development, team work and job

satisfaction. The only category that presents an ongoing concern for the agency regarding employee engagement and morale remains employee pay, for which the agency received a score of 294 in 2014. ERS executive management is aware of the perception among employees that pay scales are below competitive ranges, and continuously works with the Board of Trustees to refine and adjust pay levels throughout the agency as appropriate.

Another way to view and analyze the survey data is through the climate analysis. The climate in which employees work does, to a large extent, determine the efficiency and effectiveness of an organization, with the ideal climate described as a safe, non-harassing environment with ethical employees, who treat each other with fairness and respect, and proactive management that communicates regularly and has the capability to make thoughtful decisions. The climate analysis includes the following rated qualities: atmosphere, ethics, fairness, feedback, and management. ERS employees scored the agency between 383 and 422 in each of these categories in 2014.

**D. Describe any important history regarding this program not included in the general agency history section, including how the services or functions have changed from the original intent.**

All applicable history related to this division is provided in Section III: History and Major Events.

**E. Describe who or what this program or function affects. List any qualifications or eligibility requirements for persons or entities affected. Provide a statistical breakdown of persons or entities affected.**

The division provides a primary agency support function and affects all ERS employees, temporary workers and contractors.

**F. Describe how your program or function is administered. Include flowcharts, timelines, or other illustrations as necessary to describe agency policies and procedures. Indicate how field/regional services are used, if applicable.**

Division programs are administered daily, or as needed, onsite from the central headquarters building by full-time ERS employees. The division is staffed by employees who maintain defined operational responsibility in one of the three primary division functions – employment operations, benefits and onboarding and training / career development – with all activities overseen by the division director. Division activities are largely driven by, and responsive to, the staffing or employee needs of other divisions.

**G. Identify all funding sources and amounts for the program or function, including federal grants and pass-through monies. Describe any funding formulas or funding conventions. For state funding sources, please specify (e.g., general revenue, appropriations rider, budget strategy, fees/dues).**

Although the agency receives funding through multiple revenue streams, as detailed in Section V of this report, all revenue is deposited to one of eight trust funds, the special revenue fund or the proprietary fund, defined by program use, for later expenditure. Due to this accounting structure, ERS does not track program or division funding by original revenue stream but rather by fund source of payment. The accounting process begins with administrative expenses for agency operations being initially paid from the Employees Retirement System Trust (Fund 0955). Each month paid expenses are allocated to the various funds as defined by the type and purpose of the expenditure. This cost allocation process uses the monthly reported percentages from the agency's internal time accounting system to determine the needed allocation of employee salaries by fund and department, by identifying what tasks the employee spent their time performing and charging the appropriate fund for the result expenditure. The cost allocation process then applies the average of these reported percentages of work performed to the allocation of non-salary and other administrative expenses incurred to each division by fund. There are exceptions to this process when an entire expenditure clearly relates to a single trust fund purpose, for example the payment of invoices received by the agency's health insurance actuary are automatically allocated entirely to the Employees Life, Accident, Health Insurance, and Benefits Fund (Fund 0973).

Actual fund source breakdown for Human Resources Division expenditures during FY14 was:

<b>Funding Source</b>	<b>2014 Amount</b>
Employees Retirement System Trust (0955)	\$ 325,311
LECOS Retirement Trust (0977)	23,224
Judicial Retirement System Plan Two (0993)	4,940
TexaSaver 401(k) Trust (0946)	7,330
TexaSaver 457 Trust (0945)	4,268
State Employee Cafeteria Plan Trust (0943)	6,604
Employees Life, Accident, Health Insurance and Benefits Trust (0973)	161,759
Social Security Trust (0929)	2,031
<b>Total</b>	<b>\$ 535,467</b>

Exhibit 23 Human Resources Division expenditures

**H. Identify any programs, internal or external to your agency, that provide identical or similar services or functions to the target population. Describe the similarities and differences.**

No programs, internal or external to ERS, provide identical or similar services or functions to ERS employees.

**I. Discuss how the program or function is coordinating its activities to avoid duplication or conflict with the other programs listed in Question H and with the agency’s customers. If applicable, briefly discuss any memorandums of understanding (MOUs), interagency agreements, or interagency contracts.**

Not applicable.

**J. If the program or function works with local, regional or federal units of government, include a brief description of these entities and their relationship to the agency.**

This division does not work with local, regional or federal units of government.

**K. If contracted expenditures are made through this program please provide:**

1. a short summary of the general purpose of those contracts overall;
2. the amount of those expenditures in Fiscal Year 2014;
3. the number of contracts accounting for those expenditures;
4. top five contracts by dollar amount, including contractor and purpose;
5. the methods used to ensure accountability for funding and performance; and
6. a short description of any current contracting problems.

The division maintains primary responsibility for two ongoing contracts. The agency’s contract with Alliance Work Partners (\$6,000 in expenditures during Fiscal Year 2014) provides ERS with an externally managed Employee Assistance Program offering employees and their families solution-focused counseling, guidance, training, and resources and referrals to help balance or reduce conflicts between work and life, increasing health and well-being. Staff monitors this contract through a combination of direct employee feedback and review of quarterly utilization reports. The second contract with CoreStaff Services (\$338,000 in expenditures during 2014) provides ERS’ temporary, temp-to-hire, and project staffing services. Staff work closely with the divisions and programs with temporary worker needs throughout the year to monitor the use and quality of services provided by the vendor and receives regular direct feedback form temporary workers’ supervisors on their performance and job fit.

**L. Provide information on any grants awarded by the program.**

This program does not award grants.

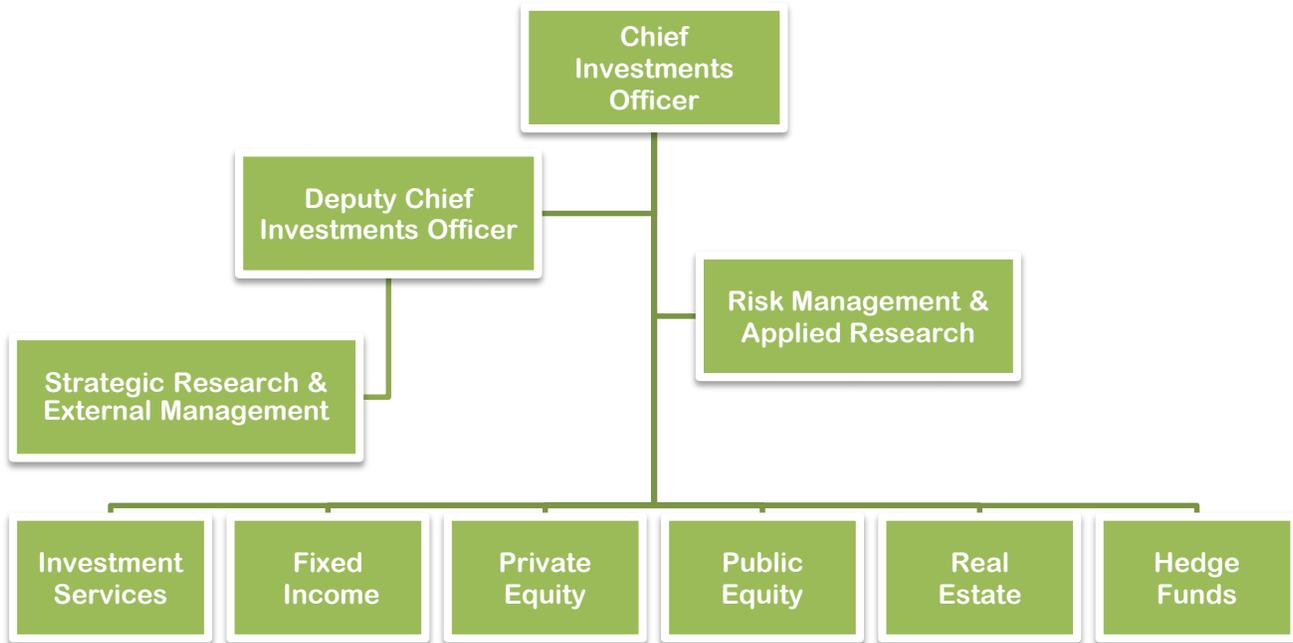
**M. What statutory changes could be made to assist this program in performing its functions? Explain.**

Information regarding beneficial statutory changes or other considerations to accomplish programmatic improvements can be found in Section IX Issues for Consideration, later in this report.

**N. Provide any additional information needed to gain a preliminary understanding of the program or function.**

No further information is provided to describe this program.

## Investments



**A. Provide the following information at the beginning of each program description.**

**Name of Program or Function:** Investments

**Contact Name:** Tom Tull, Chief Investments Officer

**Actual Expenditures, Fiscal Year 2014:** \$20,181,567 (excluding external investment advisory fees)

**Number of Budgeted Full time employees (FTEs), Fiscal Year 2014:** 67

**Number of Actual FTEs as of August 31, 2014:** 63

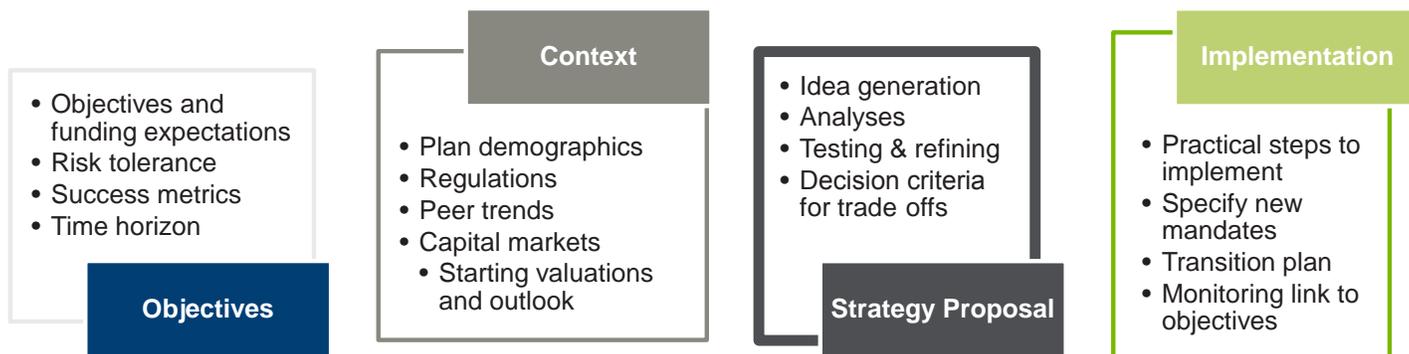
**Statutory Citation for Program:** Chapter 815, Texas Government Code

**B. What is the objective of this program or function? Describe the major activities performed under this program.**

**Investment Strategy and Asset Allocation**

The objective of the Employees Retirement System (ERS) Investments Division is to earn an appropriate risk-adjusted return, net of fees, that provides funding for benefit payments due to, or on behalf of, members, retirees and beneficiaries of the retirement plans at a reasonable administrative cost. The most important component of an investment strategy is the asset mix, or resource allocation. ERS' investment objective is set by the Board of Trustees (board) 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 every five years, with annual reviews of the adopted allocation based on updated capital market assumptions and experience. The asset allocation is reviewed in conjunction with an asset-liability study. This process is outlined in the following chart.

**Exhibit 24: Asset Liability and Asset Allocation Process**



During board meetings and working sessions, the board, Investment Advisory Committee (IAC), plan actuaries and staff discuss the possible asset allocation scenarios, and the division recommends an asset allocation to the board that is expected to achieve the best estimated total rate of return (capital appreciation and income) during the next 5 to 10 year period. In contrast, the actuarial assumed total rate of return is the return rate adopted by the board based on the pension actuary's recommendation for maintaining actuarial soundness, and is used to value the pension plan, calculate the various reduction factors and discount the fund's liabilities. The results of these two calculations are separate and distinct, illustrated in the following table.

**Exhibit 25: Actuarial Return and Asset Allocation Return Calculation Comparison**

RETIREMENT PLANS - Actuarial Assumptions		ERS INVESTMENT TRUST - Asset Allocation	
Long-term real rate-of-return	4.5%	Real rate-of-return	4.5%
Long-term inflation rate	3.5%	Inflation rate assumption	3.0%
Long-term actuarial assumed total rate-of-return*	8.0%	Proposed policy allocation total return**	7.5%

**Exhibit 25 Actuarial Return and Asset Allocation Return Calculation Comparison**

\* Long-term = 30-31 year horizon

\*\* Short-term indicates 5-10 year horizon

The asset allocation investment return expectation is 7.5%, while the actuarial rate of return expectation is 8%. The difference is due to the time horizon over which the return is projected and the expected inflation rate during the applicable period. Division staff pursue the asset allocation return expectation of 7.5% with annual reviews based on updated capital market assumptions and experience.

**Major Activities**

The major activities of the division include managing the asset allocation; implementing the diversified investment processes of each major asset class; and maintaining appropriate liquidity to meet the plan’s expenditure needs.

**Asset Allocation**

After completion of the transition plan implementing the asset allocation adopted February 26, 2013, the staff were directed to rebalance, at least quarterly, the asset allocation of the investment portfolios to remain within the target allocation bands indicated for the major asset classes. Tactical bands have been established around each asset class to minimize risk relative to the asset allocation target while allowing staff the ability to maximize returns by responding to market opportunities and emerging patterns. Because of the inherent difficulty of rebalancing illiquid assets, such as private equity funds, private real estate funds and hedge funds, staff attempts to remain as close to target allocations as reasonably and prudently possible within the guidelines provided by agency policy. The following asset allocation chart is an excerpt from section 2.2 from the ERS Investment Policy and provides current long-term target allocation metrics. Benchmarks are identified to provide timely and appropriate comparison of ERS policy and strategy implementation to market performance measures.

**Exhibit 26: Asset Allocation Targets**

ASSET ALLOCATION Adopted February 26, 2013 Asset Class	Benchmark	Long-term Target
<b>Return Seeking Assets:</b>		<b>79.0%</b>
<b>Global Equity<sup>1</sup></b>		55.0%
Public Equity <sup>2</sup>	MSCI ACWI	45.0%
Private Equity <sup>3</sup>	S&P 1500 +300 bps	10.0%
<b>Global Credit<sup>1, 2</sup></b>	Barclays US HY 2% Issuer Cap	10.0%
<b>Real Assets<sup>1</sup></b>		14.0%
Public Real Estate <sup>2</sup>	FTSE EPRA/NAREIT	3.0%
Private Real Estate <sup>3</sup>	NCREIF – ODCE	7.0%
Private Infrastructure <sup>3</sup>	CPI + 450 bps	4.0%
<b>Special Situations:<sup>4</sup></b>		0 – 5%
<b>Risk Reduction/Liquidity Assets:<sup>3</sup></b>		<b>21.0%</b>
<b>Fixed Income - Rates</b>	Barclays Intermediate Treasury Index	15.0%
<b>Cash (approximately)</b>	91 Day Treasury bill	1.0%
<b>Hedge Funds/Absolute Return</b>	U.S. 3-Month Treasury bill +400 bps	5.0%
<b>Global Total</b>		<b>100.0%</b>

**Exhibit 26 Asset Allocation Targets**

<sup>1</sup>May be implemented through hedge fund structures

<sup>2</sup>Asset class band of +/- 10% of target

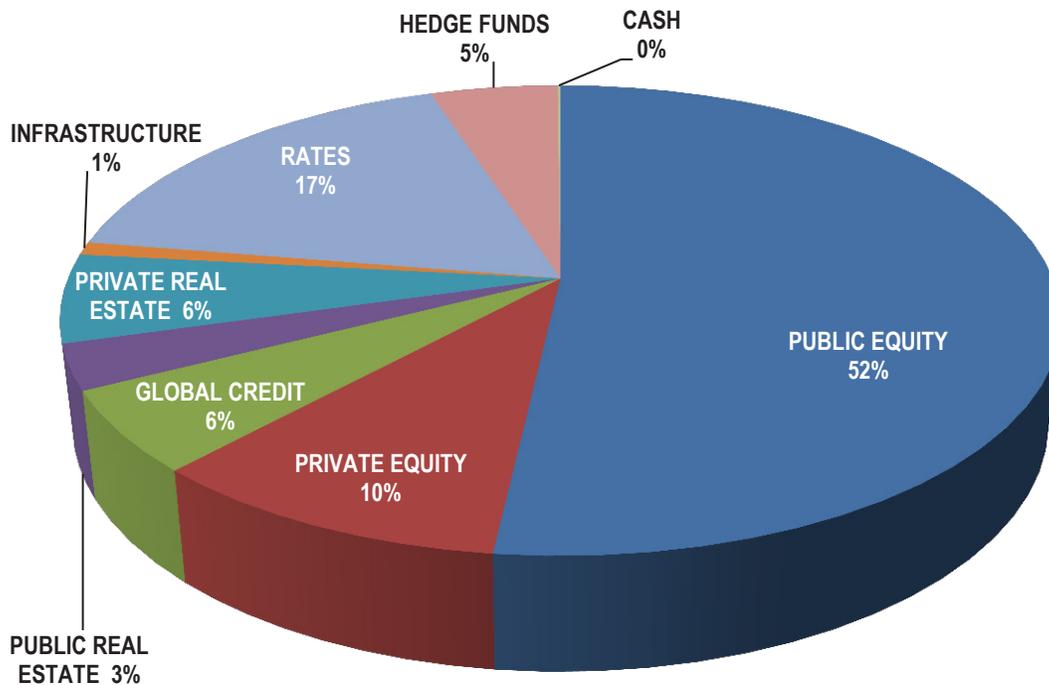
<sup>3</sup>Asset class band of +/- 5% of target

<sup>4</sup>Any allocation to Special Situations would have a corresponding reduction to the most similar asset class as further discussed in Section 2.2(E) of the ERS Investment Policy.

A key change to the asset allocation adopted in February 2013 was distinguishing between portfolio segments that are return-seeking versus risk-reducing. Existing asset classes were clearly identified as either return-seeking or risk-reducing and staff, in conjunction with the board and plan consultant, discussed the appropriate targets based on these identifications. Return-seeking assets increased from 61% to 79% with private equity and private real estate receiving an increased commitment, and a new allocation was created for infrastructure investments. Risk-reducing and liquidity investments decreased from 39% to 21% of total Trust assets. The fixed income portion of the portfolio experienced the most dramatic shift from the prior allocation, moving from approximately 34% to 26% of total assets, with an increased commitment to global credit markets. There was also a decrease in risk-reducing assets and the absolute return portfolio was aligned with the risk reduction pool of assets. Global Public Equity's target declined from 54% to 45%, with continued emphasis on return generation. These targets are being implemented by division staff over time, allowing the transition plan to be tempered by market conditions and return opportunities identified by ERS investment professionals, with an objective to expedite the process when possible. Alternative asset classes such as private equity, private real estate, infrastructure and hedge funds will increase to a total target of 26% of the Trust when the allocation strategy is fully implemented.

When ERS was first established in 1947, the principal asset class was fixed income. Over the last 15 years, the number of distinct asset classes managed by ERS professionals has significantly increased in response to the heightened complexity of the investment environment and the willingness of the board to leverage appropriately diversified investments. As a result, investment returns have increased. Simultaneously, staff have taken on an increased commitment to international equity investments, including emerging markets and investments in alternative classes, such as private equity, private real estate, infrastructure and hedge funds. The status of the asset allocation program is shown in Exhibit 27 as of May 31, 2015. Private equity and absolute return (hedge funds) have materially reached their targets and private real estate is on track to reach allocation targets by the end of the 2015 calendar year. The division continues to seek opportunities for growth in global credit and private infrastructure as prudent opportunities have not been identified to date, slowing achievement of related targets. Public equities and rates continue to be used to fund credit and private infrastructure as needed.

### EXHIBIT 27: Current Asset Mix as of May 31, 2015



**Board Governance**

The ERS Board of Trustees maintains the principal authority to invest Trust assets. To maintain operational efficiency and the ability to respond in a timely manner to market conditions, the board has delegated authority for individual investment selections and approvals to the ERS Executive Director and Investments staff, with continuing board oversight. The board relies on the expertise and experience of members of the ERS IAC, established at the discretion of the board, as permitted by Texas Government Code Chapter 815.509, to advise the board and staff on global investment policy and operational issues. Members of the IAC are selected by the board based on their experience or achievements in the management of a financial institution or other business in which regular investment decisions are made, or due to their recognition as a prominent educator in the field of economics, finance or other investment-related area. The board also seeks regular counsel from industry consultants and external market authorities to supplement their understanding of modern market conditions operations. The board defines and approves ERS' Investment Policy guidelines and reviews regular reporting from staff to oversee the investment program. Investment asset class teams present strategy, return and market updates to the board at each quarterly meeting, with each asset class presenting performance metrics and descriptions of operational activities no less than once a year. Additional communications from the Investments Division are provided to the board monthly containing summaries of key market development and identifying major investment exposures or emerging risks.

**Staff Delegation**

Division professionals are retained and authorized by the Executive Director to provide expert-level investment analysis and support, exercise reasonable care consistent with ERS' fiduciary duty to the trust and Trust plan beneficiaries, and maintain the integrity of the investment program. ERS Investment professionals are responsible 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 cross-class portfolios; selecting advisors and consultants to assist with program management and guidance; and selecting bank custodians. More information on division staff operations can be found in response to Question F.

**C. What evidence can you provide that shows the effectiveness and efficiency of this program or function? Provide a summary of key statistics and outcome performance measures that best convey the effectiveness and efficiency of this function or program.**

During the 30 year period ending August 31, 2014, the Trust exceeded actuarial return assumptions of 8%. This success in sustained growth allows ERS to make approximately two-thirds of all benefit payments to retirees from investment returns, with approximately one-third coming from combined state and employee contributions. Exhibit 28 outlines ERS historical fund return performance.

**Exhibit 28: Historical Trust Returns**

ERS Fiscal Year (Ending August 31, 2014) Investment Returns		
	Gross	Net
1 year	14.70%	14.58%
3 year	10.96%	10.80%
5 year	10.41%	10.23%
10 year	7.40%	7.26%
30 year	8.65%	Not Available

**Exhibit 28 Historical Trust Returns**

This success is notably due to the skill and talent of ERS investment professionals and supporting staff. Division employees have an average of 16 years of 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 Account; Certified Treasury Professional; Certified Market Technician; Certified Hedge Fund Professional; and Certified Management Account. This level of talent has allowed internal employees to not only implement asset allocation strategies quickly and efficiently but also drives stronger performance outcomes due to increased opportunities for communication and collaboration across asset classes, creating a more robust understanding of the full investment environment.

**D. Describe any important history regarding this program not included in the general agency history section, including how the services or functions have changed from the original intent.**

The division's implementation of a more complex, sophisticated and diversified investment program based on adopted changes to the asset allocation during the previous 15 years has required an increase in infrastructure, FTEs and space. In June of 2006, the board chose to increase internal management, requiring the recruitment of specialized skill sets from highly experienced investment professionals, rather than increase external management costs and contracts to cover new asset classes. Budgeted staffing levels for the Investment program have increased since FY07 to 67 FTEs in FY14, a 49% increase, allowing ERS the ability to internally manage 63% of total fund assets. These assets are managed for less than 0.10% of asset value compared to average estimated fees of 0.40% for external managers; allowing for total trust blended fees averaging 0.30%. While providing a structure to manage the increased diversity of asset classes at an estimated lower cost than obtaining external managers, the decision to increase internal capacity also allowed the agency to retain a highly sensitive level of control over the timing and strategy of implementing the asset allocation changes. These changes have highlighted the need to recruit and retain high quality, experienced ERS Investment professionals.

In deciding between internal or external investment management, ERS considers diversification of managers to minimize risk and maximize returns, as well as:

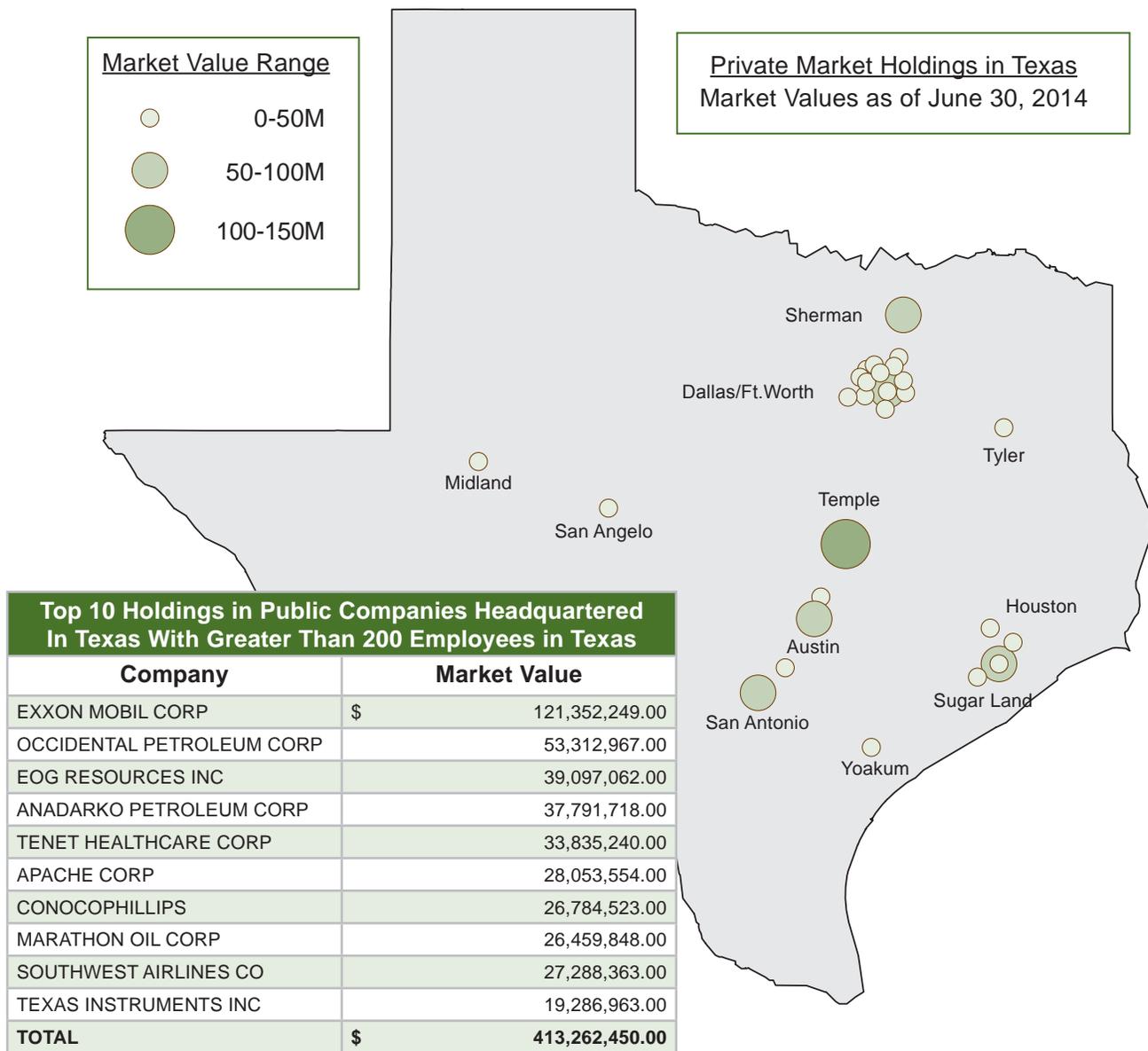
1. the availability of internal skill sets;
2. the ability to attract and retain professionals;
3. the cost of necessary resources;
4. the ability to add value to trust operations; and
5. the impact on risk management.

External management complements internal resources by prudently diversifying trust assets, reducing the risk of loss and increasing returns. ERS also continuously leverages external management relationships to develop internal staff resources.

**E. Describe who or what this program or function affects. List any qualifications or eligibility requirements for persons or entities affected. Provide a statistical breakdown of persons or entities affected.**

The division operations affect all state retirees and their beneficiaries, as previously defined in this report. However, the full impact of managing and investing a trust fund of ERS' size reaches far beyond the immediate, direct beneficiaries. On average, 30% of ERS asset investments are made in either Texas-based companies or companies with 200 or more Texas employees, representing a significant potential impact to state economic development and business growth factors. Exhibit 29 provides a geographic analysis of the statewide coverage of ERS private equity investments, as well as the list of top public equity investments in Texas companies.

## EXHIBIT 29: Statewide Impact of ERS Texas Specific Investments



**F. Describe how your program or function is administered. Include flowcharts, timelines, or other illustrations as necessary to describe agency policies and procedures. Indicate how field/regional services are used, if applicable.**

The division is operationally divided into teams tasked with managing the specific and unique operations of each asset class. The Chief Investment Officer, in consultation with the Executive Director, works with each asset class team to adopt and implement portfolio strategies and investment styles to meet the overall investment objective of each asset class and the full trust. Asset class managers, with the assistance of division leadership, oversee relationships with ERS' external management advisors in addition to the work of their own teams. This balance of internal and external management structures is critical to the successful implementation of agency investment strategies and driving the best return outcomes. Internal management allows ERS exposure to certain targeted areas of the asset class in a very cost-efficient manner; supplemented by external investment managers to advise on niche areas of the asset class or introduce exposure to more concentrated portfolios, this strategy provides the Trust with the opportunity for enhanced

risk-adjusted returns. Internally managed portfolios are generally lower-risk and more focused on benchmark return performance relative to externally advised portfolios. In addition to risk-adjusted performance, external advisors are evaluated on: adherence to stated management style; discipline of investment decision-making processes; stability of staff and organization; and consistency of investment policies and objectives as adopted by the board. Due diligence – detailed legal, operational, and financial research into the specific terms and forecasts of an investment under consideration – is a key driver of day-to-day activities for the External Advisor program. Due diligence provides valuable information concerning portfolio construction, portfolio management and risk management processes. Each of ERS' externally managed portfolios are continually monitored to ensure that the Trust invests in and retains only those managers that meet return, risk, transparency, fiduciary, and strategy expectations.

The division's daily activities implementing the asset allocation strategies adopted by the board are divided among six primary asset classes and four support programs, including: Public Equity; Fixed Income; Private Equity; Private Infrastructure; Real Estate; Hedge Fund / Absolute Return; Risk Management and Applied Research; Trading; Operations; and Liquidity. The following sections provide additional operational detail about each program.

### **Public Equity**

The Global Public Equity asset class invests in publicly traded equity securities of both foreign and domestic companies. Historically, global public equities have provided a higher rate of return relative to other asset classes as equities allow investors to participate in the growth of free enterprise economies and the dividend streams of corporations. Public equities are often viewed as an instrument for providing protection against rising inflation and offer diversification benefits. Public equity investments are the result of implementing a combination of strategies across different geographies and market capitalization ranges. Approximately half of current public equity investments are in companies domiciled in the United States with the other half of the portfolio invested in companies domiciled outside of the United States. Approximately 70% of these assets are managed internally with the remainder being externally advised using a variety of strategies to complement and enhance internal management efforts.

ERS employs a team of portfolio managers and global sector analysts that take macro-economic and industry trends into consideration as part of the investment process; however, the bottom-up fundamental analysis of a company's common stock is the primary driver of portfolio exposures. In addition to company specific exposures, portfolio managers may introduce some sector, industry and other common factor tilts. Portfolio managers and analysts are encouraged to look for attractive investment opportunities outside of the benchmarks, assuming the investment is otherwise suitable for the portfolio. Global Public Equity Policies and Procedures are found in detail in Addendum XI of the *ERS Investment Policy*.

### **Fixed Income**

ERS includes fixed income assets in the trust portfolio to enhance liquidity and diversification. Fixed income investments can be further segregated into return-seeking and risk-reducing roles. Fixed income oversees both of these roles for the Trust, as well as securities lending operations. One of the risk-reducing responsibilities of the fixed income group is the management of the Rates portfolio, which maintains liquidity and capital preservation for the Trust in likely market environments. ERS currently pays benefits (net of contributions) in excess of \$100 million per month. In periods of financial instability, the return-seeking assets of the Trust will decrease in value, and the function of the Rates allocation is to maintain principal to be used as a source of funds for benefit payments, fulfilling the capital commitments of private equity and real estate investments, and allowing return seeking investments to add displaced assets. The Rates portfolio is comprised primarily of U.S. Treasury Notes, but may also hold Treasury Bonds and Bills, as well as government-backed agency bonds and mortgage-backed securities. The team continuously monitors and models economic activity to predict future movement of interest rates and reconciles forecasts with the current price of eligible securities to assemble a portfolio that maximizes expected total return subject to liquidity and tracking error constraints.

The fixed income group additionally manages the return seeking Credit mandate of the board's strategy, composed primarily of below-investment-grade rated bonds and intended to provide returns close to actuarial needs. Such assets tend to be highly correlated with other return seeking assets, but provide a built-in monetization advantage because of coupon payments and maturity of the debt, allowing the trust to realize returns and take money out of the investment without depending upon other market participants' interest in buying the assets. The Credit portfolio is mostly composed of internally selected, high-yield bonds selected based upon credit quality and the trading price. Additionally, fixed income staff manages a mix of external credit managers because handling targeted assets that are either too resource intensive for division staff to develop an investment advantage over the market or provide transitory opportunities.

Individual fixed income investment recommendations provided by team staff are reviewed and approved by the Fixed Income Internal Investment Committee (Fixed Income IIC). The Fixed Income IIC is composed of ERS' Executive Director, Chief Investments Officer, and a member of the Investment Advisory Committee (IAC) with appropriate subject matter expertise. Fixed Income Policies and Procedures are found in detail in Addendum XII of the *ERS Investment Policy*.

### **Private Equity**

Private equity refers to equity and debt securities in operating companies that are not publicly traded on an exchange. ERS accesses the private market through private equity funds, which are generally 10 year limited partnership vehicles combining many investors and managed by a third-party general partner. ERS' private equity team is tasked with selecting the best general partners to invest with, constructing and monitoring a risk efficient portfolio, and managing the governance matters pertinent to a limited partner. A key characteristic that distinguishes private equity from public equity is the lack of daily pricing available for private investments. Private equity is more reliant on qualitative evaluation and a number of qualitative measures, similar to those used for public market managers, are typically available for analysis. The most significant consideration given to private equity partnership investments is the prior track record established by the general partner of the partnership. Unlike public market managers, where past performance does not necessarily indicate future performance, past success with private equity investments can be a significant indication of future success.

The private equity group is monitored by the board and IAC. Quarterly performance updates are provided at each board meeting and an in-depth review of private equity is provided to the board and IAC annually. Changes to Private Equity Policies and Procedures, as well as the annual Tactical Plan, are reviewed and approved by the board and IAC annually. Individual Private Equity investment recommendations are provided by team staff, and reviewed and approved by the private equity Internal Investment Committee, composed of ERS' Executive Director, Chief Investments Officer and a senior member of the investments staff or IAC with appropriate subject matter expertise. Private Equity's Investment Policies and Procedures are found in Addendum I of the *ERS Investment Policy*.

### **Private Infrastructure**

Private infrastructure refers to equity or debt investments in organizations that develop, own, construct, or operate infrastructure assets and are not publicly traded. ERS accesses private infrastructure markets through a mix of private infrastructure funds, asset-specific co-investments, and direct investments in individual assets or sets of assets. Infrastructure funds are generally long duration (~10 year) limited partnership vehicles with many investors and managed by a third-party general partner. ERS' private infrastructure team is tasked with selecting top-tier fund managers to invest with, constructing and monitoring a risk efficient portfolio, and actively managing ERS' limited partner interests in investments. ERS' private infrastructure team is also responsible for identifying, assessing, negotiating, and managing co-investments and direct investments.

The private infrastructure is monitored by the board and IAC. Quarterly performance updates are provided at each board meeting and an in-depth review of private infrastructure is provided to the Board/IAC annually. Changes

to Private Infrastructure Policies and Procedures and the annual Tactical Plan are reviewed and approved by the board and IAC members annually. Individual private infrastructure investment recommendations are developed by team staff and reviewed and approved by the Private Infrastructure Internal Investment Committee, composed of ERS' Executive Director, Chief Investments Officer, and a senior member of the investments staff or IAC with appropriate subject matter expertise. Private Infrastructure's Investment Policy is found in Addendum XIII of the *ERS Investment Policy*.

### **Real Estate**

Real estate is an important and significant part of the overall economy and the asset class offers many benefits, including strong diversification characteristics, a higher level of income compared to other asset classes and the potential for capital appreciation. Real estate can be an effective hedge against inflation and is a tangible asset that is easier to understand and discuss than the increasingly complex modern financial instruments available in the market. Finally, real estate historically has lower volatility than most other assets classes, providing attractive risk-adjusted returns. Real estate has proven to be an important asset class for institutional investors.

ERS accesses the real estate markets through both private real estate vehicles and public markets, or real estate listed securities. Each type of investment has its own nuances but provides the same favorable characteristics of income, growth and diversification. With variations, approximately 60% - 75% of the total return in real estate investments comes from income generation, greatly reducing the investment risk as cash flows are received on a regular basis. Real estate listed securities have the added benefit of being more liquid, or easily sold. The target weight for private real estate is 70% (or 7% of the Trust) and 30% (or 3% of the Trust) for real estate listed securities. In private real estate, division staff primarily invest through commingled funds where a manager is selected to invest on behalf of ERS. By law, ERS cannot directly own real estate, except for the agency's own operating headquarters, and the trust must invest through managers. To ensure a well-diversified portfolio and access to the most attractive opportunities, the portfolio invests globally but with a significant weight (70%) across U.S. property types. Real estate securities are invested by staff, but at times external managers will be utilized to enhance the portfolio. Real estate securities are invested globally based on a benchmark that guides country weightings.

The real estate program is monitored by the board and IAC. Quarterly performance updates are provided at each board meeting and an in-depth review of the real estate program is provided to the board and IAC annually. Changes to the Real Estate Policies and Procedures, as well as the annual Tactical Plan – found in detail in Addendum II of the *ERS Investment Policy* – are reviewed and approved by the board and IAC members annually. Individual real estate investment recommendations are developed by real estate staff and reviewed and approved by the Real Estate Internal Investment Committee, composed of ERS' Executive Director, Chief Investments Officer, and a senior member of the investments staff or IAC with appropriate subject matter expertise.

### **Hedge Fund/Absolute Return**

While typically represented as such, hedge funds are not actually a true asset class in the same sense as public equity or fixed income. Hedge funds are a pan asset class, meaning they can be used to buy and sell securities of any asset class, including public equity, fixed income, commodities, currencies, or derivatives. Hedge funds are structured as partnerships whereby the investor (ERS) invests alongside a manager (the hedge fund manager) in a fund controlled by that manager and monitored by ERS. This structure allows ERS to invest with experts that have niche or complementary investment strategies to those that ERS manages internally, a particularly important characteristic as ERS seeks to diversify exposure, manage risk, and deliver high quality risk-adjusted returns for the trust. Because individual hedge funds can pursue any single or set of investment strategies, a wide variety of hedge funds exist ranging from high-risk and market directional to low-risk and absolute return focused. ERS uses hedge funds as a risk reducer to diversify and lower overall trust risk. ERS established the Absolute Return Portfolio in 2011 for this purpose. The Absolute Return Portfolio has a return objective of 90-day U.S. Treasury Bills plus 4%, and a volatility objective of 4% to 8%, less than a quarter of the volatility of global public equities.

The hedge fund program is monitored by the board and IAC. Quarterly performance updates are provided at each Board meeting and an in-depth review of the hedge fund program is provided annually. Changes to Hedge Fund Program Policies and Procedures and annual Tactical Plan, found in detail in Addendum X of the *ERS Investment Policy*, are reviewed and approved by the board and IAC members annually. Individual hedge fund investment recommendations are developed by team staff and reviewed and approved by the Hedge Fund Internal Investment Committee, composed of ERS' Executive Director, Chief Investments Officer, and a senior member of the investments staff or IAC with appropriate subject matter expertise.

### **Risk Management and Applied Research**

The Risk Management and Applied Research Group (RMAR)'s primary objective is to measure, monitor and manage risk in support of all ERS investment division activities. The RMAR group is also tasked with the implementation of targeted solutions to enhance the risk-adjusted returns of the asset allocation plan. Whenever possible, targeted solutions are designed to be more efficient than existing operations. The RMAR group is primarily engaged in four areas of research: risk management; asset allocation; derivatives; and equity portfolio management. RMAR engages in the activities of all asset classes within the investments division using risk analytics, such as risk factor analysis, stress testing and simulation analysis.

Risk management refers to the measurement, monitoring and management of risk for an investment plan. All assets – public and private, internally managed and externally managed – constitute the basis of information needed to run a series of internally developed risk reports distributed on a monthly basis to members of the Risk Committee. Investment policy information is used to gauge investment allocation compliance and to determine whether portfolio risk levels are within policy guidelines. The Risk Committee is made up of six voting members: Chief Investments Officer; Deputy Chief Investments Officer; Director of Fixed Income; Director of Global Public Equities; Director of Hedge Funds/Absolute Returns; and the RMAR portfolio manager. The Director of Global Real Estate and the Director of Global Private Equity participate as non-voting members.

Strategic Asset Allocation (SAA) refers to long-term ERS investment policy asset allocation targets; Tactical Asset Allocation (TAA) refers to short-term deviations from the SAA for the possibility of extracting additional returns from the market. The RMAR group has developed a structured framework for TAA processes that takes into account the current asset structure: return-seeking, risk-reducing. Much of the team's work currently centers on the activities of return-seeking/risk-reducing investment groups and the Global Public Equity Asset Class. The RMAR group publishes multiple operational reports for asset class teams, with distribution ranging from weekly to annually or ad-hoc. The risk overview report is reviewed by the Risk Committee on a monthly basis and presented to the Board of Trustees on an annual basis.

### **Trading**

Investments is responsible for the execution of domestic and international equities, currencies, futures, and options trading for internally managed portfolios. For portfolios managed by external advisors, ERS traders monitor timing, order size, price level, execution method, and executing broker to evaluate and track performance. Trading reports are sent directly to the Chief Investments Officer, the Director of Public Equities, and the Director of Fixed Income. The trading team also prepares weekly presentations for division leadership on issues affecting domestic and international markets. In addition to executing trades by an internal trading desk, the trading team is the primary resource for technical research and market structure support activities. Trading team staff perform pre-trade and post-trade analysis to evaluate trading costs and execution efficiency and recommend ways to improve trading, asset allocation, and transition trade management.

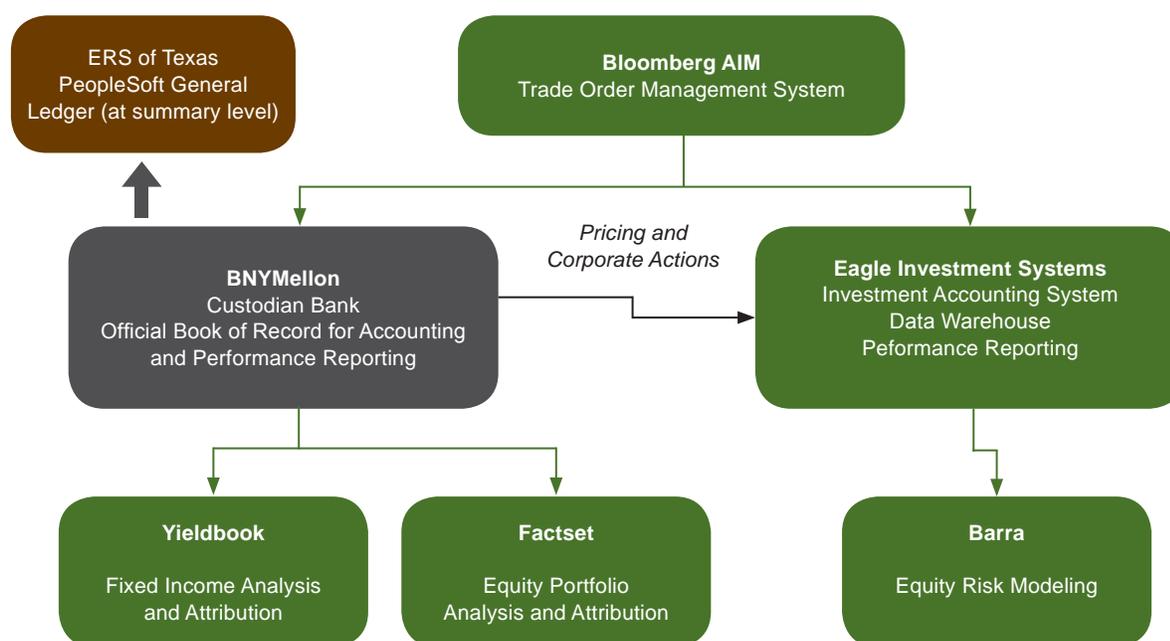
Experienced and technically trained internal traders with access to institutional liquidity, provide executions with limited market impact due to anonymity, closer attentiveness, and technical discretion. Information leakage is minimized by internal trading, which also limits the market impact of ERS investment positions. Technically trained

internal traders control the speed of the trade and execute systematically, which provides consistently superior executions and better return outcomes for the trust. The key to protecting ERS trades in light of the recent issues with High Frequency Trading and dark pools is controlling how our orders engage the marketplace to avoid negative outcomes. The ERS trading responsibility staffed by seasoned trading professionals, goes a long way in providing oversight, context, and judgment to protect the trust from emerging industry threats.

## Operations

The Operations team supports the large internal investment operation by managing complex asset allocations and portfolio activities, including: trade settlement; income allocation; security valuations; portfolio performance; and operational due diligence reviews of external managers. Along with the board's decision in 2006 to invest in additional internal staff, the board also approved investing in supporting information systems to provide high-quality, timely market data and efficient investment activity processing capacity. Operations team staff oversee the use and maintenance of these necessary division systems to ensure division operations are not interrupted or hindered by lack of data or access to necessary markets. An example of the major information systems and data flow of the investments operation program is detailed in Exhibit 30.

## EXHIBIT 30: Investment Operations Major Systems Process Flow



## Liquidity

As discussed in the fixed income section, the \$4.6 billion Rates portfolio is composed of the most historically liquid and least-volatile assets, which makes the portfolio an effective funding source to meet the capital calls of ERS' private investments and cover the trust's net benefit payments and operating expenses. To evaluate the capacity of the Rates portfolio to provide liquidity, division staff routinely analyzes the Trust's total liquidity assuming the liquidation of no other assets in the Trust other than Rates and not accounting for any additional income or distributions coming in to the trust. The long-term investment horizon of the Trust, in addition to the management of the Rates portfolio, allows ERS to maintain a sound approach to the liquidity needed for benefit payments of the plan beneficiaries.

**G. Identify all funding sources and amounts for the program or function, including federal grants and pass-through monies. Describe any funding formulas or funding conventions. For state funding sources, please specify (e.g., general revenue, appropriations rider, budget strategy, fees/dues).**

Although the agency receives funding through multiple revenue streams, as detailed in Section V of this report, all revenue is deposited to one of eight trust funds, the special revenue fund, or the proprietary fund, defined by program use, for later expenditure. Due to this accounting structure, ERS does not track program or division funding by original revenue stream but rather by fund source of payment. The accounting process begins with administrative expenses for agency operations being initially paid from the Employees Retirement System Trust (Fund 0955). Each month paid expenses are allocated to the various funds as defined by the type and purpose of the expenditure. This cost allocation process uses the monthly reported percentages from the agency's internal time accounting system to determine the needed allocation of employee salaries by fund and department, by identifying what tasks the employee spent their time performing and charging the appropriate fund for the result expenditure. The cost allocation process then applies the average of these reported percentages of work performed to the allocation of non-salary and other administrative expenses incurred to each division by fund. There are exceptions to this process when an entire expenditure clearly relates to a single trust fund purpose, for example the payment of invoices received by the agency's health insurance actuary are automatically allocated entirely to the Employees Life, Accident, Health Insurance, and Benefits Fund (Fund 0973).

Actual fund source breakdown for Investments Division expenditures during FY14 was:

Funding Source	2014 Amount
Employees Retirement System Trust (0955)	\$ 18,688,126
LECOS Retirement Trust (0977)	663,796
Judicial Retirement System Plan Two (0993)	239,196
Texa\$aver 401(k) Trust (0946)	29,242
Texa\$aver 457 Trust (0945)	15,523
State Employee Cafeteria Plan Trust (0943)	14,787
Employees Life, Accident, Health Insurance and Benefits Trust (0973)	526,325
Social Security Trust (0929)	4,572
<b>Total</b>	<b>\$ 20,181,567</b>

Exhibit 31 Investments Division expenditures

**H. Identify any programs, internal or external to your agency, that provide identical or similar services or functions to the target population. Describe the similarities and differences.**

No programs, internal or external to ERS, provide identical or similar services or functions to the identified target population, with the exception of external fund managers discussed in previous sections of this report.

**I. Discuss how the program or function is coordinating its activities to avoid duplication or conflict with the other programs listed in Question H and with the agency's customers. If applicable, briefly discuss any memorandums of understanding (MOUs), interagency agreements, or interagency contracts.**

Not Applicable

**J. If the program or function works with local, regional, or federal units of government, include a brief description of these entities and their relationship to the agency.**

Not applicable.

**K. If contracted expenditures are made through this program, please provide:**

- a short summary of the general purpose of those contracts overall;
- the amount of those expenditures in Fiscal Year 2014;
- the number of contracts accounting for those expenditures;
- top five contracts by dollar amount, including contractor and purpose;
- the methods used to ensure accountability for funding and performance; and
- a short description of any current contracting problems.

The majority (65%) of contractual expenditures within the ERS Investments Division are related to external investment advisory services by firms providing trade recommendations and other specialty investment expertise to division staff. The second largest category of expenditure (15%) is for investment data analysis tools used in research, trading, and risk monitoring operations for the management of internal portfolios and monitoring of external management firms. The division also has contracts with an assortment of data content managers, such as Bloomberg, with systems that provide division staff access to market index data on a daily or monthly basis, as well as with the agency's global banking custodian, which acts as the Trust's official book of record. Total division contract expenditure during FY14 totaled \$23,827,864, allocated across 63 contracts. The top five contracts during the period are provided in the following table:

Contractor	Expenditure	Purpose
JPMorgan Investment Management	\$ 4,786,250	Investment advisory services
Templeton Investment Counsel	\$ 2,516,839	Investment advisory services
Fisher Investments	\$ 2,371,468	Investment advisory services
Lazard Asset Management	\$ 1,879,793	Investment advisory services
FactSet Research Systems Inc.	\$ 1,675,161	Research platform / portfolio analytics tool

**Exhibit 32 Top Five Contracts**

Staff continuously monitor external investment advisor performance, including reviewing portfolio return performance and monthly and quarterly updates of their investment personnel, philosophy and processes. Relationships will be terminated if division staff identifies significant or persistent issues with firm personnel, processes, or unexpected underperformance over three-year and five-year performance periods. The custodial banking contract is subject to formal annual review and performance and operations meetings between vendor representatives and ERS operational staff throughout the year. Other contracts are monitored continuously as staff makes use of the vendor's services, and performance is often measured by timely and consistent access to necessary market data. Additionally, all division contracts are reviewed as part of the annual budget process and terminated or retained as appropriate.

**L. Provide information on any grants awarded by the program.**

This program does not award grants.

**M. What statutory changes could be made to assist this program in performing its functions? Explain.**

Information regarding beneficial statutory changes or other considerations to accomplish programmatic improvements can be found in Section IX Issues for Consideration, later in this report.

**N. Provide any additional information needed to gain a preliminary understanding of the program or function.**

No further information is provided to describe this program.

## Legal Services



**A. Provide the following information at the beginning of each program description.**

**Name of Program or Function:** Legal Services

**Contact Name:** Paula Jones, General Counsel and Chief Compliance Officer

**Actual Expenditures, Fiscal Year 2014:** \$3,475,442

**Number of Budgeted Full time employees (FTEs), Fiscal Year 2014:** 17

**Number of Actual FTEs as of August 31, 2014:** 16

**Statutory Citation for Program:** Chapter 815, Texas Government Code

**B. What is the objective of this program or function? Describe the major activities performed under this program.**

The Legal Services Division works as a team providing legal advice and direction to ERS' trustees and staff to enable them to undertake their duties to act in the best interest of ERS' members and retirees effectively and efficiently. Division professionals are committed to working with ERS' members, retirees and their representatives to address claims fairly and accurately, and respond to questions and concerns in a prompt, professional manner. The division holds primary responsibility for all matters pertaining to the review, analysis, and provision of legal services, including the following activities:

- negotiating, drafting, interpreting and reviewing legal documents and contracts related to the following activities and programs: employee group benefits (health care and insurance), data privacy and security, and deferred compensation plan investment matters; information technology, purchasing, facilities operations, interagency, interlocal and vendor contracts involving programs administered by ERS; developing requirements, specifications and contracts for projects and/or contracted staff; purchase requisitions and orders, bid specifications, and solicitation documents; and private investment fund agreements, derivatives agreements and documentation, and other investment-related agreements;
- advising board members, executive management, and agency employees on legal issues in connection with ERS-administered retirement and insurance programs;
- reviewing and interpreting federal and state laws, rules and regulations and investigating, advising, and representing and advising ERS regarding regulatory compliance issues;
- conducting legal research and providing legal opinions, briefs and advice as requested by the board and ERS staff;
- advising and training the board, executive management and staff regarding legal issues related to investments and securities, ethics, compliance and personnel matters;
- attending insurance grievance review committee meetings and providing legal advice to ERS regarding grievance appeals;
- representing ERS before the State Office of Administrative Hearings (SOAH) in connection with Administrative Appeals concerning applicable health plan-related issues, life insurance benefits, dental insurance benefits, long-term and short-term disability insurance benefits, disability retirement benefits, optional retirement program disability insurance benefits, service credit issues, and Chapter 615 survivor benefit claims;
- representing and advising ERS in connection with member records, subpoenas, applications and claims for ERS benefits, powers of attorney, and survivor benefits;
- seeking opinions from, and acting as liaison to, the Office of the Attorney General (OAG);
- managing ERS-related litigation, conducting and responding to discovery, reviewing and revising pleadings and briefs, responding to subpoenas, and maintaining the quarterly litigation report;
- investigating and pursuing allegations of fraud committed by ERS members and Texas Employees Group Benefits Program (GBP) participants;
- serving as ERS' Public Information Act (PIA) coordinator, responding to PIA requests received by the agency, and providing internal training on PIA and open meetings law requirements;
- drafting, reviewing, interpreting and advising on proposed legislation and agency rules;
- acting as liaison with the Texas Register for rules submission and contract-related notices;
- maintaining up-to-date ERS rules and laws books;
- reviewing, analyzing and ruling on Qualified Domestic Relations Orders;

- advising ERS management and staff, and coordinating with outside counsel as needed on Internal Revenue Code-related issues for the defined benefit plans and the TexaSaver 401(k) and 457 plans, including plan qualification issues, rollovers and compliance matters;
- reviewing, and representing ERS in connection with claims for Chapter 615 survivor benefits (these benefits provide financial compensation and benefits for the survivors of certain law enforcement officers, fire fighters and emergency personnel who die in the line of duty, both in state and local service);
- pursuing ERS debt collection and subrogation recovery;
- reviewing and responding to HIPAA privacy issues;
- developing, implementing and making recommendations relating to organizational policies and procedures, procedure manuals, and administrative directives, and training ERS staff with respect to same;
- serving as subject-matter experts for various areas of law that affect ERS; and
- providing advice and counsel regarding compliance with federal tax law by the ERS retirement plans, pre-tax aspects of the ERS insurance plans and IRC Section 125 cafeteria plans, and legal issues related to Social Security as it affects ERS.

**C. What evidence can you provide that shows the effectiveness and efficiency of this program or function? Provide a summary of key statistics and outcome performance measures that best convey the effectiveness and efficiency of this function or program.**

The division maintains and reports information regarding the number of projects assigned and completed as well as the number of administrative appeals and other litigation matters relating to ERS. With respect to administrative appeals and other litigation matters, ERS' attorneys and staff work together closely as a team to ensure consistent and effective representation of the agency. Similarly, in civil litigation in which ERS is a party, the division works closely with the litigation team assigned by the Office of Attorney General (OAG) to represent ERS. Where appropriate, ERS will provide legal analysis, briefs and other communications to help orient the assistant attorney general assigned with respect to legal issues and facts integral to the case.

ERS' Board of Trustees receives a quarterly litigation report summarizing all court litigation in which ERS is a party or that affects ERS programs. The division also provides an annual report to the board summarizing administrative appeal matters in which the agency issued a final agency decision through the Executive Director as the board's designee. A Monthly Open Records Report is prepared by the Public Information Coordinator and provided to the OAG on a monthly basis. The report provides an overview and status report of Public Information Act (PIA) requests received and responded to during the previous month, including: the number of open records requests received in specific categories (i.e., agency publications, budget information, etc.); the number of requests referred to the OAG for a ruling; the estimated time spent preparing a request for ruling; and the estimated time spent redacting information. The report also discloses ERS charges for open records and the amount collected for that month. Lastly, ERS reports whether or not public information training for employees was conducted, if ERS' website has contact information for open records/public information requests, and if a link is provided for open records policies and procedures.

Also, the division has established several attributes that can be described as "best practices" for providing legal support in connection with contract administration, including: making attorney assignments based on areas of proven expertise; maintaining standard up-to-date contract templates; using the State Contract Management Guide as a reference for contract formation and review; consistently reviewing the billed hours and charge rates for external counsel for both reasonableness and accuracy; and standardizing processes and forms to facilitate legal reviews.

Attorneys are assigned to perform legal services based on their individual expertise in a particular subject matter or discipline. From September 2014 through April 2015, the division accomplished the following:

- opened 68 administrative cases, closed 29 administrative cases, and opened and reviewed 34 subrogation files – including 18 subrogation intervention matters referred to the OAG;
- recovered approximately \$6,330 in collections, including Qualified Domestic Relations Order (QDRO) overpayments, annuity overpayments, fraudulent payments, and return-to-work disability repayments (this amount does not reflect Group Benefits Program (GBP) subrogation recoveries or the amounts saved by the retirement and insurance funds due to the termination of disability retirement annuities and health insurance benefits for ineligible participants);
- responded to 12 subpoenas and collected \$70 in fees for those subpoenas where fees are billed;
- participated in eight depositions, and represented the agency in 11 administrative appeals before the SOAH, one mediation, one prehearing conference and two district court hearings;
- approved or rejected 167 domestic relations orders, transfers and releases submitted to ERS under Chapter 804 of the Texas Government Code;
- closed 30 private market transactions (private equity, real estate, hedge fund, fixed income and infrastructure investments) for total commitments of \$2,054,485,000, oversaw redemptions from two open-ended funds in the amount of \$143,240,455, oversaw transfers of commitments between existing funds, and negotiated 80 private market investor actions;
- recovered approximately \$902,245 of insurance subrogation for the GBP;
- reviewed, negotiated and/or drafted 129 contracts and business-related documents; advised and assisted with the development and review of Requests for Proposal, Application, and Qualification and negotiated contracts and related documents in connection with: health maintenance organization (HMO) services; health care provider bill review services; flexible benefit claims administrative services; human resources management system; database administration audit services; human resources compensation study; disaster recovery services; video production services; compliance software; ERS building feasibility studies; and advisory services relating to compliance with the Global Investment Performance Standards published by the CFA Institute;
- reviewed and revised the HealthSelect<sup>SM</sup> of Texas in-area and out-of-area Master Benefit Plan Documents and related Summary of Benefits and Coverage documents;
- advised and assisted with the successful implementation of new vendors for flexible benefit claims administrative services and HMO services;
- designed and implemented procedures and processes in connection with qualified life event and dependent eligibility audit processes;
- advised ERS management regarding wellness plan initiatives, including on-site flu clinic classification, the Check Change Control Program, and the Choose to Quit Program for tobacco certification updates as part of the GBP's Tobacco User Premium Program;
- received and responded to 91 Public Information Act requests, collecting approximately \$93 in fees as permitted under applicable rules for providing the information;
- completed 53 requests for internal legal services or opinions;
- completed revisions of Trustee Rules for Chapter 87 and 457 Plan document adoption;
- analyzed, reviewed, and assisted in the drafting of legislation filed during the 84th Legislative Session, and advised management regarding the application to ERS programs;

- reviewed, analyzed and assisted with the planning and implementation of 1095-B and 1095-C Internal Revenue Service reporting obligations;
- coordinated fiduciary and annual ethics-related training of ERS staff, board and Investment Advisory Committee, and facilitated the required Governing Bodies webinar contract training for the ERS Board; and
- created agency-wide guidance on the ERS contracting process, revised and updated contract-related forms and policies, drafted standard procedures for entering into private fund investments, and updated ERS' private investment fund forms and document review checklist.

**D. Describe any important history regarding this program not included in the general agency history section, including how the services or functions have changed from the original intent.**

During the past 15 years, the division has experienced a number of changes in response to new and amended laws as well as the evolving needs of the agency and its stakeholders. During that period, the attorneys have transitioned from generalists involved in a wide variety of services provided to ERS – including contracts, appeals and general legal services – to specialized, defined areas of practice. In addition, as the needs for certain services have fluctuated, the division has made staffing adjustments to better accommodate the agency's legal needs. Major changes experienced by the division over the years have included:

- specialized staffing to provide high-level professional legal advice and support to the Investments Division in adding alternative investments and additional asset classes (particularly regarding investments in private markets) in accordance with the board's adopted asset allocation policy;
- increased staffing to support contracting processes, including negotiating, drafting, interpreting, and reviewing legal documents and contracts for employee group benefits programs, data privacy and security, deferred compensation plan investment matters, purchasing, bid specifications and solicitations;
- creation and implementation of a systematic process for administering and enforcing ERS' subrogation rights; and
- transition of final agency review of contested case matters from the ERS Board of Trustees to the Executive Director, acting as the board's designee.

**E. Describe who or what this program or function affects. List any qualifications or eligibility requirements for persons or entities affected. Provide a statistical breakdown of persons or entities affected.**

The legal services provided by division staff is a primary support function and impacts all programs administered by ERS. Legal services are provided with respect to disputed claims, QDRO reviews, alternative investments, all major contracts for the insurance and retirement programs, public information requests and numerous regulatory matters. While the division serves only the ERS Board of Trustees, management, staff and programs, the legal advice relied upon when business decisions are made often directly impacts ERS members, retirees and other external stakeholders.

**F. Describe how your program or function is administered. Include flowcharts, timelines, or other illustrations as necessary to describe agency policies and procedures. Indicate how field/regional services are used, if applicable.**

The division's work is organized into three main practice areas: investments, general contracts, and litigation. Each practice area includes attorneys and staff assigned to work in each of these areas with the other ERS divisions responsible for the related business operations. Requests for legal services are assigned and managed through the division's legal services request procedures, and requests for contracts are assigned and managed as described more fully below. All legal services are managed and performed pursuant to oversight by the General Counsel and Chief Compliance Officer. The First Assistant General Counsel serves as the team lead for litigation matters, and the senior Securities and Investments attorney serves as the team lead for contract matters.

The procedures for administrative appeals are described in ERS' statutes and related laws, including: Chapter 815 of the Texas Government Code; Chapter 1551 of the Texas Insurance Code; the Texas Administrative Procedures Act (Chapter 2001 of the Texas Government Code); and ERS' procedural rules found in 34 Texas Administrative Code Chapter 67. The Texas Public Information Act (Chapter 552 of the Texas Government Code) is the legal foundation for the processing of PIA requests.

Legal services maintains a formal set of procedures for divisions to use in requesting review and negotiation of a contract. These procedures are posted on the agency's internal website. Similarly, the division has formal procedures related to the review and negotiation of legal documentation for the initial investment in a private fund, and any voting matters that arise with respect to a private investment fund in which ERS is invested. These procedures are also posted on the agency's internal website for use by the Investments Division staff as necessary.

**G. Identify all funding sources and amounts for the program or function, including federal grants and pass-through monies. Describe any funding formulas or funding conventions. For state funding sources, please specify (e.g., general revenue, appropriations rider, budget strategy, fees/dues).**

Although the agency receives funding through multiple revenue streams, as detailed in Section V of this report, all revenue is deposited to one of eight trust funds, the special revenue fund, or the proprietary fund, defined by program use, for later expenditure. Due to this accounting structure, ERS does not track program or division funding by original revenue stream but rather by fund source of payment. The accounting process begins with administrative expenses for agency operations being initially paid from the Employees Retirement System Trust (Fund 0955). Each month paid expenses are allocated to the various funds as defined by the type and purpose of the expenditure. This cost allocation process uses the monthly reported percentages from the agency's internal time accounting system to determine the needed allocation of employee salaries by fund and department, by identifying what tasks the employee spent his or her time performing and charging the appropriate fund for the result expenditure. The cost allocation process then applies the average of these reported percentages of work performed to the allocation of non-salary and other administrative expenses incurred to each division by fund. There are exceptions to this process when an entire expenditure clearly relates to a single trust fund purpose, for example the payment of invoices received by the agency's health insurance actuary are automatically allocated entirely to the Employees Life, Accident, Health Insurance, and Benefits Fund (Fund 0973).

Actual fund source breakdown for Legal Services Division expenditures during FY14 was:

<b>Funding Source</b>	<b>2014 Amount</b>
Employees Retirement System Trust (0955)	\$ 2,526,568
LECOS Retirement Trust (0977)	100,392
Judicial Retirement System Plan Two (0993)	24,261
TexaSaver 401(k) Trust (0946)	39,951
TexaSaver 457 Trust (0945)	6,196
State Employee Cafeteria Plan Trust (0943)	28,368
Employees Life, Accident, Health Insurance and Benefits Trust (0973)	741,364
Social Security Trust (0929)	8,342
<b>Total</b>	<b>\$ 3,475,442</b>

Exhibit 33 Legal Services Division expenditures

**H. Identify any programs, internal or external to your agency, that provide identical or similar services or functions to the target population. Describe the similarities and differences.**

All legal services for ERS are provided by attorneys in the division, with assistance from the OAG as requested or from outside counsel retained by the agency for specific matters. No other entities provide the specialized retirement, health care, and tax law services to agency programs or staff. Legal services provided by the OAG are separate and distinct from the services provided by the division. OAG provides legal representation on litigation matters in which ERS or its officers or employees are parties, with assistance from ERS' attorneys, staff and vendors as appropriate. From time to time, ERS management may also request an official OAG opinion when a legal issue arises that warrants such a request.

**I. Discuss how the program or function is coordinating its activities to avoid duplication or conflict with the other programs listed in Question H and with the agency's customers. If applicable, briefly discuss any memorandums of understanding (MOUs), interagency agreements, or interagency contracts.**

Not applicable.

**J. If the program or function works with local, regional or federal units of government, include a brief description of these entities and their relationship to the agency.**

The division has limited interaction with local, regional or federal units of government as needed or as part of routine operations. Occasional interactions are necessary when there are legal questions about the qualification of a person for certain benefits or to maintain compliance and conformance with federal laws and regulations. For example, when investigating appeals for certain survivor benefit claims, legal staff may have the need to request supporting information or documentation from local law enforcement agencies, emergency response entities, or other political subdivisions to verify whether the claimant is eligible for the benefits claimed. ERS staff also works with the Internal Revenue Service to facilitate determination letters reflecting that the retirement plans meet federal Internal Revenue Code qualification requirements.

**K. If contracted expenditures are made through this program please provide:**

- a short summary of the general purpose of those contracts overall;
- the amount of those expenditures in Fiscal Year 2014;
- the number of contracts accounting for those expenditures;
- top five contracts by dollar amount, including contractor and purpose;
- the methods used to ensure accountability for funding and performance; and
- a short description of any current contracting problems.

The division makes use of contracts for outside counsel services primarily in connection with alternative investments in private equity, real estate, hedge funds, infrastructure, emerging managers and fixed income transactions in order to aid in the prudent investment of trust funds. Outside counsel contracts are also used to assist in-house attorneys with tax, fiduciary and health care matters as needed. Other contracts include those for legal resources, Westlaw subscriptions and print subscriptions, and related software. During FY14, Legal Services spent \$1,094,529 for these services through 10 contracts. The top five contracts during that year were all for outside counsel services, including:

Contractor	Expenditure	Purpose
Proskauer Rose LLP	\$370,000	Outside counsel services
Orrick, Herrington & Sutcliffe LLP	\$248,969	Outside counsel services
Cox Castle & Nicholson, LLP	\$160,000	Outside counsel services
Seyfarth Shaw LLP	\$135,480	Outside counsel services
Nixon Peabody LLP	\$80,000	Outside counsel services

**Exhibit 34 Top Five Contracts**

The division uses a three-tier review process to analyze each submitted contract invoice for appropriateness and reports total project expenditures. The ERS attorneys overseeing the assigned legal matters review submitted contract expenditures for reasonableness of time spent and adherence to contracted rates to ensure billing is in line with requested services. Billings are disputed when invoices do not reflect the work requested or when duplicate time is billed for the same work. The division's office manager then reviews each invoice to ensure compliance with the contract, and the General Counsel and Chief Compliance Officer conducts the final review and determines whether or not to approve the invoice.

**L. Provide information on any grants awarded by the program.**

This program does not award grants.

**M. What statutory changes could be made to assist this program in performing its functions? Explain.**

ERS staff has identified several adjustments to applicable open meeting requirements that would improve the efficiency and effectiveness of ERS governance operations. These changes would also align ERS requirements with existing statutory requirements in place for the Teacher Retirement System of Texas (TRS). First, Texas Government Code, Chapter 551.130 allows the TRS Board of Trustees to meet by teleconference for an open or closed meeting as long as a quorum of the board is present in the same physical location. ERS does not currently have, but could benefit from, such flexibility given ERS Board and Investment Advisory Committee members professional workloads and physical residences throughout the state.

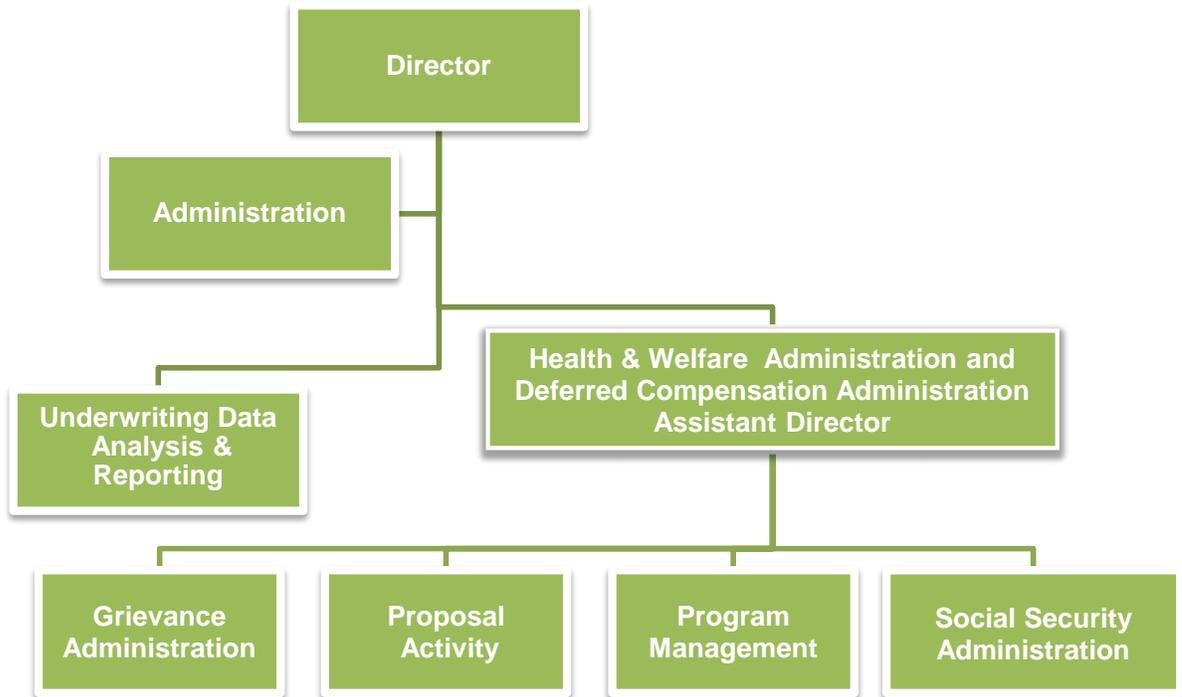
Additionally, Government Code, Chapter 825.115 allows the TRS Board or its Audit Committee to meet in executive session or in a closed meeting to discuss: (1) governance, risk management or internal control weaknesses, known or suspected compliance violations or fraud, status of regulatory reviews or investigations, or identification of potential fraud risk areas and audits for the annual internal audit plan; (2) the auditors' ability to perform duties in accordance with the Internal Audit Charter, relevant auditing standards, and Chapter 2102. The TRS Board can conduct a closed meeting and deliberate or confer with one or more employees, consultants, or legal counsel of the retirement system or a third party regarding procurements to be awarded by the board of trustees. Convening in a closed meeting for these purposes requires a majority of trustees to vote that deliberating or conferring in an open meeting would have a detrimental effect on the position of the retirement system in negotiations with a third person and any actions taken in relation to the discussion must be handled in an open meeting. The ERS Board faces similar issues and situations as TRS that might necessitate such meeting flexibility to ensure effective and efficient board actions.

Additional information regarding beneficial statutory changes or other considerations to accomplish programmatic improvements can be found in Section IX Issues for Consideration, later in this report.

**N. Provide any additional information needed to gain a preliminary understanding of the program or function.**

No further information is provided to describe this program.

## Benefit Contracts



**A. Provide the following information at the beginning of each program description.**

**Name of Program or Function:** Benefit Contracts

**Contact Name:** Rob Kukla, Division Director

**Actual Expenditures, Fiscal Year 2014:** \$2,572,957

**Number of Budgeted Full time employees (FTEs), Fiscal Year 2014:** 21

**Number of Actual FTEs as of August 31, 2014:** 17

**Statutory Citation for Program:** Chapter 1551, Insurance Code

**B. What is the objective of this program or function? Describe the major activities performed under this program.**

The Benefit Contracts Division's primary responsibility is the professional management of the Texas Employees Group Benefits Program (GBP), including all insurance and non-insurance benefits outside the state's employee pension plans. GBP benefits are critical to recruiting and retaining a high-quality workforce to provide essential services for Texas' growing population. One in 52 Texans – more than half a million state and higher education employees, retirees and their families – rely on ERS insurance benefits. The GBP also provides vital economic support to the Texas economy. Counting state, employer, and member contributions – the GBP pays out approximately \$3.1 billion per year in health care benefits, more than \$2.8 billion of which is paid to Texas doctors, pharmacies and other in-state health care providers.

Benefit Contracts is responsible for three primary strategies related to the GBP:

1. Manage a GBP that is compliant with regulations and offers the best value available to participants;
2. Encourage participants to take responsibility for better health and retirement readiness by providing access to available benefit offerings; and
3. Provide enhanced research and data analytics to evaluate the effectiveness and efficiency of GBP offerings.

Under the GBP umbrella, the division manages group health insurance benefits, voluntary insurance and non-insurance benefits, and a deferred compensation program. Each program has different eligibility rules and processing requirements.

**Insurance Benefits**

A significant portion of ERS resources are devoted to providing access to competitive, comprehensive health and insurance benefits to more than 530,000 plan participants. GBP insurance benefit plans in place during Fiscal Year 2015 are illustrated in Exhibit 35.

**Exhibit 35: GBP Insurance Programs**

	<b>Group Benefit Programs</b>	<b>Description</b>
<b>Health Coverage</b>	Statewide Point of Service (“POS”) Plan	HealthSelect <sup>SM</sup> of Texas is a statewide self-funded plan, administered by United Healthcare Services, Inc.
	Regional Health Maintenance Organization (“HMO”) Plans	Scott & White Health Plan is a fully-insured HMO in the central and west Texas areas.
		Community First Health Plan is a fully-insured HMO in the San Antonio area.
	Statewide Medicare Advantage (“MA”) Preferred Provider Organization (“PPO”) Plan	HealthSelect Medicare Advantage is a statewide fully-insured MA PPO administered by Humana Insurance Company.
	Regional MA HMO Plan	KelseyCare Advantage Plan is a fully-insured Medicare Advantage HMO in the Houston area; administered by KS Plan Administrators.
<b>Prescription Drug Coverage</b>	Prescription Drug Program (“PDP”)	HealthSelect Prescription Drug Program is a self-funded prescription drug plan for non-Medicare GBP participants and their eligible dependents. Commonly referred to as the commercial prescription drug plan, this program is administered by Caremark Rx, LLC.
	Employer Group Waiver Plan + Wrap (“EGWP + Wrap”)	HealthSelect Medicare Rx is the self-funded prescription drug plan for Medicare-enrolled retirees and their Medicare-enrolled dependents. The program is administered by SilverScript Insurance Company.
<b>Voluntary Dental Coverage</b>	Dental PPO Plan	The State of Texas Dental Choice Plan <sup>SM</sup> is self-funded and administered by HumanaDental Insurance Company.
	Dental DHMO Plan	HumanaDental DHMO is fully insured and administered by HumanaDental Insurance Company.
<b>Voluntary Term Life Insurance</b>	Life Insurance	Optional and Dependent Term Life Insurance plans are insured by Minnesota Life Insurance Company.
<b>Basic Life Insurance</b>	Life Insurance	The Basic Life insurance plan is insured by Minnesota Life Insurance Company.
<b>Voluntary Accidental Death and Dismemberment Insurance</b>	Accidental Death and Dismemberment Insurance (“AD&D”)	The Voluntary AD&D Insurance plan is insured by Minnesota Life Insurance Company.
<b>Voluntary Long-term and Short-term Disability Insurance</b>	Long-term and Short-term Disability Insurance	The Long-term and Short-term Disability Insurance program, collectively referred to as the Texas Income Protection Plan (TIPP), is self-funded and administered by Aon Hewitt Absence Management, LLC.

Exhibit 35 GBP Insurance Programs

## Non-Insurance Benefits

In addition to the listed insurance programs, the division manages a flexible savings account program, a discount dental plan, and a general use employee discount program.

### Exhibit 36: Non-Insurance Benefit Programs

	Non-Insurance Group Benefit Programs	Description
<b>TexFlex Flexible Spending Account (FSA) Program</b>	Health Care Reimbursement Account (HCRA)	TexFlex is the FSA program for active employees who want to set aside money for health care expenses in a tax-favored account. ADP, LLC will administer the program beginning September 1, 2015.
	Dependent Care Reimbursement Account (DCRA)	TexFlex also provides the ability for active employees to set aside money for daycare expenses in a tax-favored account. ADP, LLC will administer the program beginning September 1, 2015.
<b>Qualified Transportation Fringe Benefit (QTFB) Program</b>	Qualified Parking Plan Qualified Transit Pass and Vanpooling Plan	The ERS Board of Trustees approved a QTFB Program for active employees for state employees to realize a tax savings on money saved to be expended on certain transportation expenses starting March 1, 2016. ADP, LLC will administer the program.
<b>Discount Programs</b>	Dental Discount Plan	The dental discount plan is offered through Careington International Corporation as an alternative to dental insurance plans.
	Employee Discount Purchase Program	The employee discount purchase program is offered through BenePlace and provides employees, retirees and their families with available discounts on many products and services.

Exhibit 36 Non-Insurance Benefit Programs

## Deferred Compensation

The division also manages the Texa\$aver deferred compensation (DC) supplemental retirement program, comprised of 401(k) and 457 plans, including ROTH options. Both plans are administered by Empower Retirement, formally known as Great-West Retirement Services. While the 401(k) plan is available to only state agency employees, both state agency and higher education employees can participate in the 457 plan. The division's management responsibilities related to the deferred compensation program include the record-keeper and investment advice service provider contract, as well as the 11 core mutual fund options (10 target date mutual funds and a self-directed brokerage account). As of June 2015, ERS monitored approximately \$2.5 billion in deferred compensation assets.

## Major Activities of Administering the GBP and DC Programs

The professional management of the GBP is comprised of several major activities or core functions that are performed by staff, including: contracting; planning and evaluation of program effectiveness and costs; and providing specialized services.

## **Contracting**

ERS is committed to providing access to high quality benefit options at a reasonable cost by managing the GBP in a way that is compliant with regulations and offers the best value to members and participants. The division succeeds in this commitment through the development and administration of effective, professional vendor contracts and agreements. Competitive bids are solicited through Requests for Proposals, Requests for Applications, Requests for Information, and Requests for Qualifications (collectively referred to as RFPs from here on). Contracts specific to the GBP and DC programs can be categorized as either benefit management services or professional services.

The ERS contracting process consists of the following activities:

- 1. Planning:** Researching and defining service and contract requirements necessary to meet member needs.
- 2. Formation:** Developing, issuing, and evaluating procurement solicitation documents.
- 3. Procurement:** Negotiating and executing a final contract.
- 4. Oversight:** Monitoring and enforcing contract terms and conditions.

As part of the contract monitoring strategy, the division routinely engages external auditors to evaluate vendor performance for contract compliance. Auditors are also employed to conduct dependent eligibility audits to ensure the proper use of the benefit program by qualified populations. A more detailed description of specific activities involved in the contracting and grievance administration process is provided in response to Question F.

## **Planning and Evaluation of Program Effectiveness and Costs**

The ongoing strategic assessment of the cost-effectiveness and sustainability of the specific benefits offered is another core management function related to the GBP. The underlying goals of strategic benefits assessment are to:

1. align benefits with member and employer needs;
2. provide additional member choice when opportunities exist to add value;
3. provide benefits consistent with, and complementary to, the regulatory and market environments; and
4. align incentive structures with health risks to encourage appropriate health care use and risk sharing by member populations.

All of these concepts must be balanced with the need to manage the program within the GBP's available funds. Benefit Staff work to stay abreast of innovations in the employee benefits field, and when a potential benefit enhancement or cost-saving measure can be made, the division performs a gap analysis to assess whether it is an appropriate change within the ERS benefits plan design. A more detailed description of this process is provided in the answer to 4F.

The Benefit Contracts Underwriting, Data Analysis, and Reporting team (UDAR) supports the division's planning and evaluation activities by providing enhanced research and data analytics targeted at evaluating program effectiveness. This work includes financial, actuarial, and claims analysis, to support internal business decisions around the funding and strategic plan design of the GBP. UDAR also works with Governmental Affairs to produce the annual *Cost Management and Fraud Report* for legislative leadership. A more detailed description of UDAR activities is provided in Question 4F.

**Specialized Services**

The division manages additional specialized services, including:

**Medicare Secondary Payer (MSP) Program**

This program, administered by the Centers for Medicare and Medicaid Services (CMS), is designed to identify the primary and secondary payers for medical services provided to active state employees who are also enrolled in Medicare. Benefit Contracts works with the GBP insurances carriers, CMS, the U.S. Treasury and the Treasury's collection agents, to ensure that Medicare claims are appropriately paid by the correct program.

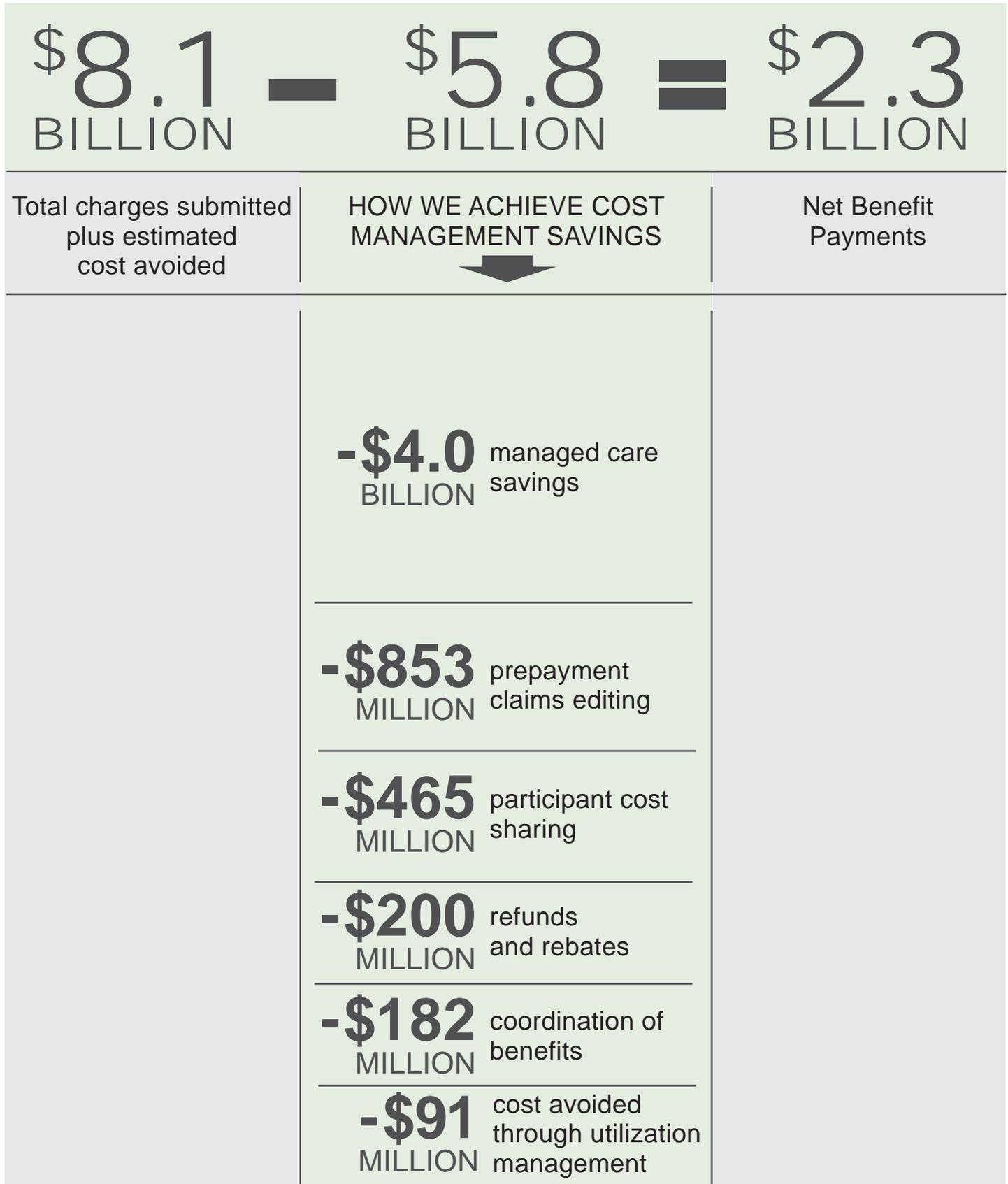
**Social Security (Section 218) Administration**

In order to participate in the federal Social Security program, each state must sign a Section 218 agreement with the federal government defining the requirements for other governmental entities to participate in the Social Security program. Staff assist Texas governmental entities with the application process and paperwork for participation in Social Security. Staff consults with the entity on how to navigate the process and requirements and, upon completion of the referendum, staff files the appropriate paperwork with the Social Security Administration.

**C. What evidence can you provide that shows the effectiveness and efficiency of this program or function? Provide a summary of key statistics and outcome performance measures that best convey the effectiveness and efficiency of this function or program.**

ERS lowered health plan costs by \$5.8 billion during Fiscal Year 2014 through tough cost-management practices, aggressive negotiation of contracts, and maintenance of low administrative overhead. HealthSelect administrative costs represent less than three cents of every health plan dollar spent, far below the 14 cent national average. ERS and its vendors actively manage plan costs to reduce the impact of industry cost increases on the state and its workforce as much as possible. The division works to maintain a high level of benefits while controlling increasing costs. The individual impact of these savings is significant – without cost-management programs, Fiscal Year 2014 per member state insurance contributions would have increased by \$1,249 a month (for member only coverage). Exhibit 37 provides an overview of the cost containment measures employed by ERS. Greater detail regarding ERS cost management activities and results can be found in the annual *Cost Management and Fraud Report*, available on the ERS public website.

Exhibit 37: ERS Cost Containment Strategies



### Negotiating Managed Care Services

Two-thirds of all cost management reductions during Fiscal Year 2014 – nearly \$4.0 billion – resulted from managed care reimbursement strategies, the discounted reimbursement rates of providers who agree to participate in the network. The medical third party administrator for the HealthSelect program leverages its negotiating power in the health care marketplace to provide the state, the GBP, and plan participants' access to better rates. The \$4.0 billion in reduced charges represents the discount taken off the “retail” prices that doctors, hospitals, pharmacies and other facilities would have charged the GBP and its participants had they not been covered by a managed care network. Exhibit 38 illustrates that negotiated provider discounts continue to be the greatest source of HealthSelect plan cost savings.

### Exhibit 38: HealthSelect Cost Saving Strategies



### Utilization Management

Nationally, approximately 20% of the population is responsible for 80% of health care costs. This statistic is even more pronounced within the HealthSelect drug programs, where 20% of participants incur 90% of plan benefits. Medical and pharmacy utilization management programs helped the plan save an estimated \$90.9 million in pharmacy related charges during Fiscal Year 2014. Utilization management is a forward-looking process that identifies potentially high-cost claims that could be handled in a more cost-effective way, and directs high-risk patients into clinical management programs. This process also ensures that prescribed services align with best-practice standards, improving patient medical outcomes. One example is the redirection of transplant surgeries to Centers of Excellence. Utilization management is an important process that highlights cost drivers, identifies people eligible for clinical management programs and encourages coordination of care.

### Prepayment Claims Editing

HealthSelect further trims costs by screening for ineligible charges through prepayment claim editing. Medical claims review ensures that the plan does not pay for duplicate claims, late fees, non-covered services and facilities, or services that are not medically necessary. This process lowered plan costs by eliminating approximately \$853 million in unnecessary charges during Fiscal Year 2014.

### **Coordinating Benefits with Other Insurers and Payers**

Coordination of benefits divides health care expenses among available responsible payers, ensuring that HealthSelect doesn't pay claims that may be covered by other programs. For example, Medicare is structured to pay first on claims for Medicare-primary participants. ERS then coordinates with Medicare to pay the remaining eligible balance. Coordination of benefits saved the plan \$182 million during Fiscal Year 2014.

### **Maximizing Refunds, Rebates and Subsidies**

These following strategies leverage outside resources to maximize plan collections.

**Retiree Drug Subsidy (RDS):** From Fiscal Year 2006 to Fiscal Year 2014, the federal Medicare Part D RDS program refunded \$264.0 million in Medicare retiree drug costs. During Fiscal Year 2014, ERS contracted with an outside vendor to reopen past RDS claims for reconciliation, resulting in almost \$8.0 million in additional subsidies, after expenses, over the previous eight year period.

**Employer Group Waiver Plan (EGWP):** ERS replaced the RDS program for most plan participants in January 2013 with a new Medicare drug strategy – a self-funded EGWP with a commercial wrap-around feature. ERS automatically enrolls all eligible retirees in this program when they become Medicare primary members. Through the end of Fiscal Year 2014 – just 21 months into the program – ERS had received \$86 million in federal subsidies, in addition to \$28 million collected from the RDS program during the same time period, significantly increasing total annual prescription drug subsidies received on behalf of Medicare-primary retirees.

**Prescription Drug Rebates:** Through individually negotiated arrangements with drug manufacturers, the HealthSelect Pharmacy Benefit Manager (PBM) receives rebates based on the volume of various drugs dispensed under the prescription drug programs it administers. ERS' PBM contract requires the PBM to return 100% of ERS member related rebates to the GBP, including a guaranteed minimum amount. During Fiscal Year 2014, ERS received \$130.2 million in drug rebates. ERS conducts an annual audit of PBM operations to confirm that 100% of all rebates are paid back to the plan.

### **Conducting audits**

As fiduciaries of the insurance program, ERS has a financial responsibility to plan participants to ensure that the plan is operating efficiently and delivering the best value to the state. Since 2011, ERS has undergone five internal and external audits related to operational, financial, contractual, and actuarial processes for managing the self-funded insurance program. ERS uses the findings of these audits to continuously improve the management of the health insurance benefit program. In addition, the Pharmacy Audit Program protects the financial integrity of the provider network and the plan through a sophisticated set of programs and procedures to deter fraudulent claims, protect against provider abuse, and ensure that network pharmacies comply with HealthSelect guidelines. This program recouped approximately \$900,000 during Fiscal Year 2014.

### **Investigating Fraud**

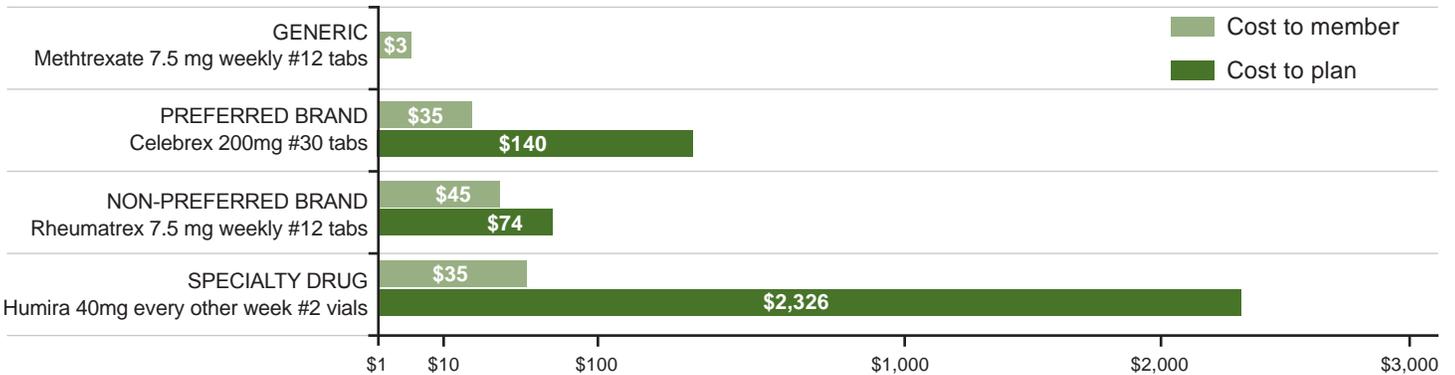
Fraud prevention, detection and investigation are integral components of the overall GBP cost management strategy. ERS takes necessary steps to ensure that fraud and abuse of the program are prevented or reduced, and that violators are dealt with appropriately. ERS requires vendors to be diligent in their efforts to prevent, detect, and investigate fraud, abuse and other improprieties. Although fraud and abuse may be confused with each other, fraud implies intent, whereas abuse may occur from provider or participant error.

**Incentives to use Generics**

A specific cost management feature of the HealthSelect prescription drug program is the use of a “three-tier” copay structure. The participant’s cost share is based on the drug’s tier, with a 30-day prescription for a generic drug being the least expensive (\$15 in Fiscal Year 2014), compared to a preferred brand drug (\$35) and a non-preferred brand drug (\$60). Due to this management practice, generic dispensing rates within the HealthSelect plan continue to rise; at 80.2%, generic dispensing rates are now 2.3% higher than experienced by the plan in Fiscal Year 2013. New and improved drug therapies are released every day, and as the population ages, the demand for more effective treatments for complex chronic health conditions grows.

In a 2014 survey of 136,000 GBP-eligible state and higher education employees, ERS asked participants about the cost-saving plan features they had used. By far, generic drugs were the most popular cost-saving feature mentioned, with 67% of all respondents saying they had requested a generic medication in the past year. Exhibit 39 provides an example of the cost savings to both ERS members and the plan from consideration of generic drugs.

**Exhibit 39: Cost Saving Impact of the Generic Drug Program**



**Eligibility Verification: Dependent Eligibility Audit (DEA)**

ERS has a fiduciary responsibility to manage health care costs and control fraud, making sure that eligible plan members have access to medical services while ineligible participants do not. Ineligible dependents can significantly increase the cost of health care to the state; therefore, removing ineligible dependents from the GBP reduces state contributions and plan costs. During Fiscal Year 2012, ERS completed a successful dependent eligibility audit that asked all plan members who cover dependents for documentation proving their eligibility for coverage. The DEA audit resulted in removing approximately 5.3% of previously covered dependents (approximately 11,000 participants) from the plan and produced \$12.2 million in net savings. During Fiscal Year 2014, a subsequent audit identified an additional 6,535 ineligible dependents, produced net savings of \$8.7 million. The DEA process has produced significant savings for the program, with a 12-to-1 return on investment. ERS continues to verify all new dependents at the time they are added to the plan’s coverage.

**D. Describe any important history regarding this program not included in the general agency history section, including how the services or functions have changed from the original intent.****Accountable Practice Models (APM): Patient Centered Medical Homes (PCMH)**

HealthSelect, like many employer-based plans, has historically paid claims under a “fee for service” (FFS) reimbursement strategy. FFS tends to reward doctors who perform more procedures, not doctors who focus on low-cost coordinated preventive care and wellness, which often result in better patient outcomes and significant plan savings from avoided future medical needs. Moving away from FFS requires paying medical providers in new ways that reward them for reducing costs while continuing to meet quality standards. To address this issue, in 2011, ERS, the HealthSelect TPA, and several large clinically integrated physician group practices worked together to implement a PCMH initiative.

The PCMH is a care delivery model whereby treatment is coordinated through a primary care physician to ensure the patient receives the necessary care when and where they need it, in a manner they can understand. PCHMs are driving some of the most important reforms in health care delivery today. A growing body of scientific evidence shows that PCMHs are saving money by reducing hospital and emergency room visits, reducing health disparities, and improving patient outcomes. PCMHs focus on quality in care, cultivating more engaging patient relationships, and capturing savings through expanded access and delivery options that align patient preferences with payer and provider capabilities. This service delivery model is a way of organizing primary care that emphasizes care coordination and communication to transform primary care into “what patients want it to be.” Medical homes can lead to higher quality and lower costs, and can improve patients’ and providers’ experience of care. Between 2011 and 2014, ERS worked with five large clinically integrated physician group practices across the state to create PCMHs that treat more than 52,000 HealthSelect participants.

During Fiscal Year 2014 four out of the five groups earned shared savings payments totaling \$2.4 million while HealthSelect savings for the year totaled \$10.7 million. Overall PCMH participants cost the plan 6% less than the rest of the HealthSelect population despite having similar health risk scores. ERS staff and the HealthSelect TPA are continuing to look for new opportunities to expand this program. In 2014, ERS received national recognition for its PCMH project from the State and Local Government Benefits Association – winning the SALGBA Challenge grand prize for innovative best practices.

**Implementation of Medicare Advantage Plans**

While the number of active employees in the GBP is holding steady, the retiree population has more than doubled since 1995. In fact, the 25% growth in GBP membership over the past two decades is due entirely to the growing retiree population. Managing costs for an aging health plan population can be difficult but is paramount to controlling costs for the plan overall. In the past several years, ERS has successfully implemented new health and pharmacy plans for the Medicare-primary retiree population. These initiatives continue to produce savings for the plan and reduce contributions for members enrolling dependents in the Medicare Advantage plans. During Fiscal Year 2011, staff began studying the value and impact of various Medicare Advantage programs offered by insurance carriers. This research led staff to determine that the GBP could provide more comprehensive coverage to Medicare eligible retirees at a lower cost, not only lowering the GBP cost of providing health care but simultaneously lowering the contributions paid by retirees who cover their Medicare eligible dependents.

### **Medicare Advantage Preferred Provider Organization (MA-PPO)**

On January 1, 2012, ERS implemented a fully-insured Medicare Advantage Plan with a statewide Preferred Provider Organization. The statewide MA-PPO provides health care administration (claim processing, network management, and utilization review services) benefits and/or services under the GBP. The HealthSelect Medicare Advantage<sup>SM</sup>, plan provides the most cost-effective benefits to Medicare primary retirees and their eligible dependents available, offering comprehensive benefits in a national network at no out of pocket cost to the member.

Medicare-eligible participants are automatically enrolled in the MA-PPO but can opt-out and back into the HealthSelect plan or one of the HMO plans if so desired. ERS estimates \$7.8 million in annual cost savings would be realized if all GBP Medicare-primary participants were required to enroll in an MA plan, without an opt-out provision. As of the beginning of Fiscal Year 2015, the MA-PPO served 56,637 participants, 44,762 members and 11,875 dependents. Total participation grew to 60,478 participants by the end of June 2015.

### **Medicare Advantage Health Maintenance Organization (MA-HMO)**

Alternatively, the MA-HMO provides fully insured health benefits to members in return for a monthly premium, with plan benefits similar to MA-PPO benefits with the exception of out of network options. Currently, ERS offers an MA-HMO plan in the Houston area, provided through Kelsey Care Advantage. As an HMO participant, a member has access to a limited provider network and network benefits are available only by seeing providers within the HMO network. Participation in this plan is the only opportunity for a Medicare eligible member to have access to, or receive treatment from, Kelsey-Seybold physicians in Houston. During Fiscal Year 2015, the MA-HMO plan served 1,094 participants, 905 members and 189 dependents.

### **Implementation of Medicare Part D, Employer Group Waiver Plan**

In Fiscal Year 2006, ERS began participating in the RDS program, a federal program managed by the CMS program to reimburse health plans a portion of eligible expenses for retiree prescription drug benefit claims. The RDS subsidies proved to be a cost-effective program, providing an opportunity to reduce the cost of providing drug coverage to retirees due to the subsidies. Affordable Care Act provisions changed the RDS program and provided an enhancement through an even more cost-effective drug subsidy program, the EGWP. With a wrap-around benefit structure, the GBP could provide essentially identical coverage for active and Medicare eligible participants but achieve substantially higher subsidies over the RDS program. In January 2013, the GBP enacted the EGWP + Wrap plan administered by SilverScript, a subsidiary of CVS Health. During the 20 months this program has been in use, the GBP has received over \$50 million in additional subsidies over and above what would have been received under the original RDS plan. At the same time, Medicare eligible retirees are receiving the same comprehensive benefit as an active employee.

### **TexaSaver 401(k) Deferred Compensation Plan Automatic Enrollment**

As a result of House Bill 957, passed by the 80th Texas Legislature, automatic enrollment of new state agency employees in the TexaSaver 401(k) plan began January 1, 2008. The automatic monthly deferral rate is 1% of salary, but can be adjusted by the employee at any time. New employees may also choose to opt out of participating in the program at the time of their hire, avoiding the automatic enrollment completely. By default, unless an auto-enrolled employee selects a specific TexaSaver investment product, deferrals are directed to a Wells Fargo Advantage Dow Jones Target Date Fund, as selected by the ERS Board during the August 2007 quarterly meeting. Target Date Funds set an appropriate level of investment risk based on an employee's age and expected time horizon to retirement. Since January 2008, 145,255 state employees have been auto-enrolled in the program, 90% of eligible new hires, with only 16,054 opting out within 30 days.

### **TexaSaver Program Expansion**

The ERS Board of Trustees (board) established a Roth contribution option in both the 401(k) and 457 Plans effective January 1, 2012. The Roth option allows employees to designate all or a portion of their monthly TexaSaver contribution as an "after-tax" contribution, in accordance with Section 402(a) of the Internal Revenue Code of 1986.

This structure allows the member to withdraw both the investment funds and the earnings tax-free upon reaching the appropriate vesting date. Because this is a new option, Roth contributions currently total significantly less assets than the traditional options, accounting for just \$10 million of the programs \$2.5 billion in managed assets; however, 401(K) Roth plan average monthly deferrals (4.8%) are significantly higher than in the traditional program (2.6%).

**E. Describe who or what this program or function affects. List any qualifications or eligibility requirements for persons or entities affected. Provide a statistical breakdown of persons or entities affected.**

The GBP was designed to provide employee benefits to all state employees, retirees, certain higher education employees and other governmental entities as authorized in Chapter 1551 of the Texas Insurance Code. Enrollment in various benefit plans varies each month. Members may also enroll dependents in the various plans and in certain cases benefits are provided to the surviving family members of members or retirees. The program also provides certain benefits (COBRA coverage) to recently separated state employees.

As of May 2015, total health care program enrollment was 524,763 participants, including members and participants in all health plans, including HealthSelect of Texas, HealthSelect Medicare Advantage, Scott & White HMO, Community First HMO and KelseyCare Medicare Advantage HMO plans. Total dental program enrollment was 425,031 participants, including the State of Texas Dental Choice, Dental HMO, and Discount Dental plans. Life insurance program total enrollment was 526,487 participants, including; Basic Life, Optional Life, AD&D and Dependent Life. Disability insurance program total enrollment was 132,138 participants, including Short Term and Long Term disability offerings. Finally, 49,025 employees participated in the flexible spending account program. The following tables detail member and dependent participation for each program as of May 2015.

**Exhibit 40: Health Care Program Enrollment**

Entity	Full Time		Part Time		Survivors		COBRA	
	Employee	Dependents	Emp.	Deps	Emp.	Deps.	Emp.	Deps.
State Agency	138,497	105,798	408	177	0	0	0	0
Higher ED	67,664	54,263	1,503	289	0	0	0	0
Other Entities	7,216	5,570	1,915	468	0	0	0	0
Sub Total	213,377	165,631	1,915	468	0	0	0	0
Retirees	100,729	37,729	100	35	4,106	155	715	180
Grand Total	313,729	203,360	2,015	503	4,106	155	715	180

Exhibit 40 Health Care Program Enrollment

**Exhibit 41: Dental Program Enrollment**

Entity	Full Time		Part Time		Survivors		COBRA	
	Employee	Dependents	Emp.	Deps	Emp.	Deps.	Emp.	Deps.
State Agency	115,725	102,987	532	327	0	0	0	0
Higher ED	54,100	49,625	1,089	294	0	0	0	0
Other Entities	5,837	5,304	5	5	0	0	0	0
Sub Total	175,662	157,916	1,626	626	0	0	0	0
Retirees	56,110	29,425	74	46	2,363	135	700	348
Grand Total	231,772	187,341	1,700	672	2,363	135	700	348

Exhibit 41 Dental Program Enrollment

**Exhibit 42: Life Insurance Program Enrollment**

Entity	Full Time		Part Time	
	Employee	Dependents	Employee	Dependents
State Agency	143,408	115,424	793	463
Higher ED	69,417	46,422	1,713	233
Other Entities	7,423	5,686	8	4
Sub Total	220,248	167,532	2,514	700
Retirees	101,063	34,268	130	32
Grand Total	321,311	201,800	2,644	732

Exhibit 42 Life Insurance Program Enrollment

**Exhibit 43: Disability Insurance Program Enrollment**

Entity	Full Time		Part Time	
	Employee	Dependents	Employee	Dependents
State Agency	89,446	0	446	0
Higher ED	38,384	0	268	0
Other Entities	3,593	0	715	0
Sub Total	131,423	0	715	0

Exhibit 43 Disability Insurance Program Enrollment

**Exhibit 44: Flexible Spending Program Enrollment**

Entity	Employee	HCA Pledges	DCA Pledges
	State Agency	29,810	\$37,296,249
Higher ED	17,669	\$24,097,326	\$6,187,434
Other Entities	1,546	\$1,894,869	\$269,891
Total	49,025	\$63,288,444	\$14,254,774

Exhibit 44 Flexible Spending Program Enrollment

**F. Describe how your program or function is administered. Include flowcharts, timelines, or other illustrations as necessary to describe agency policies and procedures. Indicate how field/regional services are used, if applicable.**

**Program Planning**

Within Benefit Contracts, program administration begins with an assessment and definition of the primary member or plan needs for continuing to offer a program or establishing a new benefit. A core management function for the GBP is ongoing strategic assessment of the cost-effectiveness and sustainability of the benefits package. Staff stays abreast of innovations in the employee benefits field, and when a potential benefit enhancement or innovation can be made, the division will perform a gap analysis to assess whether it is an appropriate change for the benefit plan design.

If a new benefit program is necessary, then the next step is to develop procurement and contracting process plans for a competitive bid process to obtain a vendor to manage administration of the benefit. A recommendation is then formulated and presented to the board to begin implementation of the new benefit program. If, however, the gap analysis results indicate the need to reassess benefit design and/or contribution strategies, then appropriate staff from the division will confer with the agency's consulting actuary for insurance programs. An

appropriate recommendation is then formulated and presented to the board specific to benefit changes and/or contribution changes.

### **Procurement/Contracting Execution Process**

Once the board or agency leadership determines a need for a benefit program, staff issues an RFP to obtain a suitable administrator for the new benefit. This process takes several months to complete, with division employees working with subject matter experts (SMEs) throughout the agency, including: Customer Benefits; Benefits Communications; Information Services; Finance; Legal Services; and outside actuarial consultants. One or more Certified Texas Contract Managers participate in the RFP and contract solicitation process. The team's goal is to produce an RFP that is consistent with the contract management guide and clearly communicates the needs and intended operations of the benefit to be offered. Once bid responses are received, these same SMEs review and score the proposals, and various risk identification, vendor competency, and forecasting evaluations are performed by staff such as UDAR staff and division account managers. All evaluations and analyses are reviewed by the Director of Benefit Contracts and an executive recommendation is developed. This recommendation is presented to the Executive Director and, with their concurrence, a final recommendation and presentation is prepared for the next meeting of the board.

The Director of Benefit Contracts, along with the independent consulting actuary for insurance programs, will present the recommendation to the board. The presentation includes a full review of the planning, competitive solicitation, and evaluation processes used by the agency, a summary of the proposals received, scoring results, statistical analysis, and the final staff recommendation. The board will discuss the recommendation upon completion of the presentation and will act by accepting, rejecting, or modifying the recommendation in an open meeting.

Once the board approves a contract award, and all parties have executed the contractual document, the implementation process begins. All previous work will be turned over to the contract management program within Benefit Contracts and a specific contract manager and backup will be assigned. The contract managers will work with a project manager, assigned by the Enterprise Program Management Office, and agency SMEs to implement the new contract and benefit plan in coordination with the selected vendor. Once implemented, the contract manager is responsible for ensuring that the vendor complies with the stated terms of the contractual agreement.

### **Contract Monitoring & Program Oversight**

Each contract defines the services, products, and deliverables due to ERS, the GBP, and program members and sets forth conditions whereby the vendor's failure to meet the contractual requirements may result in the assessment of performance guarantee fees or liquidated damages. The contract monitoring strategy is comprised of several contract monitoring activities organized on a fiscal year basis, generally coinciding with the completion of the contract implementation process and the agency's budgeting and appropriations processes. The account management team within the division is responsible for monitoring assigned vendors for contractual compliance, documenting all monitoring activities and findings, and reporting findings to program and agency management on a timely basis. By actively managing the components of the contract monitoring strategy, the account manager ensures that vendor performance is documented accurately and that ERS management is appropriately informed regarding potential or actual compliance issues. This process includes the establishment of corrective action plans and timelines, and a framework for assessing agreed upon financial penalties if deficiencies are not remedied in accordance with expectations.

Key objectives of the contract monitoring strategy, performed by account managers include:

1. support the goal of minimizing ERS exposure to economic, regulatory, adverse publicity, and customer satisfaction risks;
2. formally review and report vendor performance in meeting delivery points and maintaining acceptable customer satisfaction levels;
3. initiate and track follow-up recommendations identified through formal compliance audits, strategic planning, and contract monitoring activities;
4. on an annual basis, review the methodology used by the vendor in developing any self-reported data;
5. provide direction on strategic initiatives to research, identify, assess, and adapt relevant industry best practices;
6. identify opportunities to enhance, revise, redirect, or support the scope of work to be performed by an outside, independent audit firm with regards to reviewing the operational and compliance functions performed by a vendor in its duty to administer an ERS program;
7. provide information to enhance requirements or expectations outlined within subsequent bid opportunities; and
8. conduct site visits to verify the satisfactory performance of required contractual elements.

### **Grievance Administration**

ERS strives to provide fair, thorough and timely handling of all benefit claims that fall under its jurisdiction. Plan participants may file grievance appeals when they believe that benefits have been denied or paid incorrectly for the following GBP programs: HealthSelect and prescription drug benefits; Dental Choice Plan; life insurance; AD&D insurance; and short- and long-term disability insurance. ERS staff reviews each submitted grievance based upon its facts, the requirements of the plan documents, relevant statutes, and ERS rules. The division's grievance administrator, currently a registered nurse, researches the grievance and presents the file to the Grievance Review Committee (GRC) for review. The GRC consists of representatives from the Legal Services, Customer Benefits, and Benefit Contracts divisions.

Certain types of appeals are reviewed by the Director of Benefit Contracts and the Director of Governmental Affairs, as a representative of the Executive Office, without presentation to the GRC. ERS staff renders a decision on the grievance and provides the participant with a decision letter via certified mail. If the grievance request is denied, the ERS letter will notify the participant if further appeal rights are available. The grievance process may take up to 180 days. Some of the appeal rights allow for the participant to provide additional information to the Legal Services Division for further review. Other rights allow the participant to pursue an appeal with the State Office of Administrative Hearings. In August 2006, the board delegated authority to make final agency decisions on appeals to the ERS Executive Director. A participant may appeal ERS' final decision to the Travis County District Court.

### **Underwriting, Data Analysis, and Reporting (UDAR)**

The UDAR team supports the division's strategic goal of providing enhanced research and data analytics to evaluate program effectiveness. This includes providing financial, actuarial, and claims analysis to support internal business decisions related to the funding and plan design of the GBP. UDAR employees also work closely with Governmental Affairs staff to produce the annual *Cost Management and Fraud Report*. To help the agency achieve strategic goals related to the GBP, the team performs the following activities: (1) gather data and conduct informational analysis for all ERS benefit programs, including insurance, flexible benefits, and Medicare Part D; (2) develop recommendations and strategies for the GBP based on available analyses; prepare financial analysis and reporting for all benefit programs; and ensure accountability for the appropriate funding of employee benefits under the GBP.

**G. Identify all funding sources and amounts for the program or function, including federal grants and pass-through monies. Describe any funding formulas or funding conventions. For state funding sources, please specify (e.g., general revenue, appropriations rider, budget strategy, fees/dues).**

Although the agency receives funding through multiple revenue streams, as detailed in Section V of this report, all revenue is deposited to one of eight trust funds, the special revenue fund, or the proprietary fund, defined by program use, for later expenditure. Due to this accounting structure, ERS does not track program or division funding by original revenue stream but rather by fund source of payment. The accounting process begins with administrative expenses for agency operations being initially paid from the Employees Retirement System Trust (Fund 0955). Each month paid expenses are allocated to the various funds as defined by the type and purpose of the expenditure. This cost allocation process uses the monthly reported percentages from the agency's internal time accounting system to determine the needed allocation of employee salaries by fund and department, by identifying what tasks the employee spent their time performing and charging the appropriate fund for the result expenditure. The cost allocation process then applies the average of these reported percentages of work performed to the allocation of non-salary and other administrative expenses incurred to each division by fund. There are exceptions to this process when an entire expenditure clearly relates to a single trust fund purpose, for example the payment of invoices received by the agency's health insurance actuary are automatically allocated entirely to the Employees Life, Accident, Health Insurance, and Benefits Fund (Fund 0973).

Actual fund source breakdown for Benefit Contracts Division expenditures during Fiscal Year 2014 was:

Funding Source	2014 Amount
Employees Retirement System Trust (0955)	\$ 110,682
LECOS Retirement Trust (0977)	7,790
Judicial Retirement System Plan Two (0993)	1,655
TexaSaver 401(k) Trust (0946)	271,357
TexaSaver 457 Trust (0945)	160,537
State Employee Cafeteria Plan Trust (0943)	47,921
Employees Life, Accident, Health Insurance and Benefits Trust (0973)	1,893,148
Social Security Trust (0929)	79,867
<b>Total</b>	<b>\$ 2,572,957</b>

Exhibit 45 Benefit Contracts Division expenditures

**H. Identify any programs, internal or external to your agency, that provide identical or similar services or functions to the target population. Describe the similarities and differences.**

No other division within the agency, or entity external to the agency, provides similar services to the target population. ERS has the exclusive responsibility to provide employee benefits administration to state employees and retirees, certain higher education employees, and other governmental agencies as provided by Chapter 1551 of the Texas Insurance Code and Chapter 609 of the Government Code.

**I. Discuss how the program or function is coordinating its activities to avoid duplication or conflict with the other programs listed in Question H and with the agency's customers. If applicable, briefly discuss any memorandums of understanding (MOUs), interagency agreements, or interagency contracts.**

Within ERS, the Benefit Contracts division is responsible for managing the vendor contracting relationships for employee benefits. While the division works closely with other divisions in the agency, each function is independent and little if any duplication of effort occurs. For example, the Customer Benefits division is

responsible for handling telephone inquiries which may include complaints received from plan members. The Customer Benefits division handles these complaints and keeps Benefit Contracts informed to help ensure the situation is isolated and not a trend that needs to be managed through the vendor directly. Customer Benefit's staff will also escalate an issue to Benefit Contracts when appropriate resolution requires action on the part of the vendor. Should the issue result in a grievance, the grievance is then handled in Benefit Contracts, per the process described in Question F above.

**J. If the program or function works with local, regional, or federal units of government, include a brief description of these entities and their relationship to the agency.**

As part of the benefit programs offered to state employees and retirees, ERS participates in several federal benefit service or funding programs in order to take advantage of various subsidies to lower the cost of providing health care. The primary federal agencies involved in ERS programs are the CMS, the Internal Revenue Service, the US Treasury Department, and the Social Security Administration. As previously discussed, CMS specifically offers several programs which provide a subsidy to ERS, including: Retiree Drug Subsidy program; Employer Group Waiver Plan plus Wrap; and the previously offered Early Retiree Reinsurance Program.

**K. If contracted expenditures are made through this program; please provide:**

- A short summary of the general purpose of those contracts overall;
- the amount of those expenditures in Fiscal Year 2014;
- the number of contracts accounting for those expenditures;
- top five contracts by dollar amount, including contractor and purpose;
- the methods used to ensure accountability for funding and performance; and
- a short description of any current contracting problems.

The expenditures made through contracts administered by the Benefit Contracts division are intended to provide administrative services for benefits programs provided to the employees and retirees of state agencies, institutions of higher education, other political entities identified by statute, and members' eligible dependents. The benefits include health care, dental care, life and disability insurance, flexible spending account administration, and deferred compensation plans.

Expenditures for certain employee benefit programs cover administrative services only. The vendor is paid a fee for administration of the plan but all direct member claim costs and insurance risks are covered by ERS trust funds. These programs (vendors) include: HealthSelect plan (United HealthCare); prescription drug claims (Caremark Rx, LLC); HealthSelect Medicare Rx plan (SilverScript); Texas Dental Choice plan (Humana Dental Insurance); short- and long-term disability insurance (Aon Hewitt Absence Management, LLC); and Texflex flexible spending accounts (PayFlex Systems USA, Inc.).

In other instances, contracts for employee benefits are fully insured. In such cases, ERS pays the vendor monthly premiums to provide insurance and administrative services, and all insurance risk is transferred to the vendor. These contracts and vendors include: HMO medical providers (Community First Health Plan and Scott & White Health Plans); dental HMO provider (HumanaDental); AD&D insurance (Minnesota Life); Medicare Advantage PPO plan (Humana Insurance Co.); and the Medicare Advantage HMO plan (Kelseycare, Inc.).

The 18 contracts administered by the ERS Benefit Contracts division during Fiscal Year 2014 are summarized in the following table.

**Exhibit 46: Summary of Contracted Expenditures**

<b>Vendor</b>	<b>Expenditures (FY 2014)</b>	<b>Program / Service</b>
Scott & White	\$98,409,756 (Premiums)	HMO Health Plan
Humana Insurance Co.	\$81,426,515 (Premiums)	Medicare Advantage PPO
Minnesota Life	\$76,896,133 (Premiums)	Life Insurance
United Healthcare	\$54,496,827 (Admin Fees)	Health Insurance
Community First	\$23,601,491 (Premiums)	HMO Health Plan
Humana Dental Insurance Co.	\$13,976,652 (Premiums)	Dental HMO
Aon Hewitt Absence Management	\$6,206,274 (Admin Fees)	Disability Insurance
Great-West Retirement	\$5,324,606 (Admin Fees)	Deferred Compensation (Recordkeeping Services)
Caremark Rx, LLC	\$4,847,301 (Admin Fees)	Prescription Drug Benefit
SilverScript Insurance Co.	\$3,413,920 (Admin Fees)	Prescription Drug Benefit
Human Dental Insurance Co.	\$2,742,672 (Admin Fees)	Dental PPO
PayFlex Systems USA	\$1,968,359 (Admin Fees)	Flexible Spending Accounts
KelseyCare Advantage	\$1,593,607 (Premiums)	Medicare Advantage HMO
Advised Assets Group	\$1,069,198 (Advisory Fees)	Deferred Compensation (Advisory Services)
Hewitt Associates, LLC	\$753,264 (Admin Fees)	Audit Services (Dependent Eligibility Audit)
Rudd & Wisdom	\$600,000	Actuarial Consulting Services
Health Management Systems	\$172,552 (Admin Fees)	Prescription Auditing Services
Mount Joy Chilton Medley	\$46,554 (Admin Fees)	Insurance Auditing Services

**Exhibit 46 Summary of Contracted Expenditures**

Generally, employee benefit contracts are structured over four years with the ability to extend the contracts for additional periods. The following top five contracts are valued based on a four year term unless otherwise noted.

**1. Humana Insurance Co.**

Humana Insurance Co. provides a fully insured Medicare Advantage Plan to retirees and dependents eligible for Medicare. The premium is set on a calendar year basis. From January 1, 2012 through December 31, 2015, total payments are estimated at approximately \$268,480,902.

**2. United Healthcare**

United Healthcare provides administrative services for the HealthSelect of Texas point of service health benefit plan. The vendor provides services including, but are not limited to: claim processing; network management; medical/condition management; and direct customer service. The original contract was effective September 1, 2012 and runs through August 31, 2016, with the possibility of two one-year extensions. The contract value is currently estimated at \$213,157,436.

**3. Scott & White Health Plan**

The Scott & White Health Plan provides a fully insured HMO program for GBP participants who select this coverage and are within the Texas Department of Insurance (TDI) approved service area. Each HMO must file an annual application with TDI to maintain an approved service area. The contracted coverage and rates are subject to review to ensure that the vendor is saving the GBP money. This is currently measured by premium rates at 95%, or less, of the cost to provide the services under the self-funded HealthSelect plan. Based on this criterion, the contract is considered only one year in length. The value of the contract for Fiscal Year 2014 was \$98,409,756.

**4. Humana Dental Health Maintenance Organization (DHMO)**

Humana DHMO provides a fully insured dental HMO program for GBP participants who voluntarily select the coverage. Unlike the medical HMOs, the Dental HMO is contracted for a four year period from September 1, 2014 through August 31, 2018. Based on the new rates effective for Fiscal Year 2015, the estimated value of the contract is \$60,060,576.

**5. Minnesota Life**

Minnesota Life provides life insurance and accidental death and dismemberment coverage on a fully insured basis. However, in order to improve the cash flow between Minnesota Life and the agency, ERS includes a minimum premium approach for the life insurance offering which allows ERS to pay a small administration fee each month plus the actual claims processed. The total contractual liability, however, is limited to the rates quoted and accepted in the contract. The minimum premium approach does not apply to AD&D plan coverage. The contract began on January 1, 2012 and has an expiration date of August 31, 2016. Therefore, combining the administrative life fees with the AD&D premium, the value of this contract for the 56-month period is \$57,694,558, including an estimate of fees and premiums for fiscal years 2015 and 2016.

The division has various best practice processes in place to ensure accountability of funding and vendor performance related to administered contracts. These functions are performed within the division's UDAR and Account Management teams.

Each month UDAR employees produce a Monthly Financial Report (MFR). This report creates a management financial/income statement for each of the benefit programs and allows agency executive management to understand how the revenue for each plan is emerging and relates to the claim payments associated with the plan. The reports can also be used to spot trends which may necessitate management action. UDAR also performs a monthly reconciliation of medical claims payments made by the HealthSelect TPA by comparing the draft numbers tied to the daily claim payment amounts to the corresponding claims. Any discrepancy that exceeds the tolerance

threshold is provided to the vendor to investigate with a response due within 15 days of notification. The objective of this process is to ensure that a timely claims and payment reconciliation review is performed using the financial transaction data (claim payments) and the actual claim data reflected on the claim activity report.

In addition to the MFR, UDAR staff works with the consulting actuary for insurance each month, based on the emerging data and trend, to project the full year results of the healthcare program, taking into account required enrollment revenue, paid claims, reserves, subsidies, and administrative expenses. This projection assists Benefit Contracts in spotting trends and adjusting programs as appropriate to meet appropriation and budget needs. UDAR is also responsible for producing reports and analysis of claims data to help determine areas of healthcare spending which may need additional controls to help reduce, or curtail spending. While much of this work centers on the healthcare plans, UDAR does similar work on dental, life and disability plans.

Monitoring the performance of the contractor is a key function of proper contract administration. The purpose is to ensure that the contractor is performing all duties in accordance with the contract and for the agency to be aware of and address any developing problems or issues. In accordance with the Contract Management Guide, contract monitoring at ERS is viewed as: a preventive function; an opportunity to determine the contractor's need for technical assistance; and a valuable source of information concerning the effectiveness and quality of services being provided.

Each contract defines the services, products, and other deliverables due to ERS, the GBP, or program participants. As previously noted, each contract also sets forth conditions whereby the vendor's failure to meet the contractual requirements may result in the assessment of performance guarantee fees or liquidated damages. Account Management staff are responsible for monitoring assigned vendors for contractual compliance, documenting monitoring activities and findings, and reporting findings to appropriate management on a timely basis. By actively managing the components of the Contract Monitoring Strategy, the Account Manager ensures that contractual performance is documented and that ERS management is fully informed regarding potential or actual compliance issues that may arise. As needed, the division will make use of corrective action plans and timelines, and frameworks for assessing agreed upon financial incentives if deficiencies are not remedied in accordance with ERS' expectations. Examples of contracting issues that have escalated to performance assessments would include, but are not limited to: untimely issuance of ID cards; delays in claim file delivery; financial accuracy of processed transactions falls below specified performance standards; and member communication materials are incomplete, inaccurate, or otherwise not approved following established practices.

There are several contracting nuances specific to the state of Texas impacting benefit vendor qualifications that should be acknowledged because they present unique challenges to obtaining the required services. Principally, the HealthSelect TPA RFP requires a highly experienced vendor to provide complex and capital intensive services to a geographically dispersed population of more than 500,000 participants. The size of the GBP service population eliminates a number of vendors who do not have the necessary experience or operational capacity to administer a point of service plan the size of HealthSelect. Within the minimum requirements, ERS has specified that a prospective administrator would have experience providing administrative, claim processing, network management and utilization review services for organizations with a membership of no less than 100,000, or no less than an aggregate of 3,000,000 covered lives for a minimum of three (3) years. These necessary requirements result in significant restrictions on the competitiveness of the resulting solicitation process.

Additionally, Texas law currently prohibits the TPA vendors from offering proprietary products to program participants. This provision mainly impacts the universe of prospective bidders for the record keeper functions in the deferred compensation plans. Vendors currently offering proprietary investment products within the 401(k) or 457 plans must agree to discontinue these offerings and cooperate with the transition of such products at no cost to ERS, the Texa\$aver program, or its participants as required by ERS, if awarded a Contractual Agreement to provide recordkeeping services. This mandate has reduced the number of prospective bidders to the TPA RFP for the Texa\$aver Program in the past as each administrator views their proprietary investment product as more valuable than a recordkeeping contract.

**L. Provide information on any grants awarded by the program.**

This program does not award grants.

**M. What statutory changes could be made to assist this program in performing its functions? Explain.**

Chapter 1552 of the Texas Insurance Code, Group Long-Term Care Insurance for State Employees, limits the ERS Board to selecting “an administering firm to administer the group long-term care insurance program.”

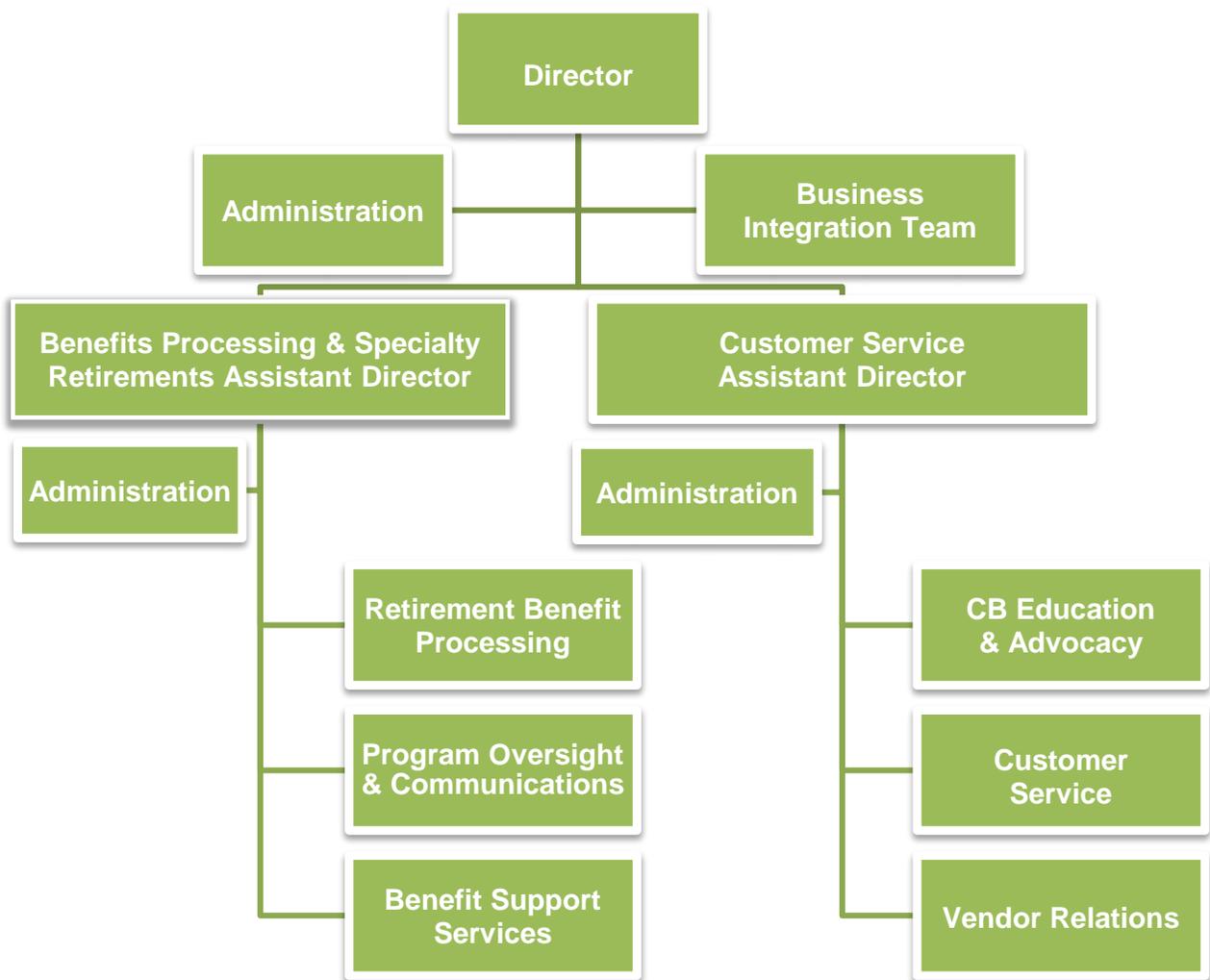
Based on recent changes within the insurance industry, there are few remaining opportunities to purchase group coverage, as many providers have shifted to offering such coverage under individual policies. A statutory change to allow long-term care programs to be offered under either a group, or individual, policy could potentially allow ERS to offer a long term care insurance plan to GBP participants.

Additional information regarding beneficial statutory changes or other considerations to accomplish programmatic improvements can be found in Section IX Issues for Consideration, later in this report.

**N. Provide any additional information needed to gain a preliminary understanding of the program or function.**

No further information is provided to describe this program.

## Customer Benefits



**A. Provide the following information at the beginning of each program description.**

**Name of Program or Function:** Customer Benefits

**Contact Name:** Robin Hardaway, Division Director

**Actual Expenditures, Fiscal Year 2014:** \$7,011,844

**Number of Budgeted Full time employees (FTEs), Fiscal Year 2014:** 98

**Number of Actual FTEs as of August 31, 2014:** 85

**Statutory Citation for Program:** Chapter 815, Texas Government Code

**B. What is the objective of this program or function? Describe the major activities performed under this program.**

The ERS Customer Benefits Division's objective is to provide customer support for all participants in state benefit programs through high quality educational counseling services and communications and the efficient processing and tracking of state employee and retiree benefits. Benefits participants include employees and retirees of state agencies and institutions of higher education as well as their dependents and beneficiaries. The division is organized around three functional responsibilities: administration, customer service, and benefits processing and specialty retirement operations. Administrative activities are geared toward the effective management of division programs and efficient coordination of cross-divisional processes and projects. Administrative operations also include the activities of the Business Integration Team (BIT) charged with the coordination of technology improvement projects with the Information Systems Division for Customer Benefits management.

Direct interactions with ERS member populations often begin with the activities of the Customer Service team. Customer Service staff and management perform all aspects of the agency's direct member contact center operations, providing personalized responses to member questions, inquiries and processing needs on a daily basis. Customer contact center representatives interact with plan members through calls, emails, physical correspondence, and in-person counseling sessions. The team also maintains close contact and coordination with other agency divisions to ensure the consistent and accurate messaging of benefit services and program details to all members and participants. The Customer Service team maintains a dedicated team of senior specialty representatives to handle escalated member issues that require coordination between the member, the agency, and plan providers and vendors. Additionally, the team includes workforce management and dedicated vendor management staff to allow for smooth and efficient operations across the program's functions and activities.

The division's Benefits Processing and Specialty Retirements (BPSR) staff administers processing functions for both retirement and insurance programs and provides plan specific counseling and communication services to those state employees receiving non-standard benefits based on unique qualifications or employment criteria. The BPSR team is sub-divided into three programs: Retirement Benefit Processing, Program Oversight and Communications, and Benefit Support Services. Retirement Benefit Processing manages annuity payroll operations, coordinates retirement processing for all types of retirement, including non-standard retirement programs (such as the Judicial Retirement System plans, elected state officials, and disability retirements), and administers identification and payment of survivor benefits to the beneficiaries of Texas' first responders killed in the line of duty. Program Oversight and Communications employees manage all insurance enrollment, billing, and payment collection for special populations, such as retirees, oversee COBRA insurance administration, and work directly with state agency benefits coordinators and human resources personnel to ensure employee member populations are provided the most accurate and efficient front-line service possible. The Benefit Support Services team assists the operations of all division programs and staff by monitoring and assisting the effective processing and approval of paperwork and coordinating both custom and routine data management efforts to identify member benefit use trends, cost fluctuations, or demographic shifts in the membership base.

**C. What evidence can you provide that shows the effectiveness and efficiency of this program or function? Provide a summary of key statistics and outcome performance measures that best convey the effectiveness and efficiency of this function or program.**

The division measures performance in a variety of ways, including member surveys, customer feedback, processing times, and payment accuracy. Complete, accurate, and timely processing is required for all division procedures. Turnaround times are validated through an automated workflow process and senior staff directly monitors email and correspondence request processing. All phone interactions are recorded and staff service delivery performance is evaluated continuously by department management. The division evaluates customer satisfaction through formal survey processes. The division also measures the accuracy of retirement calculations, payroll processing, account audits, retirement setup, Qualified Domestic Relations Order (QDRO) calculations, verification of eligible death benefits, and confirmation of beneficiary designations through defined monthly quality control procedures. The methods used vary for each business process being evaluated and sampling can vary based on the workload amount. Quality reviews are performed by team leads, supervisors, or managers throughout the division with results documented and discussed with staff. If necessary, training opportunities are identified and performance is continuously evaluated.

Payroll staff complete an initial audit of each payment processed to payroll. Retirements processing receive 90-day post retirement audits using a statistical sampling model. The division also conducts 120-day post retirement audits regarding any changes to the gross annuity. All complex account processes such as QDRO's, judicial retirements, elected state official retirements, and disability claims are audited for accuracy and all specialty accounts, including QDRO actions are manually verified for accuracy.

Customer Service staff maintains daily, weekly, and monthly service targets that address service delivery, technology effectiveness, and counselor performance. These targets include data reflecting member interaction, channel traffic, and associated handling, as well as performance-management of queue traffic, staffing, and service availability. These metrics are reviewed daily by division management and used as a coaching tool throughout the division. Supervisors monitor employee performance for quality and evaluate counselors daily in order to coach staff members on improving customer service performance. Available contact center technology and ERS OnLine systems provide division staff the opportunity to query real-time traffic patterns and member inquiry of specific topics, allowing staff to maintain a daily understanding of subjects and concerns driving member contacts. Tools for measuring performance in the Benefits Processing and Specialty Retirements are included.

A number of surveys and feedback opportunities allow the division to assess and address member satisfaction. Monthly surveys focused on member satisfaction are solicited from ERS members making use of all channels of contact and are reviewed throughout the month by division staff. Results from the monthly annuity survey sent to all new retirees during the month following their retirement are used to report on the agency's performance measure related to customer satisfaction with annuity processing. ERS also publishes a Biennial Report on Customer Service detailing the results of all surveys ERS undertakes to assess customer satisfaction and the results of those surveys. While these surveys are anonymous, participants are invited to share their contact information and receive a follow-up call to address any specific or lingering concerns. Division staff follows up on each negative survey to resolve any member issues, clarify staff coaching needs, or escalate member feedback relevant to other divisions.

Sample division performance metric reports are provided in Appendix C of this report and include: (1) the ERS Contact Center Performance Report for Fiscal Year 2014; and (2) the member Satisfaction Survey Activity report for May 1-31, 2015.

**D. Describe any important history regarding this program not included in the general agency history section, including how the services or functions have changed from the original intent.**

As new programs or plan offerings have been added to ERS' statutory responsibilities over the years, the agency has formed additional divisions to meet the needs of new populations or programs. Prior to 1998, the agency maintained separate divisions for member retirement benefits, group insurance, flexible benefits, and deferred compensation programs. This required members to contact multiple divisions for questions about specific programs. In 1998, ERS combined these divisions into a single Customer Service division so that customers would not have to make multiple contacts with ERS when inquiring about various benefit programs and could receive information about any program through a single point-of-contact. The division was renamed Customer Benefits to include the operational and processing functions of the area, since the division handles both the "front-end" customer activities, and the "back-office" operational processing tasks.

ERS originally tracked individual benefits information on notecards, eventually moving data collection to a mainframe computing system. A new system, selected in 1992, was enhanced to include insurance administration with the addition of institutions of higher education into the benefits structure. In 2001, the system was converted to a web-based model structured around the PeopleSoft Benefits Administration system. This change provided participants and agency staff self-service functionality to the online benefits system, in most cases showing real time account updates for the participant to view. The conversion also allowed for paperless enrollment in insurance and TexFlex benefits, and provided a common base for demographic information and integration with the pension and payroll systems. In 2007, the Integrated Employee Benefits System mainframe system for pension administration was converted to PeopleSoft Pension Administration. This created additional self-service functionality for members, including the ability to review retirement estimates, as well as simplifying the retirement process. At this time, ERS customers can view much of the same information as ERS customer service and processing staff when they sign into the system through the ERS public website.

Customer Benefits initiated an internal Quality Management program in 2008. This program uses a standardized form and published guidelines to evaluate the level and quality of service delivery to ERS members. The program is managed by a Quality Analyst within the Education and Advocacy team, and is administered by all Supervisors and Team Leads. The Quality Management program is the primary source of feedback and coaching for frontline division staff interacting with members through each of available communication channels.

The division created a Workforce Management (WFM) program in 2009 to combine manual techniques with support from automated WFM software and perform more efficient long-term forecasting for staffing, budget planning, schedule optimization, and real-time performance monitoring. Also in 2009, a 'work-from-home' program was established to allow up to one-third of staff to work remotely based on their recognized performance achievements, monitored using both reported metrics and real-time observation by supervisory staff. This program is integral to the division's operational contingency plans to maintain business operations when in-office staff may be unable to report to work due to extreme weather or other emergency situations.

Historically, the extremely high customer contact levels the division experienced during Annual Enrollment periods, and other special events driving member traffic, were handled by hiring up to 20 contracted temporary employees. In 2011, using a competitive RFP process, ERS engaged with Advanced Call Center Technologies (ACT) in Harlingen, Texas to provide support for special events as well as back-up services for basic customer service inquiries. ACT is contractually obligated to the same performance standards as ERS customer representatives and is managed by a dedicated Vendor Relations Specialist responsible for contract compliance, performance management support, and budget management activities. The division has recently expanded contact center available technologies to include Interactive Voice Response (IVR) and Automated Call Distribution functionality to continue improving customer response times and service levels.

**E. Describe who or what this program or function affects. List any qualifications or eligibility requirements for persons or entities affected. Provide a statistical breakdown of persons or entities affected.**

The division serves all state employees, retirees, members, participants, and covered dependents of all plans and programs offered by the agency. For retirement programs, this includes approximately 135,000 contributing members, 97,000 non-contributing members, 97,000 retirees, and all related beneficiaries and surviving relatives. For insurance and other employee benefit programs, service is provided to approximately 229,000 employees, 105,000 retirees, 206,000 dependents, and 1,100 COBRA participants. Program population details are provided in other sections of this report in more detail.

**F. Describe how your program or function is administered. Include flowcharts, timelines, or other illustrations as necessary to describe agency policies and procedures. Indicate how field/regional services are used, if applicable.**

Customer Benefits provides customer support for all participants in state benefit programs including current, former and future state employees by processing and maintaining benefits billing, enrollment, retirements, disability claims, and survivor applications and providing educational counseling services for retirement and health insurance programs. The division is organized around three functional responsibilities: administration; customer service; and benefits processing and specialty retirement operations.

**Administration**

The Administration section of the division, including the Division Director's office, oversees the operations of all division employees, conducts strategic planning activities, manages budgets and expenditure limitations, and implements legislative changes and agency-wide initiatives. The BIT coordinates technology improvement projects with the Information Systems division for Customer Benefits management, prioritizing overlapping efforts and managing the project throughout the development life cycle. The team works with division subject matter experts to develop system requirements, submits the developed requests to Information Systems division staff, and coordinates user acceptance testing with applicable parties. The team continuously analyzes customer service business processes, recommends enhancements or improvements for consideration by division managers and supervisors, and assists in the implementation of adopted changes. The work of the BIT team supports an environment of effective, efficient, and responsive operations within the division.

**Customer Service**

The Customer Service section of the division consists of four core programs: Member Benefits, Education and Advocacy, Workforce Management, and Vendor Relations. Customer Service handles approximately 500,000 phone calls and emails and 5,000 in-person member visits annually. Staff helps customers resolve all types of benefits related questions, issues, and concerns for the retirement, insurance and flexible benefits operations. In addition to direct in-person customer service representatives, ERS also offers an automated telephone system that provides account balance, service credit, and benefits information, 24-hours a day 7-days a week. An online system provides additional self-service options and is managed by Information Systems staff, with assistance from staff in the administration section.

Most member questions and inquiries are received by phone through the ERS contact center. The calls are initially answered by an automated IVR system that determines the type of contact needed to address the callers question or inquiry. The IVR system is capable of providing members demographic data regarding their accounts or status with the system and processing some routine informational changes while other basic changes such as contact information or dependent data is transferred to the division overflow contract call center for processing. For more complex needs or benefits counseling or education sessions, the caller is transferred to an ERS customer service representative. Contact center staff is trained and highly skilled in working directly with members to communicate benefits program structures, qualification criteria, claims and retirement processing, and resolving issues. Team

members have direct access to all relevant member information during the call and are able to process most requests with the member on the line. For those issues that cannot be resolved to the members satisfaction by a contact center representative, the request or issue is escalated to the Service Recovery Team (SRT) staff, and if necessary to division management, to develop a customized resolution or communication to educate the member.

Many member inquiries are also received by email. These questions are reviewed by senior contact center representatives during periods of lower call volume and individual responses are crafted to provide the necessary information or resolution for the identified issue. Finally, many state employees seek in-person retirement or benefits counseling from contact center representatives at the ERS headquarters building in the state Capitol Complex. Counseling sessions can be scheduled in advance, but walk-in requests are also served. Contact center representatives meet privately with members in counseling offices off the building's front lobby and can provide a full range of educational, counseling, and processing services to members. For all three forms of direct member interactions, contact center management continuously review staff performance to communicate directly with ERS members to monitor quality levels and identify needs for employee training or opportunities for employee advancement.

The education and advocacy team trains new division employees and provides continuing education for customer service staff. Team staff also provides quality control supervision through regular monitoring of interactions between customer service staff and plan members. Division staff are continuously assessed and coached to improve ongoing performance and ensure quality service is provided to all ERS members. Senior service staff, within the division's SRT program, provides custom liaison services between benefit program administrative vendors and plan participants to resolve higher level complaints or concerns with benefits services. The SRT was established to support customer service counselors' assistance needs and member escalations requiring a secondary level of assistance. Team staff maintains higher level access and resources, as well as direct contact with plan insurance carriers, necessary to expedite resolutions of member issues.

### **Benefits Processing & Specialty Retirements**

The division's third functional area of operation, Benefits Processing and Specialty Retirements, consists of three teams: retirement benefits processing, program oversight and communication, and benefit support services. Retirement benefits processing payroll staff manages monthly payroll operations for more than 97,000 retirees and a daily supplemental payroll that includes retirement account withdrawals, partial lump sum option payments, retiree lump sum death benefits, and retirement refund payments upon either an active employee or retiree's death. Collectively, these payments total more than \$2.3 billion annually. Staff also: audit retirement, death, and refund payments; process garnishments for tax levies and child support orders; and reconcile annual tax reporting statements for all payees. Survivor Benefits staff process and verify eligibility for death benefits, including life insurance, active death benefits, and retiree death benefits for approximately 450 deceased member accounts per month, an average of 5,400 deaths each year. Chapter 615 survivor benefits are also processed and paid to the survivors of local law enforcement or first responders killed in the line of duty. Specialty Retirement staff provide retirement benefits counseling and education to members with specialized retirement needs, including: disability retirements, retirements with a QDRO, and elected class, and judicial retirements.

Program oversight and communications team staff work directly with state agency and higher education benefits coordinators to provide expert assistance with eligibility questions and system data entry issues. Staff serves as the benefits coordinator for retirees, surviving family members, and special membership groups including COBRA, Former COBRA Unmarried Children, Continuation of Coverage members, former legislative employees, former elected state officials, former board members, wrongfully imprisoned persons, Chapter 615 Survivors, and Texas State Guard enrollees. Staff performs financial account and benefits enrollment reconciliation on a daily basis to ensure accurate billing, payment, and benefits enrollment information is consistently transferred between ERS, state agencies, plan vendors, and program participants. Program oversight staff works to resolve enrollment

discrepancies between ERS OnLine (the ERS benefits eligibility and enrollment system, a web-based system on a PeopleSoft/Oracle platform) and the specific employee data management systems used by state agencies and institutions of higher education. The staff also collects more than \$4 million in monthly insurance premiums through electronic bank deductions, Teacher Retirement System (TRS) annuity deductions, and direct payments to ERS, and reconciles more than \$1 million in member accounts monthly. Staff from this area are heavily involved in GBP vendor implementation as well as conducting high-level, in-depth system testing for changes within the PeopleSoft Benefits Administration and Financials systems used by divisions throughout the agency to centralize member data management activities. Additionally, the benefits coordinators assistance team provides direct support to state agency and higher education benefits coordinators and human resource professionals, providing expert assistance with eligibility questions related to GBP and benefits processing and communication to provide greater program awareness to member populations. ERS has established a dedicated website to provide information and resources to employer benefits coordinators, but also receive inquiries or questions through direct phone calls and emails to dedicated division staff.

Benefit Support Services staff approve retirements, process requests for beneficiary designations, process retirement account withdrawals, administratively oversee the Choose to Quit tobacco alternative program – including looking into reports of tobacco-use fraud – and manage reverification of members’ dependents whose insurance coverage lapsed during the agency recent dependent eligibility audit effort. During an average year, Benefit Support Services staff maintain employer contact information for state agencies and institutions of higher education; prepare mailings for more than \$150 million worth of paper warrants; scan and upload more than 100,000 digital documents to members’ ERS OnLine account profiles; respond to more than 14,000 inquiries from internal and external customers; and process personal information changes for more than 25,000 members, such as mailing addresses, email addresses, and phone numbers.

### **Medical Board Disability Reviews**

Division staff coordinates and manages the ERS Medical Board review process for disability retirement applications and other medical review services as requested. To qualify for ERS disability retirement benefits, an applicant must obtain a certification from the Medical Board that he or she is incapacitated for the further performance of duty and that the incapacity is likely to be permanent. The Medical Board’s certification must be based on substantial, objective, medical evidence. Upon request by ERS staff, the Medical Board also reviews medical issues relating to a disability retiree’s continuing eligibility for the benefit. The Medical Board is composed of three physicians, and each doctor must:

1. not be eligible to participate in the retirement system;
2. be licensed to practice medicine in Texas; and
3. be in good professional standing.

The Medical Board is directed by statute to: review all medical examinations required by the Texas Government Code regarding initial and continuing eligibility for disability retirement benefits; investigate statements and certificates made by or on behalf of a member of the retirement system in connection with an application for disability retirement benefits; and report in writing to the Executive Director its conclusions and recommendations on all matters referred to it. ERS may employ physicians in addition to the Medical Board to report on special cases. The agency has retained the services of a psychiatrist in good standing and licensed in Texas to assist the Medical Board in appropriate cases as needed. Applications and continuing eligibility files are sent to the board members for review and discussion during regular weekly Medical Board meetings. The Medical Board’s certifications and other evidence regarding disability retirement applications and continuing eligibility for the benefits are reviewed by the Customer Benefits and the Legal Services Divisions before an ERS determination is made. If an application for disability benefits is denied, or if benefits are terminated, the ERS member may appeal the decision through the State Office of Administrative Hearings as described previously in this report.

**G. Identify all funding sources and amounts for the program or function, including federal grants and pass-through monies. Describe any funding formulas or funding conventions. For state funding sources, please specify (e.g., general revenue, appropriations rider, budget strategy, fees/dues).**

Although the agency receives funding through multiple revenue streams as detailed in Section V of this report, all revenue is deposited to one of eight trust funds, the special revenue fund or the proprietary fund, defined by program use, for later expenditure. Due to this accounting structure, ERS does not track program or division funding by original revenue stream but rather by fund source of payment. The accounting process begins with administrative expenses for agency operations being initially paid from the Employees Retirement System Trust (Fund 0955). Each month paid expenses are allocated to the various funds as defined by the type and purpose of the expenditure. This cost allocation process uses the monthly reported percentages from the agency's internal time accounting system to determine the needed allocation of employee salaries by fund and department, by identifying what tasks the employee spent their time performing and charging the appropriate fund for the result expenditure. The cost allocation process then applies the average of these reported percentages of work performed to the allocation of non-salary and other administrative expenses incurred to each division by fund. There are exceptions to this process when an entire expenditure clearly relates to a single trust fund purpose, for example the payment of invoices received by the agency's health insurance actuary are automatically allocated entirely to the Employees Life, Accident, Health Insurance, and Benefits Fund (Fund 0973).

Actual fund source breakdown for Customer Benefits Division expenditures during Fiscal Year 2014 was:

<b>Funding Source</b>	<b>2014 Amount</b>
Employees Retirement System Trust (0955)	\$ 3,415,092
LECOS Retirement Trust (0977)	438,806
Judicial Retirement System Plan Two (0993)	66,726
TexaSaver 401(k) Trust (0946)	34,097
TexaSaver 457 Trust (0945)	12,553
State Employee Cafeteria Plan Trust (0943)	37,300
Employees Life, Accident, Health Insurance and Benefits Trust (0973)	3,005,512
Social Security Trust (0929)	1,758
<b>Total</b>	<b>\$ 7,011,844</b>

Exhibit 47 Customer Benefits Division expenditures

**H. Identify any programs, internal or external to your agency that provides identical or similar services or functions to the target population. Describe the similarities and differences.**

Due to the nature of effectively serving ERS plan members, several division functions overlap with the duties and responsibilities of other internal agency divisions and programs. Direct communications with plan and program member populations are coordinated with Benefits Communications, Benefit Contracts, and Governmental Affairs staff to ensure a consistent and accurate message is provided in all cases. Customer Benefits support staff also received assistance from Operations Support Division employees to receive and scan member communications and related documents for inclusion in their electronic account files. Duplication is avoided by having records management staff scan inbound documents and Benefits Support Service employees scan outbound documents.

Externally, there are a number of entities that provide retirement benefits similar to ERS. The eligible participants, or target populations, for these benefits programs differ significantly from ERS, although accumulated service credits may be available to transfer to ERS for retirement calculation consideration. ERS maintains such reciprocal service credit transfers and proportional benefits arrangements with the TRS, Texas Municipal Retirement System, Texas County and District Retirement System, City of Austin Retirement System, City of Austin Police Retirement System, and the El Paso City Employee's Pension Fund.

All state agencies and institutions of higher education maintain staff, either dedicated benefits coordinators or human resource professionals that manage employee benefits communications and enrollment issues. The intent of these employees is to provide “on-the-ground” services to ERS members at their specific agencies, which often directly overlaps or duplicates the services provided by division staff. The exception to this duplication is new hire benefits processing and enrollment which typically must be initiated by the hiring agency. Other processing activities – such as family status changes and annual enrollment selections – can be processed by agency benefits coordinators, CustomerService staff, or by the employee independently through the self-service website.

**I. Discuss how the program or function is coordinating its activities to avoid duplication or conflict with the other programs listed in Question H and with the agency’s customers. If applicable, briefly discuss any memorandums of understanding (MOUs), interagency agreements, or interagency contracts.**

Division staff works closely with all internal ERS divisions to coordinate direct member communications and ensure that consistent and accurate information regarding employee benefits and plan offerings is communicated to all state employees regardless of the source of the communication. This effort includes the regular interaction and cross-function operation of the following divisions: Customer Benefits, Benefits Communications, Benefit Contracts, Governmental Affairs, and the Executive Office. It is the agency’s opinion that this coordination effort does not indicate an unnecessary or costly duplication of effort but rather an effective organizational structure to efficiently meet the educational and service needs of diverse member and stakeholder populations. Cross-divisional coordination efforts are supported through regular leadership meetings, project specific subject matter expert discussion meetings, policy and procedure memo distributions, and Executive Office oversight and directives. As discussed above, duplication of digital scanning activities between the Customer Benefits and Operations Support divisions is avoided by assigning Records Management staff the responsibility of scanning inbound documents and Benefits Support Service employees the task of scanning outbound documents.

To manage the transfer or coordination of employee service credits between retirement systems with reciprocal arrangements and proportional benefits, ERS staff stays informed of the structure and requirements of each system to ensure appropriate calculation and application of service time to ERS retirement calculations. ERS also maintains interconnectivity between ERS retirement data systems and most reciprocal systems to see member data directly and pull service credit forward into the ERS plan as necessary. This connectivity has greatly simplified transfers of service between ERS and TRS systems for employees with dual service credit.

To limit the potential duplication of effort between agency benefits coordinators and division staff, the agency works diligently to ensure benefits coordinators have access to accurate, up-to-date information about benefits programs and processing procedures. To this end, ERS has established the benefits coordinators assistance program to directly support benefits coordinators and human resource professionals at state agencies and institutions of higher education in communicating with state employees and processing benefits requests. The better informed and trained state agency benefits staff are, the less duplication is created by members contacting ERS Customer Service representatives to correct mistakes, or misunderstanding that have been created at the agency level. Developing a positive, mutually beneficial relationship is an ongoing process.

**J. If the program or function works with local, regional, or federal units of government, include a brief description of these entities and their relationship to the agency.**

Division employees work with state, county, and other municipal entities, such as local police, fire, and emergency response departments, when an officer, firefighter, or other eligible first responder is killed in the line of duty. Specialty staff is assigned to assist the surviving family with understanding and processing Chapter 615 death benefits that can include a lump sum payment to the surviving spouse, children, or parent and a monthly payment to the eligible surviving spouse and minor children.

**K. If contracted expenditures are made through these programs please provide:**

- a short summary of the general purpose of those contracts overall;
- the amount of those expenditures in Fiscal Year 2014;
- the number of contracts accounting for those expenditures;
- top five contracts by dollar amount, including contractor and purpose;
- the methods used to ensure accountability for funding and performance; and
- a short description of any current contracting problems.

Division programs make use of two principle types of contracts: system services to assist with receiving and processing communications through the contact center, and specialty technical services to analyze or review benefits applications or member qualifications. The division maintained six contracts during Fiscal Year 2014 with combined expenditures of \$1,134,493. The vast majority of annual division contract expenses relates to outsourced call center overflow and call processing activities. The top five contracts held during Fiscal Year 2014 were with:

1. **Advanced Call Center Technologies (\$1,001,330)** – Basic customer service support and contact center overflow services.
2. **inContact (\$133,163)** – Cloud-based IVR services, workforce management support, and quality control management application.
3. **Medical Board Reviewers (\$44,050)** – Medical review of disability application materials.
4. **Veris (\$8,000)** – Monthly data service to verify reports of member deaths.
5. **Accurint (\$2,600)** – Data service used to locate or verify member and beneficiary contact and identification information, including: mailing addresses, phone numbers, dates of birth, dates of death, Social Security numbers, and relative contact information.

For each contract, division staff reviews actual performance or access statistics on a monthly basis to determine the vendors' adherence to contract requirements. The contracts are also monitored on a monthly basis and reviewed against budget allocations to ensure compliance with available funds or to identify needs for potential funding adjustments. Division employees hold weekly, or in certain situations daily, calls with vendor management to discuss performance execution and continuing or changing program service needs. Large contracts, such as the ACT service contract, are assigned a dedicated Vendor Relation Specialist to actively manage the vendor relationship and smooth operation of the contractual agreement.

**L. Provide information on any grants awarded by the program.**

This program does not award grants.

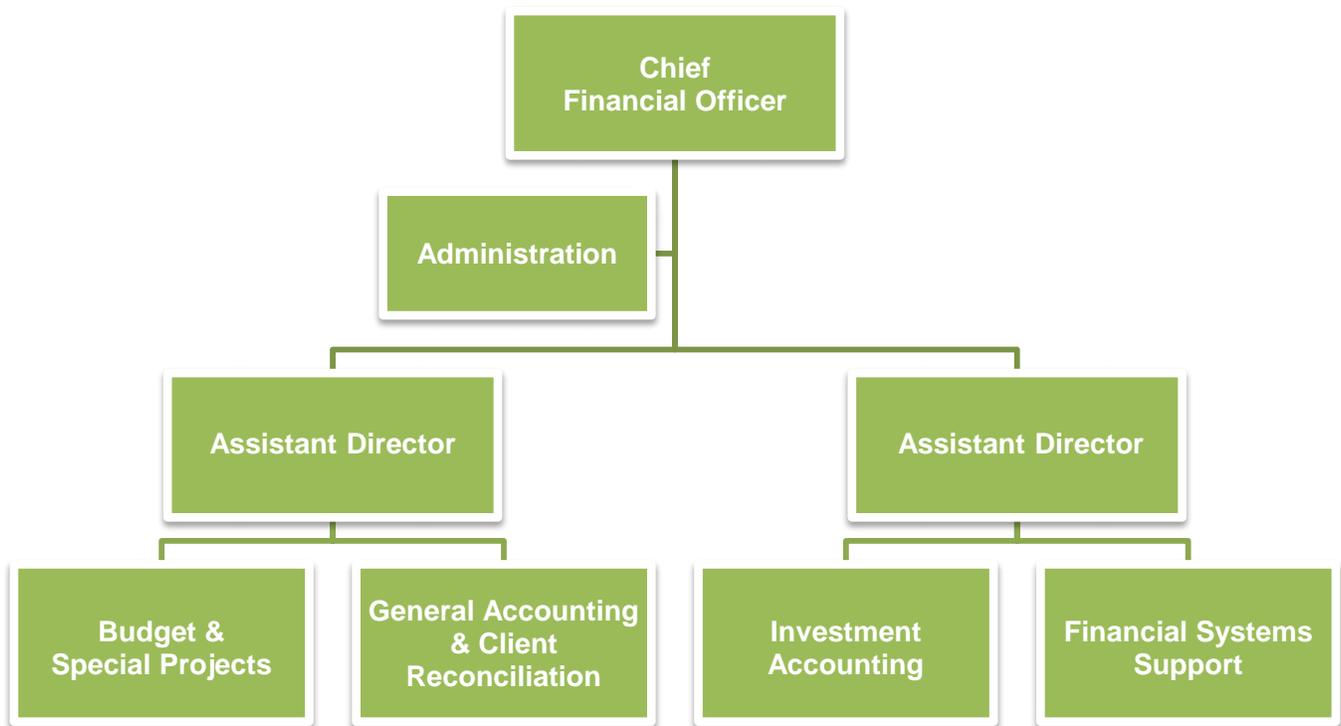
**M. What statutory changes could be made to assist this program in performing its functions? Explain.**

Information regarding beneficial statutory changes or other considerations to accomplish programmatic improvements can be found in Section IX Issues for Consideration, later in this report.

**N. Provide any additional information needed to gain a preliminary understanding of the program or function.**

No further information is provided to describe this program.

## Finance



**A. Provide the following information at the beginning of each program description.**

**Name of Program or Function:** Finance

**Contact Name:** Machel Pharr, Assistant Director of Finance

**Actual Expenditures, Fiscal Year 2014:** \$3,496,920

**Number of Budgeted Full time employees (FTEs), Fiscal Year 2014:** 37

**Number of Actual FTEs as of August 31, 2014:** 35

**Statutory Citation for Program:** Chapter 815, Texas Government Code

**B. What is the objective of this program or function? Describe the major activities performed under this program.**

The objective of the Finance Division is to provide and maintain efficient reliable systems and structure to support the delivery of benefits and services to ERS customers and stakeholders. The division provides crucial information and services that promote effective financial management controls and facilitate the efficient use of the agency's available resources. The division is composed of the following programs: Accounts Payable; Budget; Client Reconciliation; Financial Systems Support; General Accounting; Investment Accounting; Payroll; Purchasing; Travel; and Revenue Processing.

**C. What evidence can you provide that shows the effectiveness and efficiency of this program or function? Provide a summary of key statistics and outcome performance measures that best convey the effectiveness and efficiency of this function or program.**

The division works diligently to provide the most efficient financial services possible to manage the high levels of payment processing and accounting necessary to meet the needs of agency program offices and the employees and retirees receiving benefits. During the first three quarters of FY15, the division completed the following transactions:

- prepared more than 160 fiscal notes for the 84th Texas Legislature;
- processed more than 31,000 registered checks;
- processed more than 18,000 warrants and 2,000 service purchase checks;
- coordinated 15 large competitive solicitations;
- coordinated approximately 1,100 purchases;
- coordinated approximately 200 purchase order revisions;
- processed 2,037 invoices for administrative expenses;
- processed 876 invoices for insurance claims totaling \$2.2 billion;
- processed 700 travel vouchers totaling \$569,000;
- processed 380 agency employee W-2 forms for calendar year 2014;
- processed 4,700 W-2 forms for employees with disabilities for calendar year 2014;
- processed \$75 million in TexFlex flexible spending account claims;
- processed 3,720 service purchases totaling \$39.7 million;
- reconciled 100 investment portfolios and approximately 70 international currencies on a monthly and quarterly basis;
- performed monthly reconciliation of all general ledger daily investment, securities lending, and tax reclaim transactions, resulting in more than 400 individual reconciliations performed each month;
- processed daily third party vendor wiring information between ERS and the agency's custodian bank; and
- reconciled daily cash settlement of buying, selling, income, and expense transactions from the custodian bank to ERS.

While accomplishing the above activities, the division continued a strong tradition of recognized excellence in public financial reporting, receiving recognition by the ERS Board of Trustees for distinguished reporting of the Fiscal Year 2015 Administrative Operating Budget, and earning the 25th consecutive Government Finance Officers Association's Certificate of Achievement for Excellence in Financial Reporting for the agency's *Comprehensive Annual Financial Report*. A May 2015 ERS internal customer service survey on the division showed very positive results, including: 84% of respondents that work with the division agreed strongly or

somewhat strongly that staff are knowledgeable in the functions for which they are responsible; respondents reported being pleased with the overall level of service provided by division employees; and 90% of respondents view division employees as professional, courteous, and accommodating.

**D. Describe any important history regarding this program not included in the general agency history section, including how the services or functions have changed from the original intent.**

To achieve greater economies of scale, ERS combined investment assets from the various pension funds into a consolidated investment pool in 1994. Investment income and expenses are allocated across the three distinct pension funds (ERS, Law Enforcement Custodial Officers Supplemental Fund, and Judicial Retirement System 2) on a monthly basis. In September 2006, ERS divided this investment pool into seven unitized pools to accommodate the potential for different asset allocation percentages in each of the funds. As of July 2015, these divisions have been expanded to 14 active pools.

**E. Describe who or what this program or function affects. List any qualifications or eligibility requirements for persons or entities affected. Provide a statistical breakdown of persons or entities affected.**

The division provides services directly to ERS members as well as serving as a support function for internal agency programs and divisions, working to achieve the agency's mission to support the state workforce by offering competitive benefits at a reasonable cost.

**F. Describe how your program or function is administered. Include flowcharts, timelines, or other illustrations as necessary to describe agency policies and procedures. Indicate how field/regional services are used, if applicable.**

The division provides financial services and reporting functions for ERS in accordance with state and federal statutes and requirements set by the Comptroller of Public Accounts, the Legislative Budget Board (LBB), the Governor's Office of Budget, Planning and Policy, and other applicable financial and accounting oversight agencies. Biennially, in the summer of even-numbered years, the LBB provides ERS staff with method of finance percentages and assumptions related to agency programs to use in developing the legislative appropriation request, fiscal notes and biennial operating budget. ERS develops the comprehensive annual financial report in accordance with Generally Accepted Accounting Standards issued by the Governmental Accounting Standards Board, which serves as the annual financial report required by the Comptroller.

Overseen by the agency's Chief Financial Officer, the division is divided into two operational sections, each managed by an Assistant Director. One section manages the general purchasing, budget, and general accounting functions of the agency, including Accounts Payable and Client Reconciliation Operations. The other section works in tandem with the Investments Division on Investment Accounting operations and manages the development, operation, and integration of the agency's Financial Support Systems.

**G. Identify all funding sources and amounts for the program or function, including federal grants and pass-through monies. Describe any funding formulas or funding conventions. For state funding sources, please specify (e.g., general revenue, appropriations rider, budget strategy, fees/dues).**

Although the agency receives funding through multiple revenue streams, as detailed in Section V of this report, all revenue is deposited to one of eight trust funds, the special revenue fund, or the proprietary fund, defined by program use, for later expenditure. Due to this accounting structure, ERS does not track program or division funding by original revenue stream but rather by fund source of payment. The accounting process begins with administrative expenses for agency operations being initially paid from the Employees Retirement System Trust (Fund 0955). Each month paid expenses are allocated to the various funds as defined by the type and purpose of the expenditure. This cost allocation process uses the monthly reported percentages from the agency's internal

time accounting system to determine the needed allocation of employee salaries by fund and department, by identifying what tasks the employee spent his or her time performing and charging the appropriate fund for the result expenditure. The cost allocation process then applies the average of these reported percentages of work performed to the allocation of non-salary and other administrative expenses incurred to each division by fund. There are exceptions to this process when an entire expenditure clearly relates to a single trust fund purpose, for example, the payment of invoices received by the agency's health insurance actuary are automatically allocated entirely to the Employees Life, Accident, Health Insurance, and Benefits Fund (Fund 0973).

Actual fund source breakdown for Finance Division expenditures during FY14 was:

<b>Funding Source</b>	<b>2014 Amount</b>
Employees Retirement System Trust (0955)	\$ 2,196,858
LECOS Retirement Trust (0977)	50,096
Judicial Retirement System Plan Two (0993)	22,100
TexaSaver 401(k) Trust (0946)	26,602
TexaSaver 457 Trust (0945)	15,184
State Employee Cafeteria Plan Trust (0943)	152,692
Employees Life, Accident, Health Insurance and Benefits Trust (0973)	1,021,429
Social Security Trust (0929)	11,959
<b>Total</b>	<b>\$ 3,496,920</b>

Exhibit 48 Finance Division expenditures

**H. Identify any programs, internal or external to your agency, that provide identical or similar services or functions to the target population. Describe the similarities and differences.**

No programs internal or external to the agency provide identical or similar services or functions to the target populations served by the division.

**I. Discuss how the program or function is coordinating its activities to avoid duplication or conflict with the other programs listed in Question H and with the agency's customers. If applicable, briefly discuss any memorandums of understanding (MOUs), interagency agreements, or interagency contracts.**

Not applicable.

**J. If the program or function works with local, regional, or federal units of government, include a brief description of these entities and their relationship to the agency.**

ERS provides post-employment health care, life and dental insurance benefits through the Texas Employees Group Benefits Program (GBP) in accordance with Chapter 1551 Texas Insurance Code. This is a cost-sharing multiple-employer plan that includes certain employees of the Texas County and District Retirement System (TCDRS) and the Texas Municipal Retirement System (TMRS). The principal participating employer is the State of Texas, with state agencies and universities employing approximately 82% of the employees covered by the state retiree health plan. TCERS serves 252 Texas counties and 425 districts while TMRS services 860 Texas cities.

**K. If contracted expenditures are made through this program please provide:**

- a short summary of the general purpose of those contracts overall;
- the amount of those expenditures in Fiscal Year 2014;
- the number of contracts accounting for those expenditures;
- top five contracts by dollar amount, including contractor and purpose;
- the methods used to ensure accountability for funding and performance; and
- a short description of any current contracting problems.

The division held six contracts totaling \$743,259 during Fiscal Year 2014. Division contracts included: professional actuarial services for both the pension and insurance financial operations; data warehouse interface services; contract and temporary assistance services; and license fees for investment terminal data system subscriptions, providing access to investment market data. The top five contracts during this time were:

Contractor	Expenditure	Purpose
Eagle Investments Systems, LLC	\$270,202	Data Warehouse Interface
Gabriel Roeder Smith & Co.	\$365,765	Actuarial Services
Rudd & Wisdom	\$78,385	Actuarial Services
Bloomberg, LP	\$21,000	Terminal Subscription
Stark Holding, Inc.	\$7,907	Temporary Services

**Exhibit 49 Top Five Contracts**

Actuarial Services are invoiced based on specific deliverables. These deliverables are received, reviewed and accepted as complete prior to the release of related payments. Temporary services are billed based on timesheets that are signed off by the ERS employee supervising the work. The interface for the Data Warehouse was tested and approved by staff from the Investments, Finance and Information Systems divisions prior to payment. Bloomberg terminal subscriptions are used daily by multiple staff throughout the agency, constantly monitoring connection and access in real time.

**L. Provide information on any grants awarded by the program.**

This program does not award grants.

**M. What statutory changes could be made to assist this program in performing its functions? Explain.**

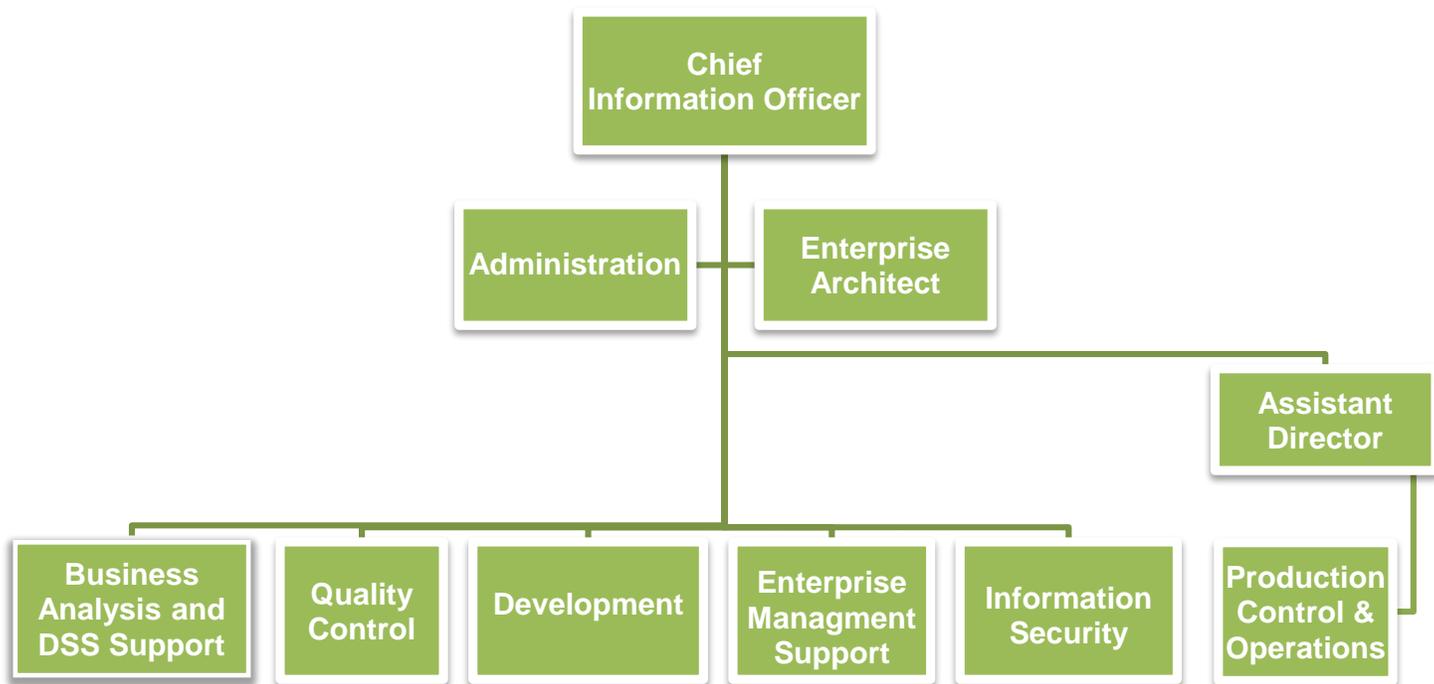
Texas Government Code Chapter 840 partially defines state contribution practices for judicial retirement plans. Chapter 840.1025(b) is not clear as to the continuation of the state contribution past 20 years of accrued state service. Removing the following language in Chapter 840.1025(b): (b) A member who elects to make contributions under Subsection (a) shall contribute six percent of the member’s state compensation for each payroll period in the manner provided by Sections 840 (b) (a)-(f). A similar change in Chapter 840.1027 would clarify the application of contributions for this member population.

Additional information regarding beneficial statutory changes or other considerations to accomplish programmatic improvements can be found in Section IX Issues for Consideration, later in this report.

**N. Provide any additional information needed to gain a preliminary understanding of the program or function.**

No further information is provided to describe this program.

## Information Systems



**A. Provide the following information at the beginning of each program description.**

**Name of Program or Function:** Information Systems

**Contact Name:** Charles Turner, Chief Information Officer

**Actual Expenditures, Fiscal Year 2014:** \$11,941,066

**Number of Budgeted Full time employees (FTEs), Fiscal Year 2014:** 71

**Number of Actual FTEs as of August 31, 2014:** 68

**Statutory Citation for Program:** Chapter 815, Texas Government Code

**B. What is the objective of this program or function? Describe the major activities performed under this program.**

The ERS Information Systems (IS) Division maintains the agency's computer systems network, manages all aspects of the software development life cycle (SDLC) for automated applications and systems including enterprise resource planning (ERP) and Web-based technologies, and ensures their integration with current and future systems.

The division also develops strategic and tactical plans to enable ERS business operations to meet stakeholder service requirements through the use of new and innovative technologies. ERP systems include retirement and insurance benefit solutions for maintaining member-specific data and financial information, annuity payroll, Texas Employees Group Benefits Program (GBP) elections, and retirement benefits. Multiple other business applications support investment activities, call center operations, workflow management, human resources and other business administrative functions. ERS has structured the IS team to focus attention on system security, data management, infrastructure management, and the SDLC to support business applications and processes throughout the agency.

**Information Security**

The Information Security Office is responsible for ensuring the agency's implementation of enterprise security policies and standards. The Information Security Officer is the primary point of contact for information security incidents and ensures the agency complies with state and federal regulations regarding data security. Information Security Office responsibilities include: composing, analyzing and updating ERS information security policy; providing security awareness training and compliance; anticipating and investigating threats to the agency's technology infrastructure; providing oversight of security-related responses to issues, concerns or incidents; recommending changes, improvements or new security initiatives to executive management; and providing guidance, consultative services and technical expertise when confidential or sensitive data is accessed, moved or transferred in or out of the agency.

**Application Development**

The Application Development Group creates, enhances, supports and maintains mission-critical benefits administration and retirement software applications used by functional business programs throughout the agency. These internal and external applications enable the agency to carry out its mission and reach its strategic goal of providing the maximum benefit to our members at a reasonable cost. The group is committed to the delivery of quality software applications in a timely manner for the following ERS functional business areas: Finance, Human Resources, Insurance Benefits Administration, and Pension and Annuity Payroll.

**Business Analysts**

The Business Analysts (BA) team serves as the liaison between Information Systems and other ERS divisions. BA employees assist other divisions in assessing and prioritizing technology needs, coordinating Information Systems resources, and recommending solutions for the efficient and effective use of ERS' system resources.

**Web Development**

The Web Development team works with the BA Team, other IS staff, and ERS business divisions to develop and enhance custom and off-the-shelf website solutions based on business needs. Staff assesses the provided requirements, design a solution based on those requirements, implement the solution, and test the results. The Web Development Team works with other division staff to ensure that the appropriate environments, systems, security, database connectivity, networking needs and quality controls are in place. This team supports a number of existing applications in addition to developing new applications based on the needs of the agency.

**Quality Control**

The Quality Control (QC) team is responsible for planning, testing and maintaining documentation related to testing ERS' software applications. This includes preparing plans and scripts, performing system testing, assisting client programs with user acceptance testing for special projects, modifying existing software, and managing maintenance requests for existing software (bug fixes). The team also conducts load and stress testing of both development and infrastructure projects before release to production. The team ensures proposed changes to

the production applications and technical infrastructure meet acceptable performance standards using previously determined performance baselines.

### **Data Analytics and Enterprise Reporting**

The Data Analytics and Enterprise Reporting team provides expertise and consultative services to the agency's analytic and reporting needs. The team assists data owners by ensuring that data cleanliness, accuracy, and consistency are reported and included in efforts to address such issues throughout the agency.

### **Enterprise Content Management**

The Enterprise Content Management team's primary objectives are the planning, administration, enhancement, and maintenance of the agency's centralized data management environment, SharePoint. Besides basic content management, the SharePoint environment hosts forms and workflow processes that provide automated efficiency and effectiveness for many critical tasks throughout the agency that were once manual or paper-oriented. The team works with the Business Analysts to assess current work processes and determine new opportunities for enhanced efficiencies and effectiveness.

### **Enterprise Management Support**

The Enterprise Management Support (EMS) group supports business applications used to run internal business solutions. As the agency acquires new technical capabilities, this team helps functional divisions take advantage of new capabilities in a way that can be managed effectively while optimizing business processes. The objectives of the EMS team are to: centralize administrative functions for cross agency access to business applications for better security and coordinated management; and standardize governance, maintenance, and support processes to improve the value of business applications.

### **Production Control and Operations**

The Production Control and Operations (PCO) team is responsible for all aspects of daily technical operations including service desk operations, network services, enterprise systems, database administration, business intelligence and configuration and change management. The team supports a diverse set of technologies and provides numerous services to internal and external clients.

Database Administration supports more than 40 Oracle and Microsoft SQL server database environments. Oracle database administration support services support the agency's PeopleSoft database administration test and production environments, including: HR, Benefits and Pension, and Financial modules. Microsoft SQL servers include database support for SharePoint, Business Intelligence, ProLaw, Complaint, Clarity (employee time accounting system), and OpsPlanner (contingency operations planning software) databases.

The Service Desk (also known as the Help Desk) provides 24-hour service to internal and external customers seven days a week, and is the front-line support for all employee technical issues. The team maintains workstation support, by providing build and repair services for over more than 500 workstations, laptops, tablets, printers, scanners and fax machines throughout the agency. The group also delivers front-line support for software installation and configuration and provides incident tracking and management of high priority computer system events.

The Enterprise Systems staff supports all agency servers and related data storage infrastructure as well as data interfaces with external agencies and vendors. Enterprise Systems also provides core services, such as agency email and shared network drives, to all internal staff and uses a variety of virtualization technologies to minimize the ERS data center footprint.

Network Services is responsible for managing all aspects of voice and data network support, including the telephone and voicemail systems, mobile devices, interactive voice response (IVR) system, and the wired and wireless networks.

The Configuration & Change Management team is responsible for managing release schedules for development and other major IS projects, as well as change management functions for the PCO infrastructure.

**C. What evidence can you provide that shows the effectiveness and efficiency of this program or function? Provide a summary of key statistics and outcome performance measures that best convey the effectiveness and efficiency of this function or program.**

To determine the effectiveness and efficiency of division operations, division management review workload metrics as tracked by Service Desk and employee time accounting (Clarity) ticketing applications. The Service Desk application contains the client-facing workload statistics for workstation and system access changes and the Clarity application contains the client facing workload statistics for research, project, and development activities. Infrastructure workload data from Service Desk operations completed during the past two fiscal years (beginning in September 2013 through mid-June 2015) report that IT Operations tickets are closed within an average of five days. The available statistics indicate that the team's performance is highly sensitive to maintaining staffing levels, with periods of unexpected turn-over resulting in increased average service delivery times as new employees are identified in the market, hired into the agency, and trained up to service level standards. The team also tracks the actual time spent working on individual tickets and work order requests, averaging about 18 minutes per ticket.

The division measures customer satisfaction through a random survey sent to internal employee customers as issues are resolved and tickets are closed. The responses indicate that 97% of internal division customers say that the request was completed to their satisfaction. The division also tracks the amount of time which the retirement and benefits management application is available to Texas ERS members, or uptime. Uptime is affected by software releases, security patching, backups, and unforeseen events such as server or application disruptions. ERS Online operations have met a goal of 95% annual uptime each of the last four years, improving to 96.5% total estimated uptime for Fiscal Year 2015.

A primary function of IS division daily operations is to develop and release new program functionality for existing computer systems, as well as address data repairs and system changes related to legislative mandates. Production Control and Operations (PCO) release management activities coordinates these changes and development releases between Development, Quality Control, and IS Operations teams to ensure appropriate and effective software release activity. Since September, 2012 IS PCO software release staff processed 1,328 software projects through Development/Quality Assurance and 407 software projects into production.

The division monitors the effectiveness of the ERS website to ensure the application is available and the majority of traffic is achieving valid and timely responses. During the last 12 months, the ERS website experienced more than eight million page views from almost one million users. To protect the organization's data and information assets, the Information Security Office uses a combination of automated network security tools and staff policies and procedures, such as: regular auditing; annual security awareness training; regular phishing campaigns; monthly vulnerability scanning; log collection and analysis; and authoring of numerous processes, procedures and guidelines for use throughout the agency. For example, the division monitors incoming network traffic to block malicious traffic before entering ERS networks, and makes use of an adaptive security appliance as an additional defense layer to block such traffic. Division staff also monitors risk ratings for the traffic that is allowed into ERS networks, and takes appropriate action as necessary when unacceptable potential risks are identified. Regular scanning of network usage and effective communication of identified risks or potential concerns enable IS to monitor and manage vulnerabilities that may be trending internationally and ensure system patch effectiveness in preventing inappropriate access to agency data.

Finally, ERS contracts with an external service provider to host ERS data and systems operations in the event of a disaster. In order to determine the agency's ability to effectively use the external service provider, ERS performs annual disaster recovery tests. During these tests, ERS performs the following activities:

- Conducts a remote disaster recovery exercise;
- Restores the PeopleSoft Financials and Benefits application business functions, and tests business functionality;
- Restores core Exchange E-mail services;
- Restores the Disaster Recovery application OpsPlanner;
- Restores the external agency web service and related databases; and
- Erases data at the remote site.

**D. Describe any important history regarding this program not included in the general agency history section, including how the services or functions have changed from the original intent**

The division is always changing and adapting to improve the capacity, capability, and accountability of ERS computing systems and the resulting business processes. As a result, each year the division is responsible for greater numbers of business applications and infrastructure solutions to run required applications and store the resulting data. ERS has successfully encrypted data storage solutions and expanded operational capacity at rates that were not anticipated to be needed even 10 years ago.

A significant change to the program's objectives over the last 10 years has been the emphasis on data as an asset of the trust operation, making security a high priority of data management operations. IS has created roles to develop policies and educate staff on data management best practices, with a focus on information security needs. Information security is a constantly changing field with new threats and new defenses appearing on a daily basis. The division increased staffing and introduced new daily monitoring activities and routines to ensure the consistent use of strong security protocols throughout the agency's systems.

In addition to the general security of program data, ERS has seen tremendous growth in the quantity of electronic data required to be managed and secured. The Enterprise Content Management team was added in 2010 to assist Records Retention and other business units with the processing and storing of digital documents and data. The digital scanning and electronic management of all member correspondence has improved the agency's ability to process, locate, access, and use millions of both active and historic documents

IS employees are actively engaged in the changing reporting needs of business operations. With the increased focus on data assets, IS has worked to enhance the agency's Business Intelligence (BI) and Data Warehousing capabilities. The data and analysis resulting from these programs is used by the business programs to drive strategic discussions and decisions by both internal and external ERS stakeholders. During the 83rd and 84th Legislative sessions, available BI tools were instrumental in helping the agency formulate and substantiate messages on program funding needs for both retirement and insurance benefits.

**E. Describe who or what this program or function affects. List any qualifications or eligibility requirements for persons or entities affected. Provide a statistical breakdown of persons or entities affected.**

The division contributes to the goals and accomplishments of ERS by managing back-office activities and pursuing data acquisition and data quality initiatives in support of all business functions throughout the organization. The division's staff and programs are vital to the maintaining the efficient and effective provision of services to trust members and to the daily operations and activities of all internal employees.

**F. Describe how your program or function is administered. Include flowcharts, timelines, or other illustrations as necessary to describe agency policies and procedures. Indicate how field/regional services are used, if applicable.**

The division is organized in a service driven structure to maximize the efficiency of supporting the agency's business functions and client facing operational divisions. The division is led by the Chief Information Officer, who directly oversees program operations for business analyst support services, quality control, development, enterprise management support, information security, and enterprise architecture. The division's Assistant Director for Production Control and Operations manages program operations and activities for Database Administration, Enterprise Systems, Configuration Management, Help Desk Support, Network Services, and Business Intelligence Development.

The division uses Software Development Lifecycle (SDLC) methodology to track and manage changes to the core business systems managed or maintained by division staff. SDLC is governed by the procedures documented in the agency's Process Asset Library, and require unique stages of direction for three different types of work: (1) project management; (2) product development; (3) process support. The project management process begins with initiation and proceeds through planning, execution, monitoring and control, and ending with project closure. Development projects begin with identification of requirements progress through design, develop, and quality control stages and are implemented through a release management process. Process support activities involve configuration management, quality assurance, measurement and analysis, supplier agreement management, process improvement, and continuity of operations.

The Development team adopts current best practices in the software industry to streamline new application features and the delivery of major system enhancements through an iterative approach, including: researching and analyzing business requirements to understand the client's request; system and technical design to model the business requirements within the application architecture and framework; code and test the implementation and integration of the business requirements; working with Quality Control and Release Management staff to release quality software into the production environment; and providing production maintenance support. The Development team interacts daily with Project Management Office staff, Business Analysts, Quality Control, and user groups to provide a wide range of computing and technology services, including: implementation of new or enhanced business processes and functionalities; legislative mandated changes; resolution of production issues; analytical and data services; system upgrades; and system integration.

Primary tasks for Business Analysis projects include: researching and analyzing requests to understand client's objectives; defining the specific requirements of the request for changes to business processes so that key variables such as scope, risk, time, and resources can be determined; verifying the requirements with the business partners using requirements documents and process visualization tools; translating the client's needs into a business requirements document and a systems requirements document for each project; and managing requirement changes during the lifecycle of each project.

Criteria used to define minimum signoff requirements for Quality Control Application testing are developed directly from the requirements defined by the Business Analysis team at the initiation of a project. The QC-A team uses both manual and automated testing methods to perform needed analyses of projects. Primary tasks of the QC-A team include: researching and analyzing business requirements from the Business Analysis and Technical Design Document (TDD) from Development to understand the functionality of the product in order to create the test plan; running necessary tests to verify the product is working according to the expectations; recording defects in the bug tracking tool when errors are detected in the developed functionality; determining whether the product requires performance related testing, and route testing to QC-P as appropriate; and obtaining user signoff when requestor accepts the developed functionality. Primary tasks of the Quality Control Performance team include: researching and analyze the application to determine the impact of the proposed changes to the overall technical infrastructure;

running load/stress tests, using performance testing tools, to measure the performance of the product against previously determined baselines; preparing and submitting reports on the results of the performance tests to stakeholders and management; and obtaining user signoff when requestor accepts the developed functionality.

**G. Identify all funding sources and amounts for the program or function, including federal grants and pass-through monies. Describe any funding formulas or funding conventions. For state funding sources, please specify (e.g., general revenue, appropriations rider, budget strategy, fees/dues).**

Although the agency receives funding through multiple revenue streams, as detailed in Section V of this report, all revenue is deposited to one of eight trust funds, the special revenue fund, or the proprietary fund, defined by program use, for later expenditure. Due to this accounting structure, ERS does not track program or division funding by original revenue stream but rather by fund source of payment. The accounting process begins with administrative expenses for agency operations being initially paid from the Employees Retirement System Trust (Fund 0955). Each month paid expenses are allocated to the various funds as defined by the type and purpose of the expenditure. This cost allocation process uses the monthly reported percentages from the agency's internal time accounting system to determine the needed allocation of employee salaries by fund and department, by identifying what tasks the employee spent their time performing and charging the appropriate fund for the result expenditure. The cost allocation process then applies the average of these reported percentages of work performed to the allocation of non-salary and other administrative expenses incurred to each division by fund. There are exceptions to this process when an entire expenditure clearly relates to a single trust fund purpose, for example the payment of invoices received by the agency's health insurance actuary are automatically allocated entirely to the Employees Life, Accident, Health Insurance, and Benefits Fund (Fund 0973).

Actual fund source breakdown for Information Systems Division expenditures during Fiscal Year 2014 was:

<b>Funding Source</b>	<b>2014 Amount</b>
Employees Retirement System Trust (0955)	\$ 6,341,623
LECOS Retirement Trust (0977)	386,734
Judicial Retirement System Plan Two (0993)	87,938
Texa\$aver 401(k) Trust (0946)	107,719
Texa\$aver 457 Trust (0945)	60,078
State Employee Cafeteria Plan Trust (0943)	123,771
Employees Life, Accident, Health Insurance and Benefits Trust (0973)	4,803,229
Social Security Trust (0929)	29,974
<b>Total</b>	<b>\$ 11,941,066</b>

Exhibit 50 Information Systems Division expenditures

**H. Identify any programs, internal or external to your agency, that provide identical or similar services or functions to the target population. Describe the similarities and differences.**

The division has not identified any internal or external programs providing identical or similar services or functions to the division's target population. ERS constantly reviews the rapidly changing environment for IT services, both within the agency and globally, to understand evolving needs and available solutions, including hosted and cloud based services. ERS' principal applications for retirement and benefits administration are highly customized and specific to the agency's business needs and functions; however, external solutions are routinely researched and evaluated to see if customizations are available to the agency at a better value or through a more efficient solution. Specific software applications are purchased with defined levels of included vendor support services, such as Bloomberg. These services may be similar on first review, but are unique or specific to a single application, or provide services to transactions or data processes beyond ERS' firewall and physical infrastructure.

**I. Discuss how the program or function is coordinating its activities to avoid duplication or conflict with the other programs listed in Question H and with the agency's customers. If applicable, briefly discuss any memorandums of understanding (MOUs), interagency agreements, or interagency contracts.**

Not applicable.

**J. If the program or function works with local, regional, or federal units of government, include a brief description of these entities and their relationship to the agency.**

To effectively deliver benefits to employee members, ERS must coordinate with multiple state agencies, institutions of higher education, other governmental entities and stakeholders, and private vendors. Much of this work is conducted through electronic data file exchanges which must not only efficiently convey the necessary information, but often do so in a highly secure and protected manner. The program effectively manages the file interfaces between outside parties, as well facilitates communication with internal staff, via the IS Interface File Help team. This team receives requests for data files from external state agencies and internal staff, and then determines the proper course of action to implement a transfer of the necessary data in a secure manner. The Interface File Help team also maintains a list of authorized FTP exchange contacts for each agency, as well as requests for new FTP accounts. The team tracks information on data files sent and received by the agency, including the file layout, specification, frequency, and file name and description. The program supports 143 file layouts, with file transfer frequencies ranging from daily or weekly through annual, biannual, and custom periods. ERS transfers approximately 69,000 data files between the agency and external parties annually to support the management and operation of agency business functions. An example of a file shared with employer agencies is the Daily Agency Insurance file, which contains any changes that a member employed by an agency made to their insurance benefits during a particular date, or period of time. The file is needed for external agencies to determine the correct deduction from the member's salary to pay for their insurance enrollment selections. For example, the weekly carrier file is sent to health and dental vendors detailing the coverage that a member has selected for themselves and their dependents.

**K. If contracted expenditures are made through this program please provide:**

- a short summary of the general purpose of those contracts overall;
- the amount of those expenditures in Fiscal Year 2014;
- the number of contracts accounting for those expenditures;
- top five contracts by dollar amount, including contractor and purpose;
- the methods used to ensure accountability for funding and performance; and
- a short description of any current contracting problems.

The division manages multiple contracts for software, hardware and information technology services for the agency. IT services include both staff augmentation and deliverable based contract operations. During Fiscal Year 2014, division contracts resulted in expenditures of \$5.2 million across approximately 130 contracts, licenses, and maintenance agreements. The five largest contracts during that year were with technical staff augmentation service companies to provide special skills needed to accomplish various agency strategic roadmap projects or legislatively required system changes or deliverables. Examples of these projects include: enhancing rules engines within the pension system; implementing encryption for external data files; improving reporting structures; populating a centralized online research library; and redesign website functionality.

During Fiscal Year 2014 the top five division contracts were for staff augmentation services from the following vendors:

Contractor	Expenditure	Purpose
ConnectTel	\$682,820	Staff augmentation services
Capitol Systems, Inc.	\$470,554	Staff augmentation services
Daman Consulting	\$431,432	Staff augmentation services
ObjectWin	\$285,594	Staff augmentation services
Objectec, LLC	\$280,463	Staff augmentation services

**Exhibit 51 Top Five Contracts**

ERS primarily uses Department of Information Resources-developed contracts and defined state technology procurement processes, including obtaining quotes from multiple resellers and pursuing vendor selections based on best value. For services, vendor performance history is routinely considered when determining best value.

Due to the diverse types of contracts enacted, the division employs multiple methods of performance accountability when administering and monitoring contract performance. For software purchases, division staff first reviews existing agency products to determine if a possible solution is already available. If a purchase is made, license performance is determined by monitoring the product installation and verifying that the product functions as expected. Similarly, division employees visually inspect purchased or leased hardware and monitor installations and use to ensure continued functionality is maintained throughout the term of the agreement. Hardware installations and software which are no longer needed are routinely removed from the data center and maintenance payments are promptly canceled. Finally, the performance of service deliverables is managed throughout service delivery. Final acceptance of the service is made by comparing the statement of work to the completed service product. Staff augmentation service contracts are managed directly by the assigned program supervisor or project manager, who evaluates and monitors the quality and timeliness of deliverables assigned to the resource.

**L. Provide information on any grants awarded by the program.**

This program does not award grants.

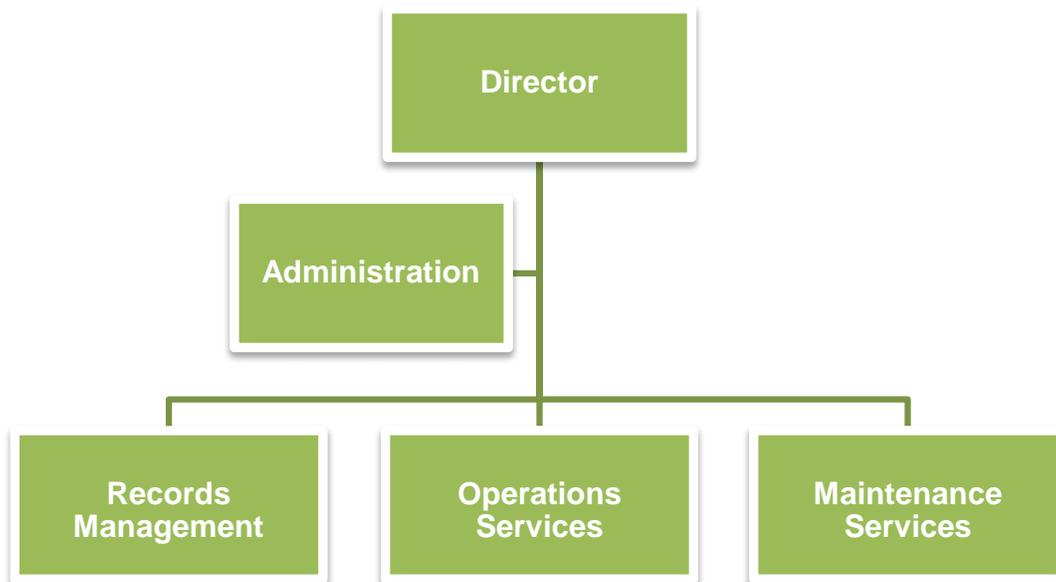
**M. What statutory changes could be made to assist this program in performing its functions? Explain.**

Information regarding beneficial statutory changes or other considerations to accomplish programmatic improvements can be found in Section IX Issues for Consideration, later in this report.

**N. Provide any additional information needed to gain a preliminary understanding of the program or function.**

No further information is provided to describe this program.

## Operations Support



**A. Provide the following information at the beginning of each program description.**

**Name of Program or Function:** Operations Support

**Contact Name:** Jordan Hajovsky and Wendy McAdams, Division Co-Directors

**Actual Expenditures, Fiscal Year 2014:** \$3,059,035

**Number of Budgeted Full time employees (FTEs), Fiscal Year 2014:** 16

**Number of Actual FTEs as of August 31, 2014:** 15

**Statutory Citation for Program:** Chapter 815, Texas Government Code

**B. What is the objective of this program or function? Describe the major activities performed under this program.**

The Operations Support Division provides facility and document management support services to all employees and programs of ERS. Support functions managed by the division include: building maintenance; physical security operations; records management; courier and mail services; and document printing and publication. The division is functionally divided into three primary programs:

**Maintenance Operations**

Maintenance operations include activities related to: heating, ventilation, and air conditioning (HVAC); electrical and lighting systems; plumbing; paint; carpet; ceiling tile maintenance; grounds maintenance and landscaping; fire and life safety systems; wall hangings (pictures, white boards, etc.); event set-up; furniture repairs; modular office reconfiguration; janitorial services; office moves; construction management; and parking management. Maintenance operations are generally conducted solely at the ERS headquarters building – 200 block of 18th Street – although parking and security operations can extend further into the capitol complex area.

**Operations Services**

Operations services activities include: mail handling; copy center operations and document production; distribution activities; receiving and property management operations; recycling programs; and supply management activities.

**Records Management**

Records management staff develop and maintain updated records retention schedules; process inactive records for offsite storage; publish records management policies and procedures; convert paper records into digital format; transfer archival records to the State Library and Archives Commission; identify and protect vital records; provide for secure collection and destruction of documents containing confidential information; and deliver training on records management topics to all ERS employees.

**C. What evidence can you provide that shows the effectiveness and efficiency of this program or function? Provide a summary of key statistics and outcome performance measures that best convey the effectiveness and efficiency of this function or program.**

During Fiscal Year 2015 to date, division programs achieved the following accomplishments: maintenance operations completed more than 3,610 work orders; operations services processed more than 1.48 million pieces of mail; and records management staff scanned approximately 174,000 pieces of incoming mail, 129,000 documents containing confidential information – such as personal health information (PHI), disability data, or legal and grievance case file information – and shredded almost 23,000 pounds of confidential records. It is important to note that document scanning and digitization is an important step in actively securing personal and confidential data; digital data is more easily secured by appropriate computing systems than hard copy records that must be continually passed between operating divisions throughout the physical ERS headquarters building.

**D. Describe any important history regarding this program not included in the general agency history section, including how the services or functions have changed from the original intent.**

ERS has no applicable information to provide in response to this question.

**E. Describe who or what this program or function affects. List any qualifications or eligibility requirements for persons or entities affected. Provide a statistical breakdown of persons or entities affected.**

Division programs affect all ERS employees, contractors, temporary staff, members and daily visitors to the building. In addition to members, vendors, investment advisors and other guests, the ERS headquarters building regularly holds events and meetings open to various constituent groups or public, such as meetings of the ERS Board of Trustees, benefit enrollment or retirement counseling meetings and wellness programs.

**F. Describe how your program or function is administered. Include flowcharts, timelines, or other illustrations as necessary to describe agency policies and procedures. Indicate how field/regional services are used, if applicable.**

The division Co-directors report to the Deputy Executive Director position within the Executive Office. The Director position is currently structured as a job-sharing position between two staff members, one working 60% of the week and the other working 40% of the week. The Co-directors share a position email account and communicate regularly – by email, phone and in-person meetings – to ensure both are up to speed on all ongoing and emerging issues and can step into any situation at any moment. The job-sharing program was piloted beginning in Fiscal Year 2014 and, after subsequent evaluations of its success, was approved for ongoing use during Fiscal Year 2015. The division co-directors manage a team with diverse and overlapping skill sets that is committed to working in a team-structured environment to effectively accomplish any task they are assigned to contribute to the division’s primary goal: provide outstanding customer care while delivering support services to ERS.

**Maintenance Operations**

The Maintenance Operations program initiates and tracks work to completion using a work order process. Maintenance requests are received from any ERS staff member – by phone or email – and initiated by maintenance personnel during regular equipment checks and routine visual inspections of the property. Work orders are documented, reviewed by appropriate staff or management, prioritized, and assigned to available or skill specific staff. The assigned staff gathers the appropriate supplies and/or equipment or contact the appropriate contractor for vendor maintained equipment. Once the work is completed, any supplies and the number of hours worked by ERS staff is recorded in the work order documentation and the request is closed out in both the Computerized Maintenance Management System and in a hard copy file. Maintenance personnel also oversee the regular operation, inspection, maintenance, and repair of multiple building systems, including: fire alarm systems; elevators; and HVAC systems. ERS staff operates and maintains the building’s fire alarm system, conducting yearly inspections and repairs as necessary. The property’s 4 elevators – three passenger cars and one freight car – receive general inspections monthly by contract staff and weight load tests are conducted every five years. Elevator repairs and major maintenance are conducted by a licensed contract vendor. HVAC systems are a critical system in a building the size of the ERS headquarters located in a geography with often extreme climate fluctuations and maintenance staff proactively operate, inspect, and maintain the ERS air-conditioning system in a safe and efficient manner to protect the health and preserve the comfort of ERS employees and building visitors. ERS staff is assisted in maintaining the HVAC systems by a certified and licensed contract vendor. Extremely high standards are set for the maintenance of this system, not only to preserve the appropriate building climate but also to meet Federal refrigerant standards and maintain the operations of the ERS on-site data center.

**Operations Services**

Operations Services staff oversee multiple distinct programs including: copy center operations and document production; distribution of agency marketing, promotional, and communications materials; mail handling services; and physical property management. Much like the maintenance program, copy center operations are organized around a work order process electronically interwoven into agency computing systems. Agency staff completes a web-based order form for the printing or production of printed materials – materials that due to quantity or format cannot be efficiently produced on standard printers available throughout the agency – and requests are reviewed by support staff and produced in order of the identified delivery date, per the specified request. Many materials produced by the copy center are then passed over to the distribution program to be delivered to agencies or shipped in advance to enrollment and benefits fairs and programs throughout the state. These documents include materials for the Ready, Set, Retire! and Be BenefitsWi\$e educational presentations provided by ERS staff, forms and instructional materials provided at enrollment fairs during the summer and fall of each year, and New Employee Benefits Guides and pocket/wallet cards distributed to state agencies and institutions

of higher education for inclusion in new employee processing packets throughout the year. The location of events, type of materials, and quantity of documents needed for each shipment are coordinated with the Benefits Communications Division staff responsible for managing and staffing the events.

Operations Services staff is also responsible for receiving and processing mail on a daily basis. Staff receives mail deliveries directly from the US Post Office, processing receipt of each piece through perforation and date stamping. Payments and checks received by mail are endorsed, counted, verified, and delivered to the Finance Division for accounting and allocation. Mail containing member communications, requests, and forms are scanned into the Customer Benefits work flow system, beginning the process of routing through the account management system for processing or issue resolution. (Additional detail regarding member account processing can be found in the program description of the Customer Benefits Division operations.) All other mail is distributed throughout the agency to the intended recipients three times a day – 10 am, 12 pm, and 3 pm – at which time outgoing mail is collected and processed. Most outgoing mail is picked up by the agency's presort mail vendor mid-day; however, certain types of mail are delivered directly by ERS staff, including: daily deposits to the Texas Comptroller of Public Accounts treasury operations and private bank accounts; daily information system back-up tapes to the State Library and Archives Commission; and non-bulk general mailings to the US Post Office. ERS mail program staff also manage bulk mail production, envelope inserting, and sorting operations for many agency programs.

The program area within Operations Services is physical property management, the oversight of all property – such as furniture, equipment, and office supplies – allocated or assigned to employees and programs throughout the agency. Capitalized assets are received at the agency through the receiving dock or basement service court areas of the building where Operations Support staff process receipt of the property and conduct appropriate quality control checks. Property and equipment meeting quality standards and expectations are logged into an automated receiving system by purchase order number and an ERS property number is assigned and affixed before the property is staged, stored, or delivered to the designated end-users as appropriate. Although all property is owned by the ERS trust, financial information for all capitalized equipment is simultaneously entered to the State Property Accounting System. Property coordinators within the division serve as the primary point of contact for the storage and disposal of capitalized assets identified as surplus, working with the Texas Facilities Commission surplus property program to identify the most appropriate way to dispose of the property while making it available to other state, federal, county, and city entities or approved assistance agencies.

### **Records Management**

The final major program area within the division is the Records Management Program. Records management staff oversee the collection, retention, storage, and appropriate disposal of agency generated records, documents, and other materials as well as educate all ERS staff on the related policies, procedures, and requirements. New agency employees are informed about the Records Management Program during New Employee Orientation and the agency's intranet system contains required retention policies and procedures, certified records retention schedules, and current agency holdings in offsite storage for ongoing use by ERS employees. The ERS Records Manager and Records Analyst provide ongoing customized consulting and training services to ERS personnel and oversee the appointment and support of division specific records coordinators and assistant records coordinators. Recent training sessions for agency staff include Understanding the Records Retention Schedule, How to Prepare Records for Offsite Storage, and Transferring Records to the State Archives.

Since 1994, ERS has continuously maintained a certified records retention schedule, providing the agency authority to dispose of governmental records pursuant to the dictates of the plan. The ERS retention schedule applies to all generated documents regardless of method of generations, including both paper and electronically maintained records, and identifies specific files and forms as vital and/or archival in nature as appropriate, defining storage or back-up requirements for the recorded data. ERS maintains extensive archival document

storage in offsite locations, a less costly alternative to devoting scarce onsite office space to storage. Records contained in the 1,266 boxes of documents stored offsite can be easily and quickly retrieved – typically within the same day as a request is received – due to the detailed logging and identification of documents for storage. Documents containing sensitive or confidential data are collected in special bins located throughout the agency and securely disposed of by a contractor vendor twice a month. During Fiscal Year 2014, ERS shredded 24,650 pounds of records containing confidential information.

**G. Identify all funding sources and amounts for the program or function, including federal grants and pass-through monies. Describe any funding formulas or funding conventions. For state funding sources, please specify (e.g., general revenue, appropriations rider, budget strategy, fees/dues).**

Although the agency receives funding through multiple revenue streams, as detailed in Section V of this report, all revenue is deposited to one of eight trust funds, the special revenue fund, or the proprietary fund, defined by program use, for later expenditure. Due to this accounting structure, ERS does not track program or division funding by original revenue stream but rather by fund source of payment. The accounting process begins with administrative expenses for agency operations being initially paid from the Employees Retirement System Trust (Fund 0955). Each month paid expenses are allocated to the various funds as defined by the type and purpose of the expenditure. This cost allocation process uses the monthly reported percentages from the agency’s internal time accounting system to determine the needed allocation of employee salaries by fund and department, by identifying what tasks the employee spent their time performing and charging the appropriate fund for the result expenditure. The cost allocation process then applies the average of these reported percentages of work performed to the allocation of non-salary and other administrative expenses incurred to each division by fund. There are exceptions to this process when an entire expenditure clearly relates to a single trust fund purpose, for example the payment of invoices received by the agency’s health insurance actuary are automatically allocated entirely to the Employees Life, Accident, Health Insurance, and Benefits Fund (Fund 0973).

Actual fund source breakdown for Operations Support Division expenditures during Fiscal Year 2014 was:

Funding Source	2014 Amount
Employees Retirement System Trust (0955)	\$ 1,841,808
LECOS Retirement Trust (0977)	126,943
Judicial Retirement System Plan Two (0993)	26,429
Texas\$aver 401(k) Trust (0946)	34,322
Texas\$aver 457 Trust (0945)	19,892
State Employee Cafeteria Plan Trust (0943)	39,360
Employees Life, Accident, Health Insurance and Benefits Trust (0973)	961,027
Social Security Trust (0929)	9,254
<b>Total</b>	<b>\$ 3,059,035</b>

Exhibit 52 Operations Support Division expenditures

**H. Identify any programs, internal or external to your agency, that provide identical or similar services or functions to the target population. Describe the similarities and differences.**

As a general agency support functions, many of the programs and services provided by the division have similar compliments at multiple agencies throughout the state. ERS building maintenance services are significantly similar to those provided to agencies located in the Capitol Complex by the Texas Facilities Commission and the State Preservation Board. However, those agencies do not currently provided specialized or contract services to the ERS headquarters building, and as a trust asset of the ERS membership the upkeep, maintenance, and preservation of the building’s value are the fiduciary obligation of the ERS Board of Trustees and agency staff.

ERS outgoing mail processing is similar to services provided to state agencies by the Comptroller of Public Accounts; however, those operations do not include the specialized processing and digitization processes integrated into ERS' customer benefits operations and enterprise systems. Similarly, Records Management programs are provided at most state agencies, with each agency customizing the program's operations to the needs of its specific activities and document uses.

**I. Discuss how the program or function is coordinating its activities to avoid duplication or conflict with the other programs listed in Question H and with the agency's customers. If applicable, briefly discuss any memorandums of understanding (MOUs), interagency agreements, or interagency contracts.**

The Operations Support Division makes use of the services provided by other state agencies, through interagency agreements and memoranda of understanding, when pertinent and useful to achieving the most effective and efficient outcomes possible. For example, the division maintains an interagency agreement with the General Land Office for the provision of office space during an event requiring the activation of either agency's continuity of operations plan. ERS also maintains an agreement with the Texas State Library and Archives Commission for the storage of inactive records and rotation of disaster recovery backup tapes. The agency has used private contractors for this service in the past, but has consistently found the state operation to provide more reliable and responsive service.

ERS also coordinates with other agencies, in and around the Capitol Complex, to make public spaces at the ERS headquarters building available for public use. The ERS Auditorium facility is made available to other agencies for public presentations and large agency meetings and the agency coordinates with the Texas Facilities Commission to make ERS parking facilities available to the public during large scale sporting and entertainment events at the nearby University of Texas, Austin campus.

**J. If the program or function works with local, regional, or federal units of government, include a brief description of these entities and their relationship to the agency.**

As the in-house management team for a large urban property owner, the division works with multiple local, regional, state and federal units of government, some on a regular basis and others only in unique or extreme circumstances. Examples include the following entities, and noted areas of responsibility:

- Texas Department of Public Safety – parking, background checks on employees and contractors, and building security access programs
- Texas Department of Licensing and Regulation – elevator and boiler equipment inspections, regulation, and certification
- State Fire Marshall – inspection of building fire suppression and alarm systems
- Occupational Safety and Health Administration – workplace environment regulation compliance
- Environmental Protection Agency – indoor air quality inspection and regulation
- American National Standards Institute – building code regulation
- City of Austin – building code regulations and utility connections

**K. If contracted expenditures are made through this program please provide:**

- a short summary of the general purpose of those contracts overall;
- the amount of those expenditures in Fiscal Year 2014;
- the number of contracts accounting for those expenditures;
- top five contracts by dollar amount, including contractor and purpose;
- the methods used to ensure accountability for funding and performance; and
- a short description of any current contracting problems.

The division makes use of numerous equipment maintenance, building services, and construction contracts and agreements to supplement the skill sets of division staff in meeting the needs of maintaining and managing a large office building. Most maintenance and service contracts are paid monthly using open purchase orders. During Fiscal Year 2014, 20 contracts managed by this division resulted in expenditures of \$743,333. The largest five of those contracts were for the following:

Contractor	Expenditure	Purpose
Chamberlin	\$248,958	building exterior construction/repair
Xerox	\$145,002	color copy and printing equipment lease
TIBH / Goodwill	\$114,754	janitorial services
Xerox	\$40,111	non-color printing equipment lease
Xerox-Dahill	\$39,598	copier leases and maintenance for 19 machines

**Exhibit 53 Top Five Contracts**

The division ensures contract accountability on these contracts by comparing monthly invoice receipts to program activity tracking reports and verifying charged rates with contract negotiated terms prior to approving payment. Service contract work also involves the visual inspection and approval of completed contractor work by ERS staff and review of sign-in logs.

**L. Provide information on any grants awarded by the program.**

This program does not award grants.

**M. What statutory changes could be made to assist this program in performing its functions? Explain.**

Information regarding beneficial statutory changes or other considerations to accomplish programmatic improvements can be found in Section IX Issues for Consideration, later in this report.

**N. Provide any additional information needed to gain a preliminary understanding of the program or function.**

No further information is provided to describe this program.

## VIII. STATUTORY AUTHORITY AND RECENT LEGISLATION

**A. Fill in the following charts, listing citations for all state and federal statutes that grant authority to or otherwise significantly impact your agency. Do not include general state statutes that apply to all agencies, such as the Public Information Act, the Open Meetings Act, or the Administrative Procedure Act. Provide information on Attorney General opinions from FY 2011–2015, or earlier significant Attorney General opinions, that affect your agency’s operations.**

### Exhibit 54: Statutes

Citation / Title	Authority / Impact on Agency
Article XVI, §67 of the Texas Constitution	Mandates Creation of ERS and establishes policies regarding the financing and administration of benefits by ERS; prohibits diversion of trust funds.
Chapter 411.1402, Tex. Gov’t Code	Permits ERS to access criminal history records
Chapter 606, Tex. Gov’t Code	Administration of Social Security in Texas
Chapter 609, Tex. Gov’t Code	Authorizes establishment of the Texa\$aver Deferred Compensation Program administered by ERS and consisting of 457 and 401(k) trusts for employees and officers of state agencies and certain state public institutions of higher education.
Chapter 615, Tex. Gov’t Code	Establishes a program of assistance administered by ERS to the survivors of certain law enforcement officers, corrections officers, fire fighters and other first responders as defined in the statute.
Chapter 671, Tex. Gov’t Code	Nurse practitioner clinics in state office complexes
Chapter 801, Tex. Gov’t Code	Establishes the Pension Review Board (PRB) and requires ERS to provide certain information and reports to the PRB and to utilize PRB’s training program for ERS board members and administrators.
Chapter 802, Tex. Gov’t Code	Applicable provisions of the chapter govern the correction of errors concerning retirement benefit payments, establishes procedures for complaints to PRB, financial and actuarial information and reports to ERS members and retirees, and registration requirements.
Chapter 803, Tex. Gov’t Code	Establishes the Proportionate Retirement Program for qualified members of more than one Texas retirement system. The systems included are ERS, TRS, JRS1, JRS 2, TCDRS, TMRS, City of Austin Retirement System, City of Austin Police Retirement System, El Paso Firemen & Policeman’s Pension Fund and El Paso City Employees’ Pension Fund.
Chapter 804, Tex. Gov’t Code	Establishes the requirements for qualified domestic relations orders (QDRO) to apportion retirement benefits. ERS administers the statute with respect to ERS retirement benefits. Great West Financial Services administers QDRO requests for the Texa\$aver program as ERS’ TPA.
Chapter 805, Tex. Gov’t Code	Governs the transfer of service credit between ERS and TRS
Chapters 806 and 807, Tex. Gov’t Code	Prohibits state governmental entities, including ERS, from investing in companies doing business with Sudan and Iran.
Chapter 810, Tex. Gov’t Code	Miscellaneous provisions affecting public retirement systems.
Chapter 811, Tex. Gov’t Code	Establishes general provisions governing ERS.
Chapter 812, Tex. Gov’t Code	Establishes the requirements for ERS membership, withdrawal of contributions and resumption of state service by ERS retirees.

Citation / Title	Authority / Impact on Agency
Chapter 813, Tex. Gov't Code	Establishes the general requirements for ERS creditable service, establishment of membership service, military service, elected class service and employee class service.
Chapter 814, Tex. Gov't Code	Establishes the general and specific requirements for ERS retirement benefits, including service retirement, disability retirement, death benefit annuities, member death benefits, retiree death benefits and increases in benefits.
Chapter 815, Tex. Gov't Code	Provides requirements for administration of ERS programs, including provisions governing the ERS Board of Trustees, ERS' officers and employees, management of assets, collection of membership fees and contributions, and administrative procedures.
Chapters 831 through 835, Tex. Gov't Code	Establishes JRS1 and includes provisions for membership, creditable service, benefits and administration for the plan.
Chapters 836 through 840, Tex. Gov't Code	Establishes JRS 2 and includes provisions for membership, creditable service, benefits and administration for the plan.
Chapter 1467, Tex. Ins. Code	Out-of-Network claim dispute resolution related to the GBP
Chapter 1551, Tex. Ins. Code	Creates the Texas Employees Group Benefits Program (GBP) to provide insurance benefits, including coverage for health, dental, disability, life, and accidental death and dismemberment insurance, to GBP participants. Chapter 1551 defines who may participate in the GBP, and governs the administration, implementation, coverage and participation by state officers, employees, certain employees of state institutions of higher education, state judges and others identified in the statute as well as their dependents. The statute also governs funding of coverage, sanctions and the adjudication of claims, and provides for an Internal Revenue Code §125 flexible benefits (cafeteria) program known as TexFlex.
Chapters 1552 and 1601, Tex. Gov't Code	Governs the options ERS has for offering or continuing the prior offer of long-term care coverage.
§2155.146, Tex. Gov't Code	Delegation of purchasing authority to ERS
§2171.055, Tex. Gov't Code	Relating to ERS' exemption from contracts for travel services
Securities Act of 1933	May require that ERS file certain investment-related reports; describes securities in which ERS may invest; describes investment products in which ERS may invest.
Securities Exchange Act of 1934	May require that ERS file certain investment-related reports; describes securities in which ERS may invest; describes investment products in which ERS may invest.
Texas Securities Act	Describes investment products in which ERS may invest.
Dodd–Frank Wall Street Reform and Consumer Protection Act	A law that amended 11 existing federal laws to increase regulation and oversight of the financial industry and which may affect the types of financial products in which ERS may invest.
Patient Protection and Affordable Care Act of 2010, amended by the Health Care and Education Reconciliation Act of 2010 (the "ACA").	The GBP health plans are subject to the ACA healthcare reform regulations.

Citation / Title	Authority / Impact on Agency
Health Insurance Portability and Accountability Act of 1996, amended by the Health Information Technology for Economic and Clinical Health Act, as incorporated in the American Recovery and Reinvestment Act of 2009, and the implementing regulations issued and amended by the U.S. Department of Health and Human Services Secretary ("HIPAA").	As a covered entity under HIPAA, ERS must comply with its privacy and security regulations.
Consolidated Omnibus Budget Reconciliation Act ("COBRA").	The benefit plans offered by the GBP are subject to continuation of coverage following termination of employment in certain situations, which is governed by COBRA.
Tex. Gov't Code §§615.045, 803.402, 815.503 and Tex. Ins. Code §1551.063	Makes member/participant records held by ERS, an administering firm, or another governmental entity acting on behalf of ERS confidential and not subject to disclosure under the PIA
Internal Revenue Code §§401(a) and 501(a), other provisions of the IRC also apply to various programs administered by ERS	Qualification of the ERS defined benefit plan under IRC 401(a) provides both the employing state agency and the participants in the plan with many significant tax benefits. Qualification of the ERS trust under IRC §501(a) allows any income of the trust to avoid federal income taxation.
H.B. 1 General Appropriations Act (84th Leg.), Article I-32 at paragraph 13	ERS must follow the reporting requirements provided during the procurement and contracting process for the HealthSelect of Texas TPA contract.

**Exhibit 54 Statutes****Exhibit 55: Attorney General Opinions**

Attorney General Opinion No.	Impact on Agency
GA 1061 (2014)	Confirmed that ERS is statutorily exempt from the State Office of Risk Management's (SORM) requirement to purchase property, casualty or liability insurance coverage through the agency.
GA 1004 (2014)	Confirmed that ERS is authorized to require payment of interest on the employee's and employer's service credit contributions to establish service credit of a state agency employee who has been reinstated after wrongful termination.
GA 0746 (2009)	Determined that the Texas Legislature was not authorized to make direct one-time payments to certain ERS retirees who retired before 12-31-2008. The funds at issue were not to be deposited into the ERS trust fund and would, therefore, probably not be covered by Art. XVI, §67 of the Texas Constitution and related retirement statutes. Consequently, the legislative scheme could be considered to violate Art. III, §§44 and 53 of the Texas Constitution prohibiting the award of extra compensation for prior services provided by former state employees.
GA 0075 (2003)	Confirmed that as an agency whose funds are held in trust outside the state treasury and which reimburses the state's general revenue fund for workers compensation claim costs, ERS is not required to participate in SORM's allocation program for workers' compensation claim costs among state agencies. ERS self-insured workers' compensation benefits for its employees and reimbursed the state in full for its workers' compensation claims paid by the state on ERS' behalf. After a statutory change, SORM began charging ERS an "allocated share of all of the participating agencies' workers compensation claims." OAG agreed with ERS' arguments that SORM's allocation formula imposed costs on the ERS trust fund in excess of the agency's claim experience which would cause an unconstitutional diversion of trust assets.

Attorney General Opinion No.	Impact on Agency
DM-193 (1992)	Established that a statute providing that ERS shall designate supplemental benefit programs that are eligible for employee wage deductions granted the agency discretion to select specific benefit programs and vendors whose selection would promote the interests of the state and state employees. ERS could not charge a fee to the employees or vendors selected pursuant to the statute. The current version of the statute is Tex. Gov't Code §659.102.
JM-639 (1987)	Confirmed that employees of the Texas Surplus Property Agency (TSPA) should be ERS members as the entity was not an educational organization covered by TRS. Because TSPA's employees were subject to ERS rather than TRS membership, a TSPA board member who met all other statutory requirements was entitled to receive ERS service credit for his services to the organization.
JM-631 (1987)	Found that the ERS Board of Trustees had no authority to regulate HMOs, and could not contract with HMOs to violate Texas State Board of Insurance rules applicable to all HMOs.
JM-300 (1985)	Determining the funds in the Law Enforcement and Custodial Officer Supplemental Retirement Fund are trust funds as are returns from investment of the funds because the funds are: 1) administered by a trustee or trustees; the assets are not granted to the state in its sovereign capacity nor collected for general operation of state government; 3) they are to be spent and invested for specific limited purposes and for the benefit of a specific group of individuals.
MW-276 (1980)	Confirmed that aside from statutory requirements that ERS correct any errors in its records and adjust future (benefit) payments accordingly, ERS has no civil liability under current law for negligent management of trust assets or benefit programs.
MW-138 (1980)	Confirmed that a state employee who retires and later returns to state employment does not resume his ERS membership and is not eligible to receive creditable service.
M-949 (1971)	Determining that the state position classification plan does not govern the salaries of TRS employees (and by implication also does not govern the salaries of ERS employees). In addition, an appropriation act provision regarding limitations on payment for employee insurance by state agencies did not apply to TRS, because it was not covered by the appropriation statute.
H-1040 (1977)	Determined that interest accrued on time deposits from the Employee Life, Accident and Health Insurance and Benefit Fund Account (Fund) must be credited to the Fund and not deposited in the General Revenue Fund. The Fund is a trust fund administered by ERS and interest earned on Fund assets must become part of the Fund.
C-705 (1966)	Confirmed that control of the ERS building and grounds purchased with ERS trust funds belonged to the ERS Board of Trustees. The property was not under the authority of the state's Board of Control which was responsible for administering state real property and improvements. The opinion noted that ERS' buildings and grounds were acquired with ERS trust funds, were impressed with the trust and remained trust property subject to the management and control of the ERS Board of Trustees.
WW-565 (1959)	Concluding that ERS' funds are trust funds and may only be expended for the purposes of the trust. The trust funds may be expended in accordance with the laws governing ERS without a prior specific appropriation by the Texas Legislature.

Exhibit 55 Attorney General Opinions

**B. Provide a summary of recent legislation regarding your agency by filling in the charts below or attaching information already available in an agency-developed format. Briefly summarize the key provisions. For bills that did not pass, briefly explain the key provisions and issues that resulted in failure of the bill to pass (e.g., opposition to a new fee, or high cost of implementation). Place an asterisk next to bills that could have a major impact on the agency.**

## Exhibit 56: 81st - 84th Legislative Sessions – Significant Legislation

*Legislation Enacted (84th Session legislation unless otherwise noted.)*

Bill Number	Author	Summary of Key Provisions
HB 1* (85R -2015)	Otto	Increased state contribution to retirement to 9.5% (10% total when including 0.5% state agency contribution). Funds LECOSRF at 0.5% and JRS 2 at 15.66% (less than the actuarially sound amount). Requires ERS to provide reports regarding the bidding and administration of the HealthSelect contract to LBB and SAO, and information on other contracts over certain dollar thresholds to LBB.
HB 9*	Flynn	Raises the employee contribution to 9.5%, effective 9/1/2015, and ties the employee and state contributions together. Also eliminates the 90-day waiting period to become a member of the retirement system.
HB 408	Turner, C.	Prevents certain members of the elected class from transferring service to the employee class, or from retiring from the employee class while still in elected office.
HB 966*	Crownover	Requires ERS to establish a voluntary consumer-directed health plan in the form of a high deductible health plan (HDHP) with a Health Savings Account (HSA) as an alternative to HealthSelect with coverage to begin September 1, 2016.
HB 1278	Hughes	For certain state and local peace officers killed in the line of duty, increases lump sum survivor benefit from \$250,000 to \$500,000, and doubles the monthly benefit paid to surviving minor children.
HB 2123	King, P.	Allows a member of the state military forces who has been on active duty for more than 60 days to participate in the GBP as a full-time state employee.
HB 3307	Miller, R.	Requires ERS to offer a TRICARE Military Health System Supplemental plan.
SB 20*	Nelson	This bill creates various new processes for state agency contracting. Provisions include increased reporting and disclosure requirements, new oversight and review authority, required contract terms, and other provisions.
SB 940	Taylor, V.	Changes required reports on prohibited investments in Sudan and Iran from annually to 30 days after the updated list is received.
SB 1459* (83R -2013)	Duncan	Created new tier of retirement benefits for employees hired on or after 9/1/2013. Increased final average salary period to 60 months. Eliminated use of sick & annual leave for increasing annuity (as well as retirement eligibility). Instituted an uncapped 5% per year reduction for retirements before age 62.
HB 2559* (81R - 2009)	Truitt	Created new tier of retirement benefits for employees hired on or after 9/1/2009. Increased final average salary period to 48 months. Increased minimum service to retire from 5 years to 10 years. Eliminated use of sick & annual leave for retirement eligibility. Instituted a 5% per year reduction (capped at 25%) for retirements before age 60.

**Exhibit 56 Legislation Enacted 84th Leg**

## Exhibit 57: 81st - 84th Legislative Sessions – Significant Legislation

### *Legislation Not Passed (84th Session legislation only.)*

Bill Number	Author	Summary of Key Provisions / Reason Bill Did Not Pass
HB 131	Simpson	Fixes elected class annuity at 2% of \$125,000 for members entering the class on or after 9/1/2015, with a maximum of 12 years of service.
HB 442	Gonzales	Allows beneficiaries to have all or part of an employee's or retiree's death benefits be payable directly to a funeral director or establishment.
HB 681	Sheets	Makes elected officials ineligible to receive an annuity if convicted of bribery, embezzlement, or perjury.
HB 701*	Allen	Provides an immediate 10% COLA, effective 9/1/15, plus a 4% annual COLA for annuitants. Also provides a supplemental payment equal to the lesser of the monthly annuity or \$2,000, payable in January '16.
HB 1797	Marquez	Makes certain "qualified individuals" eligible to participate as dependents in the GBP if they are at least 18, not related to the GBP participant, financially interdependent, and cohabitating.
HB 1821*	Alonzo	Permits peace officers employed by institutions of higher education and public schools to move from TRS to ERS, effective 1/1/2016, and participate in LECOSRF. Also adds certain peace officers employed by the state and correctional officers at the Texas Juvenile Justice Department to LECOSRF.
HB 2859	Marquez	Permits an individual to establish service credit in the employee class for employment with a tribal government.
HB 3182	Fallon	Limits the maximum retirement annuity amount for new employees hired after August 31, 2015 to the amount of the gross salary of an active duty General or Admiral of the US armed forces.
HB 3227/ HB 3573 / SB 1146*	Hernandez / Alonzo / Watson	Would allow a retiree to serve as an elected board member.
HB 3377	Hughes	Allows JRS 2 retirees to resume service in JRS 2 if they return to service as a judicial officer after a break of more than 12 months.
HB 4105	Bell	Prohibits state employees from recognizing or enforcing any marriage license or certification that does not comply with §32, Article 1, Texas Constitution.
SB 110	Taylor, V.	Suspends or reduces annuities of elected class officers on final conviction of a felony or certain misdemeanors related to the officer's official duties.
SB 115	Taylor, V.	Prohibits ERS from withholding as confidential the name or amount of annuity of a retired member of the legislature.
SB 575*	Taylor, L.	Requires health plans to offer abortion coverage as a separate coverage, and cover abortions under the health plan only when a life-threatening physical condition exists.
SB 1516	Seliger	Fixes retirement annuity of members of the legislature and statewide elected officials at 2% of a district judge's salary, as that salary existed on August 31, 2015.
SJR 60	Eltife	Proposed constitutional amendment to transfer \$1.5 billion from the Economic Stabilization Fund (Rainy Day Fund) to the ERS trust.

Exhibit 57 Legislation Not Passed 84th Leg

## IX. ISSUES FOR CONSIDERATION

### ISSUE 1: Enhanced Educational Requirements for Benefits Coordinators

#### A. Issue Description

While the Employees Retirement System of Texas (ERS) is responsible for the administration and management of state employee benefits programs, the human resource departments of state agencies and institutions of higher education serve as the primary source of information on such programs to the employee workforce. Despite the availability of abundant information developed by ERS personnel specifically for benefits coordinators and HR professionals – including regular newsletters and a dedicated resource website – not all coordinators take advantage of ERS provided resources to fully understand the complexities of employee benefits. Insufficient knowledge of benefits programs by this employee group leads to some ERS members receiving inaccurate or incomplete information about their benefits, which can result in serious financial repercussions for members or complicate receipt of needed health care services for the members or their dependents.

#### B. Discussion

Disruptions in the flow of accurate information regarding state benefits programs appear to be increasing as long-time benefits coordinators leave state agencies and are replaced by newer coordinators or HR generalists, with responsibilities far beyond benefits administration and coordination. Regular biennial legislative changes or additions to the benefits structure can cause even some long-time coordinators, well-versed in existing policies, to lose track of recent changes or miss out on important information and updates. Even with ERS directly communicating changes to ERS members and participants in the various programs, coordinators with out of date or incorrect information can cause employees to miss enrollment opportunities and benefits.

#### C. Possible Solutions and Impact

ERS is currently considering a variety of options and tactics to increase active participation by benefits coordinators at state agencies and institutions of higher education. Even if the agency has the resources to more fully engage this audience and implement new training/educational tools, the best way to achieve increased understanding and knowledge among coordinators is by requiring their participation in learning opportunities throughout the year. ERS can track when coordinators are accessing educational materials. The statute could require that each coordinator complete a minimum course of benefit administration training either yearly or biennially.

## **ISSUE 2: Fiduciary Duty Considerations**

### **A. Issue Description**

The Employees Retirement System of Texas (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 ERS assets. 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 protection, preservation, and best interests of the trust and the trust's beneficiaries. The fiduciary duty standard is an important context from which to view decisions and actions taken by the agency. All actions taken, goods and services purchased, and investments made by ERS must be done in the furtherance of ERS' fiduciary duty. The Texas Constitution and Internal Revenue Code prohibit any diversion of trust assets. Instead, trust assets must be used exclusively for the benefit of the beneficiaries as a whole and for the proper administration of the trust fund. Fiduciary duty has clear applicability to retirement investment operations where daily decisions are made to protect, preserve and benefit the retirement trust fund to ensure the availability of necessary revenues to meet annuity obligations. Similarly, fiduciary duty also applies to health benefits and insurance programs as well as the functional operations of the agency, such as contracting.

### **B. Discussion**

While ERS governing board members, executives and employees are knowledgeable and trained in their fiduciary duties to both the agency and trust beneficiaries, the agency must continuously ensure that entities or individuals who do not maintain a fiduciary duty to the ERS trust funds do not exert undue influence on agency operations. Such influence can be exerted in many forms. While ERS welcomes governmental oversight and actively cooperates in state audits, operational reviews and the development of open and transparent records and management practices, there could be a conflict if oversight activities include requirements for approvals or decision making external to agency personnel. Such a circumstance may serve to abrogate ERS' exercise of its fiduciary duty in contravention of Texas law and IRS requirements. To the extent recent requirements for ERS activities or actions may be read to be approved or nullified by external oversight entities, then those requirements can potentially damage the trust or be considered a diversion of trust assets, since the external parties do not owe a legal fiduciary duty to make decisions in the best interest of ERS and its trust beneficiaries.

### **C. Possible Solutions and Impact**

ERS staff recognizes this is a complex issue and that there is a need to carefully balance the agency's fiduciary responsibilities with the need for the state to hold the agency accountable for actions and operations. To maintain such a balance, any laws or statutes that require parties external to ERS personnel to approve agency actions should be carefully reviewed for appropriateness, compliance with the Texas constitution and IRS requirements, and applicability within the structure of trust fund administration.

### **ISSUE 3: Developing a Pension Funding Policy**

#### **A. Issue Description**

As the pension plan sponsor, The State of Texas does not have a comprehensive, formal pension funding policy as is recommended by the Society of Actuaries and the Governmental Accounting Standards Board. Currently the ERS pension is governed by a statute that requires funding at a different level than is provided in the Appropriations Act. A funding policy approved by both the ERS board (plan administrator) and the Texas Legislature (plan sponsor) would align the system with industry best practices and provide guidance during the appropriations and budget process. The development of, and commitment to, a comprehensive pension funding policy is a shared responsibility between these two entities.

#### **B. Discussion**

A comprehensive funding policy can address technical aspects of funding such as actuarial cost, asset smoothing methods, and funding period (amortization period, or period required to pay off unfunded liabilities). It could also provide more general guidance for policymakers in making budgetary decisions by setting goals for acceptable funding levels for the plan.

During the 84th Texas Legislature, House Bill 3310 created a funding policy requirement for local retirement systems, but exempted statewide systems (ERS, TRS, TCDRS and TMRS.) For retirement systems with an unfunded liability, HB 3310 requires a Funding Soundness Restoration Plan (FSRP) if it will take the system more than 40 years to pay off unfunded liabilities. If the retirement system's funding period exceeds 40 years over several valuations, the system and its plan sponsor are required to formulate an FSRP in accordance with the system's governing statute. The FSRP must be designed to achieve an amortization period of 40 years or less by the tenth anniversary of the date on which the final version of the plan is approved.

#### **C. Possible Solutions and Impact**

During Fiscal Year 2016, ERS staff will be researching funding policy best practices and how to appropriately apply them to the pension plans administered by the agency. As the plan sponsor, the Texas Legislature is responsible for retirement benefit design and funding. The legislature controls the contribution rates for both the employer (state and agency) and the employee. A long term commitment to funding and paying off any unfunded liabilities within a defined period of years will require legislative action, most likely in the form of statutory amendment. Provisions similar to those in HB 3310 may provide a good model for application to ERS.

## X. OTHER CONTACTS

A. Fill in the following charts with updated information on people with an interest in your agency, and be sure to include the most recent email address.

### Exhibit 58: ERS External Contacts — Interest Groups

Group or Association Name/ Contact Person	Address	Telephone	Email Address
Texas Public Employees Association Gary Anderson	512 E. 11th St. Suite 100 Austin, TX 78701	(512) 476-2691	ganderson@tpea.org
Texas State Employees Union Harrison Hiner	1700 S. First St. Austin, TX 78704	(512) 448-4225	hhiner@cwa-tseu.org
American Federation of State, County and Municipal Employees (AFSCME) Joe Hamill	1812 Centre Creek Drive #260 Austin, TX 78754	(512) 821-9301	jhamill@afscme.org
AFSCME Retiree Chapter Mark Cebulski	1812 Centre Creek Drive #260 Austin, TX 78754	(512) 477-9181	office@afscmetexasretirees.org
Retired State Employees Association (RSEA) Bill Hamilton	6901 North Lamar Blvd. Suite 121 Austin, TX 78752	(512) 451-0087	billhamilton@att.net
Texas Department of Public Safety Officers Association (DPSOA) Gary Chandler	5821 Airport Blvd. Austin, TX 78752	(979) 732-0400	sgtchandler@sbcglobal.net
Texas Game Warden Association David Sinclair	4367 FM1047 Hamilton, TX 76531	(512) 971-2668	texasgamewarden@yahoo.com
Texas Alcoholic Beverage Commission Officer Association Harold Nanos		(915) 861-5103	harold.nanos@tabc.state.tx.us
Texas State Troopers Association Donald Dickson		(512) 554-5744	don5125545744@gmail.com

Exhibit 58 Interest Groups

**Exhibit 59: ERS External Contacts — Interagency, State or National Associations**

<b>Group or Association Name/ Contact Person</b>	<b>Address</b>	<b>Telephone</b>	<b>Email Address</b>
National Association of State Retirement Administrators (NASRA)  Alex Brown, Research Manager  Keith Brainard, Research Director	444 North Capitol St. NW Suite 234 Washington, DC 20001	(202) 624-8461 (AB)  (202) 624-8464 (KB)	alex@nasra.org  keith@nasra.org
State and Local Government Benefits Association (SALGBA)  Tina Bowling, Executive Director	P.O. Box 867 Berea, KY 40403	(888) 623-8676	tina.bowling@salgba.com
Texas Association of Public Employees Retirement Systems (TEXPERS)  Barbara Zlatnik, Associate Director, Programs and Training	1225 North Loop W. Suite 909 Houston, TX 77008	(713) 622-8018	barbara@texpers.org
National Conference of State Legislatures (NCSL)  NCSL Health Program  Richard Cauchi, Program Director, Health Insurance, Financing and Pharmaceuticals	7700 E. First Place Denver, CO 80230	(303) 856-1367 (o)  (720) 938-6463 (c)	dick.cauchi@ncsl.org
The Pew Charitable Trusts, State Health Care Spending Project  Maria Schiff, Director, State Health Care Spending	901 E Street NW Washington, DC 20004		shcs@pewtrusts.org
Public Sector HealthCare Roundtable  Andrew MacPherson, Policy Advisor	1299 Pennsylvania Ave. NW Suite 1175 Washington, DC 20004	(202) 909-2870	andrew@healthsperien.com

**Exhibit 59 Interagency, State, and National Association**

## Exhibit 60: ERS External Contacts — Liaisons at Other State Agencies

Group or Association Name/ Contact Person	Address	Telephone	Email Address
Governor's Office John Hryhorchuk, Senior Budget Advisor	P.O. Box 12428 Austin, TX 78701	(512) 463-1778	john.hryhorchuk@gov.texas.gov
Lt. Governor's Office Joaquin Guadarrama, Budget and Policy Analyst	P. O. Box 12068 Austin, TX 78711	(512) 463-0001	joaquin.guadarrama@ltgov.state.tx.us
Speaker of the House Meredyth Fowler, Counsel – General Government	P.O. Box 2910 Austin, TX 78768	(512) 463-0921	meredyth.fowler@speaker.state.tx.us
Senate Finance Committee Brady Vaughn, Budget Analyst	State Capitol Extension, E1.038 Austin, TX	(512) 463-0370	brady.vaughn@senate.state.tx.us
House Committee on Appropriations Malika Te, Budget Analyst	State Capitol Extension, E1.032 Austin, TX	(512) 463-1092	malika.te_hc@house.state.tx.us
Legislative Budget Board Emily Morganti, Budget Analyst	1501 N. Congress Ave. REJ Building, 5th Floor Austin, TX 78701	(512) 463-5311	emily.morganti@lbb.state.tx.us
State Auditor's Office Lisa Collier, Assistant State Auditor	1501 N. Congress Ave. REJ Building Austin, TX 78701	(512) 936-9500	lcollier@sao.state.tx.us
Comptroller of Public Accounts Clarisse Roquemore, CPA, Appropriation Control Officer, Team Lead, Fiscal Management Division	111 E. 17th St. LBJ Building Austin, TX 78774	(512) 936-3967	clarisse.roquemore@cpa.texas.gov
Pension Review Board Anumeha, Executive Director	300 W. 15th St. Suite 406 Austin, TX 78701	(512) 463-8813	anumeha@ers.state.tx.us
House Research Organization Janet Elliott, Policy Analyst	P.O. Box 2910 Austin, TX 78768	(512) 463-0752	janet.elliott@house.state.tx.us
State Agency Worksite Wellness Advisory Board, Dept. of State Health Services Rocky Payne Statewide Wellness Coordinator	Health Promotion and Chronic Disease Prevention Section Texas Department of State Health Services Austin, TX 78756	(512) 776-3672	rocky.payne@dshs.state.tx.us

Exhibit 60 Liaisons at Other State Agencies

## XI. ADDITIONAL INFORMATION

**A. Texas Government Code, Sec. 325.0075 requires agencies under review to submit a report about their reporting requirements to Sunset with the same due date as the SER. Include a list of each agency-specific report that the agency is required by statute to prepare and an evaluation of the need for each report based on whether factors or conditions have changed since the statutory requirement was put in place. Please do not include general reporting requirements applicable to all agencies, reports that have an expiration date, routine notifications or notices, posting requirements, federally mandated reports or reports required by G.A.A. rider. If the list is longer than one page, please include it as an attachment.**

The response to this item is included as Appendix A to this report. ERS believes the identified reports are valuable to either agency operations or relevant state oversight entities, but staff would appreciate a review of the report deadlines. For example, the annual *Cost Management and Fraud Report* related to the Texas Employees Group Benefits Program (GBP) is required to be submitted by the agency to legislative leadership, and publicly, on January 1, a state holiday. The core medical and claims data analyses needed to complete the report are generally not available from healthcare providers and program vendors until late November for the previous Fiscal Year operations. Completing the report using the most relevant data for decision-making is difficult in this short time period. In such circumstances, ERS staff would appreciate consideration of adjusting the due date to the February 1, allowing an appropriate window to review and consider available data and provide analysis that is thoughtful and contributes to a sound discussion of emerging issues and development of policy recommendations.

**B. Has the agency implemented statutory requirements to ensure the use of “first person respectful language”? Please explain and include any statutory provisions that prohibits these changes.**

Not applicable. ERS is not a “Health and Human Services Agency” and is not subject to the requirements of HB 1481 establishing the “Respectful Language Initiative” under Chapter 392 of the Texas Government Code. Although the statute does not apply to ERS, the agency has worked with the Legislature to amend ERS statutes, removing references to “mental retardation.” It is ERS’ policy to communicate with all persons in a respectful manner. To the extent required by related laws governing retirement and insurance benefits, ERS must use legally accurate terminology in describing ERS members, retirees and insureds who may have physical or mental conditions that affect their rights to benefits. The use of terms such as “patient,” “client,” “disabled” or “totally disabled” are frequently necessary to use because they are legally defined terms, closely related to such terms and/or the use of the terms conveys – in an accurate, clear and precise manner – factual information necessary for ERS to administer the programs and benefits for which it is responsible. ERS does not intentionally use demeaning terms in its communications. ERS works with the Texas Legislative Council when drafting or amending laws in order to comply with Chapter 392, Texas Government Code.

**C. Fill in the following chart detailing information on complaints regarding your agency. Do not include complaints received against people or entities you regulate. The chart headings may be changed if needed to better reflect your agency's practices.**

### Exhibit 61: Complaints Received by the Agency — fiscal years 2013 and 2014

	FY13	FY14
Number of complaints received	58	153
Number of complaints resolved	58	153
Number of complaints dropped / found to be without merit	0	5
Number of complaints pending from prior years	0	0
Average time period for resolution of a complaint	Not available	3.8 days

#### Exhibit 61 Complaints Received by the Agency

Note: Complaints received by ERS can be procedurally resolved with NO ACTION TAKEN. Such complaints are typically related to plan design and cannot be addressed by staff. An explanation of the plan design restrictions is provided to the complainant.

ERS' capability to track complaints has matured over the requested reporting period under executive direction and with considerable staff effort. Prior to January 2014, complaints received through correspondence to the Executive Office, and via the ERS website, were tracked manually. Problems, concerns and complaints received by the contact center were handled by Customer Benefits staff and were reported as part of total call volume reports produced by that program. These reports did not specifically identify complaints separately from inquiries or administrative requests; therefore, the reported numbers for FY13 are much lower.

In January 2014, ERS implemented a more comprehensive tracking system to consistently capture complaints received through multiple venues, including issues handled by the ERS Contact Center, where 80%-90% of all complaints and other escalated issues are handled. In February 2014, Phase 2 of the new system was implemented to increase security for sensitive data in the complaint and issue descriptions, improve reporting capabilities and expand access across the agency to capture complaints received in any area. A governance structure was created to provide monitoring to capture all complaints received and addressed by the agency. The new system categorizes complaints by general subject, such as plan design, a specific vendor or ERS operational functions like the website or customer service. ERS does not currently differentiate between complaints received against the agency directly and those received related to vendor performance; all complaints are received, reviewed and resolved with the same attention to better serving our members, stakeholders and the public.

**D. Fill in the following charts detailing your agency's Historically Underutilized Business (HUB) purchases.****Exhibit 62: Purchases from HUBs — Fiscal Year 2013**

Category	Total \$ Spent	Total HUB \$ Spent	Percent	Agency Specific Goal*	Statewide Goal
Heavy Construction	\$0	\$0	0%	0%	11.2%
Building Construction	\$155,131	\$0	0%	2%	21.1%
Special Trade	\$240,928	\$24,179	10.04%	17%	32.7%
Professional Services	\$2,312,806	\$0	0%	8%	23.6%
Other Services	\$13,153,137	\$1,860,592	14.15%	5%	24.6%
Commodities	\$1,957,043	\$171,564	8.77%	24%	21.0%
<b>TOTAL</b>	<b>\$17,819,047</b>	<b>\$2,056,336</b>	<b>11.54%</b>		

**Exhibit 62 HUB Purchases for FY13**

\* These goals were established May 2012, with input from the Comptroller of Public Accounts, based on overall performance percentages from Fiscal Year 2006 through Fiscal Year 2009.

**Exhibit 63: Purchases from HUBs — Fiscal Year 2014**

Category	Total \$ Spent	Total HUB \$ Spent	Percent	Agency Specific Goal*	Statewide Goal
Heavy Construction	\$0	\$0	0%	0%	11.2%
Building Construction	\$93,443	\$0	0%	2%	21.1%
Special Trade	\$163,418	\$42,099	25.76%	17%	32.7%
Professional Services	\$1,030,253	\$0	0%	8%	23.6%
Other Services	\$14,516,536	\$2,717,914	18.72%	5%	24.6%
Commodities	\$2,213,051	\$582,432	26.32%	24%	21.0%
<b>TOTAL</b>	<b>\$18,016,703</b>	<b>\$3,342,446</b>	<b>18.55%</b>		

**Exhibit 63 HUB Purchases for FY14**

\* These goals were established May 2012, with input from the Comptroller of Public Accounts, based on overall performance percentages from Fiscal Year 2006 through Fiscal Year 2009.

**Exhibit 64: Purchases from HUBs — Fiscal Year 2015\***

Category	Total \$ Spent	Total HUB \$ Spent	Percent	Agency Specific Goal*	Statewide Goal
Heavy Construction	\$0	\$0	0%	0%	11.2%
Building Construction	\$80,225	\$0	0%	2%	21.1%
Special Trade	\$980,937	\$242,029	24.67%	17%	32.7%
Professional Services	\$4,443,793	\$0	0%	8%	23.6%
Other Services	\$49,267,504	\$17,303,447	25.12%	5%	24.6%
Commodities	\$4,255,253	\$1,114,261	26.19%	24%	21.0%
<b>TOTAL</b>	<b>\$59,027,711</b>	<b>\$18,659,737</b>	<b>31.61%</b>		

**Exhibit 64 HUB Purchases for FY15**

\* Fiscal Year 2015 information is provided from the Semi-Annual Report and data from 3rd Quarter HUB Assessment, September 1, 2014 through May 30, 2015.

**E. Does your agency have a HUB policy? How does your agency address performance shortfalls related to the policy? (Texas Government Code, Sec. 2161.003; TAC Title 34, Part 1, rule 20.15b)**

ERS follows the policies and procedures detailed in the *State Procurement Manual*, including those pertaining to HUB requirements. (The State Procurement Manual is available on the Comptroller of Public Accounts website.) ERS division employees are encouraged to consider HUB options in procurement decisions when appropriate within the context and environment of the business need.

**F. For agencies with contracts valued at \$100,000 or more: Does your agency follow a HUB subcontracting plan to solicit bids, proposals, offers or other applicable expressions of interest for subcontracting opportunities available for contracts of \$100,000 or more? (Texas Government Code, Sec. 2161.252; TAC Title 34, Part 1, rule 20.14)**

In regards to HUB subcontracting opportunities to ERS solicitations, the agency includes the following language in RFP documents:

*Historically Underutilized Business (HUB) Subcontractor*

*ERS makes a good faith effort to assist HUBs in receiving agency contract awards and expects that Respondents make a good faith effort to utilize HUBs as subcontractors. If Respondent subcontracts any of the work under the SOW with a HUB or other business, Respondent shall identify all proposed HUB and other subcontractors at the time of response submittal. The required forms with video instruction can be found at the following website: <http://www.window.state.tx.us/procurement/prog/hub/hub-subcontracting-plan/>.*

**G. For agencies with biennial appropriations exceeding \$10 million, answer the following HUB questions.**

**1. Do you have a HUB coordinator? If yes, provide name and contact information. (Texas Government Code, Sec. 2161.062; TAC Title 34, Part 1, rule 20.26)**

Yes, ERS has assigned HUB coordination responsibilities to the following contact:

Chris Wood, Team Lead, Purchasing Office

(512) 867-7160

[chris.wood@ers.state.tx.us](mailto:chris.wood@ers.state.tx.us)

**2. Has your agency designed a program of HUB forums in which businesses are invited to deliver presentations that demonstrate their capability to do business with your agency? (Texas Government Code, Sec. 2161.066; TAC Title 34, Part 1, rule 20.27)**

ERS provides multiple opportunities for HUB and small business vendors to interact with agency staff and communicate with program representatives in a regular and meaningful way. ERS sponsors informational tables at local events and participates in spot bid fairs including HUB vendors. The agency has not designed a program specifically for HUB vendors to deliver presentations to agency personnel; however, it does provide a monthly forum for any vendor interested in demonstrating its capabilities or benefit to the agency. These forums are referred to as Solution Sessions and allow vendors to present product/service demonstrations or educational presentations to a cross-section of ERS program staff. The sessions result in agency staff discussions of the applicability of the product or service to ERS programs and whether there is a potential benefit to constituent services. If both applicability and potential benefit are identified, ERS staff considers the development and release of a competitive solicitation to acquire the relevant products or services, during which appropriate consideration is given to HUB participation.

**3. Has your agency developed a mentor-protégé program to foster long-term relationships between prime contractors and HUBs and to increase the ability of HUBs to contract with the State or to receive subcontracts under a state contract? (Texas Government Code, Sec. 2161.065; TAC Title 34, Part 1, rule 20.28)**

ERS has developed policies and procedures for a mentor-protégé program. The agency's Investments division has developed an emerging manager program pursuant to Texas Government Code requirements that ERS make a good faith effort to acquire financial services from emerging managers, defined as private professional investment managers with less than \$2 billion in assets under management. The objective of the ERS Emerging Manager Program is to identify smaller managers that can benefit the trust by enhancing ERS' risk-adjusted returns, net of fees. ERS staff has determined that, over the long term, inclusion of emerging managers as part of external investment management strategy will enhance and diversify ERS' expected trust portfolio and complement ERS' internal investment management activities. ERS seeks to provide open access to all managers and ensure an inclusive approach when investing the trust's capital.

ERS is using a hybrid approach to structure the program. ERS will use managers from selected emerging manager firms as they demonstrate the resources, experience, relationships and industry knowledge to benefit the diversity of trust operations. The trust also looks for prudent ways to invest directly with emerging managers. Such direct relationships with emerging managers are dependent on the ability of the strategy to meet ERS' strategic and tactical goals of each respective asset class, taking into account different risk-return profiles. The Emerging Manager Program maintains a goal of committing 10% of externally managed assets to firms participating in the program. All commitments are made in collaboration with ERS asset class directors and follow their respective Policies and Procedures and Annual Tactical Plans. ERS had more than \$600 million invested or committed to emerging managers as of May 31, 2015. The agency is working toward building the program out to a total of \$1 billion by Fiscal Year 2019. Specific policies related to the Emerging Managers Program can be found in Addendum XV of the ERS Investment Policy.

**H. Fill in the charts below detailing your agency’s Equal Employment Opportunity (EEO) statistics.**

**Equal Employment Opportunity Statistics**

**Exhibit 65: Officials / Administration**

Year	Total Number of Positions	Percent African-American	Statewide Civilian Workforce Percent	Percent Hispanic	Statewide Civilian Workforce Percent	Percent Female	Statewide Civilian Workforce Percent
2013	15	0.00%	8.99%	26.67%	19.51%	46.67%	39.34%
2014	16	0.00%	8.99%	18.75%	19.51%	50.00%	39.34%
2015*	16	0.00%	8.99%	12.50%	19.51%	43.75%	39.34%

**Exhibit 65 EEO Statistics for Officials/Administration**

\*2015 data as of May 31, 2015

**Exhibit 66: Professional**

Year	Total Number of Positions	Percent African-American	Statewide Civilian Workforce Percent	Percent Hispanic	Statewide Civilian Workforce Percent	Percent Female	Statewide Civilian Workforce Percent
2013	153	5.23%	11.33%	11.75%	17.4%	49.67%	59.14%
2014	165	4.24%	11.33%	13.33%	17.4%	52.12%	59.14%
2015*	179	3.91%	11.33%	14.53%	17.4%	53.63%	59.14%

**Exhibit 66 EEO Statistics for Professionals**

\*2015 data as of May 31, 2015

**Exhibit 67: Para-Professional**

Year	Total Number of Positions	Percent African-American	Statewide Civilian Workforce Percent	Percent Hispanic	Statewide Civilian Workforce Percent	Percent Female	Statewide Civilian Workforce Percent
2013	78	12.82%	14.68%	12.82%	48.18%	48.20%	40.79%
2014	69	18.84%	14.68%	11.59%	48.18%	42.28%	40.79%
2015*	73	21.92%	14.68%	12.33%	48.18%	45.01%	40.79%

**Exhibit 67 EEO Statistics for Para-Professional**

\*2015 data as of May 31, 2015

**Exhibit 68: Technical**

Year	Total Number of Positions	Percent African-American	Statewide Civilian Workforce Percent	Percent Hispanic	Statewide Civilian Workforce Percent	Percent Female	Statewide Civilian Workforce Percent
2013	57	10.53%	14.16%	15.79%	21.36%	36.84%	41.47%
2014	62	8.07%	14.16%	14.52%	21.36%	40.32%	41.47%
2015*	64	7.81%	14.16%	10.94%	21.36%	37.50%	41.47%

**Exhibit 68 EEO Statistics for Technical**

\*2015 data as of May 31, 2015

**Exhibit 69: Administrative Support**

Year	Total Number of Positions	Percent African-American	Statewide Civilian Workforce Percent	Percent Hispanic	Statewide Civilian Workforce Percent	Percent Female	Statewide Civilian Workforce Percent
2013	18	16.67%	13.57%	50.00%	30.53%	66.67%	65.62%
2014	18	11.11%	13.57%	50.00%	30.53%	66.67%	65.62%
2015*	17	17.65%	13.57%	52.94%	30.53%	70.59%	65.62%

**Exhibit 69 EEO Statistics for Administrative Support**

\*2015 data as of May 31, 2015

**Exhibit 70: Service / Maintenance**

Year	Total Number of Positions	Percent African-American	Statewide Civilian Workforce Percent	Percent Hispanic	Statewide Civilian Workforce Percent	Percent Female	Statewide Civilian Workforce Percent
2013	2	0.00%	14.68%	50.00%	48.18%	0.00%	40.79%
2014	2	0.00%	14.68%	50.00%	48.18%	0.00%	40.79%
2015*	2	0.00%	14.68%	50.00%	48.18%	0.00%	40.79%

**Exhibit 70 EEO Statistics for Service and Maintenance**

\*2015 data as of May 31, 2015

**Exhibit 71: Skilled Craft**

Year	Total Number of Positions	Percent African-American	Statewide Civilian Workforce Percent	Percent Hispanic	Statewide Civilian Workforce Percent	Percent Female	Statewide Civilian Workforce Percent
2013	0	0.00%	6.35%	100.00%	47.44%	0.00%	4.19%
2014	0	0.00%	6.35%	100.00%	47.44%	0.00%	4.19%
2015*	0	0.00%	6.35%	100.00%	47.44%	0.00%	4.19%

**Exhibit 71 EEO Statistics for Skilled Craft**

\*2015 data as of May 31, 2015

**I. Does your agency have an equal employment opportunity policy? How does your agency address performance shortfalls related to the policy?**

Yes, the ERS Human Resources division maintains a comprehensive equal employment opportunity policy defined within the agency's employee handbook. The policy, in part, states:

"The Employees Retirement System of Texas (ERS) is committed to the principles of Equal Employment Opportunity (EEO) law. The ERS' employment practices will be carried out in accordance with all applicable laws prohibiting discrimination. Employment decisions will be made without regard to an applicant's or employee's race, color, disability, sex, religion, age, national origin or veteran's status. The ERS strives to recruit qualified applicants in protected classes and complies with all applicable laws in the selection of applicants for employment. An ERS employee who violates the agency's EEO policy is subject to disciplinary action up to and including dismissal."

ERS' Director of Human Resources serves as the EEO coordinator, with the authority to represent the Executive Director, who holds primary responsibility for the overall development, implementation, coordination and monitoring of the program. Each new ERS employee receives specific training during orientation on the agency's policies and procedures prohibiting discrimination and sexual harassment; employees receive follow-up training on these policies every two years.

## XI. AGENCY COMMENTS

No additional comments are provided.

## APPENDIX A:

### EMPLOYEES RETIREMENT SYSTEM OF TEXAS EXTERNAL REPORTING REQUIREMENTS

## Employees Retirement System of Texas External Reporting Requirements

Report Title	Legal Requirement (Statute, Rule or Administrative Reference)	Due Date	Frequency	Report Contents	Is the report Needed and Useful?	Explanation	Responsible Division / Program
Personal Financial Statement (Executive Director and Board of Trustees)	Government Code Chapter 572	No Later than April 30	Annual	Personal financial statements must be filed with the Texas Ethics Commission by the Executive Director and members of the Board of Trustees. Requires disclosure of all sources of income, securities and real estate holdings, gifts and other financial information.	Yes	Provides operational transparency into the ethical and fiduciary conduct of agency leadership.	Executive Office
Internal Audit Annual Report	Government Code Chapter 2102.009	Before November 1	Annual	Overview of internal audit activities during the previous fiscal year.	Yes	Provides transparency and accountability into Internal Audit operations and, through such reviews, the general business operations of the agency.	Internal Audit
Quality Assurance Review	Government Code Chapter 2102.009	(no specific due date)	Every 3 years	Regular independent review to determine Internal Audit staff compliance with Institute of Internal Auditors (IIA) auditing standards.	Yes	Provides confirmation of the quality of internal ERS operations related to external industry standards.	Internal Audit
Report on State Auditor's Recommendations	Government Code Chapter 321.014	Schedule set by the State Auditor's Office	Schedule set by the State Auditor's Office	Report on an agency's steps to address the findings and recommendations contained in previous SAO reports.	Yes	Provides transparency and accountability in the performance and outcomes of ERS operations.	Internal Audit
Cost Management and Fraud Report (Texas Employees Group Benefits Program)	Insurance Code Chapter 1551.061	January 1	Annual	An annual report on the effectiveness and efficiency of managed care cost containment practices, and fraud detection and prevention procedures with the GBP.	Yes	Provides valuable information about the financial and structural operations of employee benefits operations; used by political leadership, policy decision makers, agency executives and the ERS Board to determine changes and funding for related programs.	Government Affairs
Annual Certification of GBP State Contribution	2015 General Appropriations Act, ERS Rider 6	Upon adoption of insurance rates.	Annual	Per capita monthly contribution required for each full-time active and retired employee enrolled for coverage during the fiscal year.	Yes	Provides support for final expenditures incurred in relation to the legislatively approved estimated appropriations.	Benefit Contracts
EEO Workforce Summary	Labor Code Chapter 21.553	October	Annual	Federally required report detailing Equal Employment Opportunity statistics for the ERS workforce.	Yes	Provides transparency and accountability to state and federal workforce regulations.	Human Resources

## Employees Retirement System of Texas External Reporting Requirements

Report Title	Legal Requirement (Statute, Rule or Administrative Reference)	Due Date	Frequency	Report Contents	Is the report Needed and Useful?	Explanation	Responsible Division / Program
Workforce Plan	Government Code Chapter 2056.0021	(no specific due date)	Every 2 years	Workforce demographics and agency strategic plans for creating and maintaining a workforce capable of meeting ERS' statutory responsibilities.	Yes	As a part of the agency's Strategic Plan, supports ERS's goal of recruiting the best-qualified applicants for jobs.	Human Resources
Veterans Workforce Summary	Government Code Chapter 657.008	(no specific due date)	Quarterly	Provides the number of Veterans employed by the agency, if they qualify for the veterans preference status, and any complaints received or resolved relating to veterans employment decisions.	Yes	Provides transparency and accountability to state and federal workforce regulations.	Human Resources
Investment Policy	Government Code Chapter 802.202	No later than 90th day after the policy is adopted	As Needed	A written policy governing the activities and operations of the ERS Investment Division employees in managing the investment of trust fund assets.	Yes	Provides transparency and accountability to the investment operations of the agency.	Investments
Investments Annual Summary	Government Code Chapter 815.510	No later than the 25th day of the month following the end of each fiscal year	Annual	The report includes: (1) the end-of-fiscal year market value of the trust fund; (2) asset allocations of the trust fund; and (3) the investment performance of the trust fund using accepted industry measurement standards.	Yes	Provides transparency and accountability into the performance and outcomes of ERS investment operations.	Investments
Financial Advisor Disclosures	Government Code Chapter 2263	No later than April 15	Annual	Disclosures by outside financial advisors to report any relationships or pecuniary interests that may conflict with the advice and service they provide to the agency.	Yes	Provides transparency and accountability to ERS investment operations' adherence to state ethics requirements.	Investments
Sudan Investments	Government Code Chapter 806.102	No later than December 31	Annual	Reports on investments sold, redeemed, divested or withdrawn related to the requirements of this statute.	Yes	Provides transparency and accountability to the investment operations of the agency.	Investments
Iran Investments	Government Code Chapter 807.102	Not later than December 31	Annual	Reports on investments sold, redeemed, divested or withdrawn related to the requirements of this statute.	Yes	Provides transparency and accountability to the investment operations of the agency.	Investments
OAG Open Records Report	Government Code 552.010	Not Specified	Monthly	Reports all Public Information Act (PIA) requests received by ERS including: category of request; amount received from requestor; whether briefing and/or redacting was required; and training provided by ERS.	Yes	Provides transparency and accountability to ERS PIA activities.	Legal Services
Report on Customer Service	Government Code Chapter 2114	June 1	Even numbered years	Report on customer satisfaction with ERS services and facilities based on collected survey data including: inventory of customers; survey methodology; cost; analysis methods; and performance measure results.	Yes	Provides data and performance metrics to evaluate the agency's provision of services to target populations.	Customer Benefits

## Employees Retirement System of Texas External Reporting Requirements

Report Title	Legal Requirement (Statute, Rule or Administrative Reference)	Due Date	Frequency	Report Contents	Is the report Needed and Useful?	Explanation	Responsible Division / Program
Actuarial Valuation Audit Report	Government Code Chapter 802.1012	No later than the 30th day after the final audit	Every 5 years	Valuation of the assets and liabilities of the retirement trust fund based on assumptions and methods that are reasonable	Yes	Provides an audit of the actuarial valuations and studies by an independent party.	Finance
Actuarial Experience Study	Government Code Chapter 815.206	(no specific due date)	Every 5 years	Actuarial investigation of the mortality, service and compensation experience of the members and beneficiaries of the retirement system	Yes	Ensures that assumptions on which actuarial valuation is based are adjusted to reflect changing trends.	Finance
Investment Summary	Government Code Chapter 815.510	No later than 25th day of the month following the end of FY	Annual	Current end of year fiscal market value of the trust fund; asset allocations of the trust fund expressed in percentages of stocks, fixed income, cash or other financial investments; and investment performance of the trust fund utilizing accepted industry measurement standards	Yes	Provides information on economy and economic conditions to the Governor, Lieutenant Governor, Speaker and oversight agencies	Finance
Strategic Plan	Government Code Chapter 2056	On or before July 7	Biennial	Agency's goals, objectives, strategies, outcome and output measures, HUB plan, Workforce Plan, Customer Service Report	Yes	Communicates agency's goals and direction to Governor, Legislature, client and constituency groups.	Finance
Legislative Appropriations Request	Government Code 2161.127; Article IX §7.01 2014-15 General Appropriations Act	On or before August 27	Biennial (even number years) (See Operating Budget)	Itemized budget of state contributions to agency programs for the previous year, current and future biennia; targets and actuals for key performance measures; Information on Agency Funds held outside the GAA bill pattern; HUB utilization	Yes	Provides the agency an opportunity to express funds required to meet normal cost and actuarial soundness for the pension costs, the funds necessary for the group benefit plan, and propose rider changes. Note: Base reconciliation which forms the basis of this request is due in June.	Finance
Operating Budget	Article IX § 7.01 2014-15 General Appropriations Act	On or before December 1	Annual (LAR meets this requirement for odd yrs)	Itemized expenditures of state contributions to agency programs for the previous year and budget for the current biennium	Yes	Provides updated expenditure information and any adjustments the agency may be aware of to current budget such as change in federal revenues	Finance

## Employees Retirement System of Texas External Reporting Requirements

Report Title	Legal Requirement (Statute, Rule or Administrative Reference)	Due Date	Frequency	Report Contents	Is the report Needed and Useful?	Explanation	Responsible Division / Program
Information Technology Detail (ITD)	Govt. Code Chapter 2054	On or before August 27 (Replaced by BOP)	Biennial (even number years)	The ITD is a tool that agencies use to plan for the appropriate use of information resources to support their mission, goals, objectives and strategies. The ITD is organized around four categories of expenditures: Projects greater than \$100,000; Daily Operations; Data Center Consolidation; and Project One	Yes	Used by the agency, LBB and DIR for information technology expenditures planned by the agency to support its goals and objectives. Provides an opportunity to evaluate across agencies for streamlining and efficiency.	Finance
Biennial Operating Plan (BOP)	Govt. Code §2054.102	Due with LAR (Replaced the ITD)	Biennial	The BOP is a tool that agencies use to plan for the appropriate use of information resources to support their mission, goals, objectives and strategies.	Yes	Provides information to LBB and DIR on planned information technology expenditures for the year	Finance
Performance Measures Reporting	Article IX § 7.01 2014-15 General Appropriations Act	Due no later than one month after the end of the quarter	Quarterly	Comparison of actual to targeted performance for key measures. Explanation of variances exceeding 5%	Yes	Allows ERS the ability to timely report significant variances from target. It should be noted that typically ERS is within 5% so there are not variances to explain.	Finance
Comprehensive Annual Financial Report	Govt. Code Chapter 802.102	No later than Dec 20	Annual	Audited Financial Statements, Investment Information, Actuarial reports and Statistical Information	Yes	Used by Bond Rating Houses, Governor, Members of the Legislature to assess the health of the state's retirement system	Finance
Encumbrance Report	TX Constitution Article III, Section 49-g and Article VIII, Section 6; Govt. Code Chapters 403.021, 403.071	No later than Oct 30	Annual	Payables and binding encumbrances by appropriation.	Yes	Utilized by the Comptroller for preparation of the Statewide CAFR and determination of unspent appropriations. Internal deadline is early September to meet ERS CAFR deadlines.	Finance
Annual Financial Report	Govt. Code Chapter 2101.011; Article IX 7.02 2014-15 General Appropriations Act	No later than Nov. 20 (Note: Due dates for schedules which comprise the AFR vary)	Annual	Unaudited Financial Statements (11/20); Payroll Related Costs report (first week of September); Federal Schedule of Expenditures and Financial Assistance (SEFA) Initial Certification (9/18); Interfund Activity and Transfers (9/26); SEFA Pass through Certification (9/28) SEFA Final Certification (11/1); General Revenue Certification (due 11/1); Schedule of Collective Pension Amounts (11/20); Fluctuation Analysis (11/20); Various notes including leases and long-term liabilities (11/20)	Yes	Used by the Comptroller's office to prepare the Statewide CAFR. For efficiency, ERS prepares the CAFR and submits it for compliance with this Article.	Finance

## Employees Retirement System of Texas External Reporting Requirements

Report Title	Legal Requirement (Statute, Rule or Administrative Reference)	Due Date	Frequency	Report Contents	Is the report Needed and Useful?	Explanation	Responsible Division / Program
Annual Certification Due for USAS Balances for Imprest, Petty Cash and Travel Advance Accounts	Government Code Sec 403.013	9-Jul	Annual	Verification of the accuracy of USAS balances (petty cash/travel advances) and/or correction thereof	Yes	Information is used for the Annual Cash Report issued by the Comptroller as well as the Statewide CAFR.	Finance
Fair Value of Investments	Government Code Sec 403.013, GASB 31	September 14	Annual	Fair value of assets as of the last day of the fiscal year.	Yes	Used for the ERS CAFR and the Comptroller's Annual Cash Report	Finance
Capital Expenditure Plan Reporting Exemption Form	Article IX § 11.02 2014-15 General Appropriations Act	July 1	Biennial (even number years)	Capital renewal, property acquisition, repair and renovation and information resource projects planned for the next five years for which the project exceeds \$1 million in any one year.	Yes	Used by Bond Review Board and the LBB in preparation/review of Legislative Appropriation Requests and the Appropriations Act. ERS is exempt but submits the waiver biennially.	Finance
State Property Accounting System (SPA) Annual Financial Report Reconciliation – additions, deletions, reclassifications and depreciation	Govt. Code Sec. 403.271	October 20	Annual	Certification of the accuracy of State Property Accounting fiscal balances and note requirements	Yes	Utilized by the Comptroller for preparation of the Statewide CAFR.	Finance
Non-Financial Annual Report (Other Required Information)	Govt. Code §2101.0115	On or before December 31	Annual	Various pieces of information including but not limited to: professional/consulting and legal service fees; HUB utilization; space occupied; recycled, remanufactured and environmentally sensitive purchases	Yes	Used by oversight agencies to assess agency performance/ compliance with various Article IX and Government Code requirements	Finance
Revenue Survey	Article IX §7.06 2014-15 General Appropriations Act	November 20	Annual	Fees assessed/collected by the agency	Yes	Provides information to the LBB and Comptroller on revenue sources and revenue management of state agencies	Finance
FORM 941 Employers Quarterly Federal Tax Return	Internal revenue Service	April 30, July 31, October 31, January 31	Quarterly	Payroll tax report	Yes	Reports tax liability and payments	Finance
FORM 720 Quarterly Federal Excise Return	Internal revenue Service	July 31	Annual	Patient Center Outcome Research Institute Fee	Yes	Affordable Care Act (ACA) insurance fees	Finance
Form W-2/W-3 and W-2 (c)/W-3 (c)	26 U.S. Code §6051	To employees Jan 31 of following year; To IRS March 31	Annual	Wage reporting	Yes	IRS reporting	Finance

## Employees Retirement System of Texas External Reporting Requirements

Report Title	Legal Requirement (Statute, Rule or Administrative Reference)	Due Date	Frequency	Report Contents	Is the report Needed and Useful?	Explanation	Responsible Division / Program
Form 1094B; 1095B	26 U.S Code §6055	Jan 31 to employees; March 31 to IRS	Annual	Enrollment information in health plans	Yes	Utilized by IRS to ensure coverage and/or assess tax penalties	Finance
Form 1094C; 1095C	26 U.S Code §6056	Jan 31 to employees; March 31 to IRS	Annual	Health insurance coverage offered by the employer	Yes	Utilized by IRS to ensure coverage and/or assess tax penalties	Finance
Form 1099MISC/1096	26 U.S Code §6041A	To Recipients January 31 to IRS March 31	Annual	Contract labor payments	Yes	IRS reporting	Finance
General Revenue Group Insurance Premium Transfers	Art III Higher Education Employees Group Insurance Contribution Rider 6(b) 2014-15 General Appropriations Act	December 1	Annual	Transfers of general revenue contributions for insurance to the institutions of higher education and junior/community colleges	Yes	Provides information to LBB and Comptroller on institution's group benefit insurance appropriations under or overfunding.	Finance
Unclaimed Property	§74.101 Texas Property Code	December 31	Annual	Report on property valued at more than \$250 that is presumed abandoned to the Comptroller's Office	Yes	To clear any funds not reported/claimed	Finance
Schedule of Employer Allocations	GASB 68	December 31	Annual	Percentage of the liability of each pension fund allocated to each state agency	Yes	Provides pension liability information to state agencies which issue stand-alone financial statements	Finance
Benefits Proportional by Fund APS 011	Article IX, Sections 6.08, 8.02(d) 2014-15 General Appropriations Act	September 4	Annual	Report detailing the payment of benefits from agency's funding sources to determine proportionality paid from GR with the overall funding sources available to the agency	Yes	Outlines whether funds are due to GR. ERS does not pay funds from GR so a statement of exemption is filed.	Finance
Contracts of \$100,000 or more	Government Code, Chapter 2054.126(d)	As Applicable	Annual	Posting all contracts of \$100,000 or more to the agency website.	Yes	Promotes transparency with agency procurement.	Finance
Historically Underutilized Business (HUB) Report	Government Code §§2161.121(b), 2161.122, 2161.124, State of Texas Procurement Manual (PM) Section 2.28	March 15 and September 15	Twice annually	Supplemental Data, showing number of bids submitted by HUB vendors and number of contracts awarded to HUB vendors	Yes	The information is useful in seeing the volume of responses and awards we are experiencing with HUBs.	Finance

## Employees Retirement System of Texas External Reporting Requirements

Report Title	Legal Requirement (Statute, Rule or Administrative Reference)	Due Date	Frequency	Report Contents	Is the report Needed and Useful?	Explanation	Responsible Division / Program
Historically Underutilized Business (HUB) Self-Assessment Tool	Article IX Sec. 7.07(b) 2014-15 General Appropriations Act	30th Day after the end of the preceding quarter	Quarterly	Expenditures, volume of bids, volume of awards, subcontractor reports, and detail of new vendors utilized during quarter.	Yes	The information is useful is seeing the volume responses and awards we are experiencing with HUBs.	Finance
Estimate of Expected Contract Awards (Included in the Annual Procurement Plan)	Government Code 2161.183	No later than the 60th day of the fiscal year	Annual	Estimates of the total value of contract awards the agency expects to make, subject to Section 2161.181 and Chapter 2166	Yes	Used to inform oversight agencies of planned contracts for which they may be opportunities to facilitate volume discounts; increase HUB participation	Finance
Procurement Plan	34 TAC, §20.41(h), PM Section 1.3	November 30th and submit changes as they occur	Annual	Details signing authority, confirms certification and CE hours for procurement staff, and includes internal procedures for procurement.	Yes	Provides information to oversight agencies on agency's certification, training and procurement processes.	Finance
State Business Daily: Procurement Notices	Government Code §2155.083, 34 TAC §20.212	As Needed	As Needed	Publishing solicitations and contract awards that are anticipated to be \$25,000 or greater.	Yes	Promotes transparency in agency procurement.	Finance
State Use Exemptions	PM Section 2.5	15th Working Day of the Month	Monthly	List of all items/services purchases as exceptions. (Not purchased from TIBH)	Yes	Utilized by Comptroller's office to provide the Texas Council on Purchasing from People with Disabilities a listing of items/services purchased as exceptions to Human Resources Code 122.009 and Govt Code Section 2155.138	Finance
Vendor Performance	PM Section 2.36, Government Code §2155.077, 34 TAC §20.108	As Applicable	As Applicable	Performance review of vendor's providing of items/services on purchases of \$25,000 or more.	Yes	The information reported ends up being detailed on the Centralized Master Bidders List—which can be used to determine the reputation of a particular vendor within state government.	Finance
ERS and Retirement Systems Data	State Comptroller	No later than 15 days after fiscal quarter end	Quarterly	Selected financial information regarding State-operated retirement systems	Yes	Used for the quarterly bond report	Finance
F-10 Quarterly Survey of the Finances of Public Employee Retirement Systems	US Office of Management and Budget (OMB)	No later than 40 days after the end of each calendar quarter	Quarterly	Information on contributions, benefit payments, cash, investments asset balances on fair market value	Yes	Information is provided to the US Census Bureau. Allows us to compare information across states.	Finance

## Employees Retirement System of Texas External Reporting Requirements

Report Title	Legal Requirement (Statute, Rule or Administrative Reference)	Due Date	Frequency	Report Contents	Is the report Needed and Useful?	Explanation	Responsible Division / Program
F-12 Annual Survey of State Administered Public Employee Retirement Systems	OMB	No later than 110 days after the end of the fiscal year	Annual	Information on contributions, benefit payments, cash, investments asset balances on fair market value	Yes	Information is provided to the US Census Bureau, US Department of Commerce, Economics and Statistics Administration. Allows us to compare information across states	Finance
Report of U.S. Ownership of Foreign Securities	International and Trade Services Survey Act (22.U.S.C. 3101 et seq.)	March 1 of each year	Annual	Report on the aggregate total of market value of foreign securities that ERS owns at the end of the calendar year	Yes	Report is submitted to the Federal Reserve Bank of New York. The data is used by the U.S. Government in the computation of the U.S. balance of payments accounts and the U.S. international investment position, and in the formulation of international economic and financial policies.	Finance
SEC Form 13F Filing	§13(f) of the Securities Exchange Act	No later than 45 days after the end of each calendar quarter	Quarterly	Information on investment holdings, as defined in the Section 13(f)-1(c) of the Securities Exchange Act, having an aggregate fair market value on the last trading day of any month of any calendar year of at least \$100 million. Section 13(f) securities generally include equity securities that trade on an exchange, certain equity options and warrants, shares of closed-end investment companies, and certain convertible debt securities.	Yes	Increases the availability of information regarding the securities holdings of institutional investors to the public. An institutional investment manager that uses the U.S. mail (or other means or instrumentality of interstate commerce) in the course of its business and exercises investment discretion over \$100 million or more in securities must report its holdings on Form 13F to the SEC.	Finance
Records Retention Schedule	Government Code Chapter 441.185	April	Every third year	Sets minimum retention periods for various types of agency produced documents and records.	Yes	Used to maintain the consistency and integrity of government records maintenance and support operations related to responses to Public Information Act requests.	Operations Support

## APPENDIX B:

### BIOGRAPHICAL INFORMATION OF GOVERNING BODY MEMBERS

## Employees Retirement System of Texas Board of Trustees – Fiscal Year 2015

### **Brian D. Ragland, Chair**



Elected Member (Texas Department of Transportation)  
Term expires: August 31, 2017

Brian D. Ragland was elected to the ERS Board of Trustees in 2011 and serves as one of three elected members. Mr. Ragland serves as the Director of the Finance Division at the Texas Department of Transportation.

He began his career with the University of Texas System Administration as an accountant/auditor in the Oil and Gas Department and then became the Financial Manager of the Employee Group Insurance Section, where he served until 1996. Mr. Ragland has also served as the Chief Financial Officer for the State Preservation Board/Bob Bullock State History Museum and as Senior Vice President and Chief Financial Officer of Walden Affordable Group, LLC, an affordable housing management firm.

Mr. Ragland is a member of the American Institute of CPAs, the Texas State Agency Business Administrators Association and the Texas Public Employees Association. He also is a member and former Chair of the State Agency Coordinating Committee. He is a graduate of the Governor's Executive Development Program.

Mr. Ragland earned his BBA in Accounting at the University of Texas at Austin and his MBA from Southwest Texas State University. He is a licensed Certified Public Accountant.



### **Frederick E. Rowe, Jr., Vice-Chair**

Appointed by the Speaker of the House Joe Straus  
Term expires: August 31, 2020

Frederick (Shad) Rowe was appointed to the ERS Board of Trustees by Speaker of the House Joe Straus. He founded Greenbrier Partners, a Dallas-based investment fund, in 1985. Prior to founding Greenbrier Partners, Mr. Rowe was president of Rowe & Company, Inc. Investment Brokers/Bankers, which he founded in 1978. He began his career at Schneider, Bernet & Hickman, Inc. Investment Bankers where he became vice president and corporate syndicate manager.

Mr. Rowe is a member of the Investment Committee at Texas Health Resources and a former chair of the Texas Pension Review Board, where he served for 12 years. Mr. Rowe co-hosts the annual Great Investors' Best Ideas Foundation symposium, which he co-founded in 2007; serves as president of the Investors for Director Accountability Foundation; is a member of the Executive Committee of Texans for Lawsuit reform; and is on the Board of Directors of The Michael J. Fox Foundation for Parkinson's Research.

Mr. Rowe's articles have appeared in *Forbes*, *Fortune*, *Barron's*, *Grant's Interest Rate Observer*, *Texas Monthly* and *D Magazine*. His comments have appeared in *The New York Times*, *Bloomberg Markets*, *The Wall Street Journal*, and *The Dallas Morning News*, and on CNBC and Bloomberg Television.

Mr. Rowe graduated from Southern Methodist University with a BA in History. After serving active duty as a Junior Officer in the United States Navy, he earned an MBA from the University of Texas at Austin.



### **Doug Danzeiser**

Elected Member (Texas Department of Insurance)

Term expires: August 31, 2019

Douglas “Doug” Danzeiser was appointed to the ERS Board of Trustees in October 2014 to fill a vacant elected position on the Board. He is the Director of the Regulatory Initiatives Office within the Texas Department of Insurance, focusing on the regulation of the life and health insurance markets in Texas. He has conducted investigations of carriers and administrators, and developed legislation and regulation.

Mr. Danzeiser has been an attorney for the State since 1994, working for the Texas Attorney General before moving to Texas Department of Insurance in 2000. Mr. Danzeiser obtained his BBA from the University of Texas at Austin. He received a Doctor of Jurisprudence degree from the University of Texas at Austin School of Law.



### **Cydney Donnell**

Appointed by Governor Rick Perry

Term expires: August 31, 2018

Cydney Donnell was appointed to the ERS Board of Trustees by Governor Rick Perry in June 2007. She is the Director of Real Estate Programs and an Executive Professor at the Mays Business School of Texas A&M University, where she teaches in the Finance Department. Areas of expertise include investments, real estate finance and corporate governance. She also serves as Associate Department Head of the Finance Department.

Formerly a Principal and Managing Director of European Investors/EII Realty Securities, Inc., she served in various capacities at EII, including Chair of the Investment Committee, Portfolio Manager of the real estate securities group, and Vice-President and Analyst. Prior to joining EII, she was a real estate lending officer at RepublicBanc Corporation in Dallas.

Ms. Donnell received the prestigious NAREIT Industry Achievement Award from the National Association of Real Estate Investment Trusts in 2006. The award is presented to recipients who have earned a distinguished reputation within the REIT business community and are recognized for their contributions to the industry and the national trade association. Ms. Donnell also has been named one of the 100 Women Real Estate Leaders for the 21st Century by the Association of Real Estate Women. She has served on the board and institutional advisory committee of NAREIT and in various leadership capacities for the Association of Former Students of Texas A&M University and the Junior League of the City of New York.

Ms. Donnell received a BBA from Texas A&M University and an MBA from Southern Methodist University.



**Yolanda Griego**

Elected Member (Texas Health and Human Services Commission)

Term expires: August 31, 2015

Yolanda “Yoly” Griego was elected to the ERS Board of Trustees in 2003 and serves as one of three elected members. Ms. Griego has been employed at the Texas Health and Human Services Commission (formerly the Texas Department of Human Services) since 1971 and was named Employee of the Year for the El Paso area in 1996.

Ms. Griego is active in a number of civic organizations. She is the Chair of the West Texas State Agencies Association, which was established in 1989 to promote information sharing and networking among state agencies, educational institutions and elected officials to improve services. She is a member of the International Who’s Who of Business Professionals and served as a member of the El Paso Mayor’s Round Table in 1998.

Ms. Griego attended El Paso Community College and the University of Texas at El Paso, majoring in Social Work and Computer Technologies. She has a degree as a Public Accountant and Bilingual Business Secretary from International Business College. Ms. Griego is certified by the state as Spanish Interpreter and holds a Social Service Certification.



**I. Craig Hester, CFA, CIC, Vice President and Principal**

Appointed by Texas Supreme Court Chief Justice Wallace Jefferson

Term expires: August 31, 2016

Mr. Hester was appointed to the ERS Board of Trustees by Texas Supreme Court Chief Justice Wallace Jefferson in November 2005. He currently serves as Chair of the ERS Audit Committee. Mr. Hester has been actively involved in professional investment management since 1972. Prior to joining LKCM in 2013, Mr. Hester formed Hester Capital Management (1989-2012) acting as the Chairman, CEO and Chief Investment Officer. Prior to forming HCM, Mr. Hester served as Director of Regional Asset Management for InterFirst Investment Management (1983-89); Chief Investment Officer of the Texas Municipal Retirement System (1979-1983); Assistant Vice President & Trust Officer at Republic National Bank, Dallas (1977-79); and Senior Analyst for the Teacher Retirement System of Texas (1972-76).

He is on the Advisory Committee of the MBA Investment Fund, LLC of the University of Texas Graduate School of Business. Mr. Hester is a former board member of the University of Texas Investment Management Company (UTIMCO), former Investments Committee member of the University of Texas’ Ex-Student’s Association (past Chair), former member of the Investment Advisory Committee of the Employees Retirement System of Texas (past Chair) and investment advisor to the Teacher Retirement System of Texas. He is the past president of the Austin Investment Association, and a member and past president of the Austin/San Antonio Society of Financial Analysts and the Austin Society of Financial Analysts. He is a former member of the Board of Governors of the Investment Adviser Association (IAA), a current member and past Chairman of the Board of Trustees of the Joe R. and Teresa Lozano Long Center for the Performing Arts, and a former member and past Chair of the Foundation for SafePlace. Mr. Hester is a member of the Executive Committee of the University of Texas Chancellor’s Council and the Littlefield Society.

Mr. Hester received his BBA and MBA at the University of Texas at Austin. He received the Chartered Financial Analyst designation in 1977 and the Chartered Investment Counselor designation in 1992.

## Employees Retirement System of Texas Investment Advisory Committee – Fiscal Year 2015

### **Lenore M. Sullivan, Chair**

Term Expires: February 29, 2016  
1717 Arts Plaza  
Residence 1801  
Dallas, TX 75201

### **James R. Hille, CFA, CAIA, Vice-Chair**

Term Expires: August 31, 2017  
Chief Investment Officer  
Texas Christian University Endowment  
TCU Box 297055  
Fort Worth, TX 76129

### **Caroline Cooley**

Term Expires: December 31, 2016  
Chief Investment Officer - Diversified Funds  
Crestline Investors, Inc.  
201 Main St., Suite 1900  
Fort Worth, TX 76102

### **Monty Jones**

Term Expires: May 31, 2016  
Managing Partner  
FCM Investments  
2200 Ross Ave., Suite 4600W  
Dallas, TX 75201

### **Ken D. Mindell**

Term Expires: August 31, 2016  
Senior VP, Treasurer & Director of Investments  
Rosewood Management Corporation  
2101 Cedar Springs Road, Suite 1600  
Dallas, TX 75201

### **Laura T. Starks, Ph.D.**

Term Expires: August 31, 2015  
Charles E. & Sarah M. Seay  
Regents Chair in Finance  
Finance Department - CBA 6.250  
University of Texas at Austin  
Austin, TX 78712

### **Robert G. Alley, CFA**

Term Expires: August 31, 2015  
730 Honor Drive  
Kerrville, TX 78028

### **Vernon D. Torgerson, Jr., CFA**

Term Expires: August 31, 2017  
Senior Executive Vice President  
Frost National Bank  
P.O. Box 1600  
San Antonio, TX 78296

## APPENDIX C:

### SAMPLE CUSTOMER BENEFITS PERFORMANCE METRIC DOCUMENTS

## C1: ERS Contact Center MIS Report – Fiscal Year 2014

	Sep-13	Oct-13	Nov-13	Dec-13	Jan-14	Feb-14	Mar-14	Apr-14	May-14	Jun-14	Jul-14	Aug-14	YTD	YTD%	Goal Assumptions
Overall Service Level	71.79%	73.24%	71.98%	49.94%	69.71%	71.95%	73.69%	71.90%	72.41%	66.20%	62.40%	56.31%	66.95%		70%/60
ACT Service Level	74.59%	69.03%	72.69%	47.20%	69.92%	69.18%	75.63%	72.68%	72.60%	73.95%	66.30%	66.55%	68.30%		70%/60
CUSTOMER SERVICE											66.55%	67.73%	67.07%		70%/60
ENROLLMENT											65.79%	43.88%	63.37%		70%/60
WITHDRAWAL											65.35%	67.09%	66.17%		70%/60
ERS Service Level	71.37%	75.23%	71.53%	44.33%	67.58%	73.57%	72.42%	72.81%	72.26%	60.47%	53.13%	40.39%	64.07%		70%/60
CUSTOMER SERVICE	73.61%	79.67%	71.81%	51.82%	70.08%	74.89%	75.46%	78.37%	74.91%				72.51%		70%/60
ENROLLMENT	53.85%	100.00%	0.00%	63.56%	100.00%	100.00%	100.00%						65.04%		70%/60
WITHDRAWAL															
INSURANCE	71.71%	75.36%	71.37%	44.34%	67.02%	74.00%	74.82%	72.73%	71.16%	60.70%	53.68%	42.56%	63.94%		70%/60
RETIREMENT	70.32%	73.70%	71.85%	40.86%	68.02%	73.18%	68.87%	71.62%	73.02%	60.57%	52.65%	37.92%	62.67%		70%/60
SPANISH	62.20%	61.43%	66.00%	42.11%	54.49%	51.72%	64.90%	64.39%	57.14%	42.24%	49.79%	26.97%	52.26%		70%/60
Visit Service Level											78.64%	84.66%	81.64%		90%*
VISITOR_APPOINTMENT											84.40%	83.00%	83.73%		90%/10 min
VISITOR INS											87.50%	81.01%	84.17%		90%/10 min
VISITOR RET											71.34%	87.50%	79.44%		90%/20 min
Email Service Level											34.79%	28.38%	32.52%		70%/24hrs
EMAIL-CS											31.96%	18.18%	27.12%		70%/24hrs
EMAIL-Ins											31.08%	28.47%	30.17%		70%/24hrs
EMAIL-Ret											22.95%	27.66%	24.85%		70%/24hrs
EMAIL-SvcPurch											48.25%	35.23%	44.07%		70%/24hrs
Total Interactions Received	43016	40461	34304	42637	36851	30673	31283	30613	30932	35187	53541	39186	448684		
Total Calls Received	41888	39165	33417	41708	35802	29441	30075	29416	29586	33562	51572	37797	433429		
Total Calls Received ACT	28343	25168	22040	29549	22664	18164	17604	17186	17123	20083	36311	22997	277232		
Total Calls Received ERS	13545	13997	11377	12159	13138	11277	12471	12230	12463	13479	15261	14800	156197		
Total Interactions Received ERS	14673	15293	12264	13092	14187	12509	13679	13427	13809	14707	17456	16189	171285		
Total Visits Received											406	405	811		
Total Email Received											1789	984	2773		
CUSTOMER_SERVICE (ERS Sept - June, ACT July - Aug)	1595	1781	1514	1398	1574	1413	1556	1369	1374	0	25410	19930	58914	13.13%	
ENROLLMENT (ERS Sept - June, ACT July - Aug)	13	3	1	118	1	1	6	0	0	0	8675	1079	9897	2.21%	
WITHDRAWAL (Did not exist prior to July)											2226	1988	4214	0.94%	

## C1: ERS Contact Center MIS Report – Fiscal Year 2014

	Sep-13	Oct-13	Nov-13	Dec-13	Jan-14	Feb-14	Mar-14	Apr-14	May-14	Jun-14	Jul-14	Aug-14	YTD	YTD%	Goal Assumptions
INSURANCE	7555	7490	6021	6896	6737	5405	5746	5614	5687	7262	7787	8332	80532	17.95%	
RETIREMENT	4218	4583	3741	3633	4659	4342	5059	5124	5311	6090	7228	6278	60266	13.43%	
SPANISH	164	140	100	114	167	116	104	123	91	127	246	190	1682	0.37%	
ACT (July - Aug = Withdrawal, Customer Service, Enrollment)	28343	25168	22040	29549	22664	18164	17604	17186	17123	20083			217924	48.57%	
VISITOR_APPOINTMENT	101	104	79	83	74	98	111	117	98	109	109	100	1183	0.26%	
VISITOR_CS	135	120	86	118	155	159	130	114	109	135	125	132	1518	0.34%	
VISITOR_RET	101	109	103	98	108	166	150	185	177	193	172	173	1735	0.39%	
EMAIL-CS	159	184	124	111	129	109	109	126	186	166	299	162	1864	0.42%	
EMAIL-Ins	237	291	150	157	141	167	166	196	253	226	525	283	2792	0.62%	
EMAIL-Ret	189	240	172	175	215	248	272	230	365	232	403	273	3014	0.67%	
EMAIL-SvcPurch	206	248	173	191	227	285	270	229	158	167	562	266	2982	0.66%	
Total Interactions Handled	41748	38568	33138	37165	35001	29330	30321	29511	29563	33054	51031	36227	424657		
Total Interactions Handled ERS	13923	14511	11834	11646	13576	11867	13136	12813	13014	13753	16277	14301	160651		
Total calls Handled	40657	37399	32224	36344	33966	28316	29201	28459	28469	31986	49137	35024	411182		
Total Calls Handled ACT	27825	24057	21304	25543	21425	17463	17185	16698	16549	19303	34754	21926	264032		
Total Calls Handled ERS	12832	13342	10920	10801	12541	10853	12016	11761	11920	12683	14383	13098	147150		
Total Visits Handled ERS	190	198	148	155	208	176	216	219	206	257	227	239	2439		
Total Email Visit Handled	1091	1169	914	845	1035	1014	1120	1052	1094	1070	2315	1358	14077		
CUSTOMER_SERVICE (ERS Sept - June, ACT July - Aug)	1419	1613	1363	1108	1399	1284	1439	1249	1233	0	24285	19058	55450	13.06%	
ENROLLMENT (ERS Sept - June, ACT July - Aug)	11	3	1	106	1	1	2	0	0	0	8345	986	9456	2.23%	
WITHDRAWAL (Did not exist prior to July)											2124	1882	4006	0.94%	
INSURANCE	7295	7248	5872	6361	6548	5267	5609	5458	5502	6916	7402	7534	77012	18.14%	
RETIREMENT	3969	4363	3596	3140	4443	4203	4873	4957	5107	5688	6794	5459	56592	13.33%	
SPANISH	138	115	88	86	150	98	93	97	78	79	187	105	1314	0.31%	
ACT (July - Aug = Withdrawal, Customer Service, Enrollment)	27825	24057	21304	25543	21425	17463	17185	16698	16549	19303			207352	48.83%	
VISITOR_APPOINTMENT	101	103	77	78	95	98	115	116	96	100	109	100	1188	0.28%	
VISITOR_CS	97	92	54	61	88	58	83	67	51	83	64	79	877	0.21%	
VISITOR_RET	93	106	94	94	120	118	133	152	155	174	163	160	1562	0.37%	

## C1: ERS Contact Center MIS Report – Fiscal Year 2014

	Sep-13	Oct-13	Nov-13	Dec-13	Jan-14	Feb-14	Mar-14	Apr-14	May-14	Jun-14	Jul-14	Aug-14	YTD	YTD%	Goal Assumptions
EMAIL-CS	162	152	144	105	118	106	104	112	140	153	297	178	1771	0.42%	
EMAIL-Ins	249	247	184	151	148	152	150	183	193	201	525	299	2682	0.63%	
EMAIL-Ret	179	225	188	169	220	221	270	202	329	210	398	293	2904	0.68%	
EMAIL-SvcPurch	210	244	173	187	246	261	265	220	130	149	759	249	3093	0.73%	
ERS Avg Walk-In Visitor Response Time	0:04:55	0:04:39	0:06:36	0:07:13	0:06:21	0:05:56	0:04:36	0:04:57	0:06:10	0:07:04	0:06:28	0:08:07	0:06:06		
ERS Average Speed of Answer (ASA)	0:01:08	0:00:52	0:01:00	0:03:26	0:01:19	0:00:52	0:00:56	0:00:51	0:00:55	0:01:46	0:02:05	0:03:56	0:01:38		
ACT ASA	0:00:38	0:01:21	0:01:12	0:03:50	0:01:27	0:01:08	0:00:46	0:02:52	0:00:54	0:04:58	0:01:20	0:01:22	0:01:49		
ERS Calls Abandoned	713	655	457	1358	597	424	455	469	543	796	876	1702	9045		
Percentage of Calls Abandoned ERS	5.26%	4.68%	4.02%	11.17%	4.54%	3.76%	3.65%	3.83%	4.36%	5.91%	5.74%	11.50%	5.79%		5.00%
ACT Calls Abandoned	518	1111	736	4006	1239	701	419	488	574	780	1557	1071	13200		
Percentage of Calls Abandoned ACT	1.83%	4.41%	3.34%	13.56%	5.47%	3.86%	2.38%	2.84%	3.35%	3.88%	4.29%	4.66%	4.76%		5.00%
ACT Average Abandon Time	0:01:03	0:04:20	0:03:41	0:04:30	0:03:59	0:02:03	0:01:29	0:01:16	0:01:50	0:02:55	0:02:40	0:03:16	0:03:23		
ERS Average Abandon Time	0:02:51	0:01:48	0:01:56	0:04:18	0:02:30	0:01:59	0:03:16	0:01:18	0:03:04	0:02:57	0:02:48	0:04:31	0:03:09		
Total Calls Abandoned	1231	1766	1193	5364	1836	1125	874	957	1117	1576	2433	2773	22245		
Average Abandon Time	0:02:05	0:03:23	0:03:01	0:04:27	0:03:30	0:02:01	0:02:25	0:01:17	0:02:26	0:02:56	0:02:45	0:03:45	0:03:16		
Percentage of Calls Abandoned	2.94%	4.51%	3.57%	12.86%	5.13%	3.82%	2.91%	3.25%	3.78%	4.70%	4.72%	7.34%	5.13%		5.00%
Forecasted Number of Interactions Per FTE	486	472	503	499	518	478	391	415	495	558	689	658	4630		
Average Talk Time	0:06:09	0:06:28	0:06:36	0:06:43	0:07:10	0:07:01	0:07:15	0:06:49	0:06:22	0:06:54	0:07:12	0:06:50	0:06:48		
Average Hold Time	0:00:36	0:00:31	0:00:29	0:00:31	0:00:37	0:00:39	0:01:08	0:00:52	0:00:45	0:01:03	0:01:01	0:01:06	0:00:47		
Average Conference Time											0:00:01	0:00:02	0:00:02		
Average Wrapup Time	0:01:14	0:01:12	0:01:09	0:01:13	0:01:11	0:01:15	0:01:28	0:01:21	0:01:15	0:01:22	0:01:30	0:01:34	0:01:19		
Average Handle Time	0:11:58	0:12:35	0:12:05	0:10:57	0:12:17	0:12:44	0:14:41	0:13:30	0:12:26	0:12:15	0:10:02	0:10:08	0:12:05		
Average Ready Time	0:03:20	0:03:39	0:03:13	0:01:51	0:02:43	0:03:04	0:04:17	0:03:57	0:03:24	0:02:14	0:01:37	0:01:48	0:02:54		
Occupancy Percent	78.24%	77.55%	78.96%	85.57%	81.88%	80.52%	78.19%	77.81%	78.92%	84.78%	86.40%	85.19%	80.64%		
AHT Per Call Skill															
CUSTOMER_SERVICE (ACT skill eff July)												0:07:18	0:06:01	0:06:44	
ENROLLMENT (ACT skill eff July)												0:08:18	0:07:21	0:08:12	
WITHDRAWAL (ACT skill eff July)												0:07:25	0:06:19	0:06:54	

## C1: ERS Contact Center MIS Report – Fiscal Year 2014

	Sep-13	Oct-13	Nov-13	Dec-13	Jan-14	Feb-14	Mar-14	Apr-14	May-14	Jun-14	Jul-14	Aug-14	YTD	YTD%	Goal Assumptions
ACT AHT	0:04:43	0:04:40	0:05:08	0:04:06	0:05:04	0:05:32	0:05:28	0:05:03	0:05:09	0:07:37	0:07:33	0:06:06	0:05:34		
CUSTOMER_SERVICE	0:05:59	0:06:03	0:06:03	0:06:06	0:06:21	0:06:04	0:06:44	0:05:53	0:06:17				0:06:10		
ENROLLMENT	0:04:02	0:00:25		0:05:25	0:07:28	0:04:34	0:00:08						0:05:03		
INSURANCE	0:07:33	0:07:21	0:07:27	0:07:39	0:07:58	0:07:35	0:09:10	0:08:22	0:08:05	0:08:32	0:08:51	0:09:02	0:08:08		
RETIREMENT	0:09:20	0:10:07	0:10:08	0:10:43	0:11:00	0:10:38	0:10:37	0:10:34	0:10:44	0:11:12	0:10:59	0:10:31	0:10:36		
SPANISH	0:06:23	0:06:53	0:08:17	0:07:24	0:07:24	0:07:15	0:06:43	0:06:44	0:06:03	0:06:35	0:06:58	0:07:44	0:07:02		
ACT	0:04:43	0:04:40	0:05:08	0:04:06	0:05:04	0:05:32	0:05:28	0:05:03	0:05:09	0:07:37			0:05:11		
ERS AHT	0:07:55	0:08:06	0:08:10	0:08:22	0:08:52	0:08:35	0:09:26	0:09:01	0:09:01	0:09:43	0:09:50	0:09:38	0:08:55		
AHT Per Non Phone Skill															
VISITOR_APPOINTMENT											0:41:09	0:40:46	0:40:58		
VISITOR_INS											0:31:29	0:31:55	0:31:43		
VISITOR_RET											0:39:11	0:38:27	0:38:49		
EMAIL-CS											0:07:33	0:06:31	0:07:10		
EMAIL-Ins											0:07:33	0:08:38	0:07:57		
EMAIL-Ret											0:08:20	0:10:12	0:09:08		
EMAIL-SvcPurch											0:06:29	0:05:51	0:06:19		
EMAIL/VISIT AHT											0:11:48	0:15:25	0:13:09		
Scheduled Hours	4123:00:06	4620:28:02	3539:01:10	3739:30:06	4098:30:00	3478:00:00	4631:00:00	4466:00:00	4081:45:01	3830:30:00	3938:00:10	3824:30:10	48370:14:45		
Breaks	5.14%	5.26%	5.39%	4.26%	5.35%	5.31%	5.13%	4.44%	5.07%	5.46%	5.76%	5.49%	5.16%		6.25%
Absences															
Planned Percentage	9.02%	7.42%	6.21%	11.38%	6.13%	6.48%	8.24%	7.19%	5.67%	5.12%	1.39%	6.14%	6.73%		7.89%
Vacation	7.12%	5.02%	5.92%	10.06%	3.95%	4.34%	4.51%	5.25%	5.10%	4.57%	1.32%	5.84%	5.22%		6.54%
Scheduled Sick	1.91%	2.05%	0.28%	0.72%	1.71%	1.97%	3.54%	1.66%	0.37%	0.34%	0.00%	0.21%	1.29%		1.35%
Planned FMLA	0.00%	0.35%	0.00%	0.61%	0.46%	0.17%	0.20%	0.28%	0.20%	0.21%	0.06%	0.09%	0.22%		
Unplanned Percentage	4.70%	6.16%	4.28%	6.02%	6.02%	4.92%	4.60%	3.72%	6.85%	6.87%	5.21%	5.56%	5.40%		5.11%
FMLA	2.26%	2.33%	1.30%	2.27%	1.75%	2.25%	1.61%	2.32%	3.61%	3.49%	2.35%	2.18%	2.31%		2.42%
Unscheduled Absence Hours	2.37%	3.14%	2.42%	3.66%	2.70%	1.73%	2.00%	1.40%	3.04%	3.27%	2.86%	3.30%	2.65%		2.31%
Other Leave (Jury, Bereavement, etc)	0.07%	0.69%	0.56%	0.09%	1.57%	0.94%	0.99%	0.00%	0.20%	0.11%	0.00%	0.08%	0.45%		0.38%

## C1: ERS Contact Center MIS Report – Fiscal Year 2014

	Sep-13	Oct-13	Nov-13	Dec-13	Jan-14	Feb-14	Mar-14	Apr-14	May-14	Jun-14	Jul-14	Aug-14	YTD	YTD%	Goal Assumptions
Absence Percentage	13.72%	13.58%	10.49%	17.40%	12.15%	11.41%	12.84%	10.90%	12.52%	11.98%	6.59%	11.70%	12.13%		13.00%
Research	0.88%	0.87%	0.97%	1.02%	1.65%	1.18%	0.51%	0.40%	0.66%	0.33%	0.36%	0.35%	0.76%		1.72%
Projects	3.11%	3.81%	6.02%	2.85%	3.06%	5.14%	5.06%	3.84%	2.78%	2.62%	9.29%	2.03%	4.12%		2.45%
Worklist	4.63%	3.86%	4.35%	2.64%	3.34%	2.58%	1.84%	1.90%	1.74%	1.53%	1.58%	2.01%	2.66%		
System Testing	0.05%	0.00%	0.03%	0.00%	0.00%	0.35%	0.20%	0.04%	1.12%	0.00%	0.00%	0.00%	0.15%		0.18%
Personal	0.22%	0.23%	0.19%	0.20%	0.21%	0.26%	0.17%	0.15%	0.19%	0.17%	0.24%	0.26%	0.21%		0.17%
Outbound Dialing											0.10%	0.11%	0.00%		
Unscheduled Team Lead Activity	0.34%	0.12%	0.11%	0.79%	1.01%	0.05%	0.57%	0.34%	1.14%	0.23%	0.46%	0.28%	0.46%		0.07%
Front Desk (primary coverage)		3.45%	3.04%	3.28%	3.35%	1.03%	1.89%	3.20%	3.72%	4.34%	4.48%	4.31%	3.00%		
Non-Phone Activity Percentage (excludes Worklist & Front Desk)	4.60%	5.04%	7.32%	4.86%	5.94%	6.98%	6.51%	4.77%	5.90%	3.36%	10.44%	6.54%	5.98%		4.59%
Other															
Team Meetings	0.82%	0.44%	0.21%	0.06%	0.23%	0.13%	0.45%	0.93%	0.26%	0.19%	0.06%	0.22%	0.35%		2.31%
One-on-One Meetings	0.51%	0.52%	0.62%	0.44%	0.61%	0.36%	0.19%	0.35%	0.26%	0.14%	0.18%	0.24%	0.37%		0.87%
Formal Training	3.18%	1.16%	1.79%	11.47%	0.81%	2.91%	3.23%	7.73%	0.65%	1.22%	0.07%	0.15%	2.87%		
On the job training											0.00%	0.34%	0.03%		0.87%
System Downtime	0.51%	0.27%	0.12%	0.18%	0.17%	0.23%	1.13%	1.68%	0.34%	0.15%	0.10%	0.03%	0.44%		0.41%
Other Activity Percentage	5.01%	2.39%	2.75%	12.14%	1.82%	3.63%	4.99%	10.70%	1.51%	1.70%	0.41%	0.98%	4.05%		4.46%
Availability Percentage	71.53%	73.74%	74.06%	61.33%	74.73%	72.68%	70.52%	69.19%	75.01%	77.50%	76.90%	75.30%	72.68%		71.70%
Scheduled FT Equivalency (rostered equivalency)	23.79	26.66	20.42	21.58	23.65	20.07	26.72	25.77	23.55	22.10	22.72	22.07	23.25		
Actual Working FT Equivalency (includes OT, excludes absenteeism & unplanned TL - Net FT Equivalency)												23.03	20.69		
Actual FT Equivalency (includes OT - total paid for FT equivalency)												24.64	23.35		

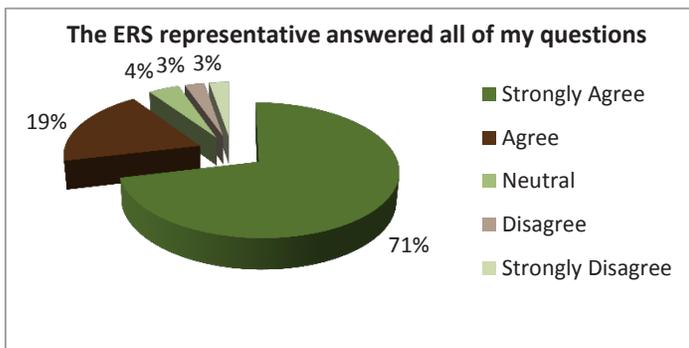
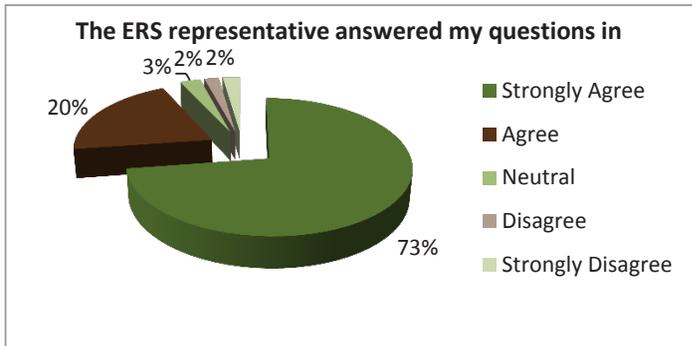
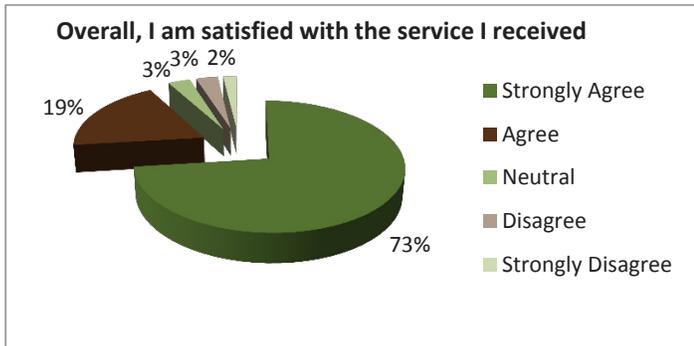
## C1: ERS Contact Center MIS Report – Fiscal Year 2014

	Sep-13	Oct-13	Nov-13	Dec-13	Jan-14	Feb-14	Mar-14	Apr-14	May-14	Jun-14	Jul-14	Aug-14	YTD	YTD%	Goal Assumptions
Cost Per Call															
Average Hourly Salary	\$19.54	\$19.54	\$19.54	\$19.54	\$19.54	\$19.54	\$19.54	\$19.54	\$19.54	\$19.54	\$19.54	\$19.54	\$19.54		
Average Benefits Cost	\$6.25	\$6.25	\$6.25	\$6.25	\$6.25	\$6.25	\$6.25	\$6.25	\$6.25	\$6.25	\$6.25	\$6.25	\$6.25		
Salary & Benefit Cost Per Interaction	\$7.25	\$7.79	\$7.44	\$7.37	\$7.45	\$7.17	\$8.73	\$8.58	\$7.62	\$6.72	\$5.82	\$6.09	\$7.28		
Monthly Agent Hours	173:18:00	173:18:00	173:18:00	173:18:00	173:18:00	173:18:00	173:18:00	173:18:00	173:18:00	173:18:00	173:18:00	173:18:00	173:18:00		
CS Factor	\$36,855.52	\$36,855.52	\$36,855.52	\$36,855.52	\$36,855.52	\$36,855.52	\$36,855.52	\$36,855.52	\$36,855.52	\$36,855.52	\$36,855.52	\$36,855.52	\$36,855.52		
Estimated Facilities Cost Per Interaction	\$2.51	\$2.41	\$3.01	\$2.82	\$2.60	\$2.95	\$2.69	\$2.74	\$2.67	\$2.51	\$2.11	\$2.28	\$2.58		
Estimated Cost Per Interactions	\$9.76	\$10.20	\$10.45	\$10.18	\$10.05	\$10.12	\$11.43	\$11.32	\$10.29	\$9.22	\$7.93	\$8.37	\$9.87		

## Member Satisfaction Survey Activity – May 1 – 31, 2015

### Calls

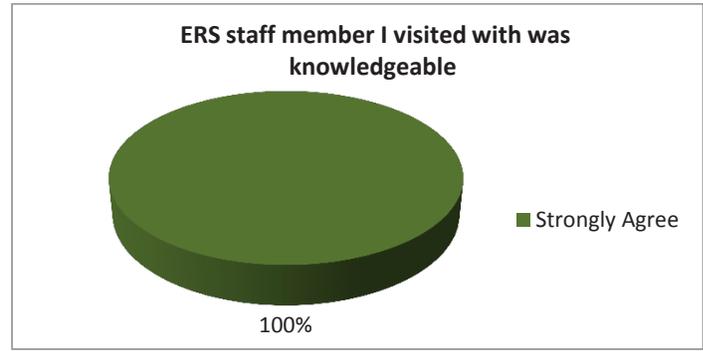
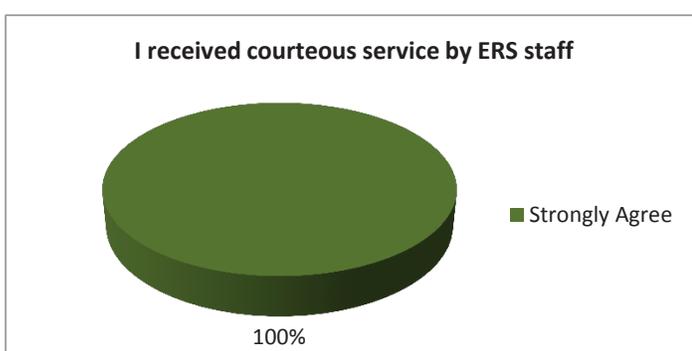
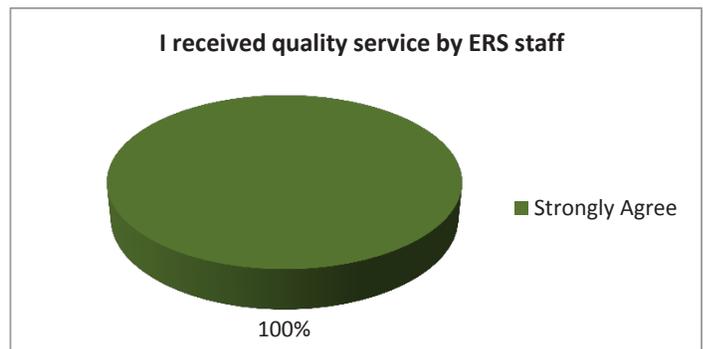
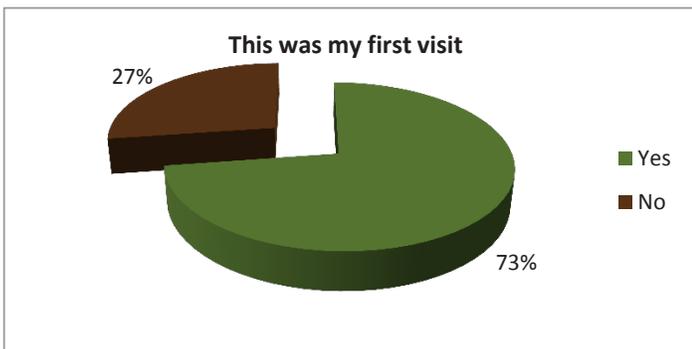
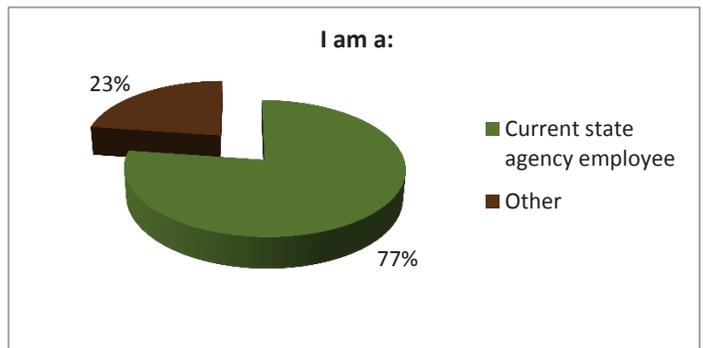
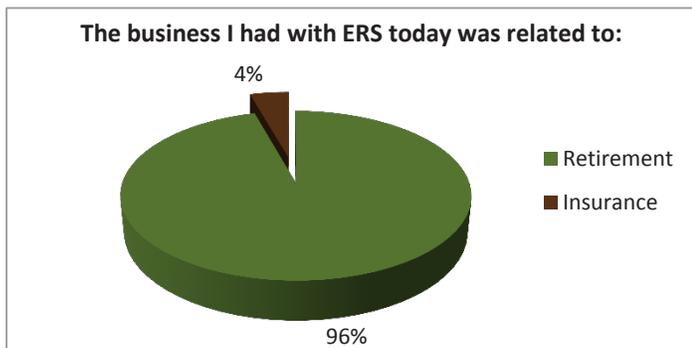
- 1854 survey invitations were sent to a random sampling of members who contacted ERS by telephone, email or in person.
- The intent of the survey is to gauge members' satisfaction with the customer service they received from ERS staff members
- 44 (2.3%) email invitations were returned as undeliverable – this is a .1% decrease from April.
- BIT believes that the query may be returning invalid email addresses because it is capturing both the member's current email address of record but also the email address listed within the profile for the member's Power of Attorney. They are continuing to work with Development to find a solution.
- 262 responses were received – a 14.5% response rate, which is slightly lower than last month (16.1%)

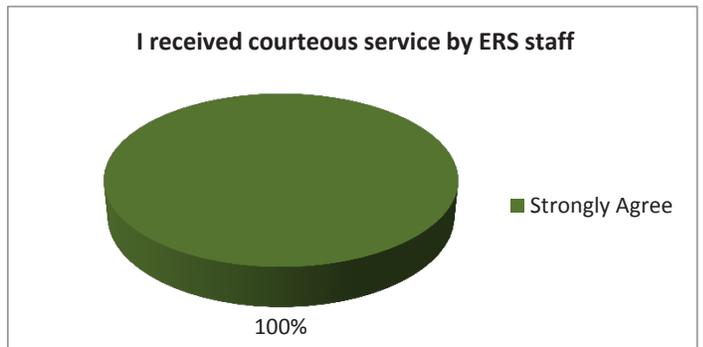
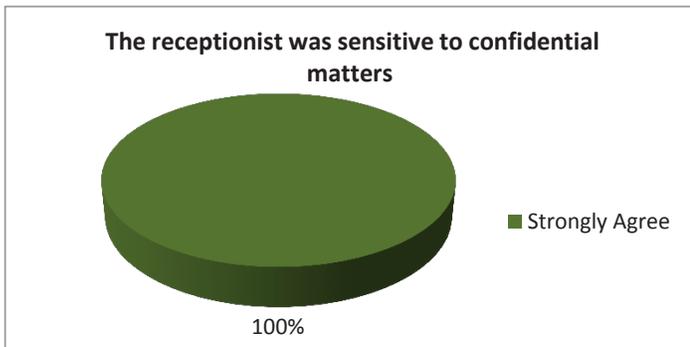
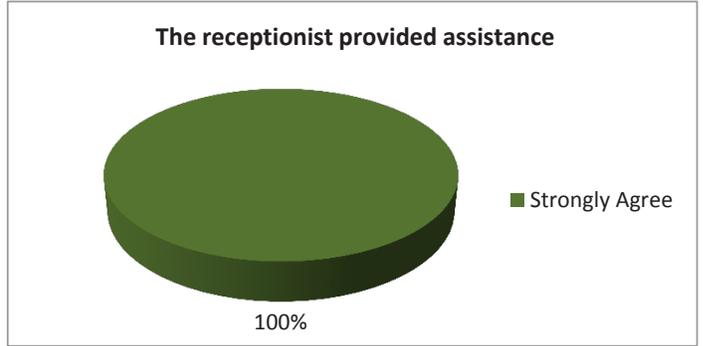
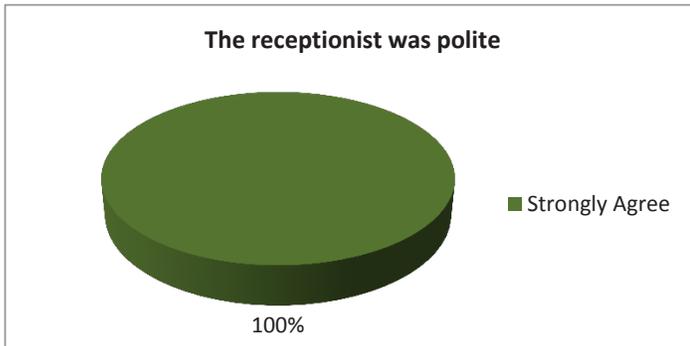
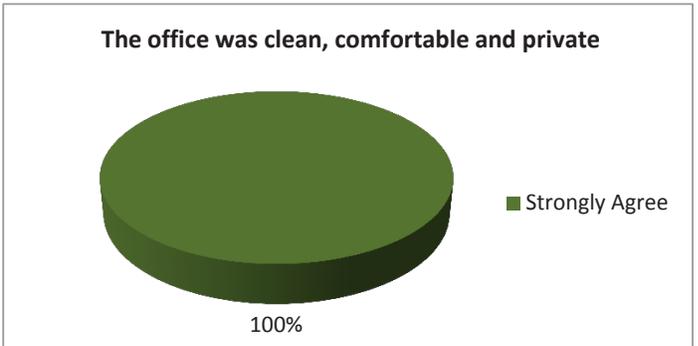
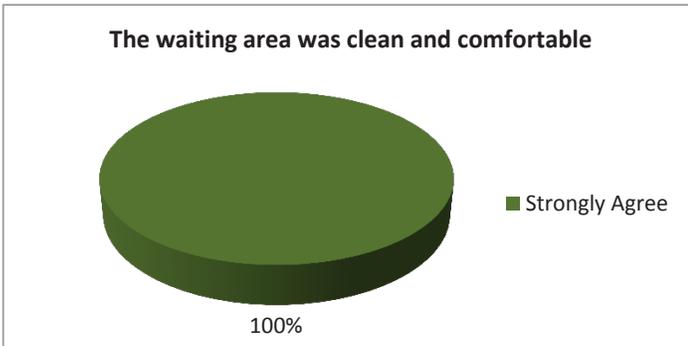
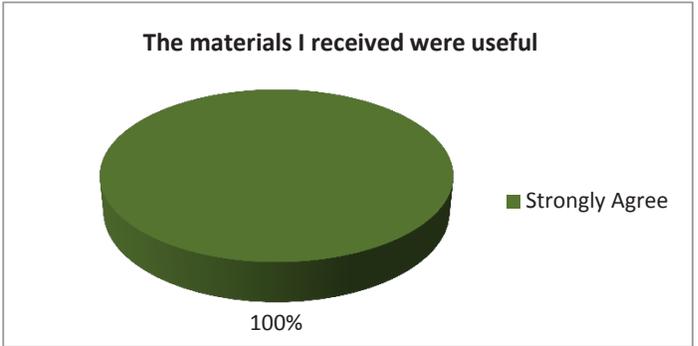
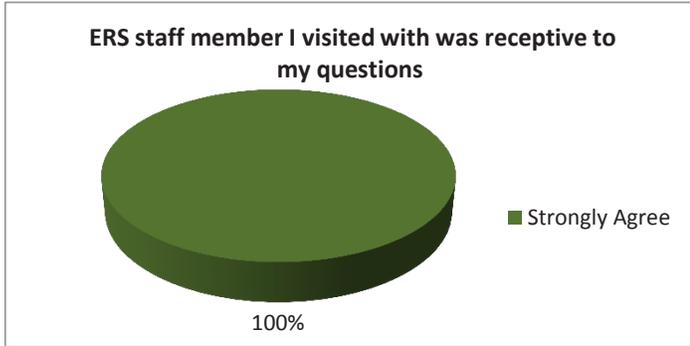


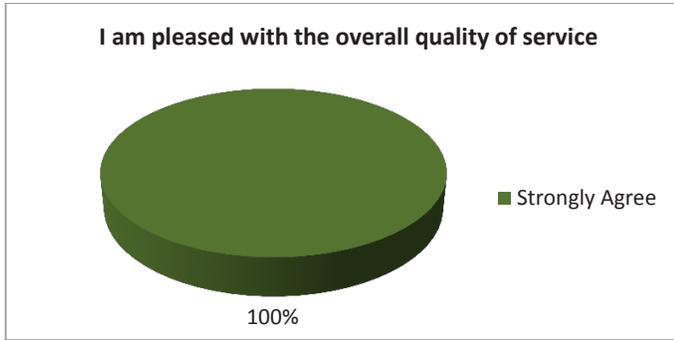
## Member Satisfaction Survey Activity – May 1 – 31, 2015

### Visits

- 292 members visited ERS
  - 98 pre-scheduled appointments for Retirement Counseling
  - 136 were walk-in visits with Retirement Counselors
  - 58 were walk-in visits with Insurance Specialists
- 22 members elected to complete a survey after their visits (7.5%).
- The feedback regarding their experience was overwhelmingly positive.

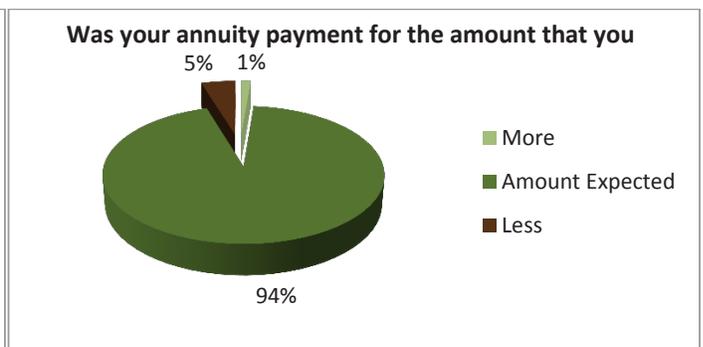
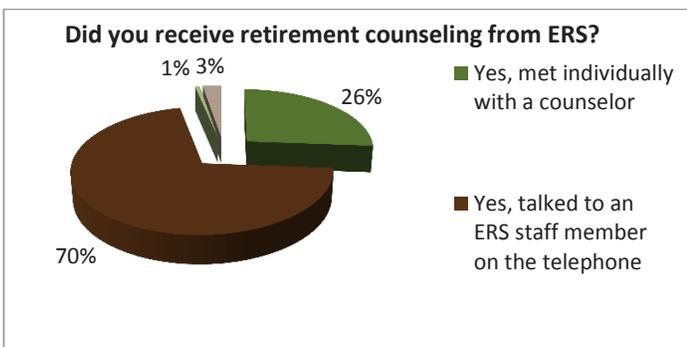
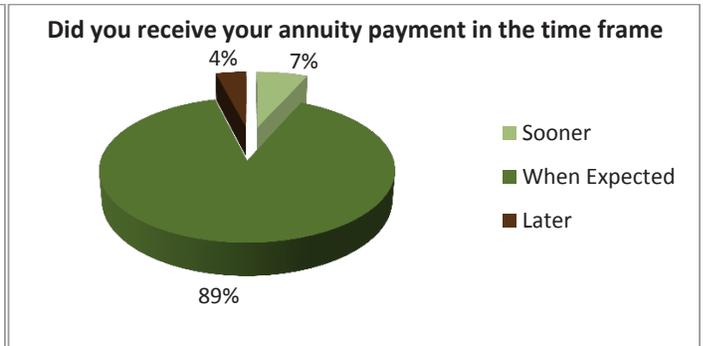
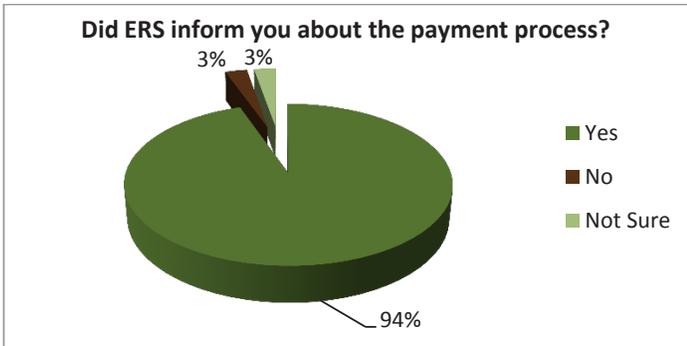






**Annuity Surveys**

- 1216 Annuity Surveys were sent (100% of the February, March and April 2015 retirees)
- The survey should have only been sent to the February retirees
- An error in the query inadvertently returned 3 months of results instead of 1 and the error was not caught prior to the surveys being mailed.
- Safeguards have been put in place to insure this does not happen again
- 150 responses were received, which is a comparable response rate to last month, (12%), however the April retirees had not yet received their first annuity payment, and several commented that they were unable to answer the questions posed by the survey yet.



## APPENDIX D:

### SUPPLEMENTAL RESOURCE DOCUMENTS

The following resource documents provide additional detail regarding Employees Retirement System of Texas operations and can be found on the ERS public website or through other State of Texas electronic sources as noted.

**Agency Operational Summary Documents:**

1. *ERS at a Glance* – Fiscal Years 2014, 2013, and 2012
2. Agency Strategic Plan for fiscal years 2015-2019 – July 2014
3. *Planning Your Retirement* – April 2015

**Appropriations, Budget and Financial Reports:**

4. Legislative Appropriations Request for Fiscal Year 2016-17
5. Legislative Appropriations Request for Fiscal Year 2014-15
6. Operating Budget for fiscal years 2015 and 2014
7. Comprehensive Annual Financial Report – fiscal years 2014, 2013, and 2012

**Program Specific Reports and Briefs:**

8. *Cost Management and Fraud Report* – fiscal year 2014, 2013 and 2012
9. Accounting for Law Enforcement / Custodial Officer Retirement Costs – January 2015
10. Executive Summary: Pension Funding

**Valuation Reports:**

11. Supplemental Valuation for ERS, LECOSRF, and JRS 2 Plans – February 28, 2015
12. 2014 ERS Annual Pension Valuation Summary – As of August 31, 2014
13. 2014 ERS Annual Pension Valuation Report – As of August 31, 2014
14. 2014 Other Post-Employment Benefits (OPEB) Valuation – As of August 31, 2014
15. 2013 ERS Annual Pension Valuation Report – As of August 31, 2013
16. 2013 LECOSRF Annual Pension Valuation Report – As of August 31, 2013
17. 2013 JRS Plan 1 Annual Pension Valuation Report – As of August 31, 2013
18. 2013 JRS Plan 2 Annual Pension Valuation Report – As of August 31, 2013
19. 2013 Other Post-Employment Benefits (OPEB) Valuation – As of August 31, 2013

**Interim Reports:**

20. *The Impact of Offering Alternative Health Insurance Options to State Employees Enrolled in the Texas Employees Group Benefits Program* – September 2014
21. *The Feasibility of Adding Select Populations to the Law Enforcement and Custodial Officers Supplemental Retirement Fund (LECOSRF)* – September 1, 2014
22. *Sustainability of the State of Texas Retirement Program* – September 4, 2012
23. *Sustainability of the State of Texas Group Insurance Program* – September 4, 2012

**Audit Documentation:**

24. Internal Audit Plan for Fiscal Year 2015
25. Internal Audit Report for Fiscal Year 2014