



Approved Operating Budget Fiscal Year 2016

By the Employees Retirement System of Texas



Fiscal Year 2016 Approved Operating Budget

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A Component Unit of the State of Texas
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INTRODUCTION

The Employees Retirement System of Texas (ERS) Operating Budget for Fiscal Year 2016 contains organizational charts, budgets, methods of finance, and sources of funds. It also contains Fiscal Year 2015 accomplishments and Fiscal Year 2016 major initiatives that are based on the most recent ERS Strategic Plan.

Explanation of Notes

The budget tables in this document use two types of notes:

“Footnotes” (indicated in superscript to the right of budget line item descriptions) explain variances between the Fiscal Year 2016 Budget and the Fiscal Year 2015 Forecast for line items of \$100,000 or more at the division level and \$250,000 or more at the agency level. The explanation of variances appears after the budget tables.

“Notes for Contracts and Other Costs” appear in the budget column titled Exhibit B. These notes identify contracts that the Board is authorizing the Executive Director to enter into on behalf of ERS. These contracts include those for professional and consulting services, and other contracted services that are necessary for the performance of the Board’s fiduciary duties by state law.

Method of Finance

ERS maintains trust funds for retirement and a proprietary insurance program. These funds finance administrative costs for the ERS operating budget. ERS also collects fees from Social Security and Texa\$aver participants. In addition, an annual membership fee of \$3.00 is received by ERS for all contributing retirement system members. ERS allocates administrative costs among programs to reflect the cost of each. ERS does not receive direct state appropriations toward its operating budget.

Fiscal Year 2015 Forecast

The FY 2015 Forecast amounts are based on actual expenditures through June 30, 2015 and projections through August 31, 2015.

Road Maps

The road maps presented in Exhibit C provide a graphical presentation of the major projects planned for Fiscal Year 2016.

Fiscal Year 2015 Accomplishments

The ERS budget supports projects that align with the agency's strategic direction. Fiscal and human resources were allocated towards achieving progress in each of these areas:

Strategic Direction #1: Supporting Retirement Security

- Worked with legislative members to secure passage of House Bill (HB) 1 and HB 9 which will improve sustainability of the retirement programs by increasing both the employer and employee contributions. The bill:
 - Raised the contribution rate for both the State and active members,
 - Continued the additional funding of the retirement plan by employers, who are required to pay 0.5% of their employee payroll directly to the retirement trust fund.
- Earned investment returns above policy benchmarks. During Fiscal Year 2014 the Investments Division added approximately \$1.5 billion in excess value over the actuarial rate of return of 8% to the trust from investment earnings.
- During Fiscal Year 2015 the Investments Division reduced external advisor fees by over \$3 million by moving assets to in-house management.
- Substantially achieved transition to new asset allocation targets as determined by the Fiscal Year 2012 asset/liability study, including private real estate, private equity, and absolute return portfolio (hedge funds).
- Achieved savings through the diligent negotiation of best economic deal terms along with emphasizing corporate governance in negotiations in private markets contracts, resulting in a combined savings of approximately \$21 million.
- Expanded and improved the \$2.5 billion TexaSaver Deferred Compensation Program
 - Auto-enrolled over 157,787 participants into the TexaSaver 401(k) plan since 2008.
 - Added over \$9.5 million in new rollover assets from January to June, 2015.
 - TexaSaver mobile application added in December 2014.
 - Reduced administrative fees (for the top three balance tiers) for the fee schedule effective February 2015.
 - TexaSaver participant satisfaction survey successfully completed.

Strategic Direction #2: Sustaining Competitive Group Benefits

- Implemented criteria to manage the rising expense of compound prescription drugs under the Plan.
- Issued a Request For Proposal (RFP), evaluated responses, and awarded the third party administration of the TexFlex program to a new vendor. Subsequently participated in the transition and implementation of the new vendor for a September 1, 2015 effective date.
- Issued RFP, evaluated responses, and awarded a contract, and participated in the implementation of a new Health Maintenance Organization (HMO) carrier to the Group Benefits Program.
- Received approval by the Board to add Qualified Transportation Fringe Benefit Program to optional benefits for active members. Issued an RFP for this Commuter Spending Account (CSA), evaluated responses, and awarded the contract.
- Completed the first year with two new Patient-Centered Medical Homes. The total savings for Fiscal Year 2014 was \$10.7 million, of which \$2.4 million was shared with the provider groups.
- Humana Medicare Plan enrollment increased 7.1% year-to-date in Fiscal Year 2015.
- HealthSelect Network increased significantly for hospital-based providers with a primary focus on anesthesiologists.
- Developed and published the RFP for the Pharmacy Benefit Manager auditor. Currently pending evaluation outcome.
- Modified TexFlex program to remove the grace period for the Flexible Spending Program and replace it with a carryover benefit to begin September 1, 2015.

Strategic Direction #3: Engaging Stakeholders for Informed Decision Making

- Educated stakeholders on benefit and financial topics by leading or participating in employee and retiree presentations across Texas. Events included:
 - Annual Enrollment fairs,
 - Ready, Set, Retire! Sessions for state agencies and higher education institutions,
 - Medicare Preparation seminars,
 - New employee orientations,
 - Health and Benefits fairs,
 - Benefits Coordinator webcasts and
 - Monthly Ask ERS webinars.
- Email Bulletins and Social Media – Benefits Communications sent more than 50 bulletins on a variety of timely topics to ERS stakeholders.
 - Monthly e-newsletters were sent to more than 225,000 agency and higher education employees.
 - Weekly e-newsletters were sent to approximately 1,500 agency and institution benefits coordinators.
 - The division increased readership of Update-Express and News About Your Benefits by 5% and 10% respectively.
 - The ERS Facebook page experienced a 166% increase in page likes from May 2014 (2,152) to May 2015 (5,723).
- Employee and employer publications – During the last fiscal year, the division updated and provided several ERS publications to stakeholders including:
 - ERS At-A-Glance
 - The Benefits Coordinator Reference Manual
 - The New Employee Benefits Guide
 - Planning Your Retirement booklet
 - Benefits Coordinator Processing Manual
 - Your ERS Connection retiree newsletter
- Benefits Communications developed custom communications and a presentation for the Texas Department of Family Protective Services for recruiters and prospective employees
- Developed communications to announce:
 - The New HMO, Community Health Choice, added to the Group Benefits Program.
 - The Choose to Quit program.
 - Implementation of the new TexFlex program third party administrator, ADP, LLC.
- 17 communications awards earned by the Texa\$aver “What’s Your Excu\$e?” Campaign
- Engaged with 489,490 members through phone calls (172,568 at ERS and 316,922 at ACT).
- Met with 6,117 visitors to ERS.
- Responded to 26,000 customer inquiry emails.
- Processed 134,492 member requests and more than 334,500 pieces of incoming and outgoing mail.

Strategic Direction #4: Enhancing Agency Performance and Accountability

- The internal Legislative Analysis Group (LAG) worked as a team to monitor legislative activity and coordinate the agency response. The LAG group uses a shared worksite and automated workflow and reference system. During the legislative session, group members:
 - Tracked introduced bills, many of which required detailed analyses,
 - Prepared 160 cost estimates to provide financial impact of Approved legislation to retirement trust fund or other benefit programs.
- Conducted trustee election process.
- Upgraded the investment accounting system.
- Offered retirees choice of paper or electronic retiree newsletter, lowering printing and postage costs, while providing customer choice.
- Strengthened technical system security.

Fiscal Year 2016 Budget Request

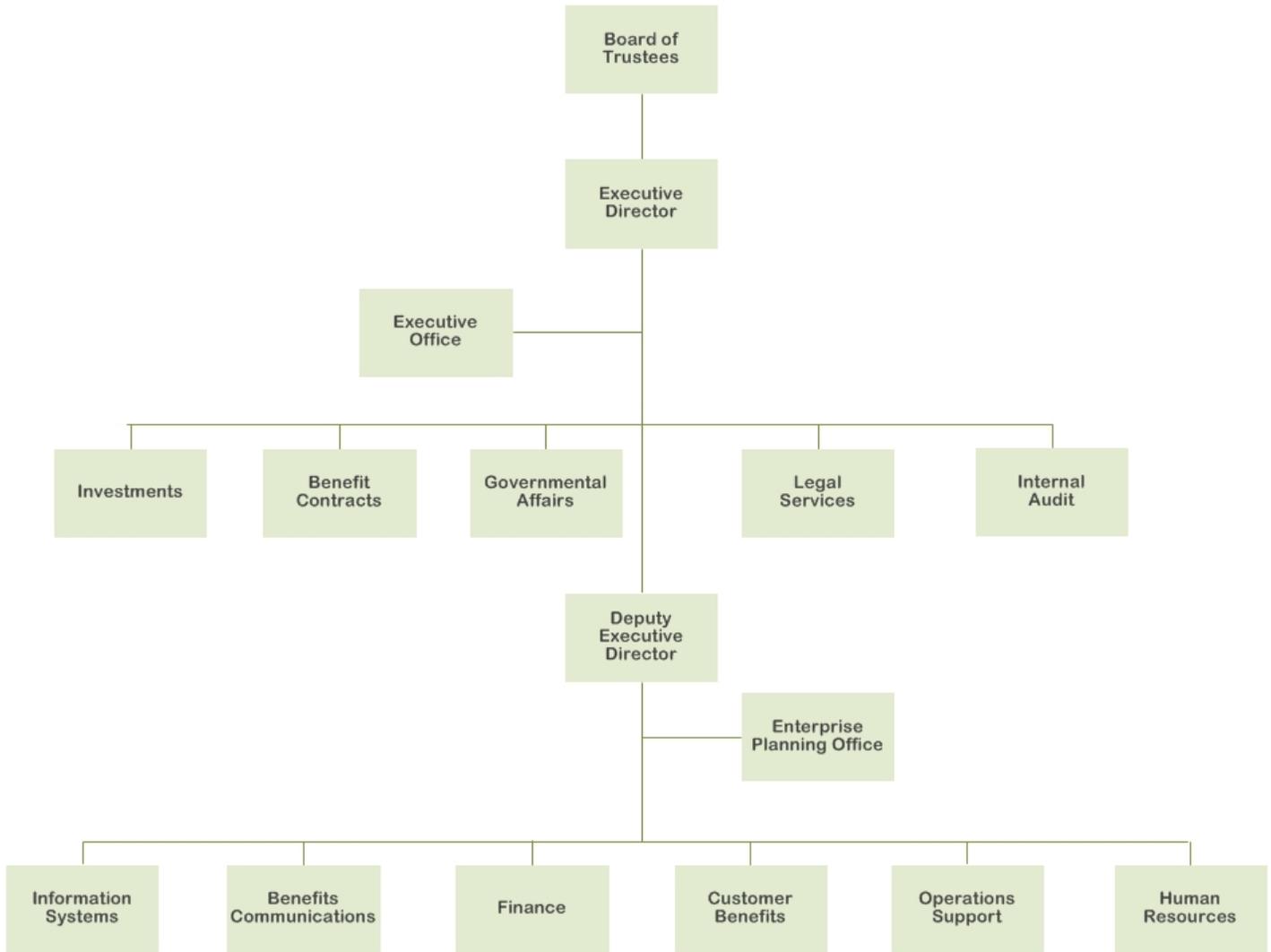
Salary and other salary costs make up approximately 62 percent of the total budget.

Other Salary Costs include the state benefits provided to ERS employees, including longevity and benefit replacement pay, group benefits health insurance, the state retirement contribution, and the employer match to Social Security. Due to increased workload, the Approved staffing level increased to 384 FTEs for Fiscal Year 2016.

The Fiscal Year 2016 Approved Operating Budget of \$69.6 million represents just 0.26% of the funds that ERS administers, which totaled \$27.2 billion as of July 31, 2015 and includes the investment assets of the following:

- The Defined Benefit Plans, comprised of the ERS, JRS, and LECOS pension funds.
- The Employee Life, Accident, and Health Insurance and Benefits Fund.
- The Defined Contribution plans consisting of the 401(k), 457, and Cafeteria Plans.

Agency Functional Organizational Chart As of August 1, 2015



Total FTEs: 384

EXECUTIVE SUMMARY

Approved Annual Operating Budget Fiscal Year 2016

| | FY15 Budget | FY15 Forecast | FY16 Approved Budget |
|--|-------------------|-------------------|----------------------------|
| Executive | \$ 1,807,496 | 1,708,311 | 1,616,800 |
| Legal Services | 4,226,659 | 3,803,320 | 4,372,565 |
| Internal Audit | 787,841 | 739,419 | 864,915 |
| Governmental Affairs | 1,361,409 | 1,041,119 | 992,845 |
| Human Resources | 646,724 | 562,917 | 598,046 |
| Benefits Communication | 1,393,271 | 1,232,900 | 1,549,307 |
| EPO | 0 | 807,434 | 1,464,897 |
| Investments | 23,139,411 | 21,542,745 | 24,992,071 |
| Benefit Contracts | 3,266,807 | 3,046,912 | 3,422,983 |
| Customer Benefits | 8,499,519 | 7,945,978 | 8,308,131 |
| Finance | 3,888,300 | 3,935,911 | 4,067,803 |
| Information Systems | 13,709,360 | 14,384,286 | 13,829,744 |
| Operations Support | 3,657,893 | 3,690,271 | 3,529,746 |
| Grand Total | 66,384,690 | 64,441,523 | 69,609,853 |
| Full Time Equivalent Staff (FTEs) | 375.33 | 375.33 | 384.00 |
| Method of Financing, Estimated | | | |
| Employees Retirement Fund | | | \$ 47,703,631 |
| Law Enforcement Fund | | | 2,464,189 |
| Judicial Retirement Plan Two Fund | | | 647,372 |
| Group Insurance Fund | | | 16,316,550 |
| Flexible Benefits Fund | | | 1,364,353 |
| Deferred Compensation Fund | | | 292,361 |
| Texa\$aver Fund | | | 591,684 |
| Social Security Fund | | | 229,713 |
| General Revenue Fund | | | 0 |
| Total Method of Financing | | | 69,609,853 |

Budget Request Overview

Comparison of the Fiscal Year 2016 Budget to the Fiscal Year 2015 Budget

The Fiscal Year 2016 Approved Operating Budget increased \$3.2 million, 4.9% over the Fiscal Year 2015 Operating Budget. A high-level year-to-year comparison is shown in the following table:

| | | FY15 Budget | FY16 Budget | FY15-FY16 INCR(DEC) |
|----------------------|-----------|------------------------|------------------------|--------------------------------|
| Salary Related Costs | \$ | 40,240,000 | 43,613,000 | 3,373,000 |
| Other Expenses | | 26,145,000 | 25,997,000 | (148,000) |
| Total | \$ | 66,385,000 | 69,610,000 | 3,225,000 |

Comparison of the Fiscal Year 2016 Budget to the Fiscal Year 2015 Forecast

ERS is on target to spend \$1.9 million less in Fiscal Year 2015 than the approved budget, attributed mostly to vacancies. On average, 92% of positions were filled throughout FY 2015. The lapsed funds remain in the trust fund for future use.

| | | FY15 Forecast | FY16 Budget | Change | Percent Change |
|----------------------|-----------|--------------------------|------------------------|------------------|---------------------------|
| Salary Related Costs | \$ | 37,174,000 | 43,613,000 | 6,439,000 | 17.32% |
| Other Expenses | | 27,268,000 | 25,997,000 | (1,271,000) | (4.66%) |
| Total | \$ | 64,442,000 | 69,610,000 | 5,168,000 | 8.02% |
| FTEs | | 375.33 | 384 | 8.67 | 2.31% |

The Fiscal Year 2016 Approved Operating Budget is higher than the Fiscal Year 2015 forecast by \$5.2 million, or 8.02%. A vacancy rate assumption of 3% is included in the Fiscal Year 2016 Budget.

The key budget drivers are the growth of the investment program and the increasing volume and complexity of all of the programs administered by ERS. More details for the budget trend and the increases in program complexity over the last several years are presented in Exhibit E.

Salaries – State legislation includes a 2.5% pay increase for all state employees for Fiscal Year 2016 and an increase in the state retirement contribution by 2% to 9.5%; and employers' retirement contribution of 0.5% is continued. The Approved Fiscal Year 2016 budget includes increases to staffing level by eight to support legislative changes, additional workload and increases in program complexity.

- Legal Services added one new general counsel position to support multiple major projects, particularly contracting.
- Government Affairs added one new Information Specialist position to assist in preparing briefing materials, presentations and research.
- Benefit Communications added a Marketing Specialist to serve as a communications subject matter expert for work on the High Deductible Health Plan (HDHP) with Health Savings Account (HSA), the vision plan, and support for wellness and condition management programs.
- Customer Benefits added one position to support Business Integration and to assist with Oracle policy automation including the identification of requirements and testing to improve data and security.

- Finance added one position to assist with daily budget operations, preparing high profile documents, training materials and requisitions, coordination of open records requests, maintenance of policies and procedures, centralization of signature authorities, and assistance with testing system changes.
- Information Systems added two positions. A program specialist was added to support quality assurance and contract management. Multiple audit, assurance, purchasing & coordination activities will also be supported. A systems analyst position was added to expand Business Intelligence efforts, to improve data quality and increase reporting.
- Investments added a Private Equity Investment Analyst for monitoring managers in the private equity asset class so current staff can pursue direct investments.

Incentive Compensation Plan (ICP) - ICP payments are for investment performance payments earned in Fiscal Year 2013, Fiscal Year 2014, and Fiscal Year 2015. The Fiscal Year 2016 budget was prepared with the assumption of positive performance and exceeding policy benchmarks in Fiscal Year 2015.

| Fiscal Year Performance | FY16 | |
|-------------------------------------|--------------------------|-----------------|
| | Budget Amount to be Paid | Number of Staff |
| FY13 (3 rd year payment) | \$ 605,004 | 43 |
| FY14 (2 nd year payment) | 499,364 | 50 |
| FY15 (1 st year payment) | (estimated) 2,586,651 | 66 |
| Total | 3,691,019 | |

Other Expenses – The decrease represents some items budgeted in Fiscal Year 2015 but not in Fiscal Year 2016. Significant items include:

- The Space Planning Feasibility Study,
- The Modernization of Benefits Administration, then renamed the BEAS project, Benefit Enrollment and Administrative System, and now known as the Benefits Administration System (BAS)
- Computer Equipment reduction due to the one-time acquisition of certain items in Fiscal Year 2015 including a Cisco 4506 Power Over Ethernet line card refresh and a network security appliance.
- Legislative session related costs including extensive actuarial analysis for fiscal notes and various funding analysis
- Trustee election costs budgeted in Fiscal Year 2015.

Fiscal Year 2016 Growth – Investment Related and Non-Investment Related

To provide more detail and transparency, the following budget increase analysis is presented in two parts 1) Investment-Related Growth, and 2) Non-Investment-Related Growth.

Investment Related Growth

| | FY15 Forecast | FY16 Budget | FY15-FY16 Incr(Decr) | Percent Change |
|--|----------------------|-------------------|----------------------|----------------|
| Investment Division | \$ 21,543,000 | 24,992,000 | 3,449,000 | 16.01% |
| Investment-Related Other Divisions | 2,771,000 | 3,248,000 | 477,000 | 17.25% |
| Total Investment-Related Expenses | \$ 24,314,000 | 28,240,000 | 3,926,000 | 16.15% |
| FTEs | 85.33 | 87 | 1.67 | 1.93% |

Non-Investment-Related Growth

| | | FY15 Forecast | FY16 Budget | FY15-FY16 Incr(Decr) | Percent Change |
|---|-----------|-------------------|-------------------|-------------------------|-------------------|
| Non-Investment-Related Expenses for Other Division | \$ | 40,128,000 | 41,370,000 | 1,242,000 | 3.10% |
| Total Non-Investment-Related Expenses | \$ | 40,128,000 | 41,370,000 | 1,242,000 | 3.10% |
| FTEs | | 290 | 297 | 7 | 2.42% |

Major Fiscal Year 2016 Initiatives

Strategic Initiatives

Approval of this budget will allow ERS to conduct the programs and activities outlined in this document in Fiscal Year 2016. Many of these approved efforts are included in the strategic plan and align with the agency's four strategic directions for the next five years:

- Supporting Retirement Security,
- Sustaining Competitive Group Benefits Programs,
- Engaging Stakeholders for Informed Decision Making and
- Enhancing Agency Performance and Accountability.

Supporting Retirement Security

The primary objectives of this strategic direction are to:

- improve defined benefit plan sustainability,
- assist members in preparing for retirement readiness and
- maintain a professional and diversified investment program.

These objectives direct the activities for the defined benefit plan, the Texa\$aver program, and the investment program.

The Investment Program will maintain a professional and diversified investment portfolio with continued transition to the new asset allocation which is an important goal for the ERS Trust Fund. The agency plans to expand and optimize the effectiveness and efficiency of the asset classes and reduce investment risk through the addition of new risk management tools, external managers and an internal risk committee. ERS will optimize the effectiveness and efficiency of these programs through the ongoing use of both internal management and external advisors.

ERS will prudently accelerate the transition to a new asset allocation when market opportunities arise and internal resources are available. Risk management processes will be enhanced. ERS will evaluate risk management technology across asset classes. Implementation of a derivative program will be researched and evaluated. Internal investment resources will be leveraged to explore & implement enhancements to the TexaSaver fund offerings. Also, ERS will provide governance reporting.

For the Deferred Compensation program, the Texa\$aver 401(k) and 457 Deferred Compensation Program, the agency seeks to improve access and expand options for auto- enrollment and the rollover of external funds into Texa\$aver accounts. To better assist members in adequately preparing for retirement, ERS will assess and improve communication plans, and evaluate and recommend fund offerings in the Deferred Compensation plan.

ERS will review and implement applicable state legislation passed during the 84th regular session including House Bill (HB) 1 and HB 9 which relates to member contributions.

ERS will integrate defined benefit and deferred compensation communications for retirement benefits reporting.

The LECOS employee class will be separately identified and reported.

The Eagle software version that ERS Investment Accounting and Investment Operations uses is being phased out by the vendor. The vendor will no longer support the version after the first calendar quarter of 2016. The level of development resources needed will be determined in order to implement the software upgrade before the 2016 first quarter time constraint, without disrupting current operations.

ERS will seek funding for the Actuarially Determined Contribution (ADC) and make efforts to outperform the total fund policy investment benchmarks within the limits of the active risk budget.

ERS will prepare the Legislative Appropriation Request next summer.

Sustaining Competitive Group Benefit Programs

The objectives for this strategic direction include:

- managing the group benefit programs.
- aligning incentives with health risks.
- sharing responsibility for plan costs.
- providing resources for policy development.

During Fiscal Year 2016, ERS will bid and evaluate:

- Pharmacy Benefit Manager,
- Medicare Advantage Plan and
- Episode Based Bundled Payments.

ERS will also implement a new HMO and a Qualified Transportation Fringe Benefit. In addition, ERS will implement legislation from the 84th Legislative Session, including the consumer driven health plan.

H.B. 966 requires ERS to establish a Consumer-Directed Health Plan (CDHP) which would include a high deductible health plan and a health savings account as an option for the Group Benefit Program participants. Participation in the program will be voluntary.

H.B. 966 requires the state to contribute the same amount to the CDHP as it would otherwise contribute under basic health insurance coverage. The bill authorized the ERS Board of Trustees to adopt rules to administer the program and determine the portion of state contributions that could be allocated to a member's health savings account. The ERS Board would allocate up to the difference, if any, between the full state contribution for HealthSelect and the amount required to provide coverage under the high deductible health plan to the member's health savings account. These amounts will be adjusted to neutralize any additional cost to the state.

H.B. 966 requires ERS to conduct a study on the implementation of a CDHP that includes actuarial impact, premium cost fluctuations, health care utilization rates, status of the risk pool, and the ages of those who opt into the system. The results of the study shall be reported to the Governor, Lieutenant Governor, Speaker of the House, and all members of the legislature by January 1, 2020.

ERS will be investing additional actuarial, administrative, legal and communication costs as well. The CDHP will be comprised of a High Deductible Health Plan (HDHP) and a Health Savings Account (HSA) both of which must comply with applicable IRS regulations.

ERS is required to develop and implement the HSA program under Chapter 1551, Insurance Code, as amended by H.B. 966, in a manner that is as revenue neutral as possible. ERS will be required to adjust the HDHP and/or the HSA contribution, and perhaps, HealthSelect benefits to offset the additional cost that would otherwise result from the adverse selection of HDHP participants.

ERS will also implement the following legislation related to the Group Benefits Program:

- H.B. 437 allows an employee who becomes reemployed with the state under Chapter 613 of the Government Code to have immediate coverage in the Group Benefits Program without a waiting period of health insurance.
- H.B. 3307 requires ERS to offer a TriCare Military Health System Supplemental Plan to eligible employees and retirees. The Board cannot contribute to the cost of the plan including premiums.
- H.B. 2123 expands eligibility of the state military forces in the state group benefits program.
- Senate Bill (S.B.) 481 includes assistant surgeons in the category of facility-based physicians and provides notice and availability of mediation for balance billing by a facility-based physician. The threshold for mediation in this category is reduced from \$1,000 to \$500. The Plan Document and Explanation of Benefits will be updated.

ERS will also coordinate Form 1095 issuance for Affordable Health Care reporting.

ERS will prepare and conduct summer enrollment and fall enrollment periods for members to make changes to their Group Benefits Program options.

Engaging Stakeholders for Informed Decision Making

The objectives in support of this strategic direction include simplifying communications and measuring their effectiveness. As part of these efforts, ERS plans to leverage internal and external resources to provide proactive, targeted messaging that meets stakeholder needs.

ERS will continue to coordinate implementation plans for legislative changes to ERS programs resulting from the legislative session. Also, information will be coordinated for interim legislative committees that deal with ERS issues. ERS will continue to work with legislators and their staff as well as members and retirees on various constituent issues.

ERS also plans to audit the usability of the public website. Other key initiatives include:

- auditing publications for increased use, understanding, and cost-effectiveness,
- conducting special communications and training to increase benefits coordinators' use of ERS resources,
- assisting with the development of communications plans for wellness and condition management programs,
- developing and disseminating educational and information communications for:
 - the high-deductible health plan with health savings account
 - the Qualified Transportation Fringe Benefit.
- conducting communications campaign for vision care implementation,
- supporting the project to replace the architecture for the public website content management,
- conducting communications campaign for Summer and Fall Enrollment.

The agency also will continue evaluating current communication methods, including an overall review of the external agency website and agency publications, and implement new programs and technologies as needed.

Enhancing Agency Performance and Accountability

The objectives for this strategic direction include:

- leveraging the skills and talents of ERS staff through employee and organizational development,
- increasing process efficiency,
- integration of agency planning activities, and
- communication to maintain institutional knowledge and meet changing needs.

ERS is scheduled to undergo a statutorily required Sunset Commission review during fiscal year 2016. ERS staff began work on this project during fiscal year 2015, primarily to develop the agency's required Self-Evaluation Report by the September 1, 2015 due date. During fiscal year 2016, ERS employees from across the agency will work closely with the Sunset Commission staff to review agency operations, organization, funding, and overall efficiency and effectiveness. The review will include staff interviews, observation of daily operations, the creation of supplemental reports and data analysis, and various town hall meetings and surveys of external stakeholder groups. At the conclusion of the review, Sunset staff will present findings and recommendations to the Sunset Commission in a public meeting and Commission members will separately meet to approve the contents of the agency's final report to the legislature. Legislation containing Sunset Commission findings and recommendations pertaining to ERS will be considered during the 85th Legislative Session, beginning January 2017. Sunset staff will determine the timing of the 31 agency reviews scheduled during the 2015-2016 review cycle in September or October of this year, and ERS staff will be provided a specific review schedule at that time.

ERS will also pursue the outsourcing of the Benefits Administrative Services. This project was previously called the Modernization of Benefit Administration and was budgeted in Fiscal Year 2015 but not awarded.

ERS will also evaluate a centralized contract management system. S.B. 20 requires that the contract manager or procurement director of an agency must approve each state agency contract for which the best value standard must be utilized. Additional instances have been included in which a vendor may be debarred from state contracting, including repeated unfavorable performance reviews. Additional specifications on the training required for agency purchasing personnel have been amended, specifically ethics training. Agencies cannot enter into a purchase of a commodity item under a DIR contract if the value of the contract exceeds \$1 million.

Individuals with specific disabilities have been added to the historically underutilized business provisions.

S.B. 20 also requires that in renewing or reconsidering a rebid for a contract, a state agency shall give priority consideration to the private vendor's performance under previous state contracts. The bill requires each agency to develop a risk analysis procedure, a contract management handbook, and a central contract management database. An agency must post the risk analysis procedure and the contract management handbook on its website.

ERS may need to implement a new contract management system in order to comply with contract reporting requirements. This implementation will be absorbed with existing resources.

ERS will also implement H.B. 1278 – Survivor Benefits. This bill increases the amount of financial assistance paid to the survivors of certain law enforcement, officers, firefighters, and other public employees killed in the line of duty. H.B. 1278 amends Section 615 of the Government Code by increasing the amount the state pays a surviving spouse from \$250,000 to \$500,000. The benefit paid to the legal representative of eligible surviving minor children is also increased.

The Human Resources division will evaluate an information management system.

ERS will also implement the following legislation:

- H.B. 426, relating to the acceptance of employment applications through the online system for listing state agency employment openings maintained by the Texas Workforce Commission.
- S.B. 374 relating to requiring state agencies to participate in the federal electronic verification of employment
- H.B. 445 relating to providing notice of the availability of paid leave for military service to public officers and employees
- H.B. 1771 relating to the donation of sick leave by state employees
- S.B. 389 relating to the placement of military occupational specialty codes on certain notices of state agency employment openings
- S.B. 805 relating to the employment of individuals qualified for a veteran's employment preference.

The Information Systems division will replace the architecture for the Public Web Site Content Management. Also, Virtual Desktop (VDI) architecture and services will be extended. SharePoint will be upgraded.

The Operations division will continue to coordinate space planning feasibility.

ERS will address training opportunities identified in the 2014 Survey of Employee Engagement (SEE) and succession planning. ERS will also conduct a new survey during Fiscal Year 2016.

Fiscal Year 2016 Summary Budget – Agency

| | | FY15 Budget (A) | FY15 Forecast (B) | FY16 Approved Budget (C) | Change (D=C-B) |
|---|----|-----------------------|-------------------------|-----------------------------------|-------------------|
| Exempt Salaries | \$ | 348,410 | 327,557 | 265,000 | (62,557) |
| Classified Salaries ¹ | | 28,962,469 | 27,115,603 | 31,025,730 | 3,910,127 |
| Classified Salaries - Incent. Comp. Plan ² | | 3,046,731 | 2,203,252 | 3,856,019 | 1,652,767 |
| Other Salary Costs ¹ | | 7,881,803 | 7,527,511 | 8,465,770 | 938,259 |
| Board of Trustees | | 8,400 | 4,800 | 8,400 | 3,600 |
| Investment Advisory Fee | | 31,500 | 31,500 | 31,500 | 0 |
| Medical Services | | 67,600 | 60,000 | 58,100 | (1,900) |
| Investment Consultants | | 1,999,693 | 1,999,693 | 2,039,444 | 39,751 |
| Computer System Services ³ | | 4,420,745 | 4,995,763 | 3,677,125 | (1,318,638) |
| Actuarial Services | | 1,150,000 | 1,185,360 | 1,143,460 | (41,900) |
| Legal Services (Outside) | | 1,543,500 | 1,273,155 | 1,272,000 | (1,155) |
| Financial Audit Services | | 150,000 | 178,000 | 220,000 | 42,000 |
| Insurance Audit Services | | 418,000 | 368,173 | 441,000 | 72,827 |
| Audit Services - Other | | 225,000 | 185,000 | 212,500 | 27,500 |
| Consulting Services ⁴ | | 264,000 | 327,750 | 44,000 | (283,750) |
| Professional Services - Educational | | 81,360 | 119,984 | 125,035 | 5,051 |
| Professional Services - Other | | 210,500 | 226,060 | 403,500 | 177,440 |
| Architectural Services | | 10,000 | 10,000 | 10,000 | 0 |
| Travel | | 834,859 | 801,356 | 846,020 | 44,664 |
| Supplies & Materials | | 249,195 | 249,295 | 250,396 | 1,101 |
| Telecommunications | | 752,448 | 817,312 | 841,648 | 24,336 |
| Utilities | | 313,000 | 288,000 | 314,000 | 26,000 |
| Repair & Maintenance Equip & Furniture | | 43,900 | 43,900 | 50,640 | 6,740 |
| Repair & Maintenance - Computer | | 1,160,089 | 1,189,986 | 1,381,058 | 191,072 |
| Repair & Maintenance Land & Building | | 352,035 | 350,135 | 368,956 | 18,821 |
| Rent on Computer Software & Equipment | | 570,185 | 479,974 | 571,148 | 91,174 |
| Rent on Office Equipment | | 314,342 | 315,078 | 316,490 | 1,412 |
| Rental of Space | | 41,840 | 40,751 | 41,840 | 1,089 |
| Reproduction Services | | 111,950 | 101,950 | 116,950 | 15,000 |
| Employee Training | | 341,979 | 324,701 | 358,547 | 33,846 |
| Subscriptions & Electronic Communication ⁵ | | 5,770,311 | 5,543,486 | 5,818,580 | 275,094 |
| Membership Fees | | 122,673 | 122,771 | 139,709 | 16,938 |
| Contracted Temporary & Data Entry ⁶ | | 209,000 | 681,349 | 196,000 | (485,349) |
| Insurance | | 53,000 | 53,000 | 53,000 | 0 |
| Classified Advertising | | 11,000 | 12,352 | 11,500 | (852) |
| Miscellaneous Expenses | | 100,248 | 112,513 | 99,523 | (12,990) |
| Postage | | 951,849 | 900,000 | 820,552 | (79,448) |
| Other Contracted Services | | 1,315,534 | 1,343,982 | 1,490,750 | 146,768 |
| Interest-Delayed Payments | | 200 | 200 | 200 | 0 |
| Security Guard Services | | 1,500 | 1,500 | 1,500 | 0 |
| Investment Banking | | 990,000 | 990,000 | 990,000 | 0 |
| Equipment & Furniture | | 51,765 | 108,561 | 97,466 | (11,095) |
| Books/Reference Materials | | 13,985 | 14,160 | 18,755 | 4,595 |
| Computer Software ⁷ | | 623,196 | 637,474 | 978,232 | 340,758 |
| Computer Equipment ⁸ | | 124,773 | 566,004 | 48,210 | (517,794) |
| Telecommunications Equipment | | 126,123 | 133,572 | 19,600 | (113,972) |
| Building Improvements | | 14,000 | 79,000 | 70,000 | (9,000) |
| Total Budget⁹ | | 66,384,690 | 64,441,523 | 69,609,853 | 5,168,330 |
| Full Time Equivalent Staff | | 375.33 | 375.33 | 384 | 8.67 |

Explanations of Variances

¹**Classified Salaries & Other Salary Costs** – Increase assumes:

- The legislative increase of 2.5% and the state retirement contribution of 2% represents over \$1 million of the increase. New positions added are:
 - One in Investments to support the activities for private equity,
 - One in Legal to support multiple major projects, including the new contracting legislation
 - One in Government Affairs to assist in preparing briefing materials, presentations and research
 - One in Benefit Communications to support communications campaigns for changes in benefits, such as the HDHP with Health Savings Account and the vision plan
 - One in Customer Benefits to support Business Integration and to assist with automation projects including identification of business requirements and testing,
 - One in Finance to assist with daily budget operations, preparation of high profile documents, and testing system changes
 - Two in Information Systems to support contract management and audits, and agency projects and initiatives.
- Funds for merits, promotions, career ladder salary equity adjustments, and equity upgrades of existing positions.

²**Incentive Compensation Plan** – Assumes Incentive Compensation Plan payout based on positive performance and exceeding policy benchmarks in Fiscal Year 2015. The amount also includes the second and third year payments for prior year performances.

³**Computer System Services** – The decrease is due to some strategic projects and initiatives obligated in Fiscal Year 2015 for services in Fiscal Year 2016 including: improved business analytics and data warehouse reporting, Enterprise Content Management consulting, security consulting services, and implementation of 84th Legislature changes.

⁴**Consulting Services** – The decrease is due to special projects budgeted in Fiscal Year 2015 only, such as the Space Planning Feasibility Project.

⁵**Subscriptions and Electronic Communication** – The increase is due to rate increases for Bloomberg and FactSet. MSCI also had a rate increase and added indexes.

⁶**Contracted Temporary & Data Entry** - Salary lapse was used to fill contact center vacancies with contract temporary staff.

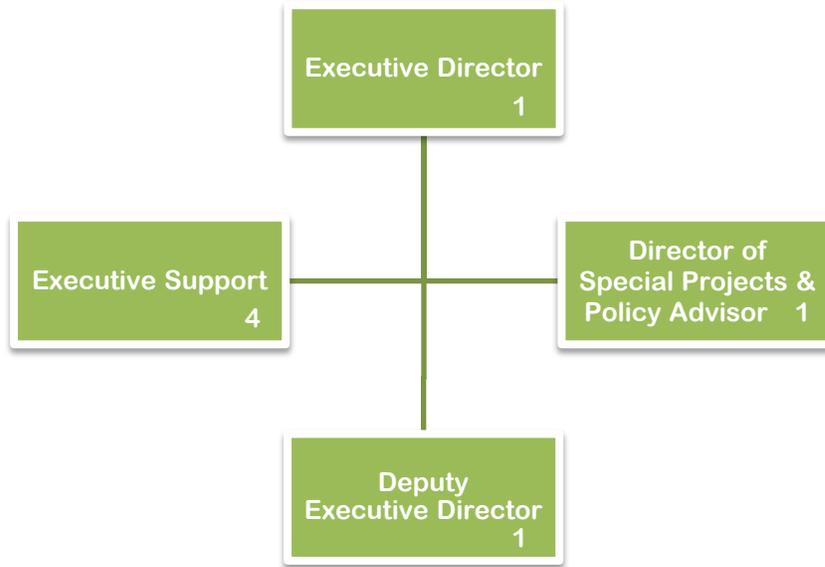
⁷**Computer Software** – The increase is due to the planned purchase of workstation security and Microsoft productivity software.

⁸**Computer Equipment** – The reduction is due to the one-time acquisitions of the Cisco 4506 Power Over Ethernet line card refresh and a network security appliance in Fiscal Year 2015.

⁹**Total Budget** increased by \$5.2 million (8.02%) from the Fiscal Year 2015 forecast. The Fiscal Year 2016 Approved Budget is 4.9% more than the Fiscal Year 2015 Approved Budget. The majority of the increase above the forecast is due to legislative changes, additional staff, and rate increases. The legislative salary increase and increased employer retirement contribution are worthwhile investments for the retirement fund.

EXECUTIVE

Organizational Chart – Fiscal Year 2016



Total FTEs: 7

Fiscal Year 2015 Accomplishments

The Executive staff provided leadership, communication, and prioritization of goals and resources throughout the past fiscal year. Major accomplishments of Fiscal Year 2015 include management and coordination of the 84th Legislative Session and the Board of Trustee election. The Executive staff also advised and assisted with the successful implementation of new third party administrators, as well as supporting regular ERS business operations such as investments, customer service including annual enrollment, and financial reporting.

Major Fiscal Year 2016 Initiatives

Executive staff will provide management and leadership to the divisions in support of the agency's strategic and operational plans. For Fiscal Year 2016 the agency will prepare a five year strategic plan, implement legislative changes including revisions to contract management, and undergo sunset review.

Executive Fiscal Year 2016 Budget

| | FY15 Budget (A) | FY15 Forecast (B) | FY16 Approved Budget (C) | Change (D=C-B) | Exhibit B |
|---|-----------------------|-------------------------|-----------------------------------|-------------------|-----------|
| Exempt Salaries | \$ 348,410 | 327,557 | 265,000 | (62,557) | |
| Classified Salaries ¹ | 806,242 | 707,646 | 733,279 | 25,633 | |
| Other Salary Costs ¹ | 379,755 | 383,696 | 229,966 | (153,730) | Note 17 |
| Classified Salaries - Incent. Comp. Plan ² | 142,059 | 141,947 | 265,000 | 123,053 | |
| Board of Trustees | 8,400 | 4,800 | 8,400 | 3,600 | Note 1 |
| Professional Services - Educational | 3,000 | 10,800 | 3,000 | (7,800) | Note 12 |
| Professional Services - Other | 0 | 5,760 | 0 | (5,760) | |
| Travel | 12,500 | 15,000 | 15,000 | 0 | |
| Supplies & Materials | 120 | 120 | 120 | 0 | |
| Employee Training | 6,900 | 2,900 | 9,900 | 7,000 | |
| Subscriptions & Electronic Communication | 3,750 | 4,125 | 3,750 | (375) | |
| Membership Fees | 4,785 | 4,980 | 5,410 | 430 | |
| Other Contracted Services | 87,000 | 93,680 | 77,000 | (16,680) | Note 19 |
| Equipment & Furniture | 650 | 500 | 650 | 150 | |
| Books/Reference Materials | 325 | 100 | 325 | 225 | |
| Computer Equipment | 3,600 | 4,700 | 0 | (4,700) | |
| Total Budget | 1,807,496 | 1,708,311 | 1,616,800 | (91,511) | |
| Full Time Equivalent Staff | 7 | 7 | 7 | 0 | |

Explanations of Variance

¹**Classified Salaries and Other Salary Costs** – The reduction in Other Salary Costs is due to the Executive turnover and lump sum pay outs that occurred in Fiscal Year 2015 but are not planned for Fiscal Year 2016.

²**Classified Salaries – Incentive Compensation Plan** – Incentive Compensation Plan payout is assumed based on positive performance and exceeding benchmarks in Fiscal Year 2015 for Executive staff whose work was related to the investment program.

LEGAL SERVICES

Organizational Chart – Fiscal Year 2016



Total FTEs: 18

Fiscal Year 2015 Accomplishments

Many accomplishments of the Legal Services Division involve matters that are confidential and protected by the attorney-client privilege. The following represent accomplishments that are not confidential by law (as of mid-July 2015):

Strategic Direction 1: Supporting Retirement Security

- Opened 83 administrative cases; closed 37 administrative cases; 48 subrogation files opened and reviewed - including 26 subrogation intervention matters referred to the Office of the Attorney General (OAG)
- Recovered “collections” of approximately \$8,450, which includes Qualified Domestic Relations Order (QDRO) overpayments, annuity overpayments, fraud and return-to-work disability repayments; this does not reflect the 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 recipients.
- Responded to 15 subpoenas and collected \$110 in fees for those subpoenas where fees are billed
- Participated in 9 depositions, represented ERS in 13 administrative appeals before the State Office of Administrative hearings; 1 mediation, 1 prehearing conference and 2 district court hearings
- Approved, rejected and/or reviewed 197 domestic relations orders and transfers and releases submitted to ERS under Chapter 804 of the Texas Government Code
- Closed 37 private market transactions (private equity, real estate, hedge fund, fixed income and infrastructure) for total commitments of \$2,290,285,075; oversaw redemptions from 2 open-ended funds in the aggregate approximate amount of \$143,240,455; oversaw transfers of commitments between existing funds and negotiated 108 private markets investor actions

Strategic Direction 2: Sustaining Competitive Group Benefits

- Insurance subrogation amounts of approximately \$902,245 recovered for the Texas Employees Group Benefits Program (GBP); revised subrogation referral and intervention procedures to increase efficiency
- Advised and assisted with the development and/or review of Requests for Proposal and Requests for Application, and if applicable, drafted and negotiated related contracts in connection with
 - the health maintenance organization (HMO) services,
 - episode-based medical care payment services,
 - health care provider bill review services, and
 - flexible benefit claims administrative services.
- Reviewed and revised the HealthSelect 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, Check Change Control Program and Choose to Quit Program – tobacco certification updates as part of the GBP Tobacco User Premium Program

Strategic Direction 4: Enhancing Agency Performance and Accountability

- Reviewed, negotiated and/or drafted 142 contracts and business-related documents
- Advised and assisted with the development and/or review of Requests for Proposal and Requests for Qualifications, and if applicable, drafted and negotiated related contracts in connection with the: (1) human resources management system, (2) database administration audit services, (3) human resources compensation study, (4) disaster recovery services (5) production of videos, (6) compliance software (7) ERS building and plans – feasibility study, and (8) advisory services relating to compliance with the Global Investment Performance Standards published by the CFA Institute
- Received and responded to 157 Public Information Act requests; \$93 in fees were collected as permitted under applicable rules for providing the information.
- Completed 77 requests for legal services/opinions.
- Completed revisions of Trustee Rules for Chapter 87 and 457 Plan document adoption
- Analyzed, reviewed and drafted legislation filed during the 84th Legislative Session, and advised management regarding its application to ERS; worked with management to implement legislation applicable to ERS.
- Reviewed, analyzed and assisted with the 1095-B and 1095-C Internal Revenue Service reporting obligations
- Coordinated fiduciary and ethics-related training of ERS staff, Board and IAC; facilitated required Governing Bodies webinar training for the ERS Board.
- Created agency-wide guidance on the ERS contracting process, revised and updated contract-related forms and policies, drafted set of standard procedures for entering into private fund investments, completely revised and updated the ERS private investment fund side letter form and the private investment fund document review checklist
- Successful hiring of four staff members: two attorneys, one with a specialty in securities and investments and one with a specialty in procurement; one paralegal and one legal assistant; successful transition of two staff members into new roles and re-certification of one Certified Texas Contract Manager (CTCM) staff member.

Major Fiscal Year 2016 Initiatives

Many initiatives of the Legal Services Division will involve matters that are confidential and protected by the attorney client privilege. Legal Services plans to conduct a number of public activities in Fiscal Year 2016.

Strategic Direction 1: Supporting Retirement Security

- Review, negotiate and/or draft private equity, real estate, hedge fund, fixed income and infrastructure transactions as requested as well as contracts for services required to administer ERS and its related programs.
- Review, approve or reject domestic relations orders and transfers and releases submitted for approval under Chapter 804 of the Texas Government Code.
- Review and investigate applicable disability retirement files and develop procedures as necessary to ensure continued eligibility for benefits.
- Advise and assist the Investments Division with the following:
 - Researching, evaluating, and implementing ERS' derivatives program,
 - Enhancing risk management processes
 - Implementing board-approved asset allocations
 - Evaluating Texa\$aver third-party asset management
 - Upgrading the Eagle investment accounting services, and
 - Supporting various new initiatives

Strategic Direction 2: Sustaining Competitive Group Benefits

- Advise ERS management regarding the Patient Protection and Affordable Care Act and federal health care reconciliation legislation (ACA) and related reporting requirements, including 1095 reporting, and HIPAA-related laws and regulations in conjunction with the Texas Employees Group Benefits Program (GBP).
- Represent ERS in administrative appeals from the denial of disability retirement, insurance and health care-related benefits and in connection with ERS' assessment of sanctions, subrogation and overpayment obligations in connection with the GBP
- Advise and assist with the development and/or review of Requests for Proposals, Requests for Applications and Requests for Information and the drafting and negotiation of related contracts for:
 - Benefits Administration Services
 - Health Savings Account/HDHP
 - Vision Care
 - Pharmacy Benefits Manager
 - Medicare Advantage
 - Health Maintenance Organizations
 - Episode Based Bundled Payments
 - New Texa\$aver Fund Products, and
 - Other benefits-related services or coverages

Strategic Direction 4: Enhancing Agency Performance and Accountability

- Advise ERS management and assist in reviewing and implementing any changes to ERS programs or contracts as a result of revisions to applicable state and federal laws and regulations, including legislation passed in the 84th Legislative Session.
- Advise ERS management and assist in Sunset Review and contracting policies, including updating as necessary ERS' contracts, templates and procedures, development of procurement training for all divisions.
- Advise ERS management and assist the various divisions in connection with reviewing, drafting and negotiating contracts, and also providing legal opinions regarding issues related to programs administered by ERS.

Fiscal Year 2016 Initiatives (continued)

- Advise and assist with modernizing the Board of Trustees election process.
- Advise and assist divisions in connection with evaluation and/or possible bid of the life cycle management tool, infrastructure, Human Resources information management and investment related services.
- Administer ERS' receipt of and responses to requests under the Public Information Act
- Publish updates to the 2016 ERS Laws and Rules books.
- Advise and assist divisions as necessary with the statutorily required review of ERS rules and other requested rule revisions.
- Coordinate or conduct training regarding ethics.
- Obtain CTCM certification for one contract attorney and all contract support staff

Legal Services Fiscal Year 2016 Budget

| | FY15 Budget (A) | FY15 Forecast (B) | FY16 Approved Budget (C) | Change (D=C-B) | Exhibit B |
|---|-----------------------|-------------------------|-----------------------------------|-------------------|------------|
| Classified Salaries ¹ | \$ 1,955,593 | 1,846,695 | 2,185,858 | 339,163 | |
| Other Salary Costs ¹ | 444,586 | 414,795 | 528,659 | 113,864 | Note 17 |
| Classified Salaries - Incent. Comp. Plan ² | 237,104 | 183,010 | 329,653 | 146,643 | |
| Legal Services (Outside) | 1,523,500 | 1,273,155 | 1,272,000 | (1,155) | Note 6 & 7 |
| Professional Services - Educational | 1,000 | 1,000 | 1,000 | 0 | Note 12 |
| Travel | 2,450 | 2,450 | 4,350 | 1900 | |
| Supplies & Materials | 150 | 150 | 150 | 0 | |
| Reproduction Services | 150 | 150 | 150 | 0 | |
| Employee Training | 4,735 | 16,244 | 6,585 | (9,659) | |
| Subscriptions & Electronic Communication | 28,821 | 28,821 | 28,332 | (489) | |
| Membership Fees | 3,705 | 3,705 | 3,660 | (45) | |
| Classified Advertising | 0 | 345 | 500 | 155 | |
| Miscellaneous Expenses | 24,100 | 24,100 | 9,000 | (15,100) | |
| Other Contracted Services | 500 | 500 | 500 | 0 | Note 19 |
| Equipment & Furniture | 15 | 15 | 15 | 0 | |
| Books/Reference Materials | 250 | 250 | 550 | 300 | |
| Computer Equipment | 0 | 7,935 | 1,603 | (6,332) | |
| Total Budget | 4,226,659 | 3,803,320 | 4,372,565 | 569,245 | |
| Full Time Equivalent Staff | 17 | 17 | 18 | 1 | |

Explanations of Variance

¹**Classified Salaries and Other Salary Costs** – One new attorney position will be added to support the strategic projects including legislative implementation. The Fiscal Year 2016 Approved Budget also includes equity and career ladder adjustments.

²**Classified Salaries – Incentive Compensation Plan** – Incentive Compensation Plan payout is assumed based on positive performance and exceeding benchmarks in Fiscal Year 2015 for Legal staff whose work was related to the investment program.

INTERNAL AUDIT

Organizational Chart – Fiscal Year 2016



Total FTEs: 4

Fiscal Year 2015 Accomplishments

- Completed seven audit engagements in accordance with the Fiscal Year 2015 ERS Audit Plan providing assurance on the effectiveness of controls and operations to meet ERS' strategic objectives and goals
- Enhanced internal audit processes and procedures including expanded use of data analytics and refinement of audit templates to enhance the efficiency and productivity of the Internal Audit function.
- Reassessed and revised the annual audit risk assessment and audit plan to be more comprehensive and better reflect emerging and evolving risks.
- Developed and conducted an annual Quality Assurance and Improvement Program self-assessment as required by professional standards which enabled enhancement of professional practices.
- Developed Audit Committee Charter and the Audit Committee Member handbook to provide guidance to the Audit Committee members in key governance areas.
- Completely redesigned and implemented Internal Audit's SharePoint site to facilitate sharing of information with audit customers.
- Updated annual investment compliance affirmations and compliance groups to better track compliance with ERS Investment Policy.
- Revised Annual Internal Audit Report format to improve communication of internal audit activities and results for ease of review.

Major Fiscal Year 2016 Initiatives

- Finalize the fraud, waste and abuse framework including procedures
- Select and implement investment compliance software
- Assess the level of Internal Audit resources to ensure alignment with the ERS mission and Board risk appetite
- Serve as Marketing Chair for Institute of Internal Auditors Regional Conference

All the above Internal Audit Division initiatives support Strategic Direction #4.

Internal Audit Fiscal Year 2016 Budget

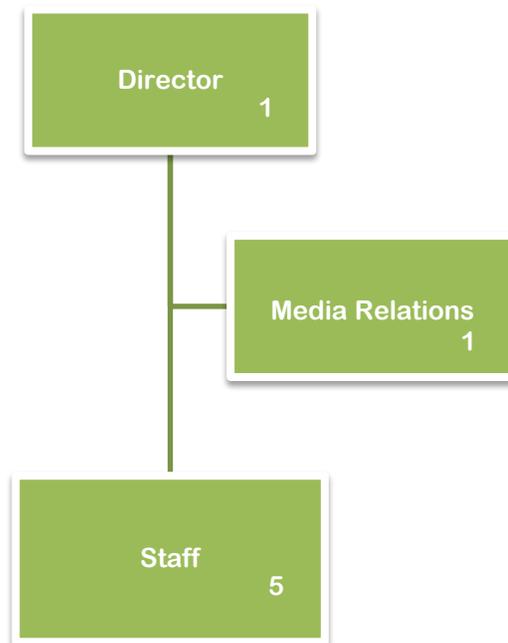
| | FY15 Budget (A) | FY15 Forecast (B) | FY16 Approved Budget (C) | Change (D=C-B) | Exhibit B |
|-------------------------------------|-----------------------|-------------------------|-----------------------------------|-------------------|-----------|
| Classified Salaries | \$ 375,034 | 325,579 | 390,396 | 64,817 | |
| Other Salary Costs | 92,467 | 100,809 | 97,379 | (3,430) | Note 17 |
| Financial Audit Services | 150,000 | 178,000 | 220,000 | 42,000 | Note 8 |
| Audit Services - Other | 140,000 | 100,000 | 125,000 | 25,000 | Note 16 |
| Professional Services - Educational | 60 | 60 | 60 | 0 | Note 12 |
| Travel | 3,000 | 3,000 | 3,000 | 0 | |
| Supplies & Materials | 100 | 100 | 100 | 0 | |
| Employee Training | 4,000 | 6,500 | 5,000 | (1,500) | |
| Subscriptions & Electronic Comm. | 21,000 | 21,800 | 21,800 | 0 | |
| Membership Fees | 1,120 | 1,120 | 1,120 | 0 | |
| Miscellaneous Expenses | 60 | 60 | 60 | 0 | |
| Books/Reference Materials | 1,000 | 500 | 1,000 | 500 | |
| Computer Equipment | 0 | 1,891 | 0 | (1891) | |
| Total Budget | 787,841 | 739,419 | 864,915 | 125,496 | |
| Full Time Equivalent Staff | 4 | 4 | 4 | 0 | |

Explanations of Variance

There were no significant variances.

GOVERNMENTAL AFFAIRS

Organizational Chart – Fiscal Year 2016



Total FTEs: 7

Fiscal Year 2015 Accomplishments

- Informed legislators resulting in the passage of House Bill 9, which increased employee contributions and eliminated the 90-day membership waiting period to guide the ERS trust toward actuarial soundness.
- Helped to secure state and employer contributions to the pension trust fund at a combined rate of 10 percent to guide the ERS trust toward actuarial soundness.
- Helped to secure adequate funding for the health insurance program sufficient to maintain current benefits for the next biennium.
- Tracked bills and analysis for all ERS-related legislation through the Legislative Analysis Group to determine administrative and fiscal impact.
- Coordinated preparation and distribution of actuarial cost impact statements by consulting pension actuaries.
- Coordinated multiple information requests from the House and Senate members and their staff, the Governor's office, the Lt. Governor's office, the Speaker's office, the Legislative Budget Board, the House Research Organization, oversight agencies, association groups and ERS staff.
- Handled media inquiries and tracked news items daily to provide staff with up to the minute information on ERS-related issues and other items of interest to state government.
- Participated with House and Senate offices in the development of legislation reforming the state contract management processes, including crafting language that would mitigate the cost and administrative complexity of new requirements placed on state agencies, including ERS.

Fiscal Year 2015 Accomplishments (continued)

- Developed alternative options for the pension plan to show impact if funding was not secured, and offered other legislative suggestions to improve state programs or ERS operations.
- Coordinated the development of individual district report cards for each member of the House and Senate and distributed to legislative offices.
- Researched and developed explanatory material on the actuarial and member impact of offering alternative health plans to low-income employees who cannot afford to cover their dependents under the current HealthSelect plan, and briefed stakeholders on the potential impact of legislation to the Group Benefits Program.
- Worked with legislators and staffers on individual constituent issues and concerns.
- Helped to coordinate legislative implementation agency wide.
- Drafted amendments to the Texas Administrative Code for approval by the Board of Trustees.
- Planned and hosted the Capitol Health Fair for legislators and staffers to provide health screenings and display wellness tools and resources offered by ERS programs.
- Provide accurate and accessible research and program information:
 - Received recognition for excellence in governance reporting in the Legislative Budget Board's Government Efficiency and Effectiveness Report for the annual GBP Cost Management and Fraud Report
 - Maximized the agency's use of SharePoint and the Business Intelligence Data Warehouse to improve the process for producing, maintaining, and updating key benchmarking data and policy research
 - Designed and launched the Data Dashboard, a centralized research and data repository on SharePoint that maintains key information about ERS programs to the responsible divisions
 - Conducted a comprehensive benchmarking study on Consumer Directed Health Plan (CDHP) offerings in the public and private sector. Updated the retirement sustainability study.
 - Published interim studies on:
 - The impact of Offering Alternative Health Insurance Options to State Employees Enrolled in the Texas Employees Group Benefits Program, September 2014
 - The Feasibility of Adding Select Populations to the Law Enforcement and Custodial Officers Supplemental Retirement Fund (LECOSRF), September 1, 2014
- Increased engagement with key stakeholders to inform decision making:
 - Held numerous legislative briefings and maintained open communication to engage state employee and retiree associations, resulting in unified support of key pension legislation
 - Increased the number of face-to-face meetings, briefings, and presentations with strategic stakeholders
 - Developed a comprehensive look-back at strategic engagement initiatives over the past eight years, evaluating the outcomes of ERS' ongoing efforts to engage members and stakeholders in difficult benefit decisions affecting health policy and GBP plan design.
 - Completed a cross-divisional inventory of ERS program improvements over the past decade in response to actionable findings identified in four member surveys.
 - Boosted ERS' national presence by serving on outside committees, presenting at national conferences, and consulting on research projects with the Pew Center on the States, the National Conference of State Legislatures, the National Associations of State Retirement Administrators, and the State and Local Government Benefits Administrators.

Major Fiscal Year 2016 Initiatives

- Continue to coordinate implementation plans for legislative changes to ERS programs resulting from the legislative session. (Strategic Direction #4)
- Coordinate information requests from interim legislative committees that deal with ERS issues. (Strategic Direction #3)
- Continue to work with legislators and their staff as well as ERS members and retirees on various constituent issues. (Strategic Direction #3)

Governmental Affairs Fiscal Year 2016 Budget

| | FY15 Budget (A) | FY15 Forecast (B) | FY16 Approved Budget (C) | Change (D=C-B) | Exhibit B |
|-------------------------------------|-----------------------|-------------------------|-----------------------------------|-------------------|-----------|
| Classified Salaries | \$ 989,009 | 750,800 | 740,146 | (10,654) | |
| Other Salary Costs | 241,000 | 178,453 | 192,706 | 14,253 | Note 17 |
| Professional Services - Educational | 400 | 400 | 4,575 | 4175 | Note 12 |
| Professional Services - Other | 60,000 | 45,000 | 15,000 | (30,000) | |
| Travel | 17,610 | 16,040 | 12,970 | (3,070) | |
| Supplies & Materials | 100 | 100 | 100 | 0 | |
| Employee Training | 10,785 | 7,710 | 6,890 | (820) | |
| Subscriptions & Electronic Comm. | 4,930 | 6,680 | 7,820 | 1,140 | |
| Membership Fees | 8,975 | 8,975 | 8,850 | (125) | |
| Miscellaneous Expenses | 100 | 100 | 1,337 | 1,237 | |
| Contracted Services & Data Entry | 28,500 | 23,220 | 0 | (23,220) | |
| Equipment & Furniture | 0 | 200 | 0 | (200) | |
| Books/Reference Materials | 0 | 0 | 450 | 450 | |
| Computer Equipment | 0 | 3,441 | 2,001 | (1,440) | |
| Total Budget | 1,361,409 | 1,041,119 | 992,845 | (48,274) | |
| Full Time Equivalent Staff | 9 | 6 | 7 | 1 | |

Explanations of Variance

There are no significant variances.

HUMAN RESOURCES

Organizational Chart – Fiscal Year 2016



Total FTEs: 5

Fiscal Year 2015 Accomplishments

Strategic Accomplishments

- Initiated a Request for Proposal (RFP) for a Human Resource Information Management System and began evaluation of systems.
- Initiated an RFP for a Compensation Study and conducted an analysis of the data
- Completed development and launch of an internal customer service performance survey
- Supported creation of a centralized location for shared agency policies.

Operational Accomplishments

- Drafted RFP for executive search firm and selected a firm to search for an Executive Director
- Extensive research and analysis of compensation data.
- Supported divisions to achieve greater staffing:
 - Processed 261 personnel actions and corresponding letters
 - Processed 56 Incentive Compensation Payments with corresponding letters
 - Processed 30 personnel actions from the Make a Difference Initiative, where employees offered suggestions to business improvements for the agency operations.
 - Processed 327 personnel actions as a result of the 2% legislative increase
 - Processed 9 divisional re-organizations
 - On-boarded 60 new hires
 - On-boarded 17 temporary workers
 - On-boarded 14 contractors
 - Processed 36 separations
 - Processed 15 internal transfers
 - Added 11 employees to the Compressed Work Week schedule
 - Added 6 new telecommuters
 - Worked on 11 PeopleSoft HRIS work orders
 - Conducted 92 employment verifications
 - Researched and conducted 10 retirement resolutions

Fiscal Year 2015 Accomplishments (continued)

- Handled 102 employee related matters
- Special Leave Initiatives
 - Executive Office Leave granted for Holidays (all employees)
 - Executive Office Leave granted for participating in the Work Life and Wellness Committee (10)
 - Executive Office Leave granted for the Get Fit Challenge (98)
 - Administrative Leave Granted for Performance (18)
- Administered internal training for ERS staff and 62 training sessions were scheduled throughout the year:
 - Grammar and Punctuation for Business Communication
 - Technical Writing
 - Information Security Awareness
 - The Basics of the Public Information Act
 - Write Right
 - Outlook Training
 - Communication with Candor, Compassion and Confidence
 - Business Etiquette
 - ERS Message Map
 - Confronting Workplace Bullying and Harassment
 - Word: Intermediate and Advanced
 - Excel: Intermediate and Advanced
 - Excel: Power User
 - Excel: VBA
 - Access: Introduction
 - Project: Introduction and Intermediate
 - Building Trust Through Communication
 - Surviving the Chaos of Change
 - Staying Fit at Work
 - Crucial Communication Strategies: When it Matters Most
 - Professional Presence
 - Hire So You Do Not Have To Fire
 - Managing and Supervising People
 - CPR and AED Training
 - Preparing and Delivering Powerful Presentations
 - Cisco Jabber End User Training
- Fiscal Year 2015 Personnel Budget Preparation
- Successful Fiscal Year Rollover USPS and PS LAS
- Revised 2 policies
- Coordinated program participation for six Office of Management Services (OMS) Liaisons
- Served as a mentor
- Coordinated the State of the ERS and Brown Bag Breakfasts with the Executive Director
- Coordinated and hosted the 2015 Longevity Awards
- Assisted the State Auditor's Office with the gathering of data for the Incentive Compensation Audit
- Hosted Great West and Empower Retirement one-on-one sessions
- Implemented and maintained Job Share
- Assisted with the Continuity of Operations Plans and Procedures (COOP) and Risk Appetite process
- Worked on approximately 200 SharePoint conversion check in items
- Completed the cross training of the payroll function
- Coaching and training of new HR staff

Major Fiscal Year 2016 Initiatives

- Finalization of the Human Resources Process Evaluation
- Bid and Evaluate the Temporary Worker contract
- Bid and Evaluate the Employee Assistance Program contract
- Support Implementation of 84th Legislative Session changes:
 - H. B. 426, relating to the acceptance of employment applications through the online system for listing state agency employment openings maintained by the Texas Workforce Commission.
 - S.B. 374 relating to requiring state agencies to participate in the federal electronic verification of employment
 - H. B. 445 relating to providing notice of the availability of paid leave for military service to public officers and employees
 - H.B. 1771 relating to the donation of sick leave by state employees
 - S.B. 389 relating to the placement of military occupational specialty codes on certain notices of state agency employment openings
 - S.B. 805 relating to the employment of individuals qualified for a veteran's employment preference.

All the above Human Resources initiatives support Strategic Direction #4.

Human Resources Fiscal Year 2016 Budget

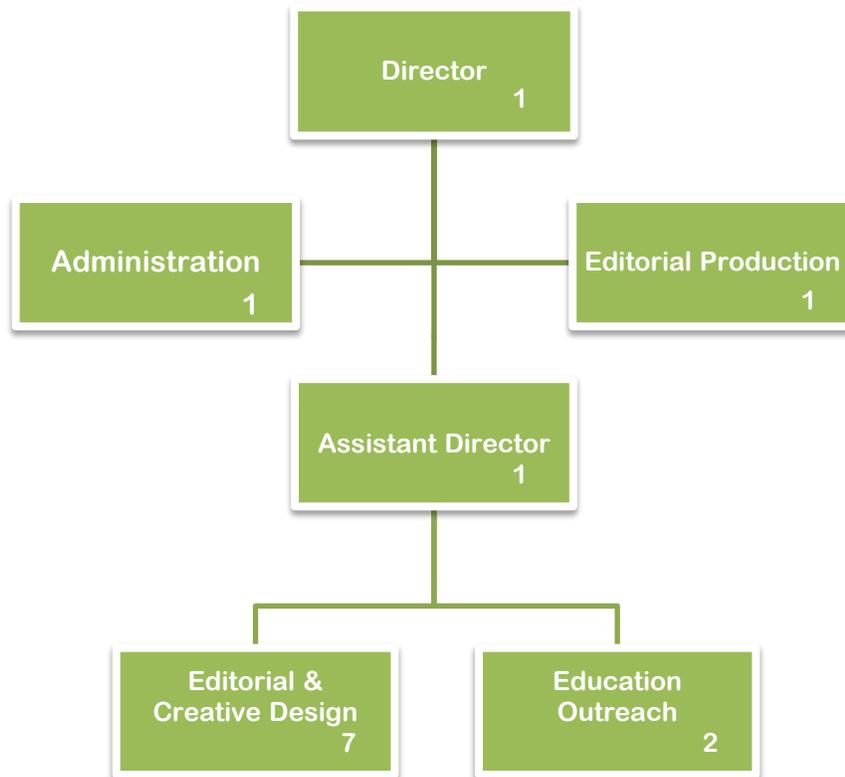
| | FY15 Budget (A) | FY15 Forecast (B) | FY16 Approved Budget (C) | Change (D=C-B) | Exhibit B |
|---------------------------------------|-----------------------|-------------------------|-----------------------------------|-------------------|-----------|
| Classified Salaries | \$ 404,448 | 395,081 | 397,401 | 2,320 | |
| Other Salary Costs | 110,531 | 103,682 | 116,900 | 13,218 | Note 17 |
| Computer System Services ¹ | 75,000 | 0 | 0 | 0 | Note 15 |
| Professional Services - Educational | 25,000 | 28,500 | 50,500 | 22,000 | Note 12 |
| Professional Services - Other | 7,500 | 7,000 | 9,500 | 2,500 | Note 14 |
| Travel | 6,300 | 3,300 | 3,600 | 300 | |
| Supplies & Materials | 750 | 750 | 750 | 0 | |
| Employee Training | 7,855 | 7,855 | 9,720 | 1,865 | |
| Subscriptions & Electronic Comm. | 500 | 500 | 500 | 0 | |
| Membership Fees | 840 | 840 | 1,175 | 335 | |
| Contract Temps & Data Entry | 0 | 7,168 | 0 | (7,168) | |
| Miscellaneous Expenses | 7,500 | 7,500 | 7,500 | 0 | Note 11 |
| Equipment & Furniture | 500 | 500 | 500 | 0 | |
| Computer Equipment | 0 | 241 | 0 | (241) | |
| Total Budget | 646,724 | 562,917 | 598,046 | 35,129 | |
| Full Time Equivalent Staff | 5 | 5 | 5 | 0 | |

Explanations of Variance

¹**Computer System Services** – The decrease is because the Human Resource Information Management System was budgeted in Fiscal Year 2015 and not in Fiscal Year 2016.

BENEFITS COMMUNICATIONS

Organizational Chart – Fiscal Year 2016



Total FTEs: 13

Fiscal Year 2015 Accomplishments

- **Employer Outreach:**
Benefits Communications outreach to the Texas Department of Family Protective Services(DFPS) – Benefits Communications developed custom communications and a presentation for DFPS recruiters and prospective employees. The outreach was in response to the low retention and high turnover rates recently publicized regarding the Child Protective Services department. The division developed a custom presentation to provide DFPS recruiters with information on the Group Benefits Program (GBP) benefits to help those recruiters explain the value of the GBP benefits. The division also created a handout specifically for recruiters to provide to prospective Child Protective Services employees that gave an overview of the GBP and topline information on how these plans benefit the employees.

Fiscal Year 2015 Accomplishments (continued)

- **Implementations**

- Communications for Implementation of Community Health Choice HMO to the Group Benefits Program – Following its involvement in the process to select an HMO, Benefits Communications has been instrumental in developing communications to announce the new program to ERS members. Working closely with the vendor and the Benefit Contracts Division, Benefits Communications provided significant input on the plan website and the Annual Enrollment materials. The division also developed ongoing newsletter articles and social media posts to familiarize members with the new offering.
- Communications for the Choose to Quit program – Benefits Communications supported the implementation of the Choose to Quit program, overseeing the development and distribution of communications that include employer and employee notices, ERS website updates, and newsletter articles.
- Communications for Implementation of the new TexFlex program third-party administrator (TPA) ADP, LLC. Following its involvement in the process to select the program administrator, Benefits Communications has been instrumental in developing communications to announce the TPA transition to ERS participants. Working closely with ADP and other internal ERS divisions, Benefits Communications provided significant input on the program website, Annual Enrollment materials, as well as Plan Year 2016 materials. The division also developed ongoing newsletter articles and social media posts to familiarize members with the new offering.

- **Texa\$aver Program**

- Award-winning Texa\$aver “What’s Your Excu\$e?” Campaign – The campaign earned 17 communications awards. The campaign focused on Texa\$aver participants who were not participating in the Texa\$aver program and helped 2,100 participants to enroll in the Texa\$aver Program. The target audience comprised employees hired before auto-enrollment began for the 401(k) and who were also eligible to enroll in the 457 plan. With more than 20 touch-points, the campaign asked employees “Do You Have a Plan?” through creative print and promotional marketing communications.

- **Publications, newsletters, social media and presentations**

- Ongoing education outreach – During the fiscal year, Benefits Communications has led or participated in employee and retiree presentations across Texas. Events included Annual Enrollment fairs, Ready, Set, Retire! Sessions for state agencies and higher education institutions; Medicare Preparation seminars; new employee orientations; health and benefits fairs; Benefits Coordinator webcast, and monthly Ask ERS webinars.
- Email Bulletins and Social Media – Through our Gov Delivery email subscription service, Benefits Communications sent more than 50 bulletins on a variety of timely topics to ERS stakeholders. These include our monthly e-newsletter to more than 225,000 agency and higher education employees, and our weekly e-newsletter to approximately 1,500 agency/institution benefits coordinators. The division increased readership of Update-express and News About Your Benefits by about 5% and 10% respectively. The ERS Facebook page experienced a 166% increase in page likes from May 2014 (2,152) to May 2015 (5,723).
- The division also conducted a survey in an effort to learn about the employee newsletter reader base. Results are as follows:
 - 468 respondents as of May 15, 2015
 - Only about 30% respondents have dependents younger than age 26 covered under ERS benefits
 - 65% of respondents are age 50 and over

Fiscal Year 2015 Accomplishments (continued)

• **Topics readers expressed most interested in were:**

- | | |
|--------------------------------------|--------|
| ○ New program and benefit updates | 85.50% |
| ○ Health insurance | 84.43% |
| ○ Legislative news and updates | 68.87% |
| ○ Prescription drugs | 63.75% |
| ○ Retirement preparation | 62.69% |
| ○ Discount purchase program | 60.55% |
| ○ Dental plan information | 60.34% |
| ○ TexaSaver 401(k)/457 Program | 45.63% |
| ○ TexFlex flexible spending accounts | 38.45% |
| ○ Medicare preparation | 38.81% |
| ○ Events | 35.82% |
-
- HealthSelect of Texas Wellness Webinars and Other Wellness Resources – As part of an effort to more consistently utilize United Healthcare’s wellness resources; Benefits Communications led the effort to provide monthly wellness webinars available to all state employees, retirees, and dependents with access to the internet. More than 1,345 people joined 11 online events, and 134 participants in a nine week weight management program.
 - Employee and employer publications – During the last fiscal year, the division updated and provided several ERS publications to employees, retirees, employers, and other stakeholders, including the *ERS At-A-Glance* publications, the *Benefits Coordinator Reference Manual* and the *New Employee Benefits Guide*. Demand from agencies for initial copies of the *New Employee Benefits Guide* increased 20% from the previous year’s edition. The Benefits Communication division revised the *Planning Your Retirement* booklet adding many examples to help employees better understand complex retirement topics. The division provided employers with additional ERS OnLine data entry information on Leave of Absence processing as part of the updates to the *Benefits Coordinator Processing Manual*. The Benefits Communications division also selected a new vendor for the print version of *Your ERS Connection* retiree newsletter, resulting in improved turnaround times and customer service, and a significantly lower cost per issue.
 - Increased Use of Video – Benefits Communications supported a number of internal communications efforts with increased use of video, including three animated videos to educate members and stakeholders about benefits issues. Benefits Communications received video editing equipment this summer to help with additional video production.
 - Improvements to Communication Production Process – Following up on a formalized communication request and tracking process implemented in Fiscal Year 2012, Benefits Communications worked with the Information Systems Division to develop a fully automated process that allows for better management and more consistent tracking of communications job requests. This process was implemented in September, 2014. At this time, Benefits Communications anticipates processing more than 150 work orders for Fiscal Year 2015.

Major Fiscal Year 2016 Initiatives

- Conduct usability audit of public website.
- Audit publications for increased use, understanding, and cost-effectiveness.
- Conduct special communications and training to increase benefits coordinators' use of ERS resources.
- Assist with the development of communications plans for wellness and condition management programs.
- Develop and disseminate educational and informational communications for the
 - high-deductible health plan with health savings account.
 - Qualified Transportation Fringe Benefit
- Conduct communications campaign for vision care implementation (and support bid evaluation).
- Support project to replace architecture for public website content management
- Assist with communications strategy for non-contributing retirement members.
- Conduct communications campaign for Summer and Fall Enrollment
- Continue to use animated videos to engage members and stakeholders and educate them about ERS programs and related issues
- Continue to identify member stories and incorporate them into communications
- Continue to support Benefits Enrollment and Administration System project (including bid evaluation)
- Continue to support implementation of a new HMO
- Support Sunset Commission Review
- Support implementation of legislative changes
- Continue communications to support 1095-B and 1095-C reporting
- Conduct communications campaigns for program changes, as needed
- Implement recommended changes from internal customer service survey
- Support bid evaluation of pharmacy benefit manager and Medicare Advantage plan, if needed
- Support project to modernize the Board of Trustees election process

All the above Benefit Communications initiatives support Strategic Direction #3.

Benefits Communications Fiscal Year 2016 Budget

| | FY15 Budget (A) | FY15 Forecast (B) | FY16 Approved Budget (C) | Change (D=C-B) | Exhibit B |
|--|-----------------------|-------------------------|-----------------------------------|-------------------|-----------|
| Classified Salaries ¹ | \$ 792,889 | 739,721 | 838,104 | 98,383 | |
| Other Salary Costs | 216,394 | 217,051 | 249,494 | 32,443 | Note 17 |
| Computer System Services | 123,000 | 63,000 | 123,000 | 60,000 | Note 4 |
| Professional Services - Other ² | 40,000 | 22,000 | 124,000 | 102,000 | Note 20 |
| Travel | 58,400 | 58,400 | 55,100 | (3,300) | |
| Supplies & Materials | 500 | 500 | 500 | 0 | |
| Rental of Space | 18,200 | 18,200 | 18,200 | 0 | |
| Reproduction Services | 75,000 | 65,000 | 80,000 | 15,000 | |
| Employee Training | 22,918 | 22,918 | 10,475 | (12,443) | |
| Subscriptions & Electronic Comm. | 3,400 | 3,400 | 4,695 | 1295 | |
| Membership Fees | 1,470 | 1,470 | 1,639 | 169 | |
| Miscellaneous Expenses | 4,100 | 4,100 | 4,100 | 0 | |
| Other Contracted Services | 31,000 | 4,140 | 31,000 | 26,860 | Note 19 |
| Equipment & Furniture | 5,000 | 5,000 | 8,000 | 3000 | |
| Books/Reference Materials | 1,000 | 1,000 | 1,000 | 0 | |
| Computer Equipment | 0 | 7,000 | 0 | (7,000) | |
| Total Budget | 1,393,271 | 1,232,900 | 1,549,307 | 316,407 | |
| Full Time Equivalent Staff | 12 | 12 | 13 | 1 | |

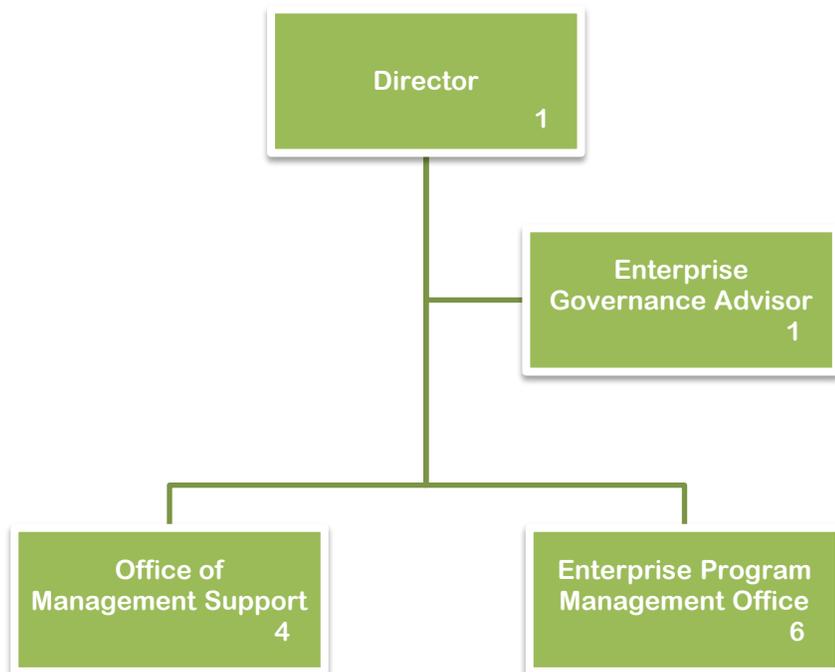
Explanations of Variance

¹**Classified Salaries and Other Salary Costs** – One new position will be added to serve as a communications subject matter expert for work on the HDHP with Health Savings Account, the vision plan, and support for wellness and condition management programs.

²**Professional Services – Other** – The increase is due to development of communication for the Consumer Driven Health Plan, audit of ERS publication, and animated videos.

ENTERPRISE PLANNING OFFICE

Organizational Chart – Fiscal Year 2016



Total FTEs: 12

In February, 2015 the Enterprise Planning Office (EPO) was created to support the Executive Office with enterprise-wide strategic and operational planning activities, risk management, and execution of agency management policies. Resources from other divisions were transferred, including 8 positions from Information Systems, 2 from Governmental Affairs, 1 from Benefit Contracts and 1 position from the Executive Office. EPO consists of two units, the Enterprise Program Management Office and the Office of Management Support.

The Enterprise Program Management Office ensures that projects across departments or divisions are managed consistently and work toward the same goals, allowing for efficient processes, improved project communication across multiple divisions, and increased operational planning.

The Office of Management Support works with executive management and division leadership to develop and evaluate ERS programs to promote and fulfill the agency's statutory requirements. The Office of Management Support staff serve on project teams and assist management with completing strategic and operational activities while exposing staff to various areas around the agency, contributing to their professional and leadership development.

Fiscal Year 2015 Accomplishments

- Coordinated efforts with participating divisions to produce, launch, and analyze results from multiple internal customer service surveys. The surveys will help showcase strengths within the various divisions while identifying areas for improvement.
- Facilitated the periodic staff compensation study in conjunction with the compensation consultant for the participating divisions.
- Created a centralized location to allow staff to easily locate shared agency policies, files and request forms.
- Coordinated all the 2015 Board of Trustees election activities
- On-boarded a health promotions administrator to develop a comprehensive health and wellness program for the Group Benefits Program participants.
- Managed, or facilitated the management of, approximately 40 enterprise-wide projects for completion
- Facilitated the Fiscal Year 2016 enterprise project planning activities for all divisions.

Major Fiscal Year 2016 Initiatives

Strategic Initiatives

- Support project management activities for more than 40 enterprise-wide projects, including:
 - RFPs for Benefits Administrative Services and Pharmacy Benefit Manager
 - Two benefits enrollment periods, and
 - 84th legislative session implementations (Strategic Direction #4)
- Facilitate Sunset Commission review process for the agency (Strategic Direction #4)
- Coordinate development of a plan to communicate wellness and condition management programs to GBP participants (SD #2 and 3)
- Design participant incentives for GBP wellness programs (Strategic Direction #2)
- Facilitate evaluation and modernization of the bi-annual Board of Trustees election process (Strategic Direction #4)
- Implement opportunities identified in the risk appetite statements for future planning purposes (Strategic Directions 3 and 4)
- Conduct business impact analysis for ERS' continuity plan (Strategic Direction #4)
- Coordinate scheduling and governance activities in conjunction with Information Systems and business divisions relating to enterprise-wide technology applications (Strategic Direction #4)

Operational Projects

- Facilitate ERS' Fiscal Year 2017-2019 strategic planning activities (Strategic Direction #4)
- Oversee the bid and evaluation of other post-employment benefit actuarial services proposals (Strategic Direction #2)
- Evaluate project data management and reporting for improved process flows and decision-making capabilities (Strategic Direction #4)

Enterprise Planning Office Fiscal Year 2016 Budget

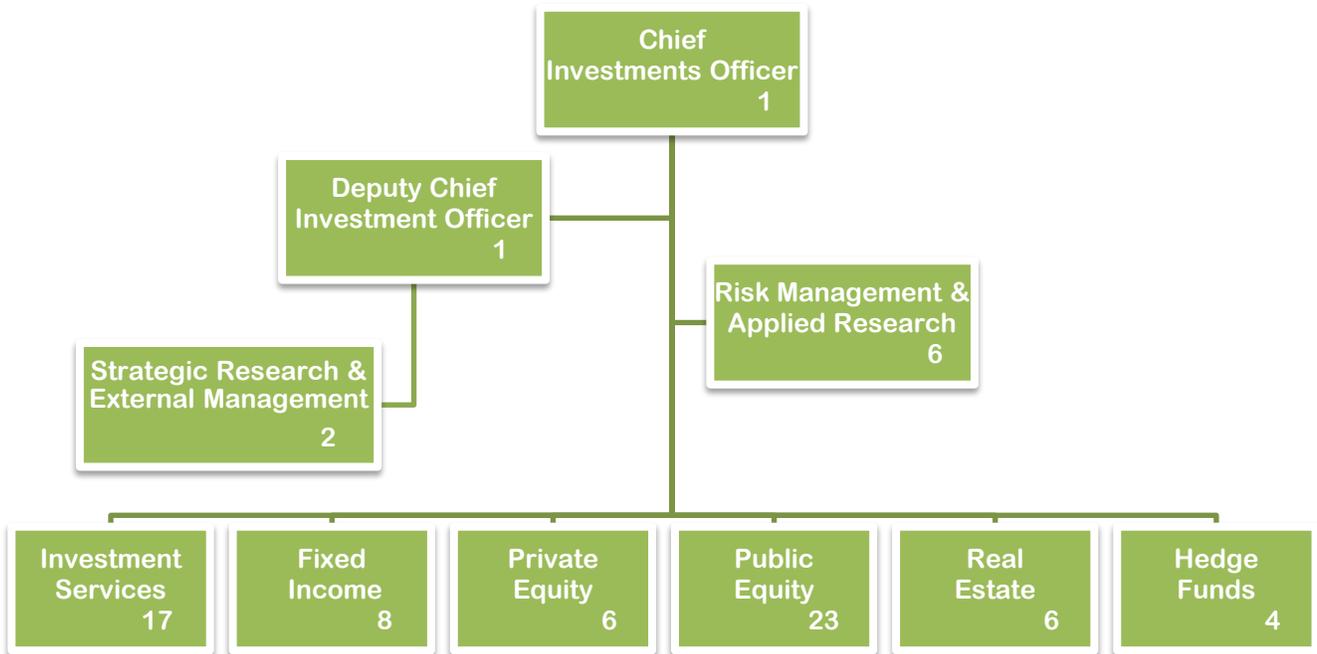
| | FY15 Budget (A) | FY15 Forecast (B) | FY16 Approved Budget (C) | Change (D=C-B) | Exhibit B |
|-----------------------------------|-----------------------|-------------------------|-----------------------------------|-------------------|-----------|
| Classified Salaries ¹ | \$0 | 573,498 | 1,155,997 | 582,499 | |
| Other Salary Costs ¹ | 0 | 141,750 | 287,485 | 145,735 | Note 17 |
| Travel | 0 | 4,500 | 7,000 | 2,500 | |
| Supplies & Materials | 0 | 400 | 500 | 100 | |
| Employee Training | 0 | 5,435 | 10,385 | 4,950 | |
| Membership Fees | 0 | 600 | 2,785 | 2,185 | |
| Contract Temps & Data Entry | 0 | 78,081 | 0 | (78,081) | |
| Miscellaneous Expenses | 0 | 445 | 745 | 300 | |
| Computer Equipment | 0 | 2,725 | 0 | (2,725) | |
| Total Budget | 0 | 807,434 | 1,464,897 | 657,463 | |
| Full Time Equivalent Staff | 0 | 12 | 12 | 0 | |

Explanations of Variance

¹**Classified Salaries and Other Salary Costs** – The increase is due to budgeting positions for a full year. The division was created mid-year, in February, 2015.

INVESTMENTS

Organizational Chart – Fiscal Year 2016



Total FTEs: 74

Fiscal Year 2015 Accomplishments

- During Fiscal Year 2015 the Investments Division reduced external advisor fees by over \$3 million by moving assets to in-house management.
- Substantially accomplished transition to new asset allocation targets as determined by the Fiscal Year 2012 asset liability study, including private real estate, private equity, and Absolute Return portfolio (hedge funds).
- Produced to date return through June 30, 2015, a gross rate of return for the pension fund of 2.79% compared to the benchmark return of 1.28%.
- During Fiscal Year 2014 the Investments Division added approximately \$1.5 billion in excess value over the actuarial rate of return of 8% to the trust from investment earnings.
- Committed \$979 million to Private Equity through June 30, 2015 and closed on 9 funds and 4 co-investments.
- Committed \$451 million to Private Real Estate through June 30, 2015 and closed on 9 deals.
- Committed \$160 million to Hedge Funds through June 30, 2015 and closed on 2 investments. One fund received additional commitment.
- Committed \$200 million to Private Fixed Income and closed on 3 deals as of June 30, 2015.
- Achieved saving through diligent negotiation of best economic deal terms along with emphasizing corporate governance in negotiations in private markets contracts, with a combined savings of approximately \$21 million.
- Initiated and implemented Best Ideas program
- Filled vacancies for the Infrastructure Portfolio Manager, Real Estate Analyst, Investment Operations Supervisor, 5 Investment Operations Specialists, Hedge Fund Portfolio Manager, 2 Public Equities Analysts, a Strategic Research Analyst, and 2 Fixed Income Analysts. One of the Operations Specialists was hired as a result of the Office of Management Support rotation.

Fiscal Year 2015 Accomplishments (continued)

- Co-sponsoring with Benefit Contracts the leveraging of the defined benefit investment program for the benefit of the Texa\$aver platform.
- Initiated and implemented a junior analyst program, including 4 hires.
- Completed the Compensation Study in conjunction with the Executive Office and Human Resources.
- Supported Operations Support in selection of the agency Space Planning Feasibility Study consultant.
- Enhanced middle and back office solutions, including data warehouse integration, phase I.
- Actively continued to collaborate with university graduate programs, including the UT Austin MBA and MS Finance programs.
- Coordinated distinguished speaker symposiums for entire agency.
- Conducting customized trainings for other divisions as requested.
- Continued branding of ERS and ERS' investment program through conference attendance and presentations.
- Implemented the derivatives program.
- Hosted operational due diligence training for other Texas pensions.
- Continued to develop career path program for Investments employees, including communications, succession planning, overall team development, and leadership/management, presentation and communication training.
- Tom Tull was named CIO of the Year at the Institutional Investor Conference, and Rob Lee won the Alpha Generation award at the same conference.
- Expanded internship program to include outreach to diversity candidates.
- Increased intra-agency and internal division communication through division brown bags and intra-agency show and tell.
- Successfully rebranded emerging managers program as part of overall external management and continued outreach to industry organizations.

Major Fiscal Year 2016 Initiatives

- Assess current and future savings received by diligent negotiation of best economic deal terms along with emphasizing corporate governance in negotiations.
- Expand derivatives program.
- Refresh the select pool and initiate searches to refine the mix of internal and external management.
- Redefine and continue to develop ERS' emerging manager program.
- Continue to expand internship program, including diversity outreach, and expand collaborations with Texas universities and the University of Washington.
- Complete the annual verification of compliance with the Global Investment Performance Standards (GIPS).
- Enhance the Investment Division's public website for more education on the investment program.
- Host the National Association of State Investment Professionals (NASIP) conference and Real Estate Emerging Managers (REEM) conference.
- Broaden the educational in-house conferences and promote strategic outreach to the Board, the Investment Advisory Committee and external stakeholders.
- Support legislative implementation.
- Continue to brand ERS Investments and the agency.
- Assist the Executive Director and the agency in improving the funded status and actuarial soundness of the pension plan.

All the above Investments initiatives support Strategic Direction #1.

Investments Fiscal Year 2016 Budget

| | FY15 Budget (A) | FY15 Forecast (B) | FY16 Approved Budget (C) | Change (D=C-B) | Exhibit B |
|---|-----------------------|-------------------------|-----------------------------------|-------------------|-----------|
| Classified Salaries ¹ | \$ 8,418,003 | 7,875,768 | 9,220,100 | 1,344,332 | |
| Class. Sal. - Incent. Comp. Plan ² | 2,667,568 | 1,878,295 | 3,261,366 | 1,383,071 | |
| Other Salary Costs ¹ | 1,878,191 | 1,845,674 | 2,151,731 | 306,057 | Note 17 |
| Investment Advisory Fee | 31,500 | 31,500 | 31,500 | 0 | Note 1 |
| Investment Consultants | 1,999,693 | 1,999,693 | 2,039,444 | 39,751 | |
| Computer System Services ³ | 230,000 | 56,365 | 280,000 | 223,635 | Note 4 |
| Consulting Services | 35,000 | 75,750 | 40,000 | (35,750) | Note 15 |
| Professional Services - Edu. | 11,000 | 30,085 | 25,000 | (5,085) | Note 12 |
| Professional Services - Other | 35,000 | 46,300 | 46,000 | (300) | |
| Travel | 597,750 | 597,750 | 597,750 | 0 | |
| Supplies & Materials | 500 | 500 | 500 | 0 | |
| Telecommunications | 4,800 | 4,800 | 4,800 | 0 | |
| Repair & Maintenance - Computer | 103,000 | 103,000 | 103,000 | 0 | |
| Employee Training | 77,500 | 77,500 | 87,000 | 9,500 | |
| Subscriptions & Elec. Comm. ⁴ | 5,578,729 | 5,345,728 | 5,605,313 | 259,585 | Note 21 |
| Membership Fees | 77,700 | 78,305 | 90,525 | 12,220 | |
| Contract Temps & Data Entry | 109,000 | 169,000 | 109,000 | (60,000) | |
| Classified Advertising | 4,000 | 4,000 | 4,000 | 0 | |
| Miscellaneous Expenses | 24,525 | 33,075 | 33,270 | 195 | |
| Other Contracted Services | 4,000 | 7,750 | 5,000 | (2,750) | Note 19 |
| Investment Banking | 990,000 | 990,000 | 990,000 | 0 | Note 22 |
| Equipment & Furniture | 14,500 | 32,427 | 25,000 | (7,427) | |
| Books/Reference Materials | 5,000 | 5,000 | 5,000 | 0 | |
| Computer Software | 207,300 | 206,500 | 231,500 | 25,000 | |
| Computer Equipment | 33,752 | 47,980 | 5,272 | (42,708) | |
| Telecommunications Equipment | 1,400 | 0 | 0 | 0 | |
| Total Budget | 23,139,411 | 21,542,745 | 24,992,071 | 3,449,326 | |
| Full Time Equivalent Staff | 72.33 | 72.33 | 74 | 1.67 | |

Explanations of Variance

¹Classified Salaries and Other Salary Costs – The increase is due to one additional position, a private equity investment analyst, for monitoring managers in the private equity asset class so current staff can pursue direct investments. Fiscal Year 2016 also includes equity adjustments based on a compensations study and career ladder increases.

²Incentive Compensation – The assumed Incentive Compensation Plan payout is based on positive performance and achieving policy benchmarks in Fiscal Year 2015, for payment in Fiscal Year 2016. The third-year payout for 2013 and second-year payout for 2014 performance is also included in the Fiscal Year 2016 Approved Budget.

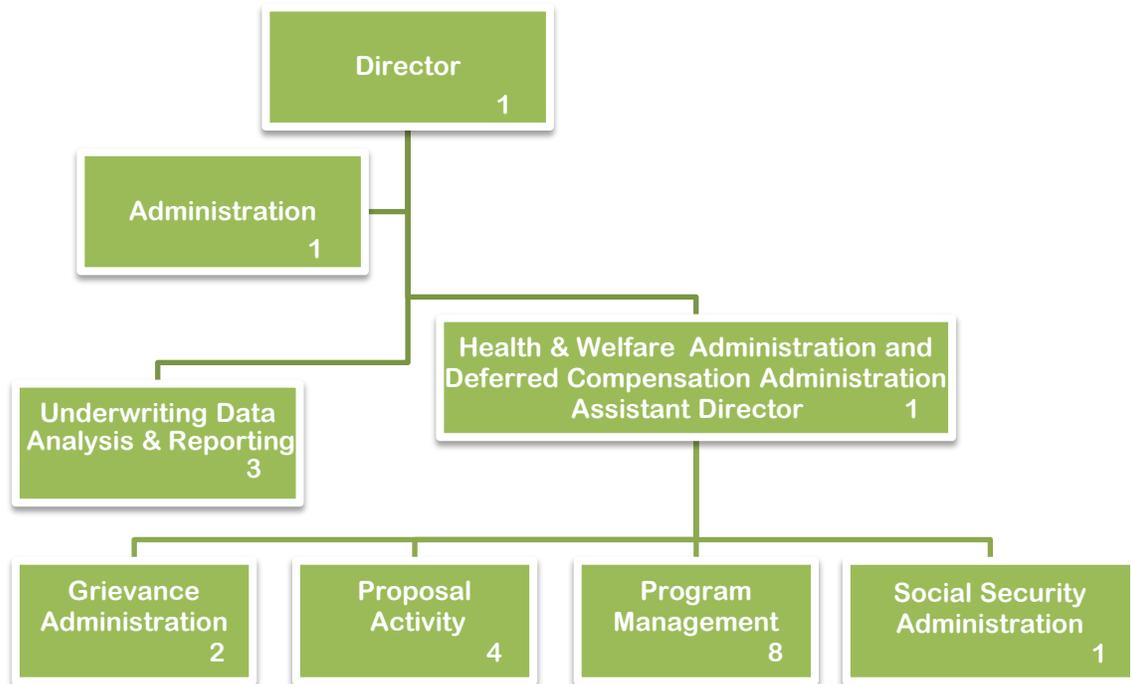
³Computer System Services – The increase is due to budgeting for the Eagle Upgrade and the Investments Reconciliation software upgrade.

⁴Subscriptions & Electronic Communication – The increase is a result of the following:

- Bloomberg: rate increase and new workstations for additional staff.
- FactSet: rate increase and additional workstations.
- MSCI: rate increase and added indexes.

BENEFIT CONTRACTS

Organizational Chart – Fiscal Year 2016



Total FTEs: 21

Fiscal Year 2015 Accomplishments

Deferred Compensation Program:

- Expanded program assets to \$2.5 billion
- Auto-enrolled over 157,787 participants into the Texa\$aver 401(k) plan since 2008
- Added over \$9.5 million in new rollover assets
- Texa\$aver mobile application added in December 2014
- Reduced administrative fees (for the top three balance tiers) for the fee schedule effective February 2015
- Texa\$aver participant satisfaction survey successfully completed
- Completed Texa\$aver strategic plan
- 2014 Personal Evaluation Statement (PES) Campaign successfully completed for managed accounts
- Roth enrollments surpassed 4,200 participants with over \$14 million in assets
- Legacy enrollments surpassed 2,100 new enrollments (new pre-auto enrollment participants added)
- Texa\$aver received eight 2015 Hermes and MarCom outstanding communication awards for its “What’s your Excu\$e” and “Do You Have a Plan” campaigns
- Completed the transition of the Texa\$aver to a 457 plan document

Group Benefit Programs:

- Implemented criteria to manage the rising expense of compound prescription drugs under the Plan
- Issued RFP, evaluated responses, and awarded the third party administration of the TexFlex program to a new vendor. Subsequently participated in the transition and implementation of the new vendor for a September 1, 2015 effective date.

Fiscal Year 2015 Accomplishments (continued)

- Issued RFP, evaluated responses, awarded contract, and participated in the implementation of a new HMO carrier to the Group Benefits Program.
- Received approval by the Board to add Qualified Transportation Fringe Benefit Program to the optional benefits for active members. Issued RFP, evaluated responses, and awarded contract.
- Completed first year with two new Patient-Centered Medical Homes. Total savings for FY 2014 was \$10.7 million; of which 2.4 million was shared with the provider groups.
- Humana Medicare Plan enrollment increased 7.1% year-to-date in FY 2015.
- HealthSelect Network increased significantly for hospital-based providers with a primary focus on anesthesiology.
- Developed and published the RFP for the Pharmacy Benefit Manger auditor. Currently pending evaluation outcome.
- Modified TexFlex program to replace grace period for the Flexible Spending Program with a carryover benefit to begin September 1, 2015.

Development:

- Issued RFP, evaluated responses and awarded flexible spending administration to a new vendor
- Issued RFP, evaluated responses and awarded the administrator of the newly added Qualified Transportation Fringe Benefit Program
- Issued RFA, evaluated responses, and awarded a new HMO carrier to the Group Benefits Program
- Developed and published the RFP for the Pharmacy Benefit Manager auditor. Currently pending evaluation outcome.

Grievances & Appeals:

- A major update was implemented to the Grievance Tracking System. The Benefit Contracts division worked with the Information Systems division to greatly increase the efficiency in entering and monitoring grievance files.
- The Grievance Review Process was overhauled. Enhancements were implemented to streamline processing grievances. By streamlining the process, all HealthSelect grievance appeals continue to meet the Patient Protection and Affordable Care Act (ACA) and ERS requirements.
- Through auditing the HealthSelect grievance files via the Grievance Dashboard and Analysis Reports, we identified providers and participants that continue to utilize non-network providers. The Benefit Contracts division worked with the HealthSelect third party administrator, United HealthCare's, departments of provider relations and customer service to educate providers and participants to increase utilization of network providers to decrease participant and plan costs. ERS continues to work with the third party administrator for HealthSelect regarding the non-network providers contractual issues.
- Continue to audit the Grievance Dashboard and Analysis reports to assist Divisional Leadership in proactively identifying grievance drivers.
- Developed several Legal Services Requests and worked with Legal Services regarding the grievance appeal process, provider issues, and individual participant issues.
- Worked with the ERS Account Management team, United HealthCare, Aon Hewitt Minnesota Life, Caremark and Humana Dental on Master Benefit Plan document updates, system coding issues, customer service issues, grievance appeal processes, and provider network issues.
- Worked with the Information Systems Division to create a separate Grievance section in the Benefit Contracts Division Sharepoint site to increase efficiency and accuracy
- Worked with Administrative Support and Benefit Operations to ensure best practices on grievance document deliveries. Continued to enhance deliveries through process improvement.

Fiscal Year 2015 Accomplishments (continued)

Underwriting Data Analysis and Reporting

- Estimated the financial impact of moving all Medicare primary participants to a Medicare Advantage plan.
- Supported ERS during the legislative session by providing bill analysis and estimating their fiscal impact.
- Completed the first year with two new Patient Centered Medical Homes. The total savings for Fiscal Year 2014 was \$10.7 million, \$2.4 million of which was shared with the provider groups.

Health & Welfare Administration

- Benefit Contracts, with the assistance of Rudd & Wisdom, completed the reconciliation for the 2013 plan year of participation in the Retiree Drug Subsidy (RDS) program
- The Benefit Contracts and Finance Divisions worked with the Comptroller to set up and pay the ACA required Transitional Reinsurance Program payment
- Benefit Contracts has managed the ongoing plan years for the RDS program and has received approximately \$6,840,985 in subsidies thus far from plan years 2014 and 2015.
- Benefit Contracts completed the 2016 RDS application

Major Fiscal Year 2016 Initiatives

Deferred Compensation Program:

- Implement the Defined Contribution Income Projection on the ERS Statement of Benefits (SRB).
- Implement Defined Contribution with Defined Benefit Counseling at ERS on a full-time basis
- Reassess and update the Texa\$aver Investment Strategy for the next three years
- Implement the percentage (%) deferrals to the 457 plan and dollar deferral to the 401k plan, so both plans offer a percentage or dollar deferral option
- Replace the Money Market Mutual Fund with a Money Market Collective Trust Fund
- Replace the Davis NY Venture Fund with a Large Cap Value Fund benchmarked to the Russell 1000 Value Index
- Replace the Fidelity Diversified International Fund with an International Fund benchmarked to the CDWI Ex US Index
- Replace the Vanguard Growth Index Fund with a Large Cap Growth Index Fund benchmarked to the Russell 1000 Growth Index
- Add a Roth IRA option

All the above Benefit Contracts Deferred Compensation Program initiatives support Strategic Direction #1.

Group Benefit Programs:

- Implementation of the Qualified Transportation Fringe Benefit (QTFB) for January 1, 2016.
- Successfully implement the total combined out-of-pocket maximums for health and prescription drug services under the HealthSelect plan
- Bid for a vision services provider and a pharmacy benefits manager
- Continue to expand contracting efforts under the HealthSelect plan, including contracts with more hospital-based physician groups within the State of Texas
- Develop a cost containment strategy for the management of prescription drugs under the HealthSelect plan, focusing on specialty medication management/trend, and increasing medication adherence rates and generic dispensing rates
- Implement more value-based payment models through contracts with more patient-centered medical homes and accountable care organizations within Texas
- Implement a method for processing bundled payments for orthopedic surgical services under the HealthSelect plan

Fiscal Year 2016 initiatives (continued):

- Issuance of 1095Bs and 1095Cs to applicable participants under the Group Benefits Program
- Successfully implement all new legislative changes as they impact coverage and plans under the GBP
- Improve the HealthSelect RX and the HealthSelect Medicare RX websites for a more member friendly experience
- Remove the Pre-Certification Process for Humana Medicare Advantage and SilverScript
- Silverscript coordination of benefits for members in the EGWP and Caremark Plan (Commercial)

Development: RFPs for

- Episode-Based Bundled Payments
- Medicare Advantage
- Vision Care Services
- Pharmacy Benefit Manager Services, including Employee Group Waiver Program (EGWP)
- Money Market Fund
- International Fund
- Large Cap Fund

Grievance & Appeals

- Work with the Information Systems Division to update the Benefit Contracts Division's SharePoint site to create a separate Grievance section to increase efficiency and accuracy
- Work with Information Systems and vendors to utilize workflow for grievance appeal processing
- Continue to ensure all HealthSelect grievance appeals meet the ACA and ERS requirements
- Continue to update and audit the Grievance Dashboard and Analysis reports to assist Divisional Leadership in proactively identifying grievance drivers
- Continue to work with Administrative Support and Benefit Operations to ensure best practices on grievance document deliveries. ERS will continue to enhance deliveries through the continuous process improvement

Underwriting Data Analysis and Reporting

- Perform in depth analysis of reserve adequacy and assumptions for Life and Disability plans
- Work with United HealthCare to identify and engage new Patient Centered Medical Home groups
- Establish in-house reserve reporting for all programs
- Perform financial evaluation of Pharmacy Benefit Manager RFP responses

Social Security

- Maintain the current program trend
- Close out the Medicare Secondary Payor (MSP) with the former third party administrator for HealthSelect

Benefit Contracts Fiscal Year 2016 Budget

| | FY15 Budget (A) | FY15 Forecast (B) | FY16 Approved Budget (C) | Change (D=C-B) | Exhibit B |
|---------------------------------------|-----------------------|-------------------------|-----------------------------------|-------------------|-----------|
| Classified Salaries ¹ | \$ 1,634,426 | 1,399,225 | 1,751,401 | 352,176 | |
| Other Salary Costs ¹ | 421,132 | 364,461 | 459,973 | 95,512 | Note 17 |
| Computer System Services ² | 0 | 175,000 | 0 | (175,000) | |
| Actuarial Services | 575,000 | 550,000 | 600,000 | 50,000 | Note 5 |
| Legal Services (Outside) | 20,000 | 0 | 0 | 0 | Note 6 |
| Insurance Audit Services | 418,000 | 368,173 | 441,000 | 72,827 | Note 9 |
| Audit Services - Other | 85,000 | 85,000 | 87,500 | 2,500 | Note 9 |
| Consulting Services | 25,000 | 0 | 0 | 0 | |
| Travel | 36,850 | 27,950 | 37,700 | 9,750 | |
| Supplies & Materials | 750 | 750 | 650 | (100) | |
| Employee Training | 36,335 | 22,000 | 29,065 | 7,065 | |
| Subscriptions & Electronic Comm. | 2,099 | 2,099 | 1,299 | (800) | |
| Membership Fees | 5,625 | 5,625 | 6,805 | 1,180 | |
| Contracted Temp. & Data Entry | 0 | 23,380 | 0 | (23,380) | |
| Classified Advertising | 2,000 | 3,757 | 2,000 | (1,757) | |
| Miscellaneous Expenses | 4,100 | 3,700 | 1,800 | (1,900) | |
| Equipment & Furniture | 0 | 6,000 | 0 | (6,000) | |
| Books/Reference Materials | 490 | 1,390 | 3,790 | 2,400 | |
| Computer Equipment | 0 | 8,402 | 0 | (8,402) | |
| Total Budget | 3,266,807 | 3,046,912 | 3,422,983 | 376,071 | |
| Full Time Equivalent Staff | 22 | 21 | 21 | 0 | |

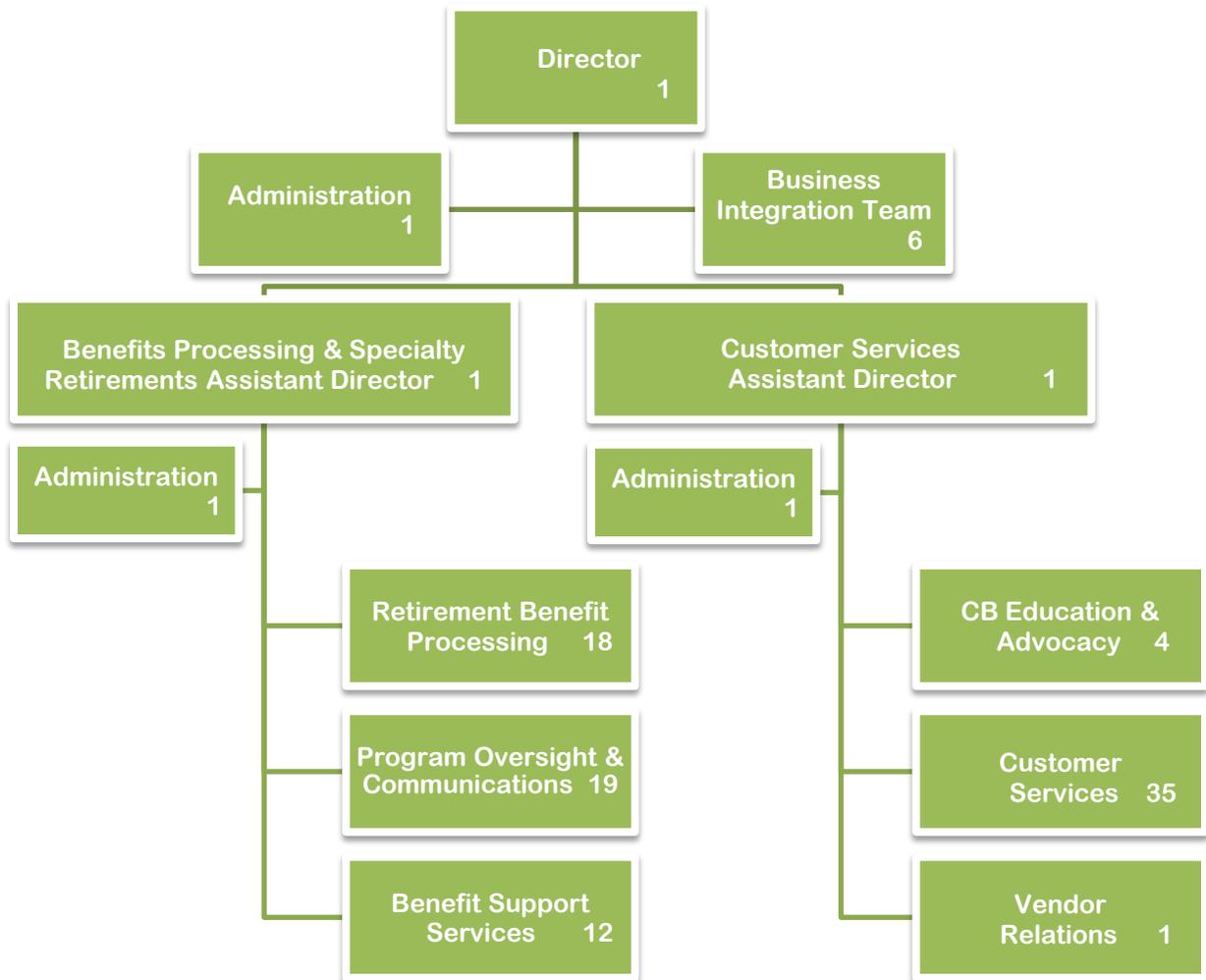
Explanations of Variance

¹**Classified Salaries & Other Salary Costs** – The Fiscal Year 2015 forecast included several vacancies throughout the year, the Fiscal Year 2016 is budgeting at full staff. Also equity adjustments and career ladder increases are included based on a compensation study.

²**Computer System Services** – The decrease is due to the Business Intelligence Data Warehouse development being included in the Fiscal Year 2015 budget.

CUSTOMER BENEFITS

Organizational Chart – Fiscal Year 2016



Total FTEs: 101

Fiscal Year 2015 Accomplishments

- Enhanced Customer Benefits member interactions, through:
 - Engaging with 489,490 members through calls (172,568 at ERS and 316,922 at ACT),
 - Meeting with 6,117 visitors,
 - Responding to 26,000 emails,
 - Processing 134,492 member requests and more than 334,500 pieces of incoming and outgoing mail
- Reconciled and distributed 116,864 1099s to members and beneficiaries who were issued payments in calendar year 2014.
- Issued more than \$2.3 billion in payments for retirees, beneficiaries, and retirement account withdrawals.
- Processed 93 disability retirement applications and issued 16 lump sum payments to survivors of those killed in the line of duty.

Fiscal Year 2015 Accomplishments (continued):

- Oversaw the customer service aspect of Summer and Fall Enrollment, including:
 - Assisting in identifying system requirements,
 - Testing and updating eligibilities,
 - Coordinating with Benefit Communications Division to identify communication revisions and additional communication needs,
 - Supporting Benefits Communication Division and members at enrollment fairs across the state.
- Counseled judicial officers attending the new judges' college and the annual judicial conference as well as elected class members during the orientation for newly elected officials.
- Participated in member educational events throughout the year, including 'Ready Set Retire', which allows for multiple one-on-one interactions in a large group setting.
- Implemented Natural Language for the Integrated Voice Response (IVR) System, an enhancement to our IVR functionality that will support member call routing via spoken requests.
- Completed transition of inContact users to MPLS (MultiProtocol Label Switching) telecom setup. This enables direct routing of calls to agents, which will reduce transfer needs for members.
- Completed full implementation of inContact Verint QA platform – inclusive of audio recording, screen capture and associated tools. This supports the execution of the ERS internal quality program which allows evaluation and coaching agents' call and email activity comprehensively.
- Supported successful implementation of the Complaints and Issues Tracking System (CAITS).
- Successfully implemented the "Choose to Quit" program, an alternative for members who are unable to meet the standards of a tobacco free lifestyle.
- Supported the Requests for Proposal (RFP) process, including:
 - The selection and implementation of the new TexFlex vendor.
 - The selection and implementation of a new HMO vendor.
- Developed and published an RFP to seek qualified vendors to propose a solution for the Modernization of Benefits Administration, then renamed Benefits Enrollment and Administrative Services (BEAS), and now known as Benefits Administration Services (BAS).
- Supported and tested the new pre-certification process for Humana enrollment that allows for a more streamlined enrollment process for Medicare eligible retirees.
- Successfully coordinated and migrated 110 projects by identifying requirements, conducting pre-and post-migration testing, and successfully coordinated with other divisions
- Worked with and supported the Finance division to successfully implement pension system improvements.
- Assisted with identifying requirements and tested the new Clarity upgrade.
- Developed a strategy for communication with our non-contributing member population
- Supported the Legislative process through:
 - Bill analysis,
 - Cost estimates and
 - Beginning work on implementation of passed bills.
- Participated in and supported the impact analysis on Business Continuity and Disaster Recovery.
- Successfully updated the Customer Benefits Business Continuity and Disaster Recovery plan, including annual disaster recovery testing.
- Modified the Retiree Insurance Enrollment Statement to make it easier to read and understand for the retiree population.

Fiscal Year 2015 Accomplishments (continued):

- Coordinated with the Benefits Communication Division staff to revise the Benefits Coordinator Processing Manual and the New Employee Benefits Guide for Plan Year 2015.
- Worked with the Benefits Communication Division to develop strategies to improve the Benefit Coordinator training and use of resources.
- Successfully completed the annual financial audit conducted by the State Auditor's Office
- Finalized requirements for a new Statement of Retirement Benefits (SRB) design to include the Texa\$aver monthly income at retirement.
- Completed the annual security review for PeopleSoft (PSFT) access and SFTP (Secure File Transfer Protocol) accounts.
- Conducted four (4-week) insurance training classes.
- Implementation of a new staffing agency mid-year to support the ERS 'temp-to-hire' model that has improved the conversion rate for temp to hire from 15% to 40%.
- Received the 'Customer First' award from the ERS technology vendor, inContact. This award recognizes the ERS ability to focus efforts on service delivery to the customers due to effective use of technology.

Major Fiscal Year 2016 Initiatives

In addition to on-going customer service calls and visits:

- Evaluate, select and begin implementing a new Modernization of Benefits, then renamed the Benefits Enrollment and Administration Service (BEAS), and now known as the Benefits Administration Services (BAS) project to support the demands of ERS customers by adding flexibility for the changing environment and using a more up-to-date platform and system (Strategic Direction #4).
- Implement translation services to support members who prefer to speak in a language other than English (Strategic Direction #4).
- Implement inView inContact feature to support managing performance of agents who serve members (Strategic Direction #4).
- Support IRS reporting per the Affordable Care Act (ACA) (Strategic Direction #4)
- Implement self-service printing functionality for ERS payees to receive their 1099R information (Strategic Direction #4) .
- Explore the use of E-Signature (electronic or digital) for various benefit approvals and requests that require signature (Strategic Direction #4).
- Audit and update all State Agency and Higher Education information maintained in PeopleSoft. (Strategic Direction #4).
- Support the efforts to restructure the Benefit Coordinator and Vendor access to PeopleSoft (Strategic Direction #4).
- Reconcile IRS tax reporting and issue 1099Rs for retirees, beneficiaries, survivors, and members who received payments in calendar year 2015. (Strategic Direction #4).
- Support internal and external audits in request for data, processes, procedures and reporting. (Strategic Direction #4).
- Implement Legislative changes from the 84th Legislative Session. (Strategic Direction #1).
- Prepare and conduct Summer and Fall Enrollment activities for members to make changes to their Group Benefits Program options (Strategic Direction #2).
- Participate in the evaluation, selection and implementation of a new vision care plan. (Strategic Direction #2).
- Participate in the evaluation, selection and implementation of either the Pharmacy Benefit Manager (PBM) or the HealthSelect vendor (Strategic Direction #2).

Fiscal Year 2016 initiatives (continued):

- Participate in the evaluation, selection and implementation of a Medicare Advantage vendor. (Strategic Direction #2).
- Participate in the implementation of the Qualified Transportation Fringe Benefits (QTFB) transportation account. (Strategic Direction #2).
- Participate in the evaluation, selection and implementation of a new Health Maintenance Organization (HMO) plan. (Strategic Direction #2).
- Support and participate in the audit of publications for increased use, understanding and cost effectiveness (Strategic Direction #3).
- Support and participate in the audit of the ERS public website (Strategic Direction #3).
- Work closely with the Benefit Communications Division in conducting benefits coordinator communications and outreach to determine more efficient ways to educate and keep them informed (Strategic Direction #3).

Customer Benefits Fiscal Year 2016 Budget

| | FY15 Budget (A) | FY15 Forecast (B) | FY16 Approved Budget (C) | Change (D=C-B) | Exhibit B |
|--|-----------------------|-------------------------|-----------------------------------|-------------------|-----------|
| Classified Salaries ¹ | \$ 4,545,154 | 4,308,315 | 4,728,342 | 420,027 | |
| Other Salary Costs ¹ | 1,544,116 | 1,411,557 | 1,605,333 | 193,776 | Note 17 |
| Medical Services | 67,600 | 60,000 | 58,100 | (1,900) | Note 2 |
| Computer System Services ² | 700,000 | 200,000 | 25,000 | (175,000) | Note 15 |
| Travel | 46,399 | 37,000 | 51,950 | 14,950 | |
| Supplies & Materials | 2,200 | 2,200 | 2,751 | 551 | |
| Telecommunications | 320,348 | 390,000 | 412,048 | 22,048 | |
| Reproduction Services | 1,800 | 1,800 | 1,800 | 0 | |
| Employee Training | 60,511 | 50,000 | 42,431 | (7,569) | |
| Subscriptions & Electronic Comm. | 15,521 | 17,261 | 18,610 | 1,349 | |
| Membership Fees | 1,893 | 1,893 | 1,025 | (868) | |
| Contract Temps & Data Entry ³ | 100,000 | 287,000 | 85,000 | (202,000) | |
| Classified Advertising | 1,200 | 1,200 | 1,200 | 0 | |
| Miscellaneous Expenses | 2,998 | 2,998 | 6,020 | 3,022 | |
| Other Contracted Services ⁴ | 1,050,084 | 1,112,644 | 1,260,000 | 147,356 | Note 18 |
| Equipment & Furniture | 3,000 | 3,000 | 4,000 | 1,000 | |
| Books/Reference Materials | 720 | 720 | 1,440 | 720 | |
| Computer Equipment | 35,975 | 58,390 | 3,081 | (55,309) | |
| Total Budget | 8,499,519 | 7,945,978 | 8,308,131 | 362,153 | |
| Full Time Equivalent Staff | 100 | 100 | 101 | 1 | |

Explanations of Variance

¹**Classified Salaries and Other Salary Costs** – The Fiscal Year 2016 Budget added one position to support the Business Integration Team and to assist with Oracle policy automation including the identification of requirements and testing to improve data and security. The variance is also partially offset by the use of contract temporary staff to fill vacant contact center positions.

²**Computer System Services** – The Fiscal Year 2015 budget included an estimated amount for the Modernization of Benefits Administration project, then renamed the BEAS project, Benefit Enrollment and Administrative System, and now known as the Benefits Administration Services (BAS) project. This project is not included in the Fiscal Year 2016 budget because it is still in the development stage.

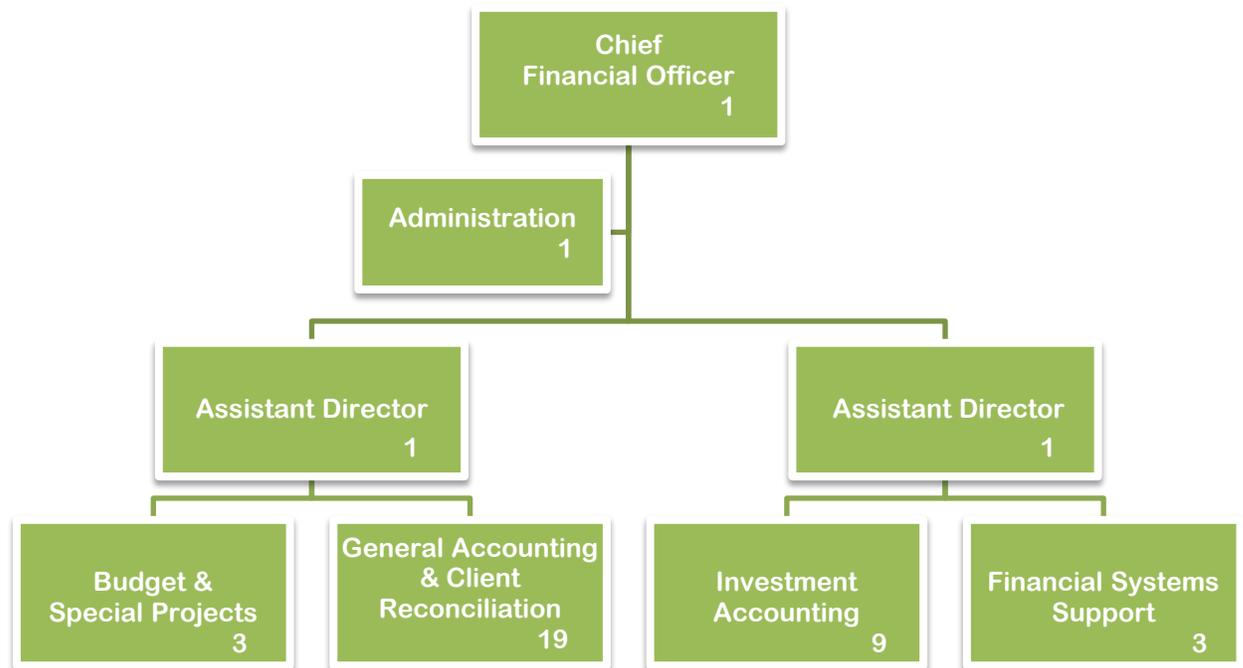
³**Contracted Temps & Data Entry** – Salary lapse was used to fill contact center vacancies with contract temporary staff.

⁴**Other Contracted Services** - Increase due to additional calls expected for

- IRS Form 1095.
- High Deductible Health Plan (HDHP)
- The communication effort involving non-contributing members.

FINANCE

Organizational Chart – Fiscal Year 2016



Total FTEs: 38

Fiscal Year 2015 Accomplishments

- Tracked bills and prepared analysis for ERS-related legislation to determine administrative and fiscal impact. Prepared over 160 fiscal notes. Worked with the Information Systems division to develop Sharepoint workflow to efficiently collaborate with Executive Office to automatically route fiscal notes for approval.
- Implemented Fiscal Year 2015 Administrative Operating Budget, monitored division budgets and processed over 100 budget transfers.
- Managed and coordinated the audit and completion of the Fiscal Year 2014 Comprehensive Annual Financial Report for ERS, and received the Certificate of Achievement for Excellence in Financial Reporting from the Government Finance Officers Association for the 25th consecutive year.
- Completed Phase II of the major agency project (Road Map Item) for the pension system enhancements, including prioritization, identifying business requirements and coordinating testing.
- Assisted with identifying requirements and testing the new Clarity upgrade.

Fiscal Year 2015 Accomplishments (continued):

- Conducted the following estimated financial transactions for Fiscal Year 2015:
 - Revenue Processing
 - processed over 31,000 registered checks, over 18,000 warrants and over 2,000 service purchase checks
 - Implemented new procedures for better internal controls.
 - Purchasing
 - coordinated 15 large solicitations,
 - coordinated close to 1,100 purchases, and
 - coordinated close to 200 purchase order revisions.
 - General Accounting
 - 2,037 invoices for administrative expenses were processed,
 - 876 invoices for insurance claims totaling \$2.2 billion have been processed,
 - 700 travel vouchers and advances totaling \$569,061 were processed,
 - 380 W-2 forms for agency employees were processed for the calendar year of 2014, and
 - 4,700 W-2 forms for employees with disabilities were processed for the calendar year of 2014.
 - Completed the nTier cash reconciliation project
 - Assisted with the implementation of the new Tex Flex vendor
 - Assisted with the implementation of a new HMO
 - Implemented the travel website and voucher process enhancement
 - Client Reconciliation
 - \$75 million in TexFlex claims were processed,
 - 3,720 service purchases totaling \$39.7 million were processed, and
 - 7 major projects in the Road Map Item performed on the PeopleSoft Pension system.
 - Investment Accounting
 - Continued to add Alternative Investment funds and reconcile them in a timely manner.
 - Implemented a management fee monthly reconciliation between Eagle and the Custodian
 - Continued to reconcile the investment pools and perform reconciliations in a timely manner of more than 100 portfolios, and approximately 70 international currencies traded by ERS
 - Performed reconciliations of all general ledger daily investment transactions, securities lending and tax reclaims, resulting in more than 400 reconciliations performed each month
 - Processed daily third party vendor wiring information between ERS and the Custodian
 - Reconciled daily cash settlements of the buying, selling, income and expenses swept from the custodian bank to ERS.

Major Fiscal Year 2016 Initiatives

- Coordinate the Actuarial Valuation Reports. (Strategic Direction #1)
- Coordinate and prepare the Fiscal Year 2017 Operating Budget for ERS. (Strategic Direction #4)
- Support the Fiscal Year 2015 Financial Audit. (Strategic Direction #4)
- Prepare the Fiscal Year 2015 Comprehensive Annual Financial Report for ERS.(Strategic Direction #4)
- Support the contract management project (Strategic Direction #4)
- Assist in the Eagle Upgrade

Fiscal Year 2016 Initiatives (continued):

- Support the implementation of legislative changes from the 84th Legislative Session including
 - The implementation of a contract management system
 - The implementation of a high deductible health plan
- Coordinate and prepare the Legislative Appropriation Request. (Strategic Direction #4)
- Implement GASB 72
- Enhance financial reporting for:
 - Travel
 - Internal Operating Budget
- Develop and coordinate the agency external Strategic Plan. (Strategic Direction #4)

Finance Fiscal Year 2016 Budget

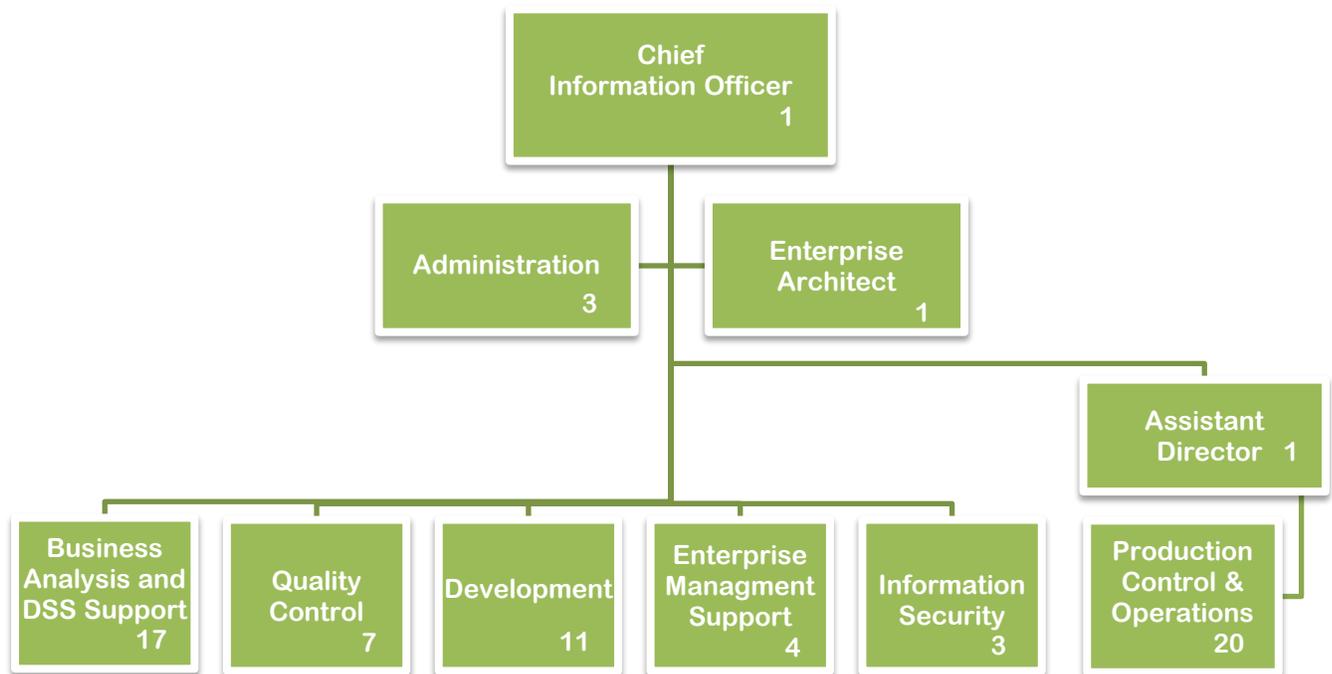
| | FY15 Budget (A) | FY15 Forecast (B) | FY16 Approved Budget (C) | Change (D=C-B) | Exhibit B |
|-------------------------------------|-----------------------|-------------------------|-----------------------------------|-------------------|-------------|
| Classified Salaries ¹ | \$ 2,384,951 | 2,248,754 | 2,567,861 | 319,107 | |
| Other Salary Costs ¹ | 747,377 | 713,527 | 764,614 | 51,087 | Note 17 |
| Computer System Services | 80,000 | 175,900 | 80,000 | (95,900) | |
| Actuarial Services | 575,000 | 635,360 | 543,460 | (91,900) | Note 5 & 13 |
| Professional Services - Educational | 14,700 | 12,700 | 14,700 | 2,000 | Note 12 |
| Travel | 12,000 | 12,000 | 13,000 | 1,000 | |
| Supplies & Materials | 2,400 | 2,400 | 2,400 | 0 | |
| Rental of Space | 1,600 | 1,600 | 1,600 | 0 | |
| Employee Training | 18,871 | 16,500 | 25,827 | 9,327 | |
| Subscriptions & Electronic Comm. | 33,361 | 35,361 | 34,161 | (1,200) | |
| Membership Fees | 8,235 | 8,235 | 8,235 | 0 | |
| Contract Temps & Data Entry | 0 | 51,400 | 0 | (51,400) | |
| Classified Advertising | 800 | 800 | 800 | 0 | |
| Miscellaneous Expenses | 5,205 | 5,205 | 5,205 | 0 | |
| Interest-Delayed Payments | 200 | 200 | 200 | 0 | |
| Equipment & Furniture | 1,600 | 1,600 | 1,600 | 0 | |
| Books/Reference Materials | 1,400 | 1,400 | 1,400 | 0 | |
| Computer Equipment | 0 | 12,969 | 2,140 | (10,829) | |
| Telecommunications Equipment | 600 | 0 | 600 | 600 | |
| Total Budget | 3,888,300 | 3,935,911 | 4,067,803 | 131,892 | |
| Full Time Equivalent Staff | 37 | 37 | 38 | 1 | |

Explanations of Variance

¹**Classified Salaries and Other Salary Costs** – One new position will be added to support the budget process and administrative support, including preparation of high profile documents for external requirements.

INFORMATION SYSTEMS

Organizational Chart – Fiscal Year 2016



Total FTEs: 68

Fiscal Year 2015 Accomplishments

- Installed encryption key management application and additional next generation storage devices to support enterprise data encryption at rest
- Replaced interim cross agency complaint tracking system for problem identification and trending
- Conducted audit of wireless network and upgraded to improve service areas and provide service to more mobile devices
- SharePoint rollout of centralized data dashboard and revised legislative appropriation request process
- Implemented new Flexible Spending Account vendor for Annual Enrollment
- Produced Legislative District reports and multiple data summaries from the Business Intelligence Data Warehouse
- Enhanced Actuarial file processes significantly improving quality of data and processing performance
- Released over 450 production changes supporting member facing applications and other business needs

Fiscal Year 2015 Accomplishments (continued):

Significant Operational Activities

- Upgraded Bloomberg Circuit providing improved application use by the Investments Division
- Implemented new call manager providing new features for internal chat and telepresence
- Implemented security remediation exercises to continually review and improve infrastructure security
- Developed Tobacco Certification: Reasonable Alternative, “Choose to Quit” enrollment changes for Annual Enrollment
- Developed new pre-certification processes supporting Medicare Advantage plans
- Completed network configuration and updates for improved IVR support
- Upgraded Outlook e-mail servers to Outlook 2013
- Upgraded over 150 Windows Server 2003 systems to current platform
- Piloted e-signature with 1095 designation process
- Enhanced Employee Group Waiver Program summary load report processing
- Implemented new controls on nightly jobs significantly reducing gap time in identifying and correcting critical job issues.

Major Fiscal Year 2016 Initiatives

- Replace Ektron architecture for Public Web Site Content Management
- Extend Virtual Desktop Infrastructure (VDI) Architecture and Services
- Develop a plan for Infrastructure as a Service (IAAS) Extension for Disaster Recovery and Hosted applications
- Upgrade SharePoint from 2010 to 2013
- Implement new Disaster Recovery Vendor
- Implement Human Resources Information Management System changes
- Upgrade project tracking solution
- Support implementation of the Modernization of Benefits Administration, then renamed Benefits Enrollment Administration Systems, BEAS, now known as the Benefits Administration Services (BAS) project.



Information Systems Fiscal Year 2016 Budget

| | FY15 Budget (A) | FY15 Forecast (B) | FY16 Approved Budget (C) | Change (D=C-B) | Exhibit B |
|--|-----------------------|-------------------------|-----------------------------------|-------------------|-----------|
| Classified Salaries ¹ | \$ 5,900,715 | 5,220,077 | 5,477,129 | 257,052 | |
| Other Salary Costs ¹ | 1,528,335 | 1,383,473 | 1,479,302 | 95,829 | Note 17 |
| Computer System Services ² | 3,212,745 | 4,325,498 | 3,169,125 | (1,156,373) | Note 4 |
| Professional Services - Educational | 26,000 | 36,239 | 26,000 | (10,239) | Note 12 |
| Professional Services - Other ³ | 60,000 | 92,000 | 199,000 | 107,000 | |
| Travel | 39,800 | 22,116 | 42,800 | 20,684 | |
| Supplies & Materials | 4,400 | 4,100 | 4,400 | 300 | |
| Telecommunications | 427,300 | 422,512 | 424,800 | 2,288 | |
| Repair & Maint. Equip & Furniture | 30,000 | 30,000 | 30,000 | 0 | |
| Repair & Maintenance - Computer ⁴ | 1,049,089 | 1,078,986 | 1,276,058 | 197,072 | |
| Rent on Comp. Software & Equip. ⁵ | 570,185 | 479,974 | 571,148 | 91,174 | |
| Employee Training | 79,900 | 77,470 | 102,600 | 25,130 | |
| Subscriptions & Electronic Comm. | 78,200 | 77,711 | 92,300 | 14,589 | |
| Membership Fees | 6,400 | 5,098 | 6,480 | 1,382 | |
| Contract Temps & Data Entry | 0 | 32,100 | 0 | (32,100) | |
| Classified Advertising | 3,000 | 1,250 | 3,000 | 1,750 | |
| Miscellaneous Expenses | 11,350 | 13,120 | 11,620 | (1,500) | |
| Other Contracted Services | 70,500 | 81,318 | 77,000 | (4,318) | |
| Equipment & Furniture | 5,000 | 11,319 | 5,000 | (6,319) | |
| Books/Reference Materials | 3,500 | 3,500 | 3,500 | 0 | |
| Computer Software ⁶ | 415,896 | 430,974 | 746,732 | 315,758 | |
| Computer Equipment ⁷ | 48,922 | 407,879 | 32,750 | (375,129) | |
| Telecommunications Equipment ⁸ | 124,123 | 133,572 | 19,000 | (114,572) | |
| Building Improvements | 14,000 | 14,000 | 30,000 | 16,000 | |
| Total Budget | 13,709,360 | 14,384,286 | 13,829,744 | (554,542) | |
| Full Time Equivalent Staff | 74 | 66 | 68 | 2 | |

Explanations of Variance

¹**Classified Salaries & Other Salary Costs** – The Fiscal Year 2016 Budget includes two new positions. A program specialist was added to support quality assurance and contract management. Multiple audit, assurance, purchasing & coordination activities will be supported. One systems analyst position was added to support agency projects and initiatives.

²**Computer System Services** – Decrease is due to the following agency projects being started/obligated and funded in Fiscal Year 2015:

- Improve Business Analytics and Data Warehouse Reporting.
- Enterprise Content Management (ECM) Consulting
- Security Consulting Services
- Implementing 84th Legislative changes.

³**Professional Services Other** – The increase is due to the following items:

- SharePoint upgrade
- Complaint and Issue Tracking System (CAITS) enhancements.
- Information technology infrastructure and management tools.

⁴**Repair & Maintenance - Computer_** – The increase is due to product maintenance fees increasing for the following items:

- Increase usage of encrypted storage.
- Automated workstation management and security.
- Improved network capacity.

⁵**Rent on Computer Software and Equipment** – The increase is due to the following items:

- System job automation and scheduling software
- Encryption key management software.

⁶**Computer Software** - The increase is due to the following items:

- Workstation security
- Microsoft productivity software.

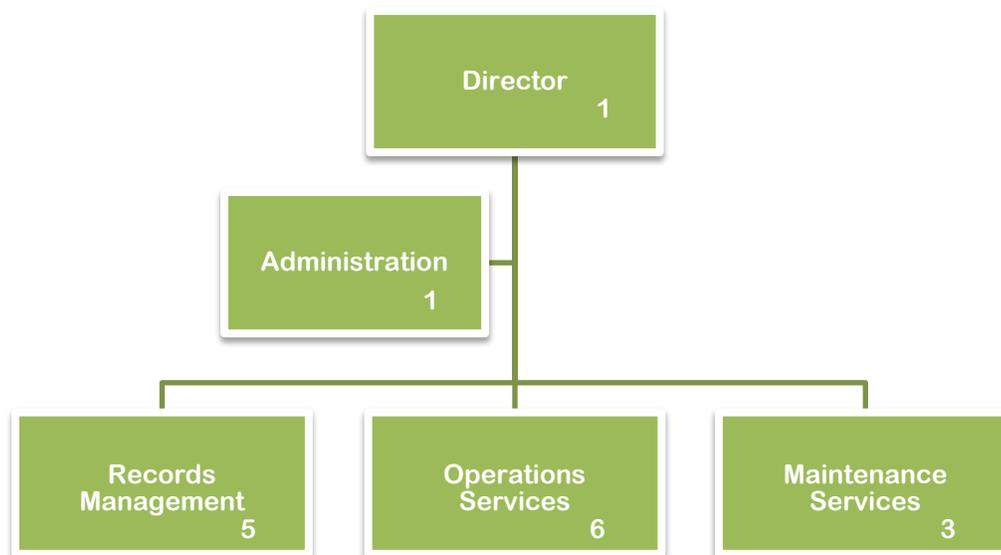
⁷**Computer Equipment** - Decrease is due to the one-time acquisition of the following being started and funded in Fiscal Year 2015:

- Cisco 4506 Power Over Ethernet line card refresh.
- Network security appliance.

⁸**Telecommunications Equipment_** - 10GbENetwork Blades were installed during Fiscal Year 2015.

OPERATIONS SUPPORT

Organizational Chart – Fiscal Year 2016



Total FTEs: 16

Fiscal Year 2015 Accomplishments

- Improved energy efficiency by reducing consumption by replacing cooling tower parts.
- Completed Phase I of the Space Planning Feasibility Study.
- Implemented Records Coordinator program.
- Trained 20 records coordinators on records retention, storage, and disposition.
- Enhanced the Records Management training program by developing one-hour modules on Off-Site Storage and the Archival Records.
- Statistics for major accomplishments are listed below:
 - Records Management – services provided to internal agency customers:
 - scanned approximately 174,000 images of incoming mail regarding members;
 - scanned approximately 129,000 images of confidential information: Personal Health Information, Disability, Legal and Grievance case files; and
 - shredded approximately 23,000 pounds of confidential records.
 - Operations Services: Over 1,480,147 pieces of mail processed,
 - Maintenance Services: Over 3,610 work orders completed.

Major Fiscal Year 2016 Initiatives

- Space Planning Feasibility Study:
 - Phase II – Review multiple scenarios
 - Begin Phase III – implementation. Space options will be presented at the August Board of Trustees meeting. A Board decision will be requested for the December, 2015 meeting. Based on that feedback, long term implementation will begin in calendar year 2016. Long term implementation may be further review of one preferred option.
- Operations Services:
 - Upgrade black and white large volume copier in the Copy Center
 - Replace color large volume copier in the Copy Center.
- Improve the Records Management Program:
 - Obtain Texas State Library and Archives Commission certification for condensed records retention schedule
 - Begin development of an Information Governance Workgroup
 - Revamp the records management content on the intranet
 - Form a Records Coordinator Council
- Maintenance
 - Perform maintenance replacement of aging Heating Ventilation and Air Conditioning (HVAC) equipment

All the above Operations Support initiatives support Strategic Direction #4.

Operations Support Fiscal Year 2016 Budget

| | FY15 Budget (A) | FY15 Forecast (B) | FY16 Approved Budget (C) | Change (D=C-B) | Exhibit B |
|-----------------------------------|-----------------------|-------------------------|-----------------------------------|-------------------|-----------|
| Classified Salaries ¹ | \$ 756,005 | 724,444 | 839,716 | 115,272 | |
| Other Salary Costs ¹ | 277,919 | 268,583 | 302,228 | 33,645 | Note 17 |
| Consulting Services ² | 204,000 | 252,000 | 4,000 | (248,000) | Note 10 |
| Professional Services - Education | 200 | 200 | 200 | 0 | Note 12 |
| Professional Services - Other | 8,000 | 8,000 | 10,000 | 2,000 | |
| Architectural Services | 10,000 | 10,000 | 10,000 | 0 | |
| Travel | 1,800 | 1,850 | 1,800 | (50) | |
| Supplies & Materials | 237,225 | 237,225 | 237,475 | 250 | |
| Utilities | 313,000 | 288,000 | 314,000 | 26,000 | |
| Repair & Maint. Equip & Furniture | 13,900 | 13,900 | 20,640 | 6,740 | |
| Repair & Maintenance - Computer | 8,000 | 8,000 | 2,000 | (6,000) | |
| Repair & Maint. Land & Building | 352,035 | 350,135 | 368,956 | 18,821 | |
| Rent on Office Equipment | 314,342 | 315,078 | 316,490 | 1,412 | |
| Rental of Space | 22,040 | 20,951 | 22,040 | 1,089 | |
| Reproduction Services | 35,000 | 35,000 | 35,000 | 0 | |
| Employee Training | 11,669 | 11,669 | 12,669 | 1,000 | |
| Membership Fees | 1,925 | 1,925 | 2,000 | 75 | |
| Contract Temps & Data Entry | 0 | 10,000 | 2,000 | (8,000) | |
| Insurance | 53,000 | 53,000 | 53,000 | 0 | |
| Classified Advertising | 0 | 1,000 | 0 | (1,000) | |
| Miscellaneous Expenses | 16,210 | 18,110 | 18,866 | 756 | |
| Postage | 951,849 | 900,000 | 820,552 | (79,448) | Note 19 |
| Other Contracted Services | 43,950 | 43,950 | 40,250 | (3,700) | Note 19 |
| Security Guard Services | 1,500 | 1,500 | 1,500 | 0 | |
| Equipment & Furniture | 21,500 | 48,000 | 52,701 | 4,701 | |
| Books/Reference Materials | 300 | 300 | 300 | 0 | |
| Computer Equipment | 2,524 | 2,451 | 1,363 | (1,088) | |
| Building Improvements | 0 | 65,000 | 40,000 | (25,000) | |
| Total Budget | 3,657,893 | 3,690,271 | 3,529,746 | (160,525) | |
| Full Time Equivalent Staff | 16 | 16 | 16 | 0 | |

Explanations of Variance

¹**Classified Salaries and Other Salary Costs** – The increase is due to equity adjustments awarded in FY 2015 that are annualized in FY 2016.

²**Consulting** – The decrease is due to the Space Planning project inclusion in the Fiscal Year 2015 budget and not in the Fiscal Year 2016 budget.

EXHIBIT A

ERS Full Time Equivalent Comparison Fiscal Year 2015 vs. Fiscal Year 2016

| Division | FY15 Budget (A) | FY15 Forecast (B) | FY16 Approved Budget (C) | Additional Requests D=(C-B) |
|--------------------------|-----------------------|-------------------------|-----------------------------------|-----------------------------------|
| Executive Office | 7 | 7 | 7 | 0.0 |
| Legal | 17 | 17 | 18 | 1.0 |
| Internal Audit | 4 | 4 | 4 | 0.0 |
| Governmental Affairs | 9 | 6 | 7 | 1.0 |
| Human Resources | 5 | 5 | 5 | 0.0 |
| Benefits Communication | 12 | 12 | 13 | 1.0 |
| EPO | 0 | 12 | 12 | 0.0 |
| Investments | 72.33 | 72.33 | 74 | 1.67 |
| Benefit Contracts | 22 | 21 | 21 | 0.0 |
| Customer Benefits | 100 | 100 | 101 | 1.0 |
| Finance | 37 | 37 | 38 | 1.0 |
| Information Systems | 74 | 66 | 68 | 2.0 |
| Operations Support | 16 | 16 | 16 | 0.0 |
| Agency Total FTEs | 375.33 | 375.33 | 384 | 8.67 |

Explanation of Additional and Transferred Position Requests

Legal Services - One new general counsel position was added to support multiple major projects, pursuant to the Fiscal Year 2016 strategic plan, particularly contracting.

Government Affairs – One new Information Specialist position was added to assist in preparing briefing materials, presentations and research.

Benefit Communications – A Marketing Specialist was added to serve as a communications subject matter expert for work on the HDHP with HSA, the vision plan, and support for wellness and condition management programs.

Investments – A Private Equity Investment Analyst was added for monitoring managers in the private equity asset class so current staff can pursue direct investments. Two positions were budgeted to begin in April of Fiscal Year 2015 and are annualized for Fiscal Year 2016.

Customer Benefits – One position was added to support the Business Integration Team and to assist with Oracle policy automation including the identification of requirements and testing to improve data and security.

Finance – One position was added to assist with daily budget operations, preparation of high profile documents, training and requisitions, coordination of open records requests, to maintain policies and procedures, and centralization of signature authorities, and testing of system changes.

Information Systems – A program specialist was added to support quality assurance and contract management. Multiple audit, assurance, purchasing & coordination activities will be supported. A systems analyst position was added to expand Business Intelligence efforts to improve data quality and increase reporting.

EXHIBIT B

Notes for Certain Contracts and Other Costs Related to Fiscal Year 2016 Operating Budget

PROFESSIONAL AND OTHER CONTRACTED SERVICES – The Executive Director is authorized to negotiate, enter into, and to administer contracts on behalf of ERS, including contracts for professional, consulting and other contracted goods and services and to disburse professional fees to persons or firms who render professional, consulting and other contracted goods and services to the Employees Retirement System of Texas (ERS). The Board hereby finds and determines, pursuant to Texas Government Code, Title 10, Sec. 2254.024(a)(6) and Sec. 2155.146, that the Professional, Consulting and Other Contracted Purchasing and Services authorized in this budget are necessary to the performance of its fiduciary duties under the state constitution.

Note 1 This budget item includes \$400 per member per meeting plus actual travel expenses for the Board of Trustees and the investment advisory committee. The Board has found and determined that the committee is necessary for the performance of the Board's constitutional fiduciary duties. See also Texas Government Code, Section 815.509.

Note 2 This item is for the payment of medical board case review and certifications related to disability retirement applications and for the review of disability applications and continued disability certifications for ORP members. See also Texas Government Code Section 815.204.

Note 3 The estimated advisory fees for Fiscal Year 2016 are based on current contract fee schedules. Market values of global equities and fixed income are assumed to grow at rates of 9.25% and 5.6%, respectively, in accordance with the external consultant's capital market assumptions in effect at the time these estimates were calculated. Changes to existing contract rates, changes in advisors hired, or terminated by the Executive Director, or returns different than those used will impact the actual fees paid. Other investment counselors/advisor service contracts that are administered by the Executive Director, which are not included in the operating budget, but whose services the Board has found and determined to be necessary in the performance of its constitutional fiduciary duties, are estimated as follows:

| | |
|---------------------------------------|-----------------------------|
| Fisher Investment Institutional Group | \$2,455,275 |
| Blackrock | 1,565,300 |
| Templeton Institutional | 2,722,910 |
| Legato | 652,527 |
| Leading Edge | 583,552 |
| Barrow Hanley | 1,550,084 |
| Lazard | 2,097,089 |
| Small/Mid Cap | 800,000 |
| Value Manager | 775,000 |
| International Manager | 1,500,000 |
| Total (estimated) | <u>\$ 14,701,737</u> |

Notes for Certain Contracts Related to the Fiscal Year 2016 Operating Budget (continued)

- Note 4 This item includes application development & support for legislative changes, investments system management, system programming support, implementation analysis and development of all client-server applications.
- Note 5 This item is for independent actuarial firm(s) to provide independent actuarial consulting services for the pension program and the Texas Employees Group Benefits Program (TEGBP).
- Note 6 Legal services fees are budgeted to pay private legal counsel on an as needed basis to provide for legal counsel and advice on matters concerning the ERS employee benefits program including amending plan documents.
- Note 7 This item includes securities litigation consulting.
- Note 8 This item is for the payment of a financial audit of the System as required by statute.
- Note 9 This item is for the independent audits related to the TEGBP service providers and deferred compensation.
- Note 10 This item provides for ergonomic evaluations.
- Note 11 Included in this item are funds to pay for background checks.
- Note 12 This item includes in-house employee training courses conducted by professional trainers.
- Note 13 This item is for independent actuarial consulting services for legislative inquiries and GASB requirements for Post Retirement Health Benefits.
- Note 14 Included in this item are funds to pay for the Employee Assistance Program.
- Note 15 This item includes computer system services and consulting services benefitting agency approved projects.
- Note 16 This item is for contract auditors to assist with internal audits.
- Note 17 This item excludes retiree insurance allocation. For Fiscal Year 2016, it is estimated that 137 former ERS employees have retired from the agency. The average annual insurance rate is \$6,920.16 resulting in a total retiree insurance amount of \$948,061.92 for ERS. Retiree insurance is a state requirement with no impact on current operations and is therefore not included in the operating budget. The annual amount is presented in this note for informational purposes.
- Note 18 This item includes a contact center overflow contract in the amount of \$1,250,000.
- Note 19 This item includes major external vendors performing regular business services for the agency.
- Note 20 This item includes other professional services including additional support writing, editing, and reviewing of materials.
- Note 21 This item includes Subscriptions and Electronic Communications in the Investment Division for investment analytical tools for fixed income & bonds, public equity, international equity and alternative investments.
- Note 22 This item includes investment banking paid to BNY Mellon for custody fees.

EXHIBIT C

Fiscal Year 2016 Road Maps

NOTE: These “Road Maps,” developed as part of ERS planning effort, are a snapshot of major projects planned by the business areas and the approved timeline.

This big picture planning effort helps ERS manage its resources to achieve these goals and facilitates coordination among the various ERS divisions.

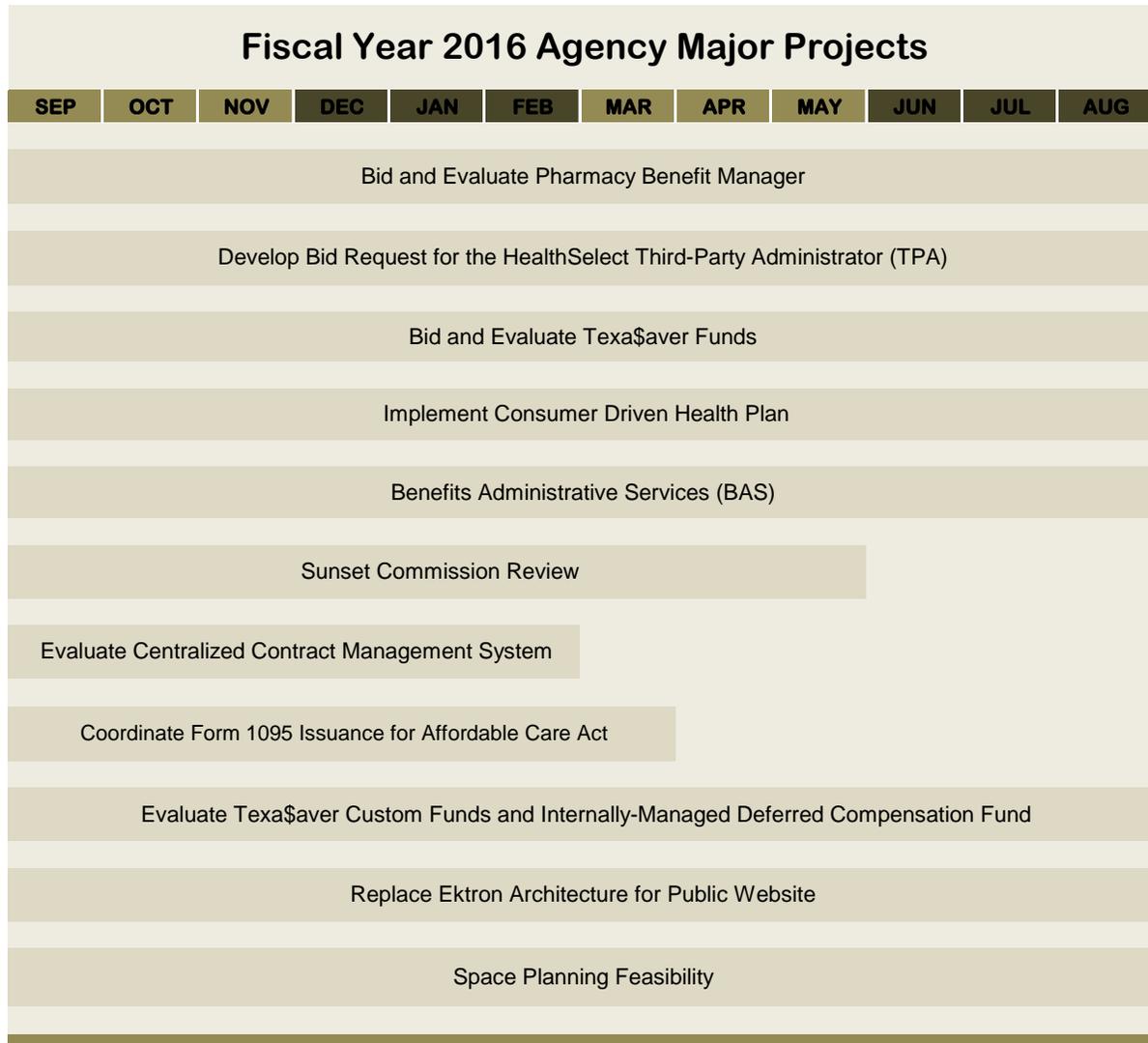


EXHIBIT D

Fiscal Year 2016 Investment Related Budget – Other Divisions

| | FY15 Budget (A) | FY15 Forecast (B) | FY16 Approved Budget (C) | Change (D=C-B) |
|-----------------------------------|-----------------------|-------------------------|-----------------------------------|-------------------|
| Legal Services - | | | | |
| Classified Salaries | \$ 537,153 | 502,781 | 550,222 | 47,441 |
| Other Salary Costs | 150,403 | 140,779 | 165,067 | 24,288 |
| Class Sal - Incent. Comp. Plan | 237,104 | 183,010 | 329,653 | 146,643 |
| Legal Services (Outside) | 1,408,500 | 925,000 | 1,207,000 | 282,000 |
| Finance Division - | | | | |
| <i>Investment Accounting</i> | | | | |
| Classified Salaries | 406,097 | 417,779 | 440,938 | 23,159 |
| Other Salary Costs | 113,707 | 116,978 | 132,282 | 15,304 |
| Computer System Services | 0 | 0 | 80,000 | 80,000 |
| Internal Audit - | | | | |
| Classified Salaries | 86,448 | 62,139 | 67,048 | 4,909 |
| Other Salary Costs | 24,205 | 17,399 | 20,114 | 2,715 |
| Information Systems - | | | | |
| <i>Business Analysis</i> | | | | |
| Classified Salaries | 72,384 | 74,009 | 116,094 | 42,085 |
| Other Salary Costs | 20,268 | 20,723 | 34,828 | 14,105 |
| Computer System Services | 292,400 | 310,000 | 105,000 | (205,000) |
| Total Budget | 3,348,669 | 2,770,597 | 3,248,246 | 477,649 |
| Full Time Equivalent Staff | 14 | 13 | 13 | 0 |

Explanations of Other Direct Investment Related Costs

Legal Services supports the Investments program through four positions, including general counsel expertise and support staff to execute alternative investment trades. Outside legal services are also obtained to support alternative investment trades.

Investment accounting provides support for alternative investments through eight accounting positions to perform the reconciliation process. Research and procedures are performed to validate the fair value of additional alternative investments. Testing and monitoring of systems and reports are also necessary to ensure completeness. Periodic meetings of the alternative valuation committee are conducted to consider the accurate valuation of private equity, private real estate, infrastructure and hedge funds.

Internal Audit and Information Systems also dedicate one position to contribute expertise to the Investment program.

EXHIBIT E

Budget Trend Analysis (Fiscal Year 2008 – Fiscal Year 2016)

| | FY08 | FY09 | FY10 | FY11 |
|---|------------------|------------------|------------------|------------------|
| Investment Budget* | \$13,526,617 | \$18,047,598 | \$17,541,548 | \$20,875,560 |
| Non-Investment Budget | \$33,403,082 | \$34,476,618 | \$32,740,008 | \$31,618,124 |
| Total Agency Budget | \$46,929,699 | \$52,524,216 | \$50,281,556 | \$52,493,684 |
| Investment Expenditure (Forecast) | \$11,209,437 | \$12,842,652 | \$14,434,808 | \$16,314,888 |
| Investment Advisory Fees | \$18,737,220 | \$10,856,970 | \$11,914,627 | \$12,661,642 |
| Investment Management Fees (PriE/PRE/HF/EM/Infstr/PubE/FI)** | \$6,077,860 | \$12,788,968 | \$22,856,620 | \$35,333,591 |
| Number of Investment Deals (PriE/PRE/HF/EM/Infstr/PubE/FI)** | 2 | 12 | 11 | 15 |
| Investment Division FTE's | 52 | 56 | 56 | 59 |
| Direct Investment-related Positions in Other Divisions | 8 | 12 | 12 | 12 |
| Non-Investment FTE's | 267 | 272 | 272 | 271 |
| Agency FTE's | 327 | 340 | 340 | 342 |
| Net Assets (Pension Funds) | \$22,384,273,034 | \$19,938,287,862 | \$20,474,228,057 | \$22,201,131,244 |
| Total Return | -4.58% | -6.60% | 6.65% | 12.58% |
| Benchmark Return | -5.51% | -7.55% | 6.80% | 12.02% |
| Over (Under) Benchmark Return | 0.93% | 0.95% | -0.15% | 0.56% |
| Num. of ERS Accounts Maintained | 208,068 | 215,578 | 223,617 | 228,059 |
| Num. of Active ERS Members | 135,171 | 141,779 | 143,051 | 137,856 |
| Num. of ERS Retirees & Beneficiaries | 73,266 | 76,335 | 79,922 | 84,083 |
| Overall Customer Service Interactions (at both ERS & ACT beginning in fiscal year 2012) | 314,918 | 319,705 | 357,336 | 388,904 |

*The Investment Budget includes the Investment Division budget and any other positions that are directly Investment-related that reside outside the Investments' budget (i.e. Legal, Internal Audit, Investment Accounting, and Business Analysts); also included are outside Legal services for Investments.

| | FY12 | FY13 | FY14 | FY15 | FY16 |
|--|------------------|------------------|------------------|-------------------------------------|------------------------|
| | \$20,441,208 | \$20,798,738 | \$24,985,661 | \$26,488,081 | \$28,240,317 |
| | \$31,869,079 | \$34,291,114 | \$35,647,289 | \$39,896,609 | \$41,369,536 |
| | \$52,310,287 | \$55,089,852 | \$60,632,950 | \$66,384,690 | \$69,609,853 |
| | \$17,491,733 | \$18,605,600 | \$23,649,809 | \$24,313,342 | |
| | \$13,335,197 | \$17,911,859 | \$15,375,042 | \$12,496,172 (est.) | \$14,701,737 (est.) |
| | \$27,173,045 | \$33,013,164 | \$70,039,985 | \$64,788,638 (est.) | |
| | 21 | 25 | 40 | 37 (est.) | 45 (est.) |
| | 59 | 61 | 67 | 72.33 | 74 |
| | 12 | 12 | 14 | 14 | 13 |
| | 271 | 273 | 281 | 289 | 297 |
| | 342 | 346 | 362 | 375.33 | 384 |
| | \$22,869,229,941 | \$23,967,596,439 | \$26,285,284,197 | \$26,010,264,120 (as of 6/30/15) | |
| | 8.22% | 10.07% | 14.70% | 2.79% (as of 6/30/15) | |
| | 8.11% | 9.52% | 15.00% | 1.28% (as of 6/30/15) | |
| | 0.11% | 0.55% | -0.30% | 1.51% (as of 6/30/15) | |
| | 225,042 | 231,110 | 232,569 | 236,108 (as of 5/31/15) | |
| | 133,227 | 134,227 | 134,761 | 136,586 (as of 5/31/15) | |
| | 88,447 | 92,042 | 92,566 | 97,706 (as of 5/31/15) | |
| | 520,803 | 517,805 | 524,913 | 450,732 (est.) | |

** PriE = Private Equity; PRE = Private Real Estate; HF = Hedge Funds;
EM = Emerging Manager; Infstr = Infrastructure; PubE = Public Equity; FI = Fixed Income.

Increases in Program Complexity (Fiscal Year 2008 – Fiscal Year 2016)

Fiscal Year 2008

- Added two new staff positions to implement auto-enrollment in the 401(k) Texa\$aver program as required by legislation.
- Added nine staff positions to enhance public equity (4 Positions), private equity (2 positions) and investment back-office (3 positions) including additional resources for divestment legislation.
- Expanded asset classes.
- Began private equity investing.
- Board approved establishment of domestic equity mid-cap portfolio.

Fiscal Year 2009

- Added eight investment-related positions; 5 in Investments, 1 each in Finance, Legal, and Information Systems.
- Added two contact center staff based on increased workload.
- Added a staff position in Information Systems and Budget to support increase in agency projects.
- Developed infrastructure for private real estate investing.
- Signed 12 private equity commitments.
- Developed and began funding emerging markets portfolio.

Fiscal Year 2010

- Implemented a second retirement tier with new rules, actuarial tables, and various program changes as required by legislation.
- Implemented an insurance plan alternate payment program and coverage of bariatric surgery in a cost minimal manner as required by legislation.
- Expanded emerging markets portfolio.
- Increased commitments to private equity and private real estate.
- Developed a hedge fund strategy.
- Established a select pool for tactical implementation of external advisors.

Fiscal Year 2011

- Implemented emerging manager program and external advisor website.
- Implemented major changes to the insurance plan due to funding shortage, including increases to copays and coinsurance paid by the member.
- Implemented Early Retiree Reinsurance Program to access federal funding.
- Conducted a dependent eligibility audit for the insurance plan.
- Added one portfolio manager for the hedge fund strategy.
- Developed a comprehensive risk reporting system for investments.

Fiscal Year 2012

- Implemented Medicare Advantage Programs.
- Implemented tobacco use contribution differential.
- Expanded medical home/accountable care practice model pilot programs.
- Implemented the Roth option for the Texa\$aver program, 401(k) and 457 plans.
- Implemented a call center overflow contract with a vendor to help address a 50% increase in the number of annual customer contacts since 2005.
- Funded EAFE (Europe, Australasia, & Far East) and Domestic Large Cap advisors.
- Committed to first three hedge fund investments.
- Expanded external advisor website to include all asset classes.

Fiscal Year 2013

- Implemented the complex Employee Group Waiver Plan (EGWP) plus wrap to increase federal revenue from Medicare Part D.
- Added two staff positions to Investments to support the hedge fund program and to support external advisors.
- Added one staff position to Legal to support complex investment transactions in alternative investments such as private real estate, private equity, and hedge funds.
- Began transition to the new asset allocation targets approved by the Board.
- Established the new infrastructure asset class.
- Increased commitments to private equity, private real estate, hedge funds, emerging markets, and infrastructure.

Fiscal Year 2014

- Implemented a third retirement tier with new rules, actuarial tables, and various program changes as required by legislation.
- Documented separate accounting and actuarial calculations for LECOS participants as required by legislation.
- Implemented a new 0.5% retirement contribution from agency appropriations as required by legislation.
- Implemented changes to the insurance program including 60 day wait, full time eligibility with 30 hours, and state contribution for retirees based on years of service as required by legislation.
- Implemented a second insurance enrollment period in the fall for retirees.
- Added eight investment-related staff positions to Investments (1 each for fixed income, private equity, infrastructure, strategic research, operations, and administrative), Finance (1 for investment accounting), and Legal (1 for complex investments).
- Added eight staff positions to support numerous complex programs and projects including Information Systems (2 project managers, a systems analyst, and a business analyst), Customer Benefits (1 for pension system improvements), Finance (1 for pension system improvements), Communications and Research (1 marketing specialist for program support), and Internal Audit (1 auditor for internal audit support).
- Increased staff responsibility for the selection of external advisors as a result of the Board of Trustees delegation for an internal committee in selecting external advisors for the select pool.
- Increased number of hedge fund deals expected as hedge fund structures may be used in fixed income and equities asset classes.
- Increased staff and outside counsel fees related to the 40 investments deals expected (prior fiscal year 23 investment deals) with focus on negotiations of the most ERS favorable economic and governance/legal terms.
- Continuing development of investment program infrastructure to provide the best access, fees and terms with external managers.

Fiscal Year 2015

- Implemented the complex Employee Group Waiver Plan (EGWP) plus wrap to increase federal revenue from Medicare Part D.
- Added two staff positions to Investments to support the hedge fund program and to support external advisors.
- Added one staff position to Legal to support complex investment transactions in alternative investments such as private real estate, private equity, and hedge funds.
- Began transition to the new asset allocation targets approved by the Board.
- Established the new infrastructure asset class.
- Increased commitments to private equity, private real estate, hedge funds, emerging markets, and infrastructure.

Fiscal Year 2016 - Approved

- Implement changes from the 84th legislative session including the additional 2% retirement contribution, elimination of the 60 day waiting period, and changes to contract management.
- Develop a funding policy for Board consideration.
- Implement a Qualified Transportation Fringe Benefit.
- Establish a Consumer-Directed Health Plan (CDHP) to include a high deductible health plan and a health savings account as an option for the Group Benefit Program participants
- Continue to evaluate options to replace the current group benefits system.
- Develop RFPs for Episode-Based Bundled Payments, Vision Care Services, and Pharmacy Benefit Manager Services.
- Expand derivatives program.
- Continue to develop ERS' emerging manager program.
- Continue development of investment program infrastructure to provide the best access, fees and terms with external managers.
- Increased number of hedge fund deals expected as hedge fund structures may be used in fixed income and equities asset classes.



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