

Approved Operating Budget Fiscal Year 2015

By the Employees Retirement System of Texas



FISCAL YEAR 2015
APPROVED OPERATING BUDGET

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EMPLOYEES RETIREMENT SYSTEM OF TEXAS
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 2015 contains organizational charts, budgets, methods of finance, and sources of funds. It also contains Fiscal Year 2014 accomplishments and Fiscal Year 2015 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 FY 2015 Budget and the FY 2014 Forecast for line items of \$100,000 or more at the division level and \$200,000 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 under the state constitution.

METHOD OF FINANCE

ERS maintains trust funds for retirement and insurance programs. These trust funds finance administrative costs for the ERS operating budget. ERS also collects fees from Social Security and TexaSaver participants. In addition, ERS collects an annual membership fee of \$3.00 for each retirement system member. ERS allocates administrative costs among programs to reflect the cost of each. ERS does not receive direct state appropriations toward its operating budget.

FY 2014 FORECAST

The FY 2014 Forecast amounts are based on actual expenditures through June 30, 2014 and projections through August 31, 2014.

ROAD MAPS

The road maps presented in Exhibit C provide a graphical presentation of the major projects planned in Fiscal Year 2015.

FISCAL YEAR 2014 ACCOMPLISHMENTS

The ERS budget supports projects that align with the agency's strategic directions. These directions were reviewed and renewed as part of a strategic plan update in fiscal year 2014. Fiscal and human resources are allocated towards achieving progress in each of these areas:

STRATEGIC DIRECTION #1: SUPPORTING RETIREMENT SECURITY

- Implemented new legislation, including:
 - Changed account balance interest rate to be more in line with market rates.
 - Established new retirement rules for members hired on or after September 1, 2013.
 - Identified members that are grandfathered and are not subject to the new insurance contribution structure at retirement.
 - Reduced insurance waiting period from 90 days to 60 days.
 - Supported other legislative changes through identification of relevant rules, system changes, member notifications and customer support.
- Earned investment returns above policy benchmarks.
- Continued to accelerate transition to new asset allocation targets as determined by the FY 2012 asset/liability study, including reaching full allocation of Absolute Return Portfolio (Hedge Funds).
- Continued to pursue unfunded liability strategy development.
- Conducted the legislatively required studies on separate accounting of assets and liabilities of Law Enforcement and Custodial Officer members.
- Continued to enhance risk management processes.
- Furthered branding of ERS and ERS investment program through conference attendance and presentations at 33 conferences.
- Expanded and improved the \$2.1 billion TexaSaver Deferred Compensation Program by:
 - Incorporating the Real Asset and Short Term Government Fund into the core fund line-up, garnering \$1.3 million in assets, and issuing a Request For Information (RFI) for an international fund addition.
 - Growing to \$3.3 million in assets in more than 1,500 Roth contribution accounts.
 - Issued two proposals for International Fund and Large Cap Funds for the TexaSaver Program.
 - Roth enrollments in the TexaSaver Program surpassed 3,100 participants with \$9 million in assets.
- Managed the transition to and relationship with the newly appointed retirement actuaries.
- Implemented new actuarial factors through:
 - Identified requirements and rules.
 - Simplified actuarial factors refresh using the Oracle Policy Automation tool to convert to calculations using a single life expectancy table. These changes reduced effort for this and future refreshes.
 - Performed system testing and post migration testing.
- Identified and contracted with a firm to conduct an analysis of benefits administration processes. Analysis of business and system processes will drive the request for proposal supporting modernization of benefits administration.

STRATEGIC DIRECTION #2: SUSTAINING COMPETITIVE GROUP BENEFITS

- Implemented the Dental Discount Plan for Annual Enrollment to begin September 1, 2014.
- Completed the first year of Employee Group Waiver Program (EGWP) plus Wrap with realized savings of \$40 million.

- Successfully filed for \$2.46 million from the federal Retiree Drug Subsidy (RDS) during the program year FY 2014. Also implemented a contract to audit RDS claims to ensure that the plan gets every dollar it is due. The Part D Advisors reopened RDS filings for Fiscal Years 2006 through 2011. ERS received a net of \$7 million in additional revenue.
- Conducted the legislatively required study on modeling alternative health insurance plan design options, including a professional survey of 135,000 active employees and 30,000 pre-65 retirees enrolled in the group insurance plan.
- Transitioned administrator for the disability program.
- Worked with the State Wellness Director and the State Worksite Wellness Advisory Board to promote worksite wellness initiatives.
- Awarded three contracts for dental benefits.
- Negotiated contract extensions through August, 2017 for the Pharmacy Benefit Manager, and through August, 2015 for the Texa\$aver administrator, and advisory and custodian contracts.
- Developed Dependent Eligibility Audit as a continuous ongoing process.
- Enhanced data and reporting capability of the Business Intelligence Data Warehouse. Added several data sets to enable requested business reporting. Improved system processing from multiple days to several hours enabling business partners timely access to the data.
- Conducted fall enrollment as a standard enrollment process for Medicare eligible participants.
- “What’s your Excu\$e?” campaign for Texa\$aver’s auto enrolled participants received 12 national awards for outstanding communication strategy.

STRATEGIC DIRECTION #3: ENGAGING STAKEHOLDERS FOR INFORMED DECISION MAKING

- Updated legislators, staff and other stakeholders on the impact of:
 - Retirement funding.
 - Insurance funding.
 - Implementation of legislation.
- Created numerous custom presentations, handouts, testimony, briefing documents, and follow-up letters.
- Provided expertise and information to interim legislative committees, oversight agencies, the State Auditor’s Office, the Legislative Budget Board, and the House Research Organization.
- Enabled members the ability to sign up and receive electronic delivery of ERS newsletters.
- Redesigned the ERS public/member website, based on a comprehensive audit begun in fiscal year 2013. The project included new graphic design and navigation to make it easier for users to find the information most often sought by site visitors. The refreshed site also features an enhanced vendor sub-site.
- Provided members with guidance on how and when to apply for Medicare, and how the federal health program works with ERS-administered health benefits.
- Interacted with 474,307 members through phone calls.
- Met with 5,368 visitors to ERS.
- Responded to 23,000 customer inquiry emails.

STRATEGIC DIRECTION #4: ENHANCING AGENCY PERFORMANCE AND ACCOUNTABILITY

- Coordinated and developed the Legislative Appropriation Request for the FY 2016-2017 biennium.
- Prepared the FY 2013 Comprehensive Annual Financial Report. Recognized by the Government Financial Officer’s Association with an award for the 25th year.
- Implemented changes to the Texas Identification Number System (TINS) as required by the Texas Comptroller of Public Accounts. The changes were designed to improve personal information security by changing to a TINS identification number for financial transactions within the state of Texas.

- Continued SharePoint implementation rollout of centralized research library and several Finance Division processes including training request forms. Redesigned the Operations Support SharePoint site as a pilot for an agency template, as well as the annual budget and CAFR sites.
- Emphasized enterprise risk management by elevating position and conducting full enterprise wide risk assessment.
- Offered retirees choice of paper or electronic retiree newsletter, lowering printing and postage costs, while providing customer choice.
- Strengthened technical system security.

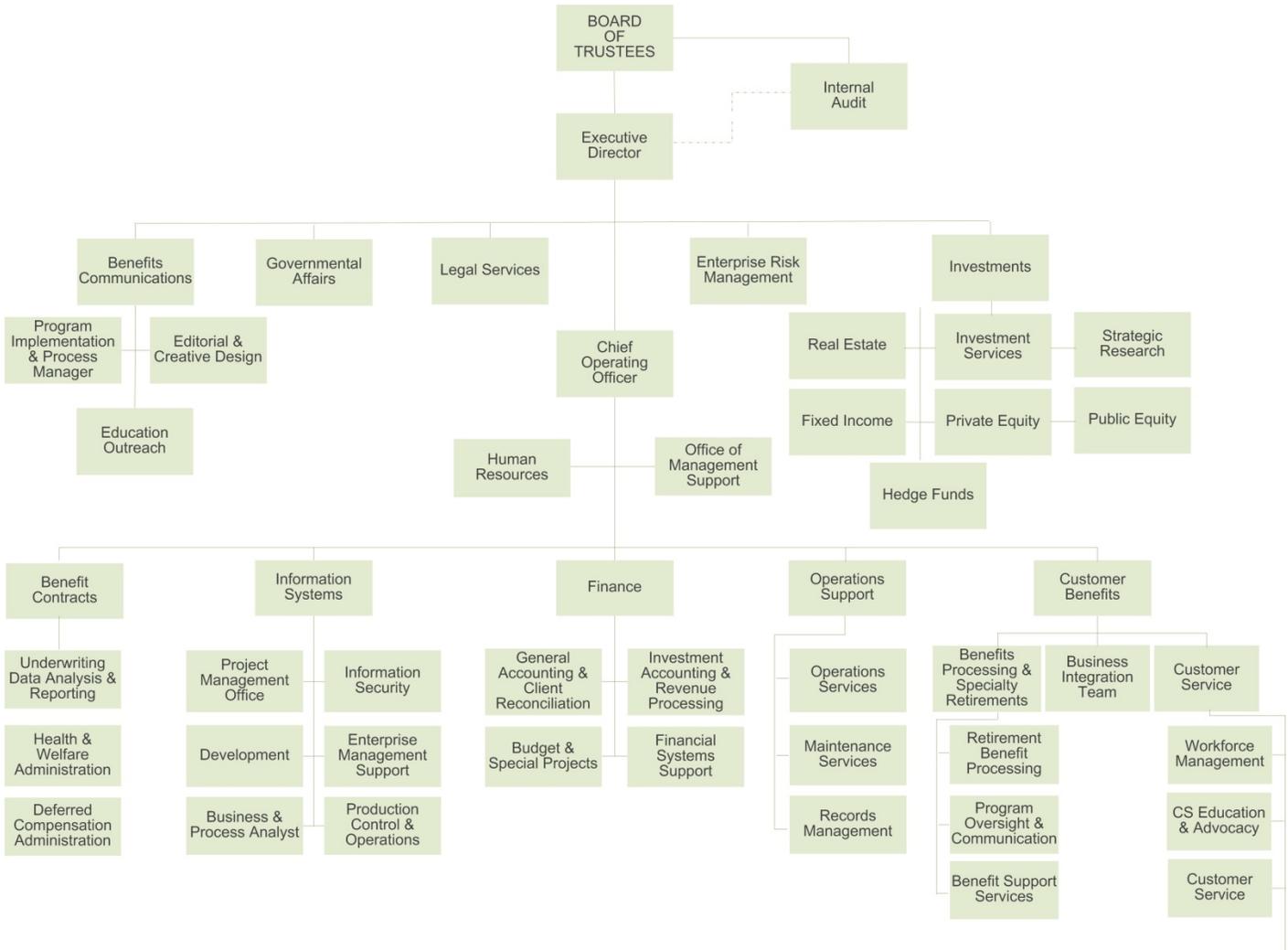
FY 2015 BUDGET REQUEST

Salary and other salary costs make up approximately 60 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 proposed staffing level increased to 375.33 FTEs for FY 2015.

The total approved operating budget for FY 2015 is \$66.4 million. The investment related budget of \$26.5 million for FY 2015 represents only 0.10% of the pension fund assets totaling \$26.3 billion as of June 30, 2014. The remaining \$39.9 million of the FY 2015 budget will be used to administer benefit payments of approximately \$5.0 billion (\$2.8 billion for insurance and \$2.2 billion for retirement and other) based on June 30, 2014 annualized data. This represents 0.8% of the benefits processed.

AGENCY FUNCTIONAL ORGANIZATIONAL CHART FISCAL YEAR 2015



TOTAL FTEs: 375.33



EXECUTIVE SUMMARY

APPROVED ANNUAL OPERATING BUDGET FISCAL YEAR 2015

	APPROVED BUDGET FY 2014	ESTIMATED EXPENDITURES FY 2014	APPROVED BUDGET FY 2015
Executive	\$ 1,428,300	\$ 1,253,235	\$ 1,807,496
Legal Services	4,482,855	3,925,061	4,226,659
Internal Audit	740,760	563,004	787,841
Governmental Affairs	1,055,542	1,031,417	1,361,409
Human Resources	480,954	560,445	646,724
Benefit Communications	1,352,315	1,317,029	1,393,271
Investments	21,503,431	21,054,506	23,139,411
Benefit Contracts	3,101,867	2,881,492	3,266,807
Customer Benefits	7,645,461	7,484,438	8,499,519
Finance	3,677,473	3,640,269	3,888,300
Information Systems	11,956,629	12,358,676	13,709,360
Operations Support	3,207,363	3,541,877	3,657,893
Grand Total	\$ 60,632,950	\$ 59,611,449	\$ 66,384,690
Full Time Equivalent Staff (FTEs)	362	362	375.33
Method of Financing, Estimated			
Employees Retirement Fund			\$ 45,334,105
Law Enforcement Fund			2,124,310
Judicial Retirement Plan Two Fund			637,293
Group Insurance Fund			16,250,972
Flexible Benefits Fund			789,978
Deferred Compensation Fund			424,862
Texas\$aver Fund			683,762
Social Security Fund			139,408
Total Method of Financing			\$ 66,384,690

BUDGET REQUEST OVERVIEW

COMPARISON OF THE FY 2015 BUDGET TO THE FY 2014 BUDGET

The FY 2015 Approved Operating Budget increased \$5.752 million, 9.49% over the FY 2014 Operating Budget. A high-level year-to-year comparison is shown in the following table:

	FY 2014 BUDGET	FY 2015 BUDGET	FY 2014-2015 INCR (DECR)
Salaries	\$ 34,474,000	\$ 37,193,000	\$ 2,719,000
Incentive Compensation Plan	2,603,000	3,047,000	444,000
Other Expenses	23,556,000	26,145,000	2,589,000
Total	\$ 60,633,000	\$ 66,385,000	\$ 5,752,000

COMPARISON OF THE FY 2015 BUDGET TO THE FY 2014 FORECAST

ERS is on target to spend \$1 million less in FY 2014 than the approved budget. Most of the difference is related to salary vacancies. The lapsed funds remain in the trust fund for future use. The additional 2% salary budget for merits and equity adjustments for non-investment staff contributed to the retention of filled positions throughout FY 2014. Vacancy rates ranging from 3.5% to 5% are assumed in the FY 2015 Budget. The FY 2015 Approved Operating Budget is higher than the FY 2014 forecast by \$6.77 million, or 11.36%.

	FY 2014 FORECAST	FY 2015 BUDGET	FY 2014-2015 INCR (DECR)	PERCENT CHANGE
Salaries	\$ 32,735,000	\$ 37,193,000	\$ 4,458,000	13.62%
Incentive Compensation Plan	2,374,000	3,047,000	673,000	28.35%
Other Expenses	24,502,000	26,145,000	1,642,000	6.70%
Total Expenses	\$ 59,611,000	\$ 66,385,000	\$ 6,773,000	11.36%
FTEs	362	375.33	13.33	3.68%

The key budget drivers for ERS are the expansion of the investment program, strategic projects, and other cost drivers such as expenses related to the legislative session and the trustee election. More details for the budget trend and the increases in program complexity over the last several years are presented in Exhibit E.

- **Salaries** –The 2% pay increase for all state employees is included in the FY 2015 budget request. Also included is funding for succession planning, strategic initiatives, and investment support for the asset allocation approved by the Board. Additional positions requested are:
 - Executive Office and Government Affairs each added positions to support transition and succession planning.
 - Benefit Contracts added a Wellness Director to plan and develop a comprehensive wellness program for the Group Benefits Program.
 - Human Resources added a position to support increased workload and the implementation of an automated system.
 - Customer Benefits added two positions to support the Modernization of ERS' Benefits Administration strategic initiative.
 - Information Systems added two positions. A project manager was added to support agency strategic initiatives. One systems analyst position was added to provide expertise in support of SharePoint.

- Investments added seven positions (5.33 FTE's) to support the asset allocation approved by the Board.
 - The asset classes of real estate, fixed income, and private equity added analysts. Investment Operations added a financial analyst to focus on derivatives. The strategic research section also added an analyst.
 - Hedge Funds added a portfolio manager, and Risk Management and Applied Research added a portfolio manager.
- **Incentive Compensation Plan** - ICP payments are for investment performance payments earned in FY 2012, FY 2013, and FY 2014. The FY 2015 budget was prepared with the assumption of positive performance and exceeding policy benchmarks in FY 2014.

<u>Fiscal Year Payout</u>	<u>Amount to be Paid</u>	<u>Number of Staff</u>
FY 2012 (3 rd year payment)	\$ 386,264	36
FY 2013 (2 nd year payment)	\$ 731,171	53
<u>FY 2014 (1st year payment)</u>	<u>\$ 1,929,296 (estimated)</u>	60
 FY 2015 Budget	 \$3,046,731	

- **Other Expenses** – The increase is due to:
 - Consulting services increased due to the Space Planning Feasibility Study.
 - Computer system services increased due to the additional contracted skilled resources to support strategic projects including the Modernization of Benefits Administration.
 - Investments' subscriptions rate increases and additional workstations and licenses (Bloomberg, Efront and FactSet) for added staff.
 - Computer system services increased to support investment accounting & reporting systems.

Legislative Session Related Costs

Statute requires actuarial analysis of proposed legislation that impacts the pension fund. Both the insurance and pension actuaries require additional budgeted amounts for a legislative session year. Also, additional actuarial services are included in the FY 2015 Approved Budget for the far-reaching financial reporting impacts of implementing GASB 67 and 68.

Trustee Election Costs

The elections occur in odd fiscal years only. The amounts are included for a vendor to administer the trustee election. Postage is also significantly increased for this function.

FY 2015 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.

As depicted in the chart below, growth in both areas are similar in FY 2015.

Investment-Related Growth

	FY 2014 FORECAST	FY 2015 BUDGET	FY 2014-2015 INCR (DECR)	PERCENT CHANGE
Investment Division	\$ 21,055,000	\$ 23,139,000	\$ 2,084,000	9.90%
Investment-Related Other Divisions	2,782,000	3,349,000	567,000	20.38%
Total Investment-Related Expenses	23,837,000	26,488,000	2,651,000	11.12%
FTEs	81	86.33	5.33	6.58%

Non-Investment-Related Growth

	FY 2014 FORECAST	FY 2015 BUDGET	FY 2014-2015 INCR (DECR)	PERCENT CHANGE
Total Non-Investment- Related Growth for Other Divisions	\$ 35,774,000	\$ 39,897,000	\$ 4,121,000	11.52%
FTEs	281	289	8	2.85%

MAJOR FISCAL YEAR 2015 INITIATIVES

STRATEGIC INITIATIVES

Approval of this budget will allow ERS to conduct the programs and activities outlined in this document in FY 2015. Many of these proposed 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.
- Enhancing agency performance and accountability.

The Investment program is growing through the accelerated transition to the new asset allocations. ERS seeks to constantly refine the mix of internally managed assets to externally advised portfolios in the select pool to ensure external management enhances the cost-effective internal management base. The Investment Division also continues to develop the emerging manager program and continuously researches industry trends to identify innovative ideas and best practices for optimal investment of the trust. While working to enhance the risk management pool, ERS assesses current and future savings received through diligent negotiation of the best economic terms and emphasized corporate governance in negotiations. ERS has ongoing processes to evaluate and improve strategies for public equity, fixed income, private equity, infrastructure, real estate, and hedge fund investments and is implementing a derivatives program. Investment and business processes are regularly refined to meet best practices and engage opportunities for efficiency improvements with a goal to outperform policy benchmarks to increase retirement security for plan members. ERS will also work closely with the legislature to develop solutions to the pensions' unfunded liabilities.

ERS promotes and expands deferred compensation programs through evaluation and enhancement of the Texa\$aver Program. Efforts are underway to expand plan contribution options for the 457 plan to allow percentage based contributions in addition to fixed dollar contributions. There are also plans to evaluate and install new contracts for the Large Cap and International Fund options in Texa\$aver.

ERS attempts to sustain the competitive group benefits program by evaluating the effectiveness of cost containment initiatives and transparently reporting the results. During fiscal year 2015, ERS will bid, evaluate, and implement a new contract for the administration of the Flexible Spending Account program. ERS is also reviewing the financial impact of offering a Medicare Advantage plan to eligible retirees and will coordinate the annual electronic reporting of the health plan activities required by the Affordable Care Act for the plan year beginning January 1, 2015.

ERS plans to participate on the Group Benefits Plan Wellness team to evaluate the current Group Benefits Plan condition management programs and develop a comprehensive Group Benefits Plan wellness program including:

- Planning and hosting the Capitol Health Fair providing various health screenings and showcasing wellness tools and resources offered by ERS programs.
- Assisting the State Agency Wellness Director in planning the annual State Agency Wellness Conference and promoting worksite wellness initiatives at state agencies.
- Hiring a Wellness Director at ERS.

ERS engages stakeholders for informed decision making by supporting the legislative session and implementing legislative changes. ERS also plans to provide legislative briefings and maintain open communication with state employee and retiree associations. ERS will respond to inquiries from the House and Senate members, the Governor and Lt. Governor's office, the Speaker's office, oversight agencies, and association groups. ERS will develop options presuming funding and/or benefit design changes are not approved, and track other potential legislative activities to improve state programs or ERS operations. ERS will manage legislative tracking and analysis by maintaining a legislative analysis work group, monitoring potential legislation, and working with staff to analyze operational and fiscal impact, including preparing cost estimate and actuarial impact statements. Members will be able to choose their preferred method of correspondence. ERS plans to provide accurate and accessible research and program information by updating the retirement sustainability study, the insurance sustainability study and the benchmarking study, and the state employee workforce study.

ERS will enhance agency performance and accountability by evaluating and recommending modernization of our benefits administration systems to include review of best business practices, selection of vendors and systems to support the demands of our customers, adding flexibility for changing environments, and utilizing a more up-to-date platform for system operations. The Finance Division will coordinate actuarial valuation reports, support the external financial audit, prepare the Comprehensive Annual Financial Report, and coordinate the preparation, approval and submission of fiscal notes for the legislative session.

ERS will also initiate a proposal for a compensation study and a new Human Resource Information Management System and begin a phased-in implementation of the system. An internal customer service performance survey will also be developed.

The Information Systems division will design and build supports to facilitate each division's intranet site migration to SharePoint PointERS. IS will define standards to enable the creation of collaboration sites and enhance coordination of activities related to inter- and intra-divisional documents. Operational efficiency will be increased by enabling workflow to enhance coordination of activities related to inter- and intra-divisional processes. ERS will upgrade the operating system and database platforms to improve performance and ensure continued vendor support to critical business applications. Finally, ERS will enable members to select traditional or electronic delivery of standard documents maintained in the Correspondence Management System (CMS) application, decreasing operational costs to generate correspondence and allowing members to communicate via preferred channels.

FISCAL YEAR 2015 SUMMARY BUDGET – AGENCY

	FY 2014 BUDGET (A)	FY 2014 FORECAST (B)	FY 2015 APPROVED BUDGET (C)	CHANGE (C-B) (D)
Exempt Salaries	\$ 335,010	\$ 335,010	\$ 348,410	\$ 13,400
Classified Salaries ¹	27,285,984	25,660,541	28,962,469	3,301,928
Classified Salaries - Incent. Comp. Plan ²	2,602,827	2,373,931	3,046,731	672,800
Other Salary Costs ¹	6,853,121	6,739,000	7,881,803	1,142,803
Board of Trustees	8,400	5,000	8,400	3,400
Investment Advisory Fee	30,500	30,500	31,500	1,000
Medical Services	69,100	69,100	67,600	(1,500)
Investment Consultants	1,978,474	1,877,745	1,999,693	121,948
Computer System Services ³	2,826,134	3,949,030	4,420,745	471,715
Actuarial Services	1,107,253	1,057,253	1,150,000	92,747
Legal Services (Outside)	1,934,500	1,480,580	1,543,500	62,920
Financial Audit Services	146,300	0	150,000	150,000
Insurance Audit Services	400,000	230,000	418,000	188,000
Audit Services - Other	227,677	222,182	225,000	2,818
Actuarial Audit Services	0	31,000	0	(31,000)
Consulting Services	123,000	181,500	264,000	82,500
Professional Services - Educational	85,218	89,942	81,360	(8,582)
Professional Services - Other	191,500	270,000	210,500	(59,500)
Architectural Services	10,000	10,000	10,000	0
Travel	741,155	730,575	834,859	104,284
Supplies & Materials	237,220	242,260	249,195	6,935
Telecommunications ⁴	510,500	477,626	752,448	274,822
Utilities	313,000	300,000	313,000	13,000
Repair & Maintenance Equip & Furniture	51,900	36,900	43,900	7,000
Repair & Maintenance - Computer	1,043,920	1,048,645	1,160,089	111,444
Repair & Maintenance Land & Building	350,620	374,155	352,035	(22,120)
Rent on Computer Software & Equipment	684,730	564,306	570,185	5,879
Rent on Office Equipment	263,742	263,742	314,342	50,600
Rental of Space	42,840	42,840	41,840	(1,000)
Reproduction Services	71,150	81,619	111,950	30,331
Employee Training	276,855	236,653	341,979	105,326
Subscriptions & Electronic Comms ⁵	5,861,944	5,313,151	5,770,311	457,160
Membership Fees	113,093	121,355	122,673	1,318
Contracted Temporary & Data Entry ⁶	220,744	455,084	209,000	(246,084)
Insurance	53,000	70,000	53,000	(17,000)
Classified Advertising	11,250	13,165	11,000	(2,165)
Miscellaneous Expenses	62,686	87,084	100,248	13,164
Postage	696,061	851,270	951,849	100,579
Other Contracted Services	1,096,832	1,190,740	1,315,534	124,794
Interest-Delayed Payments	200	15	200	185
Security Guard Services	1,500	1,500	1,500	0
Investment Banking	925,000	935,000	990,000	55,000
Equipment & Furniture	34,165	81,539	51,765	(29,774)
Books/Reference Materials	15,175	13,429	13,985	556
Computer Software ⁷	534,828	876,663	623,196	(253,467)
Computer Equipment	50,842	243,128	124,773	(118,355)
Telecommunications Equipment	24,000	51,191	126,123	74,932
Building Improvements ⁸	129,000	295,500	14,000	(281,500)
Total Budget⁹	\$ 60,632,950	\$ 59,611,449	\$ 66,384,690	\$ 6,773,241
Full Time Equivalent Staff	362	362	375.33	13.33

EXPLANATIONS OF VARIANCE

¹Classified Salaries & Other Salary Costs – Increase includes:

- The addition of new positions:
 - Seven new positions (5.33 FTE's) were added in Investments to support the asset allocation approved by the Board of Trustees. Fixed income, real estate, and private equity each added an investment analyst. The hedge fund added a portfolio manager. Investment Operations added a financial analyst. Strategic research added an analyst. Risk management and Applied Research Portfolio added a Manager.
 - Two transition positions (1 FTE) in the Executive Office and one in Governmental Affairs to support succession planning.
 - One in Benefit Contracts to support the Wellness Initiative.
 - One in Human Resources to support increased workload and an automation initiative.
 - Two in Customer Benefits to support the modernization of the ERS benefits administration system.
 - Two in Information Systems to support agency projects and initiatives.
- Inclusion of the legislative 2% pay increase for classified salaries, funds for merits, promotions, career ladder salary equity adjustments, and equity upgrades of existing positions.

²Incentive Compensation Plan – Assumes Incentive Compensation Plan payout based on positive performance and exceeding policy benchmarks in FY 2014. The amount also includes the second and third year payments for prior year performances.

³Computer System Services – The increase in the FY 2015 Budget includes additional contracted, skilled resources to support strategic projects including:

- Modernization of Benefits Administration (MBA).
- Investment Accounting & Reporting Systems.
- Improve Business Intelligence Data Warehouse (BIDW) Reporting and Transfer of Knowledge.

⁴Telecommunications - Increase is due to an increase in mobility services and a doubling of bandwidth to support ERS business needs in Information Systems and the implementation of the new Hosted Integrated Voice Response (IVR) Automated Call Distribution (ACD) system in Customer Benefits.

⁵Subscriptions and Electronic Communication – The increase is due to rate increases and the addition of five new Bloomberg and FactSet workstations for additional staff. ERS has begun receiving Barclay's data through Bloomberg and Yield Book, as well as adding additional services from Bloomberg to develop risk systems internally. ERS is replacing Morningstar with Credit Sights, replacing S & P Ratings Direct with Moody's credit research tool, and adding a new tool for pre-verification and verification review and reporting.

⁶Contracted Temps & Data Entry – If necessary in FY 2015, additional requirements will be funded with salary lapse.

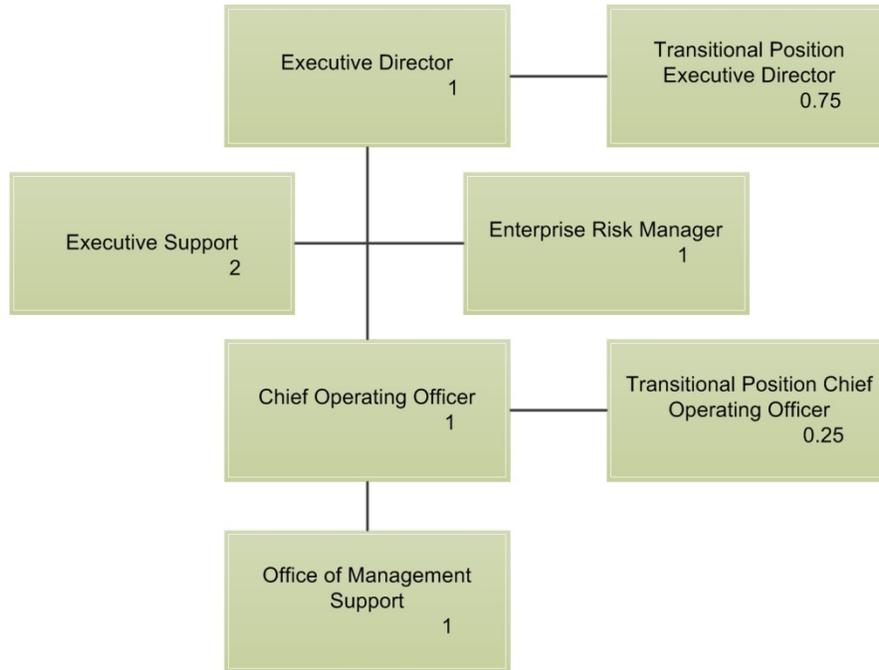
⁷Computer Software – The decrease is because of two high end application purchases in FY 2014. The Complaint Tracking System and the FireAmp Security application were one-time purchase expenditures.

⁸Building Improvements – Exterior building repairs were made in FY 2014. No major improvements are planned in FY 2015.

⁹Total Budget increased by \$6.77 million (11.36%) from the FY 2014 forecast. The FY 2015 Approved Budget is 9.49% more than the FY 2014 Approved Budget.

EXECUTIVE

ORGANIZATIONAL CHART – FISCAL YEAR 2015



TOTAL FTES: 7

FISCAL YEAR 2014 ACCOMPLISHMENTS

The Executive staff provided leadership, communication, and prioritization of goals and resources throughout the past fiscal year. Major accomplishments of FY 2014 include strategic planning for the future and implementing a number of retirement and insurance changes as directed by the 83rd Legislature. The Executive staff also advised and assisted with the successful implementation of a new enrollment period for Medicare retirees while supporting regular ERS business operations in customer service, investments, and financial reporting.

MAJOR FISCAL YEAR 2015 INITIATIVES

- Support the expansion of current technological solutions (i.e. Clarity, SharePoint). (Strategic Direction #4)
- Support the implementation of tracking solutions for business needs. (Strategic Direction #4)
- Oversee the population of an online research library. (Strategic Direction #4)
- Support the implementation of encryption requirements for data files from external sources. (Strategic Direction #4)
- Support the 84th legislative session. (Strategic Directions 1-4)
- Support the use of storyboarding technologies for stakeholder presentations. (Strategic Direction #3)
- Support the establishment of the Investment derivatives infrastructure. (Strategic Direction #1)
- Create a centralized location for shared agency policies. (Strategic Direction #4)

MAJOR FISCAL YEAR 2015 OPERATIONAL PROJECTS

- Conduct the Board of Trustee election. (Strategic Direction #4)
- Conduct the business impact analysis for business continuity and disaster recovery plans. (Strategic Direction #4)
- Oversee the coordination of the annual operating budget. (Strategic Direction #4)

EXECUTIVE FISCAL YEAR 2015 BUDGET

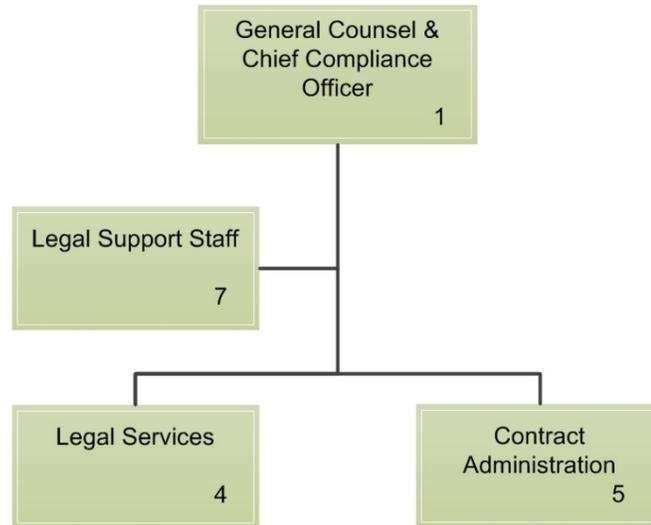
	FY 2014 BUDGET (A)	FY 2014 FORECAST (B)	FY 2015 APPROVED BUDGET (C)	CHANGE (C-B) (D)	EXHIBIT B
Exempt Salaries	\$ 335,010	\$ 335,010	\$ 348,410	\$ 13,400	
Classified Salaries ¹	720,676	584,287	806,242	221,955	
Other Salary Costs ¹	194,742	154,612	379,755	225,143	Note 17
Classified Salaries - Incent. Comp. Plan ²	67,032	67,032	142,059	75,027	
Board of Trustees	8,400	5,000	8,400	3,400	Note 1
Consulting Services	75,000	75,000	0	(75,000)	Note 15
Professional Services - Edu.	0	3,000	3,000	0	Note 12
Travel	12,500	10,000	12,500	2,500	
Supplies & Materials	120	120	120	0	
Employee Training	5,900	3,000	6,900	3,900	
Subscriptions and Electronic Communications	3,700	3,934	3,750	(184)	
Membership Fees	4,345	4,795	4,785	(10)	
Contracted Temporary & Data Entry	0	4,645	0	(4,645)	
Other Contracted Services	0	463	87,000	86,537	Note 19
Equipment & Furniture	350	650	650	0	
Books/Reference Materials	525	525	325	(200)	
Computer Equipment	0	1,162	3,600	2,438	
Total Budget	\$ 1,428,300	\$ 1,253,235	\$ 1,807,496	\$ 554,261	
Full Time Equivalent Staff	7	6	7	1	

EXPLANATIONS OF VARIANCE

¹Classified Salaries and Other Salary Costs – The increase is due to two transitional positions (1 FTE).

LEGAL SERVICES

ORGANIZATIONAL CHART – FISCAL YEAR 2015



TOTAL FTES: 17

FISCAL YEAR 2014 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 2014):

- Opened 102 administrative cases; closed 41 administrative cases; 40 subrogation files opened and reviewed - includes 20 subrogation intervention matters referred to the Office of the Attorney General (OAG).
- "Collection" amounts of approximately \$34,796 recovered, which includes Qualified Domestic Relations Order (QDRO) overpayments, annuity overpayments, fraud and return-to-work disability repayments; this does not reflect 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 11 subpoenas and collected \$200 in fees for those subpoenas where fees are billed.
- Participated in 52 depositions, represented ERS in 44 administrative appeals before the State Office of Administrative hearings; 3 prehearing conferences and 4 district court hearings (S.D. 1 and 2).
- Approved, rejected and/or reviewed 219 domestic relations orders and transfers and releases submitted to ERS under Chapter 804 of the Texas Government Code.
- Advised and assisted with the development and/or review of Requests for Proposals, and if applicable, drafted and negotiated related contracts in connection with the
 - Hedge fund portfolio performance and analytics reporting.
 - Texa\$aver international and large cap funds.
- Closed 11 private equity transactions for a total capital commitment of \$533,800,000 and £37,000,000.

Fiscal Year 2014 Accomplishments (continued)

- Closed 11 private market real estate transactions for total commitments of \$412,000,000 and €72,000,000 and oversaw redemptions from several open-ended funds in the aggregate amount of \$15,000,000.
- Closed 6 private hedge fund transactions for a total commitment of \$610,000,000 and oversaw a transfer of a commitment between existing funds.
- Closed 1 fixed income transaction for a total commitment of \$75,000,000, and provided advice regarding fixed income investments in private markets transactions.
- ERS submitted IRS determination letter requests to the Internal Revenue Service for the ERS plan, the Judicial Retirement System of Texas Plan II, and for the Texa\$aver 401(k) plan. These IRS determination letter requests will cover the period February 1, 2014 through January 31, 2019, as a part of the IRS Cycle C filing period.
- Obtained registration for one new agency service mark.
- Insurance subrogation amounts of approximately \$1,618,092 recovered for the Texas Employees Group Benefits Program (GBP).
- Assisted in the implementation of the required provisions of the Patient Protection and Affordable Healthcare Act and subsequent federal reconciliation bill (PPACA), as well as the HIPAA Omnibus Rule (which impacted the HIPAA Privacy, Security, Breach Notification and Enforcement Rules), in conjunction with the GBP.
- Advised and assisted with the development and/or review of Requests for Proposals, and if applicable, drafted and negotiated related contracts in connection with the:
 - Dental products and services providers (PPO, DHMO, and dental discounts services).
 - Insurance actuary review services.
- Assisted in the implementation of a new dental discount program in the GBP.
- Reviewed and revised the HealthSelect in-area and out-of-area Master Benefit Plan Documents and related Summary of Benefits and Coverage documents.
- Assisted in the implementation of the transition to the new third party administrator (TPA) for the disability income insurance plan.
- Reviewed and revised the qualified life event procedures and forms and implemented the related inquiry process.
- Reviewed the Dependent Eligibility Audit documents for implementation of new contract and audit process.
- Reviewed, negotiated and/or drafted 285 contracts and business-related documents.
- Advised and assisted with the development and/or review of Requests for Proposals, and if applicable, drafted and negotiated related contracts in connection with the:
 - Risk management and optimization models.
 - Hosted integrated voice response services.
 - Temporary staffing services.
 - Building exterior repairs.
 - Elevator maintenance and inspection.
 - Executive recruitment services.
- Received and responded to 216 Public Information Act requests; \$228 in fees were collected as permitted under applicable rules for providing the information.
- Completed 132 requests for legal services/opinions.
- Developed electronic records procedures and processing for administrative appeals.
- Successful upgrade to a new server regarding the Legal Services Division's software program, ProLaw.
- Published 2014 Laws Books and updated ERS Rules Books.
- Completed revisions of Trustee Rules for Chapters 67,71,73,75,77,81 and 85, and completed statutory rule reviews for Chapters 69, 71, 73, 75, and 77.
- Advised ERS management and assisted in implementing changes related to applicable federal and state laws and regulations.
- Supported management in analyzing, reviewing and implementing legislation passed during the 83rd Legislative Session, and advised management regarding its application to ERS.
- Coordinated ethics-related training of ERS staff provided at Board/Investment Advisory Committee workshop.

MAJOR FISCAL YEAR 2015 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 FY 2015.

- 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.
- Continue to engage the IRS on pending determination letter requests for the ERS plan, the Judicial Retirement System of Texas, Plan II, and for the TexaSaver 401(k) plan. These requests are pending and will cover the period of February 1, 2014 to January 31, 2019, as a part of the IRS Cycle C filing period.
- Coordinate the preparation of a Private Letter Ruling in connection with the potential creation of a new retirement system for law enforcement and correctional officers.
- 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 and evaluating the implementation of ERS' derivatives program.
 - Enhancing risk management processes.
 - Implementing board-approved asset allocations.
 - Supporting various new initiatives.

All the above Legal initiatives support Strategic Direction #1.

- Advise ERS management regarding the Patient Protection and Affordable Care Act and federal health care reconciliation legislation 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 (S.D. 1 and 2).
- 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:
 - Flexible benefits claims administrative services.
 - Modernized benefits administration.
 - Pharmacy benefits manager auditor.
 - Long term care.
 - Employer Group Waiver Plan (EGWP) auditor.
 - Other benefits-related services or coverage.

All the above Legal initiatives support Strategic Direction #2.

- 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.
- Advise and assist ERS management and the various divisions in connection with the drafting and negotiation of contracts and legal issues related to programs administered by ERS.
- Administer ERS' receipt of and responses to requests under the Public Information Act.
- Publish updates to the 2014 ERS Rules books, if necessary.
- 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.
- Hire in-house attorney with a specialty in investments and securities.

All the above Legal initiatives support Strategic Direction #4.

Fiscal Year 2015 Initiatives (continued)

- Advise and assist the Investments Division in the development of a business plan and legal analysis for providing third party asset management services, and provide legal analysis in connection with the development of a derivatives infrastructure. (Strategic Direction #1)
- Advise and assist the Human Resources Division with the bid and subsequent phased implementation of changes to Human Resources processes. (Strategic Direction #4)
- Advise and assist the Executive Office in the implementation of a space planning feasibility study, the development of a comprehensive GBP wellness program, in measuring internal customer service performance, and in the creation of a centralized location for shared agency policies. (Strategic Directions #3 and #4)
- Advise and assist the Information Systems Division with the development of a plan to expand the use of current technological solutions (Clarity, SharePoint), in the evaluation of PeopleSoft applications and PeopleTools versioning, with the development of a tracking solution for business needs, and in the expansion of the Business Intelligence Data Warehouse (BIDW) data content and usability to support analysis. (Strategic Direction #4)
- Advise and assist the Customer Benefits Division with the evaluation and recommendation of modernization of benefits administration. (Strategic Direction #4)
- Advise and assist the Benefit Contracts Division with the evaluation of current GBP condition management programs, and in coordinating reporting required to complete IRS Form 1095-B (Health Plan Reporting). (Strategic Direction #2)

MAJOR FISCAL YEAR 2015 OPERATIONAL PROJECTS

- Assist with business impact analysis for business continuity and disaster recovery plans. (Strategic Direction #4)
- Support the compensation study. (Strategic Direction #4)
- Assist Investments with RFP for ensuring that ERS' investment performance policies, procedures, and reporting conform with the Global Investment Performance Standards. (Strategic Direction #1)

LEGAL SERVICES FISCAL YEAR 2015 BUDGET

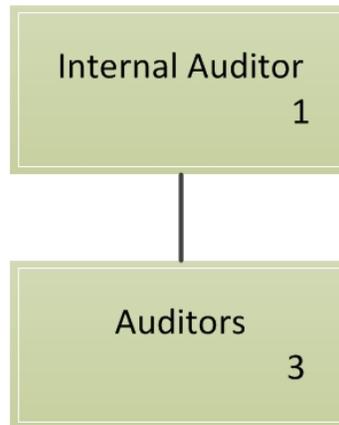
	FY 2014 BUDGET (A)	FY 2014 FORECAST (B)	FY 2015 APPROVED BUDGET (C)	CHANGE (C-B) (D)	EXHIBIT B
Classified Salaries ¹	\$ 1,909,642	\$ 1,801,338	\$ 1,955,593	\$154,255	Note 17
Other Salary Costs ¹	422,283	418,117	444,586	26,469	
Classified Salaries - Incent. Comp. Plan	151,267	151,267	237,104	85,837	Note 6 & 7 Note 12
Computer System Services	30,000	10,000	0	(10,000)	
Legal Services (Outside)	1,914,500	1,460,580	1,523,500	62,920	
Professional Services - Edu.	2,300	2,300	1,000	(1,300)	
Professional Services - Other	0	0	0	0	
Travel	5,200	5,200	2,450	(2,750)	
Supplies & Materials	75	225	150	(75)	
Reproduction Services	150	150	150	0	
Employee Training	3,445	17,945	4,735	(13,210)	
Subscriptions & Electronic Comms	27,353	26,943	28,821	1,878	
Membership Fees	3,750	3,995	3,705	(290)	Note 19
Classified Advertising	0	0	0	0	
Miscellaneous Expenses	11,725	16,725	24,100	7,375	
Other Contracted Services	900	900	500	(400)	
Equipment & Furniture	15	90	15	(75)	
Books/Reference Materials	250	610	250	(360)	
Computer Equipment	0	8,676	0	(8,676)	
Total Budget	\$ 4,482,855	\$ 3,925,061	\$ 4,226,659	\$ 301,598	
Full Time Equivalent Staff	17	17	17	0	

EXPLANATIONS OF VARIANCE

¹Classified Salaries and Other Salary Costs – The FY 2015 Approved Budget assumes full staffing, and includes the 2% legislative increase and the impact of FY 2014 staff merits and promotions.

INTERNAL AUDIT

ORGANIZATIONAL CHART – FISCAL YEAR 2015



TOTAL FTES: 4

FISCAL YEAR 2014 ACCOMPLISHMENTS

- Completed 7 planned engagements as part of the FY2014 Internal Audit Plan.
- Completed significant revisions to Internal Audit Manual.
- Implemented Audit Management Software for all audit engagements.
- Developed and completed Audit Management Software Utilization Manual.
- Developed and incorporated standard audit templates within audit software to ensure compliance with audit standards and improve efficiency.
- Coordinated and completed required external quality assurance review.
- Updated record retentions schedule to reflect current business requirements.
- Developed annual performance measures to evaluate internal audit function.
- Assisted with development of Internal Audit Director performance plan.
- Revised quarterly investment compliance procedure report for improve compliance with audit standards and communication of actual level of assurance provided.
- Developed and implemented audit customer satisfaction survey to obtain performance feedback.
- Participated on one quality assurance review at another state agency.
- Audit liaison on four external audit engagements including the FY2013 Financial Opinion Audit.

MAJOR FISCAL YEAR 2015 INITIATIVES

- Develop and conduct Quality Assurance and Improvement Program (QAIP).
- Assist with the development of a formalized fraud, waste and abuse framework including procedures.
- Evaluate quarterly investment compliance procedures to ensure relevant risk areas still addressed based on current ERS Investment policy and environment.

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

INTERNAL AUDIT FISCAL YEAR 2015 BUDGET

	FY 2014 BUDGET (A)	FY 2014 FORECAST (B)	FY 2015 APPROVED BUDGET (C)	CHANGE (C-B) (D)	EXHIBIT B
Classified Salaries ¹	\$ 335,129	\$ 285,312	\$ 375,034	\$ 89,722	
Other Salary Costs	80,804	73,672	92,467	18,795	Note 17
Financial Audit Services ²	146,300	0	150,000	150,000	Note 8
Audit Services - Other	147,677	140,000	140,000	0	Note 16
Actuarial Audit Services	0	31,000	0	(31,000)	
Professional Services - Edu.	120	120	60	(60)	Note 12
Travel	4,000	3,000	3,000	0	
Supplies & Materials	100	100	100	0	
Employee Training	3,250	3,250	4,000	750	
Subscriptions and Electronic Communications	21,000	21,000	21,000	0	
Membership Fees	1,310	1,000	1,120	120	
Classified Advertising	250	250	0	(250)	
Miscellaneous Expenses	120	120	60	(60)	
Equipment & Furniture	200	200	0	(200)	
Books/Reference Materials	500	500	1,000	500	
Computer Equipment	0	3,480	0	(3,480)	
Total Budget	\$ 740,760	\$ 563,004	\$ 787,841	\$ 224,837	
Full Time Equivalent Staff	4	4	4	0	

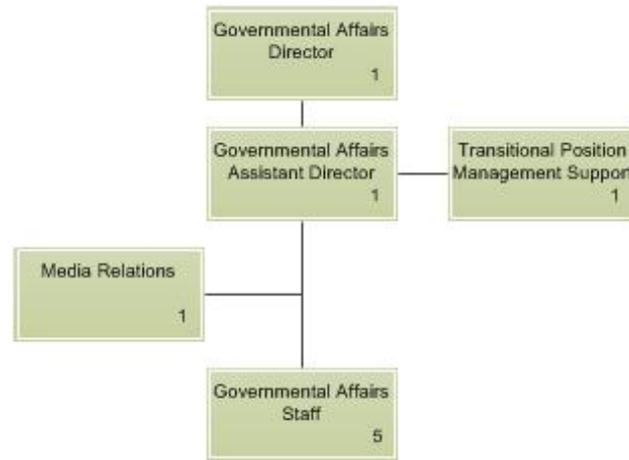
EXPLANATIONS OF VARIANCE

¹Classified Salaries and Other Salary Costs – The FY 2015 Approved Budget assumes full staffing, and includes the 2% legislative increase.

²Financial Audit Services – The increase is because the State Auditor's Office did not charge ERS for the FY14 financial audit.

GOVERNMENTAL AFFAIRS

ORGANIZATIONAL CHART – FISCAL YEAR 2015



TOTAL FTES: 9

FISCAL YEAR 2014 ACCOMPLISHMENTS

- Division Reorganization – Early in the fiscal year, the Communications and Research Division underwent reorganization, with about one-quarter of the division, including the director, splitting off to join the Government Affairs Division.
- Conducted the legislatively required studies on separate accounting of assets and liabilities of Law Enforcement and Custodial Office members. (Strategic Direction #1)
- Conducted the legislatively required study on modeling alternative health insurance plan design options, including a professional census of 135,000 active employees and 30,000 pre-65 retirees enrolled in the group insurance plan. (Strategic Direction #2)
- Updated legislators, staff and other stakeholders on the impact of retirement funding (Strategic Direction #1), insurance funding (Strategic Direction #2), and implementation of legislation (Strategic Direction #3). Created numerous custom presentations, handouts, testimony, briefing documents, and follow-up letters.
- Managed transition to and relationship with newly appointed retirement actuaries.
- Coordinated implementation of actuarial cost retirement reduction factor tables, including streamlined process for updating tables in the operating system. (Strategic Direction #1)
- Coordinated implementation plans for legislative changes to ERS programs resulting from the legislative session. (Strategic Direction #4)
- Provided expertise and information to interim legislative committees, oversight agencies, the State Auditor's Office, the Legislative Budget Board and the House Research Organization. (Strategic Direction #3)
- Coordinated all media relations for the agency and tracked developing news items for daily updates and monthly archive.

Fiscal Year 2014 Accomplishments (continued)

- Led the ERS Policy Committee and coordinated approval of new policies with the Executive Office. (Strategic Direction #4)
- Drafted amendments to the Texas Administrative Code for approval by the Board of Trustees. (Strategic Direction #4)
- Worked with the State Wellness Director and the State Worksite Wellness Advisory Board to promote worksite wellness initiatives. (Strategic Directions #2 and #3)
- Worked to develop ERS policy and reports on:
 - Wellness programs.
 - Employer data requests for insurance claims data.
 - Federal implications of HIPAA and ACA on ERS data reporting.
 - Economic impact of ERS membership data and program payments.
- Responded to constituent inquiries and helped to develop and manage complaint tracking system. (Strategic Direction #3)
- Designed an online centralized research library to provide updated data to ERS staff and designate responsibility for content updates.
- Developed winning award entry for the State and Local Government Benefit Administrators (SALGBA) Challenge Grand Prize for ERS' Patient Centered Medical Homes program.
- Continued outreach with private and public sector entities to benchmark ERS programs and share best practices.
- Streamlined and enhance functionality of electronic workspaces and automated workflow.
- Presented at stakeholder conferences and meetings.

MAJOR FISCAL YEAR 2015 INITIATIVES

- Lead the agency's legislative function:
 - Provide legislative briefings and maintain open communication with key state employee and retiree associations. (Strategic Direction #3)
 - Respond to inquiries from the House and Senate members and their staff, the Governor's office, the Lt. Governor's office, the Speaker's office, oversight agencies, association groups, and ERS staff. (Strategic Direction #3)
 - Coordinate the process for ERS' Legislative Appropriations Request with the Legislative Budget Board, Senate Finance, the House Appropriations Committee, system actuaries and internal staff. (Strategic Direction #1 and #2)
 - Develop options presuming funding and/or benefit design changes are not obtained, and other potential legislative suggestions to improve state programs or ERS operations. (Strategic Direction #1 and #2)
 - Coordinate and track information requests from legislative, oversight, media, and interest groups. (Strategic Direction #3)
- Advance engagement with strategic stakeholders:
 - Increase the number of face-to-face meetings, briefings and presentations to gain insight on competing interests. (Strategic Direction #3)
 - Work with legislators and staffers on individual constituent issues and concerns. (Strategic Direction #3)
 - Communicate impact of state programs to stakeholders. (Strategic Direction #3)
- Provide accurate and accessible research and program information:
 - Update insurance sustainability and benchmarking study. (Strategic Direction #2)
 - Update retirement sustainability study. (Strategic Direction #1)
 - Update state employee workforce study. (Strategic Directions #1 and #2)
 - Produce governance reports to legislative leadership and oversight agencies on ERS programs. (Strategic Direction #3)
 - Stay abreast of national and Texas trends and issues. (Strategic Direction #3)
 - Maximize 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. (Strategic Direction #4)

- Participate on the Group Benefits Program Wellness team to evaluate the current GBP condition management programs and develop a comprehensive GBP wellness program:
 - Plan and host the Capitol Health Fair for legislators and staffers providing various health screenings and showcasing wellness tools and resources offered by ERS programs. (Strategic Direction #2)
 - Assist the State Agency Wellness Director in planning the annual State Agency Wellness Conference and promoting worksite wellness initiatives at state agencies. (Strategic Direction #2)

MAJOR FISCAL YEAR 2015 OPERATIONAL PROJECTS

- Manage legislative tracking and analysis for all ERS-related legislation:
 - Lead the Legislative Analysis Work Group. (Strategic Direction #4)
 - Track potential legislation and work with staff to analyze operational and fiscal impact. (Strategic Direction #4)
 - Work with the Finance Division and actuaries to prepare cost estimates and actuarial impact statements on approved legislation. (Strategic Direction #4)
 - Initiate the agency's legislative implementation efforts. (Strategic Direction #4)
 - Coordinate preparation and distribution of actuarial cost impact statements by consulting actuaries. (Strategic Directions #1 and #2)
 - Support update to retirement and insurance message maps. (Strategic Direction #3)

GOVERNMENTAL AFFAIRS FISCAL YEAR 2015 BUDGET

	FY 2014 BUDGET (A)	FY 2014 FORECAST (B)	FY 2015 APPROVED BUDGET (C)	CHANGE (C-B) (D)	EXHIBIT B
Classified Salaries ¹	\$ 797,188	\$ 751,494	\$ 989,009	\$ 237,515	
Other Salary Costs ¹	180,864	190,370	241,000	50,630	Note 17
Professional Services - Edu.	100	100	400	300	Note 12
Professional Services - Other	45,000	45,000	60,000	15,000	
Travel	10,150	10,150	17,610	7,460	
Supplies & Materials	100	100	100	0	
Employee Training	4,725	4,725	10,785	6,060	
Subscriptions and Electronic					
Communications	8,380	8,380	4,930	(3,450)	
Membership Fees	9,035	9,035	8,975	(60)	
Contracted Temporary & Miscellaneous Expenses	0	100	100	0	
Contracted Services & Data Entry	0		28,500	28,500	
Equipment & Furniture	0	8,000	0	(8,000)	
Computer Equipment	0	3,963	0	(3,963)	
Total Budget	\$ 1,055,542	\$ 1,031,417	\$ 1,361,409	\$ 329,992	
Full Time Equivalent Staff	3	8	9	1	

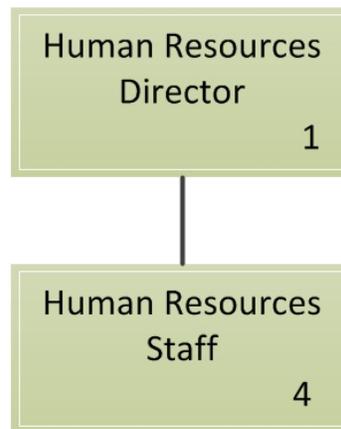
EXPLANATIONS OF VARIANCE

¹Classified Salaries and Other Salary Costs – The increase is due to one transitional position added, the assumption of full staffing and the addition of the 2% legislative salary increase.

Note: Strategic communications functions, staff and budget were transferred from the Communication and Research Division in October, FY 2014.

HUMAN RESOURCES

ORGANIZATIONAL CHART – FISCAL YEAR 2015



TOTAL FTES: 5

FISCAL YEAR 2014 ACCOMPLISHMENTS

- Conducted the Survey of Employee Engagement (SEE).
- Worked with division leadership to address training opportunities identified by the Survey of Employee Engagement. Leveraged skills and talent of ERS staff through employee and organizational development.
- Conducted extensive research and analysis of compensation data.
- Assisted the Investments Division with developing a career ladder for certain positions.
- Assisted the Office of Management Support (OMS) in developing and formalizing ERS' succession plan.
- Completed ERS' FY 2014-2016 Workforce Plan.
- Assisted in developing an agency-wide OMS program.
- Initiated the review process of the Incentive Compensation Plan including the Request for Proposals process.
- Conducted extensive research for the Human Resources Information Systems project for FY 2015.
- ERS' Personnel Policies and Procedural Systems were successfully certified by the Texas Workforce Commission – Civil Rights Division.
- Coordinated the ERS Picnic.
- Coordinated the State of the ERS and Brown Bag Breakfasts with Ann Bishop.
- Coordinated and hosted the 2014 Longevity Awards.
- Assisted the State Auditor's Office with the gathering of data for the Incentive Compensation Audit.
- Screened applications for the Executive Office Executive Assistant position and conducted the initial interviews.
- Drafted the scope for professional recruiting services to initiate a Request for Proposal.
- Participated in the Make a Difference (M.A.D.) initiative.
- Administered internal training for ERS staff and 48 training sessions were scheduled throughout the year:
 - Strategic Communication.
 - Emotional Intelligence in Leadership.
 - Emotionally Intelligent Teams.

Fiscal Year 2014 Accomplishments (continued)

- Performance Management.
- Crucial Communication Strategies.
- Cultural Competence: Embracing Diversity.
- Making the Transition from Employee to Manager.
- In Pursuit of Excellence.
- Effective Facilitation Skills.
- Keeping Your Cool, Even When Others Don't.
- Staying Motivated on the Job.
- Sandwich Generation.
- Advanced Nutrition.
- Parenting in the 21st Century.
- Write Right.
- Public Information Act.
- Records Retention Schedule.
- HIPAA.
- New Employee Orientation.
- Social Media.
- Basics of Medicare.
- Microsoft Project.
- Supported divisions to achieve greater staffing:
 - Posted 50 job vacancies.
 - Screened 508 State applications.
 - Processed 325 personnel actions with corresponding letters.
 - Processed 56 ICP payments with corresponding letters.
 - Processed 46 new hires.
 - On-boarded 44 contractors.
 - On-boarded 29 temporary workers.
 - Processed 34 separations.
 - Processed 22 internal transfers.
 - Managed 7 division reorganizations.
 - Worked on 5 PeopleSoft HRIS work orders.
 - Revised 75 job descriptions with follow up for signatures.
 - Entered 2,392 training transactions in the training database.
- Arranged 2014 Summer Internships.
- Accounted for all leave records for the GetFit Challenge.
- Revised 7 policies:
 - Standards of Conduct
 - Drug and Alcohol Abuse in the Workplace.
 - Solicitation on ERS Premises; Acceptance of Gifts.
 - Inappropriate Personal or Non-Official Use of ERS Property.
 - Multiple Employment with the State.
 - Social Media Policy.
 - General Working Conditions.
- Handled 14 Employee Relations matters.
- Responded to 3 unemployment benefits claims and appeals.
- Added three new telecommuters.
- Added 12 employees to the Compressed Workweek Schedule.
- Staff spent approximately 30+ hours cleaning up files from the S-drive.
- Participated in various salary surveys.

MAJOR FISCAL YEAR 2015 INITIATIVES

- Initiate a Request for Proposal for a Human Resource Information Management System and begin a phased-in implementation of the system.
- Initiate a Request for Proposal for a Compensation Study and conduct an analysis of the data.
- Develop and launch an internal customer service performance survey.
- Support creation of a centralized location for shared agency policies.

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

HUMAN RESOURCES FISCAL YEAR 2015 BUDGET

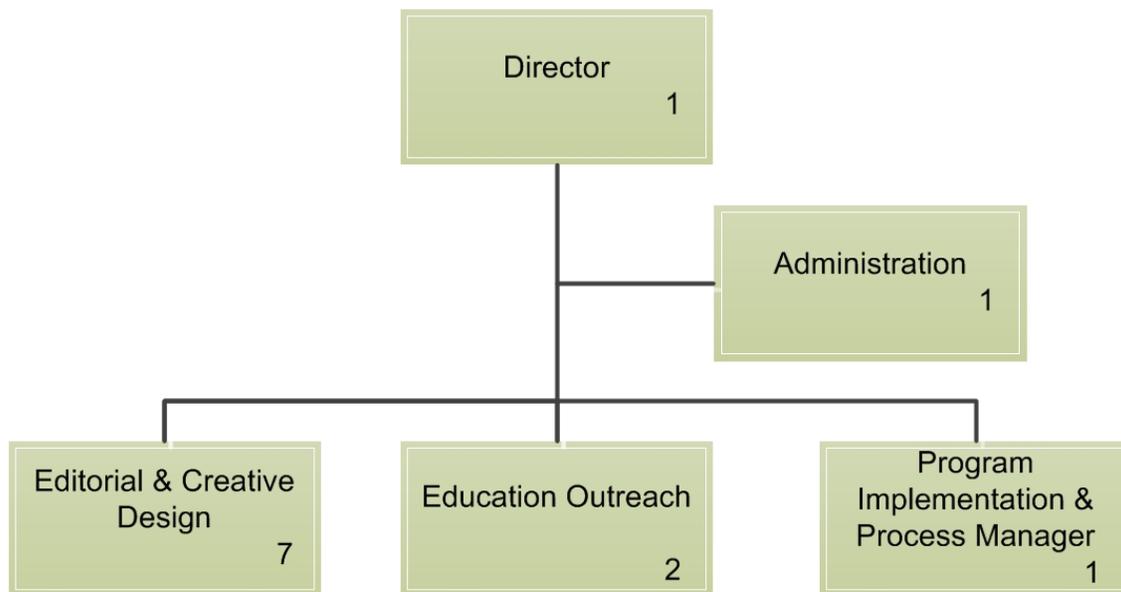
	FY 2014 BUDGET (A)	FY 2014 FORECAST (B)	FY 2015 APPROVED BUDGET (C)	CHANGE (C-B) (D)	EXHIBIT B
Classified Salaries ¹	\$ 317,110	\$ 313,775	\$ 404,448	\$ 90,673	
Other Salary Costs ¹	86,359	89,998	110,531	20,533	Note 17
Computer System Services	0	0	75,000	75,000	Note 15
Audit Services - Other	0	2,182	0	0	
Consulting Services	0	75,000	0	(75,000)	Note 15
Professional Services - Edu.	43,000	36,918	25,000	(11,918)	Note 12
Professional Services - Other	8,500	8,500	7,500	(1,000)	Note 14
Travel	6,500	6,500	6,300	(200)	
Supplies & Materials	750	750	750	0	
Employee Training	8,790	8,790	7,855	(935)	
Subscriptions and Electronic Communications	1,215	1,215	500	(715)	
Membership Fees	430	430	840	410	
Contract Temps & Data Entry	0	3,900	0	(3,900)	
Miscellaneous Expenses	7,500	7,500	7,500	0	Note 11
Equipment & Furniture	300	300	500	200	
Books/Reference Materials	500	500	0	(500)	
Computer Equipment	0	4,187	0	(4,187)	
Total Budget	\$ 480,954	\$ 560,445	\$ 646,724	\$ 86,279	
Full Time Equivalent Staff	4	4	5	1	

EXPLANATIONS OF VARIANCE

¹Classified Salaries and Other Salary Costs– The increase is due to the addition of one position for increased workload and the implementation of an automated system and the addition of the 2% legislative salary increase.

BENEFITS COMMUNICATIONS

ORGANIZATIONAL CHART – FISCAL YEAR 2015



TOTAL FTEs: 12

FISCAL YEAR 2014 ACCOMPLISHMENTS

- Division Reorganization – Early in the fiscal year, the Communications and Research Division underwent reorganization, with about one-quarter of the division, including the director, splitting off to join the Government Affairs Division. Under a new director, and with some new staff, the new Benefits Communications Division, with more focus on member communications, is making efforts to redistribute work among the team. In addition, a process manager has been named, and the division is embarking on formal efforts to further develop and document communications processes.
- ERS Website Refresh – The website continues to be ERS' primary mode of communicating with members, with approximately one million visitors viewing 10 million pages over a 12-month period. To ensure the site continues to serve ERS stakeholders well, Benefit Communications oversaw the execution of a redesign of the ERS public/member website, based on a comprehensive audit begun in fiscal year 2013. The project included new graphic design and navigation to make it easier for users to find the information most often sought by site visitors. The refreshed site also features an enhanced vendor sub-site that was redesigned with significant input from the Benefit Contracts, Investments, and Finance divisions. With the implementation of the refreshed design, the site's accessibility for users with disabilities has increased from 72% to 84%. Benefits Communications oversaw the entire refresh project, with significant support from Information Systems and an outside contractor. The Benefits Communications division determined the new design and features of the site based on research begun in FY13, which included focus groups of multiple users at various stages of their state careers and in retirement.

Fiscal Year 2014 Accomplishments (continued)

- Website Content Management System and Process – In tandem with the website refresh project, Benefits Communications led the development of a new website content management system and process that appropriately involves multiple ERS divisions to ensure current, accurate, and understandable content on the website, which houses approximately 1,500 pieces of information. The project included the development of processes and policies, as well as working with the website platform/software developer to train website content managers from across the agency.
- Medicare Preparation Education – In response to input from members and stakeholders, Benefits Communications recognized a need to provide members with guidance on how and when to apply for Medicare, and how the federal health program works with ERS-administered health benefits. Benefits Communications worked with information from the Texas Department of Insurance and the Centers for Medicare & Medicaid Services to develop a presentation that provides an overview of Medicare and topline information on how Medicare-eligible members can best utilize the program’s benefits in conjunction with ERS benefits. Since the program’s launch in fall 2013, the Benefits Communications Education Outreach team has hosted a number of Medicare Preparation sessions across the State. The sessions have been well received by members who are nearing Medicare eligibility, some of whom have commented that the information is very helpful.
- Communications for Implementation of the State of Texas Dental Discount Plan – Following its involvement in the process to select a discount dental plan administrator, 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 Annual Enrollment materials, as well as creating a brand name and logo. The division also developed ongoing newsletter articles and social media posts to familiarize members with the new offering.
- Communications for Dependent Eligibility Audit/Verification – Benefits Communications supported the implementation of a “gap” audit and ongoing verification of dependent eligibility for health insurance, overseeing the development and distribution of communications vehicles that include letters, emails, a secure website, and newsletter articles. Working with the third-party administrator, Benefit Contracts, Customer Benefits, and other divisions, Benefits Communications provided input on direct outreach about the audit/verification to almost 36,000 members (employees and retirees) in FY14.
- Award-winning Texa\$aver “What’s Your Excu\$e?” Campaign – Members of Benefits Communications provided significant input and guidance on the development of Texa\$aver’s “What’s Your Excu\$e” campaign to encourage participants to increase their contributions above the 1% default. The campaign kicked off in late FY13, but achieved full implementation in FY14 with multiple touch points, including an interactive website, outreach to benefits coordinators, group meetings at worksites, direct mail pieces, ongoing newsletter articles, giveaways, among other tactical marketing pieces. Since the campaign’s launch, more than 2,000 participants have raised their contributions above 1%, with an average contribution increase of 4.7%. To date, the campaign has won 13 marketing and communication awards, including a first place award in Special Projects from *Pensions and Investments* magazine.
- 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 launch monthly wellness webinars available to all state employees, retirees, and dependents with access to the internet. More than 300 people have joined the first three online events (which started in April 2014), and survey responses indicate that participants find the information useful.

Fiscal Year 2014 Accomplishments (continued)

In addition to the wellness webinars, Benefits Communications began including wellness articles in almost every edition of the coordinator and member newsletters. These are frequently the most clicked-on articles in the newsletters. We also instituted weekly “Wellness Wednesday” posts on our Facebook page, received input on wellness resources via survey to benefits and wellness coordinators, and worked on roll-out of United Healthcare’s “Lose and Win” weight loss program for GBP members, which is expected to launch in early fiscal year 2015.

- **Opt-out for Print Version of Your ERS Connection Retiree Newsletter – Benefits Communications** worked with the Information Systems Division and the Customer Benefits Division to develop a feature in ERS OnLine that allows retirees to choose to receive Your ERS Connection only by email. Currently, many retirees receive both mailed hard copies and emailed copies of the newsletter. By allowing them to opt out of the printed and mailed version, ERS is offering greater flexibility to our members, as well as reducing printing and mailing expenses. Since the opt-out feature became available in late calendar year 2013, more than 425 retirees have opted out of the mailed version. ERS will continue to communicate with them about the option.
- **Ongoing Education Outreach –** The new Medicare Preparation sessions were part of the division’s extensive education outreach efforts to ERS members. During the fiscal year, Benefits Communications has led or participated in 231 presentations and events across Texas, reaching nearly 20,000 active employees and retirees. 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; and monthly Ask ERS webinars.
- **Email Bulletins –** Through our GovDelivery email subscription service, Benefits Communications sent more than 130 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.
- **ERS LinkedIn Page –** The division helped expand ERS’ social media presence with the launch of its official LinkedIn page, primarily as a recruitment tool.
- **Support for Improved Presentations –** Benefits Communications supported the Investments Division in providing presentation training for its members. The division also engaged in efforts to improve presentations for the agency overall, including increased use of video and the licensing of Prezi, a presentation software that can make presentations more engaging.
- **Increased Use of Live Streaming and Videos –** In the past year, Benefit Communications has seen increased viewing of both live-streamed and recorded videos on the website. Live-streaming sessions have increased steadily, most recently with the May, 2014 Board of Trustees meeting, which resulted in four times the level of streaming activity as 11 months earlier.

In addition, views of videos on the ERS YouTube channel have increased, with almost 11,000 views of 39 ERS videos on topics including new employee orientation, vendor presentations, and member tutorials.

- **Internal Communications Enhancements with Increased Use of Video –** Benefits Communications supported a number of internal communications efforts with increased use of video, including for the annual State of ERS presentation, the annual service awards, and “Pursuit of Excellence” presentations for Investments and the Project Management Office. Benefits Communications began efforts to improve its ability to support ERS’ video needs, with requests for equipment and software and expansion of the video production team.

Fiscal Year 2014 Accomplishments (continued)

- Improvements to Communication Production Process – Following up on a formalized communication request and tracking process implemented in FY12, Benefits Communications worked with the Information Systems Division to develop a fully automated process that will allow for better management and more consistent tracking of communications job requests. As of June 2014, the automated process is still being tested, but we expect it to be implemented by the end of FY14.

MAJOR FISCAL YEAR 2015 INITIATIVES

- Use new technologies for stakeholder communications, such as whiteboard videos and Prezi. (Strategic Direction #3)
- Identify member stories and incorporate them into communications. (Strategic Direction #3)
- Conduct communications campaign for implementation of new flexible spending account program administrator, if necessary. (Strategic Direction #2)
- Conduct communications campaign for retirement education and the importance of the TexaSaver program. (Strategic Direction #1)
- Support ongoing TexaSaver “legacy” campaign to increase enrollment in 401(k) and/or 457 plans. (Strategic Direction #1)
- Develop communications strategy for comprehensive GBP wellness program and provide input on overall program. (Strategic Direction #2)
- Continue identification, development, and documentation of BCOM processes. (Strategic Direction #4)
- Explore methods and opportunities to increase participation in benefits coordinator communications. (Strategic Direction #3)
- Organize BCOM publications library and establish processes for maintenance. (Strategic Direction #4)
- Support legislative session and implementation of legislative changes. (Strategic Direction #3)
- Support enhancements of Investment’s public website. (Strategic Direction #3)
- Develop communications to support Form 1095-B and 1095-C reporting. (Strategic Direction #2)
- Provide editorial and graphic design support for updating the IBS insurance, retirement, and workforce reports. (Strategic Direction #3)
- Support review of external website/mobile applications. (Strategic Direction #4)
- Develop a communication strategy for non-contributing members. (Strategic Direction #3)
- Conduct communications campaigns for program changes, as needed. (Strategic Direction #3)
- Participate in measurement of internal customer service performance. (Strategic Direction #4)

MAJOR FISCAL YEAR 2015 OPERATIONAL PROJECTS

- Support summer and fall Annual Enrollment activities. (Strategic Direction #4)
- Support communications for the Board of Trustee election. (Strategic Direction #4)
- Support enhancements to the Investments’ public website. (Strategic Direction #3)
- Update retirement and insurance message maps. (Strategic Direction #3)
- Communicate the set dollar or percentage method options for contributing to the TexaSaver 457 plan. (Strategic Direction #1)
- Support communication efforts resulting from the actuarial valuation. (Strategic Direction #1)

BENEFITS COMMUNICATIONS FISCAL YEAR 2015 BUDGET

	FY 2014 BUDGET (A)	FY 2014 FORECAST (B)	FY 2015 APPROVED BUDGET (C)	CHANGE (C-B) (D)	EXHIBIT B
Classified Salaries	\$ 801,276	\$ 732,790	\$ 792,889	\$ 60,099	
Other Salary Costs	225,491	203,643	216,394	12,751	Note 17
Computer System Services	90,584	50,584	123,000	72,416	Note 4
Professional Services - Edu.	0	0	0	0	
Professional Services - Other	30,000	128,500	40,000	(88,500)	Note 20
Travel	45,300	52,600	58,400	5,800	
Supplies & Materials	500	500	500	0	
Rent on Office Equipment	0	0	0	0	
Rental of Space	18,200	18,200	18,200	0	
Reproduction Services	36,000	53,469	75,000	21,531	
Employee Training	20,894	20,894	22,918	2,024	
Subscriptions and Electronic Communications	2,895	2,895	3,400	505	
Membership Fees	925	925	1,470	545	
Contract Temps & Data Entry	47,000	20,000	0	(20,000)	
Classified Advertising	500	500	0	(500)	
Miscellaneous Expenses	3,500	3,500	4,100	600	
Other Contracted Services	24,750	18,000	31,000	13,000	Note 19
Equipment & Furniture	3,000	4,550	5,000	450	
Books/Reference Materials	900	900	1,000	100	
Computer Equipment	600	4,579	0	(4,579)	
Total Budget	\$ 1,352,315	\$ 1,317,029	\$ 1,393,271	\$ 76,242	
Full Time Equivalent Staff	17	12	12	0	

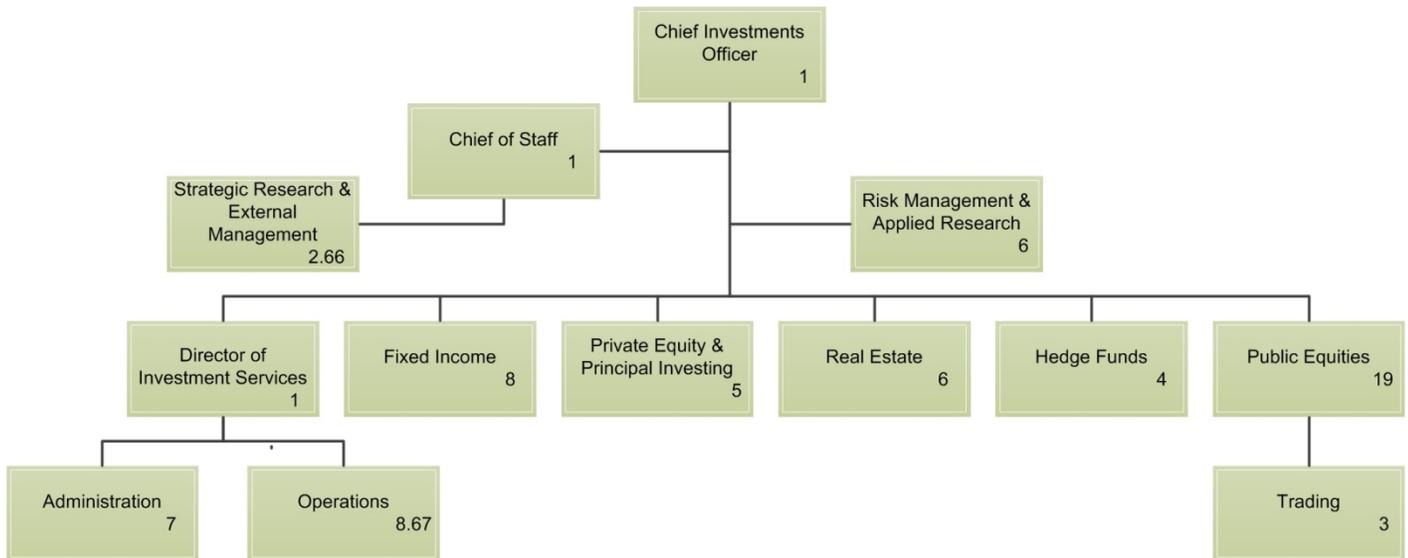
EXPLANATIONS OF VARIANCE

There are no significant variances.

Note: Strategic communications functions, staff and budget were transferred from the Communication and Research Division in October, FY 2014.

INVESTMENTS

ORGANIZATIONAL CHART – FISCAL YEAR 2015



TOTAL FTES: 72.33

FISCAL YEAR 2014 ACCOMPLISHMENTS

- Continued to accelerate transition to the new asset allocation targets as determined by the FY2012-FY 2013 Asset/Liability Study, including reaching full allocation of Absolute Return Portfolio (Hedge Funds).
- Continued to optimize the mix of internally managed and externally advised portfolios.
- Continued to enhance risk management processes.
- Enhanced middle and back office solutions.
- Supported legislation implementation and engaged more with Government Relations and Executive Office to pursue unfunded liability strategy development.
- Furthered branding of ERS and ERS' investment program through conference attendance and presentations at 33 conferences.
- Leighton Shantz, Director of Fixed Income, and the Fixed Income team were nominated by *Institutional Investor* magazine for the prestigious 2014 Investor Intelligence Award (*Fixed Income/Credit*).
- Tom Tull was nominated by *Institutional Investor* magazine as Chief Investment Officer of the Year.
- aiCIO magazine recognized Robert Lee III as a new generation of innovative hedge fund portfolio managers.
- The Real Estate team received the award for Best Indirect Strategy at the Real Estate Global Awards, 2014.
- Hosted local derivatives and math bond training and invited attendees from other Texas state pension funds saving over \$90,000 in training costs.

Fiscal Year 2014 Accomplishments (continued):

- Initiated implementation of derivatives program.
- Successfully rebranded emerging managers program as part of overall external management and continued outreach to industry organizations including NAA Texas and Wall Street Summits, AAAIM Texas Event, Opal Conferences, SEO and Toigo events.
- Expanded internship program to include outreach to diversity candidates.
- Continued to evaluate risk management technology across all asset classes.
- Continued to collaborate with Benefit Contracts on exploring changes to Texa\$aver fund offerings and assisting in RFP searches using investment tools for better analysis of investment manager performance and track records.
- Committed \$583 million to Private Equity through May 31, 2014, and closed on 8 funds and 3 co-investments.
- Committed \$326 million to Private Real Estate through May 31, 2014, and closed on 7 deals.
- Committed \$678 million to Hedge Funds through May 31, 2014, and closed on 6 investments. Four funds received additional commitment.
- Committed \$75 million to Private Fixed Income and closed on 1 deal as of May 31, 2014.
- Filled vacancies for a fixed income portfolio manager, infrastructure portfolio manager, private equity portfolio manager, operations financial analyst, a strategic research analyst, and an executive assistant.
- Continued to work on development of career path program for Investments employees, including communications, succession planning, overall team development, and leadership presentation and communication training.
- Completed Incentive Compensation Study in conjunction with Human Resources.
- Collaborated with agency Operations Support division for efficient space utilization to provide the agency with additional meeting spaces.
- Increased intra-agency and internal division communication through division brown bags and intra-agency information sessions.
- Produced fiscal year to date through June 30, 2014, gross rate of return for the pension fund of 13.54% compared to the benchmark return of 13.69%.

MAJOR FISCAL YEAR 2015 INITIATIVES

- Continue to strategically accelerate transition to new asset allocation. (Strategic Direction #1)
- Research and identify innovative ideas and the best practices for investment of the trust fund. (Strategic Direction #1)
- Assess current and future savings received by diligent negotiation of best economic deal terms along with emphasizing corporate governance in negotiations. (Strategic Direction #1)
- Continue to evaluate and improve equity, fixed income, private equity, infrastructure, real estate, and hedge fund strategies. (Strategic Direction #1)
- Leverage the existing Eagle PACE database to enhance risk management processes and tools. (Strategic Direction #1)
- Refine investing processes (flow from investment idea to execution) for best practices and to identify opportunities for efficiencies. (Strategic Direction #1)
- Continue to enhance division business processes for best practices and to identify opportunities for efficiencies. (Strategic Direction #1)
- Implement derivatives program. (Strategic Direction #1)
- Refine mix of internal and external management in the select pool to have external management complement the cost-effective internal management and continue to develop emerging manager program. (Strategic Direction #1)
- Continue to expand internship program, including diversity outreach. (Strategic Direction #1)
- Sponsor educational in-house conferences and promote strategic outreach to external stakeholders. (Strategic Direction #1)
- Continue to enhance middle and back office solutions. (Strategic Direction #1)
- Support legislative implementation. (Strategic Direction #1)

Fiscal Year 2015 Initiatives (continued):

- Leverage internal investment resources to enhance TexaSaver fund offerings in collaboration with the Benefit Contracts Division. (Strategic Direction #1)
- Further develop Investments Division career path development, communications, succession planning, overall team development, and management training. (Strategic Direction #1)
- Continue to brand ERS Investments and the agency. (Strategic Direction #1)
- Assist the Executive Director and the agency in improving the funded status and actuarial soundness of the pension plan. (Strategic Direction #1)

MAJOR FISCAL YEAR 2015 OPERATIONAL PROJECTS

- Conduct business impact analysis for business continuity and disaster recovery plans. (Strategic Direction #4)
- Support the compensation study. (Strategic Direction #4)
- Enhance the Investment's public website. (Strategic Direction #3)
- Ensure that ERS' investment performance policies, procedures, and reporting conform with the Global Investment Performance Standards. (Strategic Direction #1)

INVESTMENTS FISCAL YEAR 2015 BUDGET

	FY 2014 BUDGET (A)	FY 2014 FORECAST (B)	FY 2015 APPROVED BUDGET (C)	CHANGE (C-B) (D)	EXHIBIT B
Classified Salaries ¹	\$ 7,989,681	\$ 7,670,096	\$ 8,418,003	\$ 747,907	
Classified Salaries - ICP ²	2,384,528	2,155,632	2,667,568	511,936	
Other Salary Costs ¹	1,636,976	1,667,383	1,878,191	210,808	Note 17
Investment Advisory Fee	30,500	30,500	31,500	1,000	Note 1
Investment Consultants ³	1,978,474	1,877,745	1,999,693	121,948	Note 3
Computer System Services	30,000	322,900	230,000	(92,900)	Note 4
Consulting Services	0	7,500	35,000	27,500	Note 15
Professional Services - Edu.	6,000	28,534	11,000	(17,534)	Note 12
Professional Services - Other	25,000	30,000	35,000	5,000	
Travel	547,750	547,750	597,750	50,000	
Supplies & Materials	500	500	500	0	
Telecommunications	4,800	4,800	4,800	0	
Repair & Maintenance - Computer	62,500	82,750	103,000	20,250	
Employee Training	50,000	51,400	77,500	26,100	
Subscriptions & Elec. Comm. ⁴	5,454,206	5,111,719	5,578,729	467,010	Note 21
Membership Fees	63,465	67,185	77,700	10,515	
Contract Temps & Data Entry	60,000	110,000	109,000	(1,000)	
Classified Advertising	4,000	4,000	4,000	0	
Miscellaneous Expenses	4,271	24,521	24,525	4	
Other Contracted Services	4,000	4,000	4,000	0	
Investment Banking	925,000	935,000	990,000	55,000	Note 22
Equipment & Furniture	2,000	10,500	14,500	4,000	
Books/Reference Materials	5,000	4,500	5,000	500	
Computer Software	190,778	257,278	207,300	(49,978)	
Computer Equipment	43,002	43,002	33,752	(9,250)	
Telecommunications Equipment	1,000	5,311	1,400	(3,911)	
Total Budget	\$ 21,503,431	\$ 21,054,506	\$ 23,139,411	\$ 2,084,905	
Full Time Equivalent Staff	67	67	72.33	5.33	

EXPLANATIONS OF VARIANCE

¹Classified Salaries and Other Salary Costs – The increase is due to 7 new positions (5.33 FTEs) to support the new asset allocation approved by the board of trustees. The asset classes of real estate, fixed income, and private equity added analysts. The hedge fund added a portfolio manager. A Risk Management and Applied Research Portfolio Manager was added for implementation and monitoring for risk and asset allocation across all asset classes. Investment Operations added a financial analyst. The strategic research section also added an analyst. The FY 2015 Approved Budget also includes the legislative 2% increase, and the impact of merit and promotions and career ladder equity adjustments.

²Incentive Compensation – The FY 2015 budget assumes positive performance and achievement of policy benchmarks in FY 2014. The payout includes the first year payment for FY 2014 performance, the second year payout for FY 2013 performance and the third year payout for FY 2012 performance:

<u>Fiscal Year Payout</u>	<u>Amount to be Paid</u>	<u>Number of Staff</u>
FY 2012 (3 rd year payment)	\$ 386,264	36
FY 2013 (2 nd year payment)	\$ 731,171	53
FY 2014 (1 st year payment)	\$ 1,929,296 (estimated)	60
FY 2015 Budget	\$3,046,731	

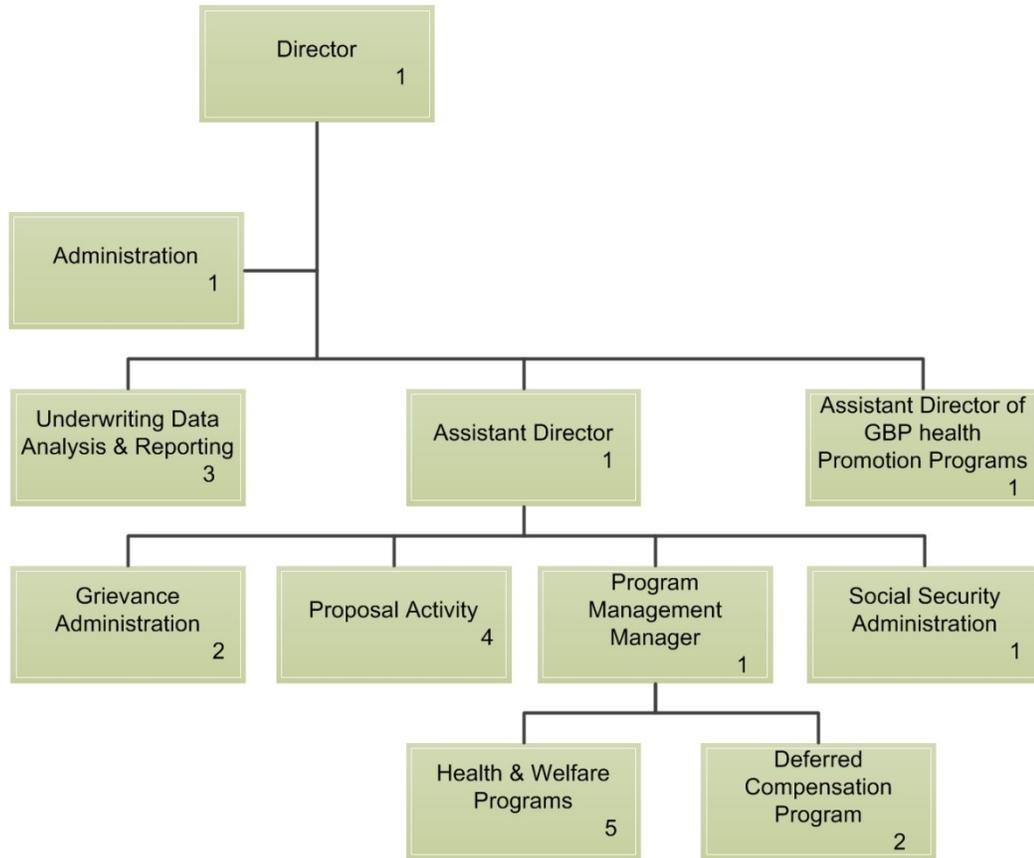
³Investment Consultants – Increase is due to renegotiated contracts with Real Estate and Private Equity Consultants.

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

- Increases in performance and attribution tools (Bloomberg, eFront, and FactSet) due to additional licenses and normal contract escalations.
- Barclay's: Receiving Barclay's data through Bloomberg and Yield Book for fixed income.
- Barra/RFP: contract increase.
- FactSet: 6 new workstations for additional staff.
- Global Investment Performance Standards – Request For Proposal: review of benchmark, composite, and performance reporting.

BENEFIT CONTRACTS

ORGANIZATIONAL CHART – FISCAL YEAR 2015



TOTAL FTES: 22

FISCAL YEAR 2014 ACCOMPLISHMENTS

- Expanded Group Benefits Plan offering to include a Dental Discount Program beginning September 1, 2014.
- Launched Dependent Eligibility Audit (DEA) which is a gap audit covering the time period since the previous comprehensive audit. This review and the associated plan savings will become ongoing effective July, 2014.
- Transitioned the administrator for the disability program.
- Awarded:
 - Three contracts for Dental Benefits.
 - Issued two Requests for Qualifications (RFQs) proposals for International Fund and Large Cap Funds for the Texa\$aver program.
 - Negotiated contract extension through August, 2017 for the Pharmacy Benefit Manager.
 - Negotiated contract extensions through August, 2015 for the Texa\$aver Administrator, Advisory, and Custodian contracts.
 - Negotiated an evergreen contract to Community First HMO.
- Milestone: Roth enrollments in the Texa\$aver program surpassed 3,100 participants with assets totaling over \$9 million.
- Developed customized grievance tracking dashboard reports to proactively identify and determine the causes of grievances to enable further negotiations to resolve issues for members.

Fiscal Year 2014 Accomplishments (continued)

- Retiree Drug Subsidy Program participation resulted in the receipt of RDS subsidies totaling \$4.7 million from RDS Subsidy program for program year 2014.
- Contracted with Part D Advisors to reopen RDS filings for Fiscal Years 2006 through 2011. Received a net of \$7 million in additional funds.
- Shared \$3.2 million with Patient centered Medical Homes of \$17 million saved in FY 2013.
- Completed the first year of Employer Group Waiver Plan (the federal subsidy) program with realized savings of \$40 million.
- “What’s your Excu\$e?” campaign for Texa\$aver’s received 12 national awards for outstanding communication strategy.
- Expanded convenience offerings: Mobile Application Capabilities for United Health Care and Payflex were launched.

MAJOR FISCAL YEAR 2015 INITIATIVES

- Coordinate the development and annual electronic filing of the 1095-B reporting (Health Plan Reporting) that is required under the Affordable Care Act and effective January 1, 2015. (Strategic Direction #2)
- Bid, evaluate, and install a new contract for the administration of the Flexible Spending Account (FSA) program beginning FY 2016. (Strategic Direction #2)
- Evaluate the financial impact of offering only a Medicare Advantage plan to eligible retirees. (Strategic Direction #2)
- Evaluate and install a new contract for the Large Cap Fund for the Texa\$aver Program. (Strategic Direction #2)
- Evaluate and install a new contract for the International Fund for the Texa\$aver Program. (Strategic Direction #2)
- Expand the plan contribution options for the Texa\$aver 457 plan to allow percentage (%) based contributions in addition to fixed dollar contributions. (Strategic Direction #1)
- Hire a wellness coordinator and develop a comprehensive Group Benefits Plan wellness strategy. (Strategic Direction #2)

MAJOR FISCAL YEAR 2015 OPERATIONAL PROJECTS

- Support annual and fall enrollment activities. (Strategic Direction #2)
- Support the business impact analysis for business continuity and disaster recovery plans. (Strategic Direction #4)
- Expand accountable practice models. (Strategic Direction #2)

BENEFIT CONTRACTS FISCAL YEAR 2015 BUDGET

	FY 2014 BUDGET (A)	FY 2014 FORECAST (B)	FY 2015 APPROVED BUDGET (C)	CHANGE (C-B) (D)	EXHIBIT B
Classified Salaries ¹	\$ 1,505,393	\$ 1,366,590	\$ 1,634,426	\$ 267,836	
Other Salary Costs ¹	377,210	355,834	421,132	65,298	Note 17
Computer System Services ²	0	172,000	0	(172,000)	
Actuarial Services	600,000	550,000	575,000	25,000	Note 5
Legal Services (Outside)	20,000	20,000	20,000	0	Note 6
Insurance Audit Services ³	400,000	230,000	418,000	188,000	Note 9
Audit Services - Other	80,000	80,000	85,000	5,000	Note 9
Consulting Services	44,000	20,000	25,000	5,000	
Professional Services - Edu.	1,200	1,200	0	(1,200)	Note 12
Professional Services - Other	0	0	0	0	
Travel	27,950	27,950	36,850	8,900	
Supplies & Materials	750	750	750	0	
Employee Training	30,820	15,000	36,335	21,335	
Subscriptions and Electronic Communications	2,099	3,099	2,099	(1,000)	
Membership Fees	5,750	5,750	5,625	(125)	
Contracted Temp. & Data Entry	0	18,500	0	(18,500)	
Classified Advertising	2,000	2,000	2,000	0	
Miscellaneous Expenses	4,100	3,700	4,100	400	
Books/Reference Materials	595	995	490	(505)	
Computer Equipment	0	8,124	0	(8,124)	
Total Budget	\$ 3,101,867	\$ 2,881,492	\$ 3,266,807	\$ 385,315	
Full Time Equivalent Staff					
	21	21	22	1	

EXPLANATIONS OF VARIANCE

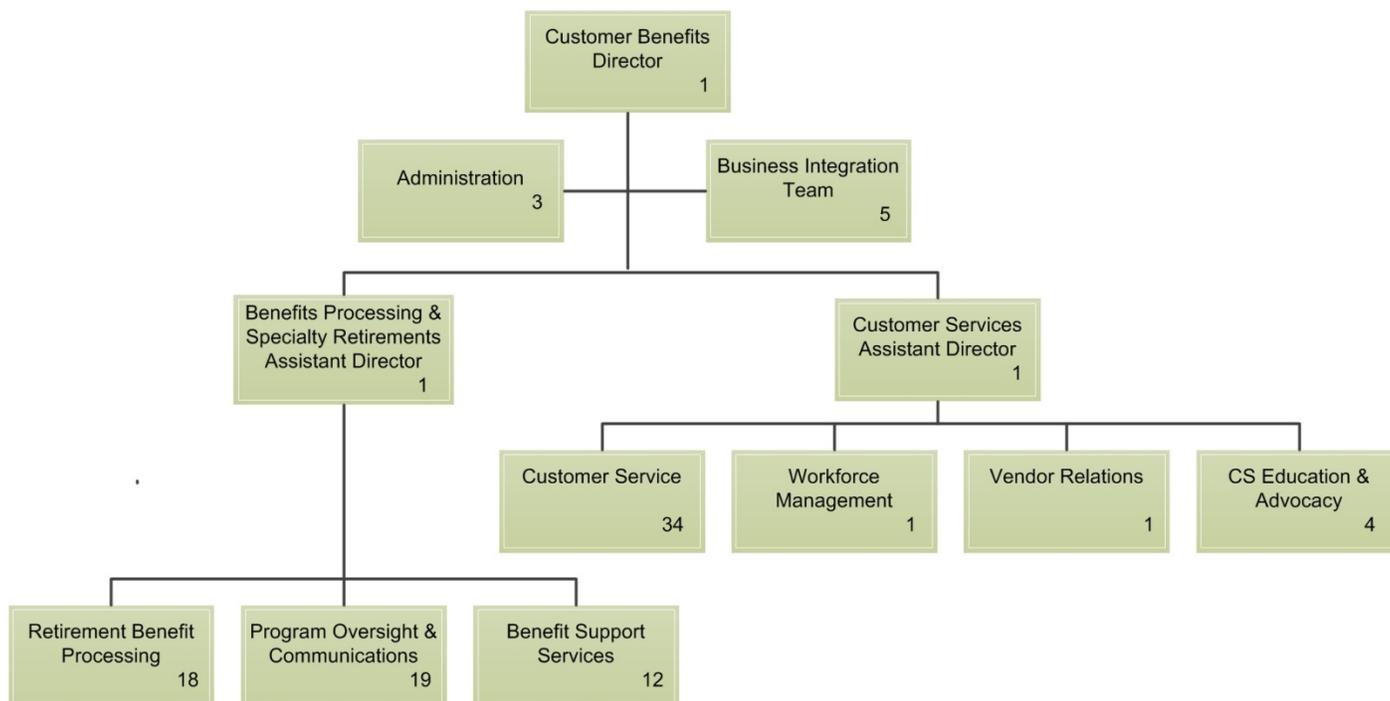
¹Classified Salaries & Other Salary Costs – The FY 2015 budget assumes a 5% vacancy rate, and includes the 2% legislative increase, and the impact of FY 2014 staff merits and promotions. It also includes the addition of a Wellness Director.

²Computer System Services – Business Intelligence Data Warehouse (BIDW) development costs expended in FY 2014.

³Insurance Audit Services – Audit claims in FY 2014 were paid with the FY 2013 refund. No refund is anticipated in FY 2015.

CUSTOMER BENEFITS

ORGANIZATIONAL CHART – FISCAL YEAR 2015



TOTAL FTEs: 100

FISCAL YEAR 2014 ACCOMPLISHMENTS

- Enhanced Customer Benefits member interactions, through:
 - Engaged 474,307 members through calls (165,790 at ERS and 308,517 at ACT).
 - Met with 5,368 visitors.
 - Responded to 23,000 emails.
 - Continued to actively promote the “3 Steps-to-Retirement” process and educate members on use of the self-service retirement estimator, resulting in members being better prepared for retirement planning.
- Reconciled and distributed 107,365 1099s to members and beneficiaries who were issued payments in calendar year 2013.
- Issued more than \$2.13 billion in payments for retirees, beneficiaries, and retirement account withdrawals.
- Processed more than 374,000 pieces of incoming and outgoing mail and more than 130,000 work list requests.
- Conducted Fall Enrollment for Medicare Eligible Retirees and Survivors to include the 100% tobacco certification of those members.
- Oversaw the customer service aspects of Summer and Fall Enrollment, including:
 - Assisted in identifying system requirements.
 - Tested and updating eligibility.
 - Coordinated with Benefits Communication Division to identify communication needs and revisions.
 - Supported and servicing our members at enrollment fairs across the state.
- Completed coordination of over 78,000 notices to noncontributing members providing account information, retirement estimates for vested members and information regarding interest rate change from 5% to 2%.

Fiscal Year 2014 Accomplishments (continued):

- Completed RFP process and implementation of new cloud-based IVR/ACD technology, which provides for a more stable system and less downtime for our members, along with flexibility in system management.
- Completed RFP process and engagement of a new staffing vendor, specializing in contact center staffing.
- Successfully completed the Taxpayer Identification Numbering System (TINS) conversion which was mandated by the Texas Comptroller of Public Accounts. The project assigned an 11 digit number to payees instead of using the payee's social security number for 146,243 payees.
- Coordinated with vendor and other ERS divisions to implement and monitor an audit of all newly added dependents since the 2011 dependent eligibility audit and implementation of the ongoing dependent audit.
- Processed salary increases and recalculation of annuity for JRSI and elected state official retirees and beneficiaries, which included verification of pay schedules for each annuitant and generation of notification letters.
- Worked with vendor to begin releasing retirees who turn age 65 for enrollment in the HealthSelect Medicare Rx plan.
- Implemented new legislation, including:
 - Account balance interest change from 5% to 2%.
 - New retirement rules for members hired on or after September 1, 2013.
 - Identified members that are grandfathered and are not subject to the new insurance contribution structure at retirement.
 - Reduced insurance waiting period from 90 days to 60 days.
 - Supported other various legislative changes through identification of rules, system changes, member notification and customer support.
- Implemented new actuarial factors:
 - Assisted in identifying requirements and rules.
 - Performed system testing.
 - Post migration testing.
 - Coordinated with other divisions for successful implementation.
- Successfully coordinated and migrated 115 projects by identifying requirements, conducting pre- and post-migration testing, coordinated with other divisions, and implementation.
- Provided support in the evaluation, selection and implementation of the new dental discount program.
- Supported implementation of the PeopleSoft Security Redesign project and played an integral part in coordinating the extensive testing for all internal staff with different levels and roles in utilizing the pension and benefits administration system.
- Implemented system enhancements in 11 areas to reduce manual processing in payroll, specialty retirement and survivor benefits.
- Revised 10 system generated member correspondence templates to make them more concise, clear and easy to understand.
- Conducted market analysis of employee salaries in the Retirement System Benefits Specialist and the Program Specialist groups and increased starting salaries to remain competitive with the private sector.
- Initiated integration of functionality within customer service through cross-training to expand multi-skill competencies among staff.
- Added additional responsibilities for front desk receptionist by training thoroughly in customer service and insurance processes. This allowed for increased/immediate one-stop service for members visiting ERS, which accommodated an additional 200 members to be serviced at the front desk.
- Participated in the Enterprise Risk Assessment analysis and updated the business continuity plan.

MAJOR FISCAL YEAR 2015 INITIATIVES

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

- Implement natural language functionality in the integrated voice response system to support better call routing and ease for customers. (Strategic Direction #4)
- Evaluate and recommend modernization of our benefits administration system; to include review of best business practices, selection of vendor and system to support the demands of customers, adding flexibility for the changing environment, and utilize a more up-to-date platform and system. (Strategic Direction #4)
- Implement the integration of the projected Texa\$aver monthly income at retirement on the ERS Statement of Retirement Benefits. (Strategic Direction #1)
- Analyze proposed legislation from the 84th legislative session for cost, impact, and possible implementation. (Strategic Directions #1 & #2).
- Participate in updating the Interim Benefits Study (IBS) retirement, workforce and insurance sustainability reports. (Strategic Directions #1, #2, & #3)
- Participate in the evaluation, selection and implementation of a new contract for Flexible Spending Account (FSA) administration; may include transportation account. (Strategic Direction #2)
- Participate in developing project and policy assessments based on the definition of ERS risk appetite. (Strategic Direction #4)
- Participate in the coordination of the 1095-B (Health Plan Reporting) and 1095-C (Employer Reporting). (Strategic Direction #4)
- Support the expansion of targeted communication of the Texa\$aver defined contribution plan value to members. (Strategic Direction #1)
- Work closely with Benefits Communication in developing a communication strategy for non-contributing members. (Strategic Direction #3)
- Support and participate in process improvements, efficiencies, and business environment changes:
 - Develop plan to expand the use of current technologies. (Strategic Direction #4)
 - Implement tracking solutions system for business needs within ERS. (Strategic Direction #4)
 - Create a centralized area for shared agency policies (Strategic Direction #4),

MAJOR FISCAL YEAR 2015 OPERATIONAL PROJECTS

- Reconcile and distribute 1099 R's to retirees, beneficiaries, survivors, and refunding members and introduce additional self-service functionality. (Strategic Direction #4)
- Prepare and conduct annual and fall enrollment activities. (Strategic Direction #2)
- Work with Information Systems and Finance to implement identified pension system improvements. (Strategic Direction #4)
- Support and participate in the business impact analysis for the business continuity and disaster recovery plans. (Strategic Direction #4)
- Support internal and external audits in requests for data, processes, procedures and reporting. (Strategic Direction #4)
- Assist with auditing publications for increased use, understanding, and cost effectiveness. (Strategic Direction #3)
- Support the evaluation of PeopleSoft applications and PeopleTools versioning. (Strategic Direction #4)

CUSTOMER BENEFITS FISCAL YEAR 2015 BUDGET

	FY 2014 BUDGET (A)	FY 2014 FORECAST (B)	FY 2015 APPROVED BUDGET (C)	CHANGE (C-B) (D)	EXHIBIT T B
Classified Salaries ¹	\$ 4,482,742	\$ 4,058,671	\$ 4,545,154	\$ 486,483	
Other Salary Costs ¹	1,413,152	1,368,951	1,544,116	175,165	Note 17
Medical Services	69,100	69,100	67,600	(1,500)	Note 2
Computer System Services ²	250,000	250,000	700,000	450,000	Note 15
Consulting Services	0	0	0	0	Note 15
Professional Services - Edu.	15,598	11,000	0	(11,000)	Note 12
Travel	20,900	30,900	46,399	15,499	
Supplies & Materials	2,000	1,000	2,200	1,200	
Telecommunications ³	180,000	162,000	320,348	158,348	
Reproduction Services	0	0	1,800	1,800	
Employee Training	30,240	23,070	60,511	37,441	
Subscriptions and Electronic Communications	36,535	37,160	15,521	(21,639)	
Membership Fees	12,553	12,000	1,893	(10,107)	
Contract Temps & Data Entry ⁴	113,744	293,744	100,000	(193,744)	
Classified Advertising	1,200	1,200	1,200	0	
Miscellaneous Expenses	1,060	5,060	2,998	(2,062)	
Other Contracted Services	1,012,732	1,114,027	1,050,084	(63,943)	Note 18
Equipment & Furniture	3,200	21,850	3,000	(18,850)	
Books/Reference Materials	705	705	720	15	
Computer Equipment	0	24,000	35,975	11,975	
Total Budget	\$ 7,645,461	\$ 7,484,438	\$ 8,499,519	\$1,015,081	
Full Time Equivalent Staff	98	98	100	2	

EXPLANATIONS OF VARIANCE

¹Classified Salaries and Other Salary Costs – The FY 2015 Budget assumes a higher staffing rate than experienced in FY 2014. Two positions were added to support the modernization of ERS' benefits administration system. Also included in the FY 2015 budget is the 2% legislative increase, and the impact of merits and promotions given in FY 2014.

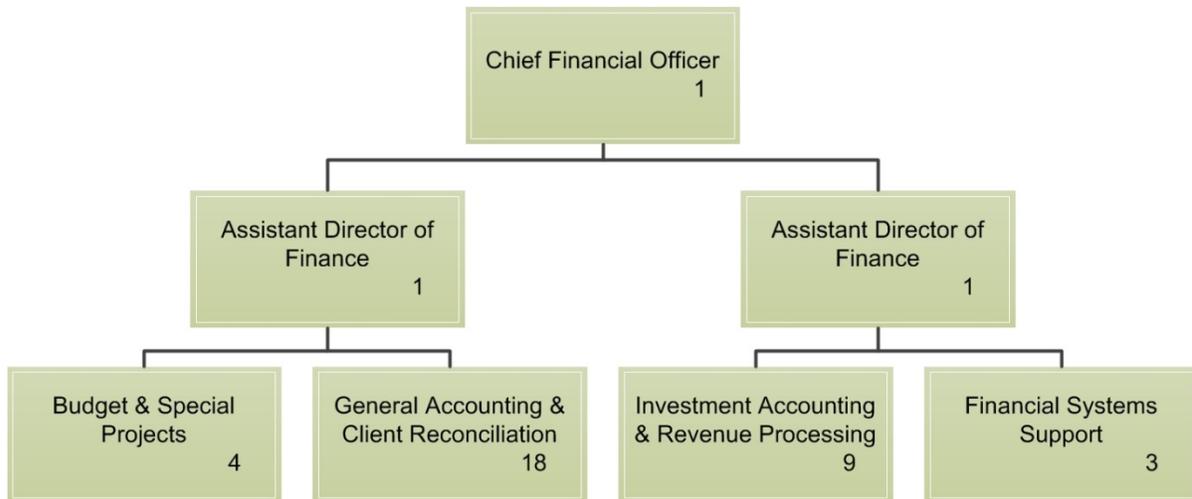
²Computer System Services - Increase due to the first phase of the Modernization of Benefits Administration (MBA) project beginning in FY 2015. The project also includes services for an independent validation and verification oversight. ERS will also be conducting a user study to recommend options for the retirement self-service utilization.

³Telecommunications Services – The increase is due to the increase in services resulting from the implementation of the new Hosted Integrated Voice Response (IVR)/Automated Call Distribution (ACD) system. IVR/ACD services include agent and supervisor licenses for ERS Contact Center staff and the Contact Center Overflow vendor, more robust support from the IVR vendor, a Workforce Management and Quality Monitoring platform.

⁴Contracted Temps & Data Entry – If necessary in FY 2015, budget to be funded with salary lapse.

FINANCE

ORGANIZATIONAL CHART – FISCAL YEAR 2015



TOTAL FTES: 37

FISCAL YEAR 2014 ACCOMPLISHMENTS

- Coordinated the development and implementation of improved SharePoint technology to efficiently collaborate with the entire agency for training requests and administrative budget preparation.
- Managed and coordinated the audit and completion of the FY 2013 CAFR for ERS, and received the Certificate of Achievement for Excellence in Financial Reporting from the Government Finance Officers Association for the 25th consecutive year.
- Supported ERS strategic planning process, prepared the Fiscal Year 2015 Administrative Operating Budget, monitored division budgets and processed over 85 budget transfers.
- Completed Phase I of the major agency project (Road Map Item) for the pension system enhancement:
 - Prior Period Adjustments and Reinstatement of Account enhancements completed.
 - Mapped the 90 Day Waiting Period and Additional Service Credit (ASC) Service Purchases to the financial system.
 - Zeroed Out Account Balances/Account Balance Adjustment processes were improved.
 - Assisted with testing and implementation of legislative changes with financial process impacts.
- Assisted with the preparation of the Comptroller's TINS conversion that was implemented in March 2014.
- Prepared Legislative Appropriation Request.
- Supported enhancement of Clarity timekeeping reporting for improved internal management resource information.
- Coordinated purchasing for 18 large solicitations and more than 1,100 purchase requisitions.

Fiscal Year 2014 Accomplishments (continued):

- Conducted the following estimated financial transactions for FY 2014:
 - Revenue Processing
 - Processed over 31,000 registered checks.
 - Implemented new procedures for better internal controls to ensure proper posting of payments.
 - Processed over 18,000 warrants and received over 2,000 service purchase checks.
 - Purchasing
 - Coordinated 18 large solicitations.
 - Coordinated approximately 1100 purchases.
 - Coordinated 178 purchase order revisions.
 - General Accounting
 - 2,128 invoices for administrative expenses were processed totaling \$20.4 million.
 - 655 invoices for insurance claims totaling \$2.7 billion have been processed.
 - 754 travel vouchers totaling \$560,000 were processed.
 - 373 W-2 forms for agency employees were processed for the calendar year of 2013.
 - 4,270 W-2 forms for employees with disabilities were processed for the calendar year of 2013.
 - Client Reconciliation
 - \$63.5 million in TexFlex claims were processed.
 - 4,002 service purchases totaling \$42.5 million were processed.
 - 78 tests were performed on the PeopleSoft Pension system.
 - Investment Accounting
 - Created new pools to reflect the new asset allocation and transferred all securities from the old composites into the new composites.
 - Developed a system-to-custodian reconciliation to reconcile net asset values for performance purposes.
 - Continued to add new portfolios in the hedge fund management pool, created a new hedge fund pool, transferred over securities and added a new hedge fund portfolio.
 - Reconciled over 100 alternative investments funds on a monthly and quarterly basis.
 - Implemented a management fee monthly reconciliation between eFront and the custodian.
 - Reconciled 16 investment pools and reconciliations of more than 100 portfolios, each international currency traded by ERS (approximately 55) is reconciled monthly.
 - Monthly 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 administration wiring information between ERS and the custodian.
 - Reconciled daily cash settlements of the buying, selling, income and expense swept from the custodian bank to ERS.

MAJOR FISCAL YEAR 2015 INITIATIVES

- Coordinate and prepare cost estimates for the 84th Legislative Session including Actuarial Valuation Reports. (Strategic Direction #1)
- Support the modernization of benefits administration project.
- Support the FY 2014 Financial Audit. (Strategic Direction #4)
- Prepare the FY 2014 Comprehensive Annual Financial Report for ERS. GASB 67 and 68 will be implemented in coordination with the Comptroller, the State Auditor's Office and the Actuary. (Strategic Direction #4)
- Enhance Investment Reconciliation and Reporting System. Ntier web-based software will be implemented to improve the reconciliation process for census data sent to the actuaries, cash reconciliations, and net asset value reconciliations. (Strategic Direction #4)
- Continue work on expanding processes for alternative investments programs. Investment Accounting will support the implementation of a derivatives program. (Strategic Direction #4)

Fiscal Year 2014 Initiatives (continued):

- Support the Agency Strategic Plan development. (Strategic Direction #4)
- Work with Governmental Affairs to develop options presuming funding and/or benefit design changes are not obtained, and other potential legislative suggestions to improve state programs or ERS operations. (Strategic Directions #1 and #2)

MAJOR FISCAL YEAR 2015 OPERATIONAL PROJECTS

- Consult with Information Systems on the evaluation of PeopleSoft applications and PeopleTools versioning. (Strategic Direction #4)
- Work with the Information Systems Division and Customer Benefits to implement identified pension system improvements. (Strategic Direction #4)
- Assist with the business impact analysis for business continuity and disaster recovery plans. (Strategic Direction #4)
- Coordinate and prepare the FY 2016 Operating Budget for ERS. (Strategic Direction #4)
- Update the Legislative Appropriation Request. (Strategic Direction #4)
- Prepare the FY 2014 Comprehensive Annual Financial Report (CAFR). (Strategic Direction #4)
- Assist with the preparation of the FY 2014 actuarial valuation. (Strategic Directions #1 and #2)
- Coordinate the preparation and distribution of actuarial cost impact statements by the consulting actuaries. (Strategic Directions #1 and #2)

FINANCE FISCAL YEAR 2015 BUDGET

	FY 2014 BUDGET (A)	FY 2014 FORECAST (B)	FY 2015 APPROVED BUDGET (C)	CHANGE (C-B) (D)	EXHIBIT B
Classified Salaries ¹	\$2,267,885	\$2,068,748	\$2,384,951	\$316,203	
Other Salary Costs ¹	631,128	609,016	747,377	138,361	Note 17
Computer System Services ²	0	340,500	80,000	(260,500)	
Actuarial Services	507,253	507,253	575,000	67,747	Note 5 & 13
Audit Services - Other	0	0	0	0	
Professional Services - Edu.	6,700	3,000	14,700	11,700	Note 12
Travel	10,705	10,200	12,000	1,800	
Supplies & Materials	1,800	2,400	2,400	0	
Rental of Space	1,600	1,600	1,600	0	
Employee Training	18,871	18,871	18,871	0	
Subscriptions and Electronic Communications ³	221,361	21,361	33,361	12,000	
Membership Fees	3,205	8,205	8,235	30	
Contract Temps & Data Entry	0	4,295	0	(4,295)	
Classified Advertising	800	800	800	0	
Miscellaneous Expenses	2,965	2,965	5,205	2,240	
Interest-Delayed Payments	200	15	200	185	
Equipment & Furniture	1,600	7,000	1,600	(5,400)	
Books/Reference Materials	1,400	1,400	1,400	0	
Computer Equipment	0	4,640	0	(4,640)	
Telecommunications Equipment	0	0	600	600	
Building Improvements	0	28,000	0	(28,000)	
Total Budget	\$3,677,473	\$3,640,269	\$3,888,300	\$248,031	
Full Time Equivalent Staff	37	37	37	0	

EXPLANATIONS OF VARIANCE

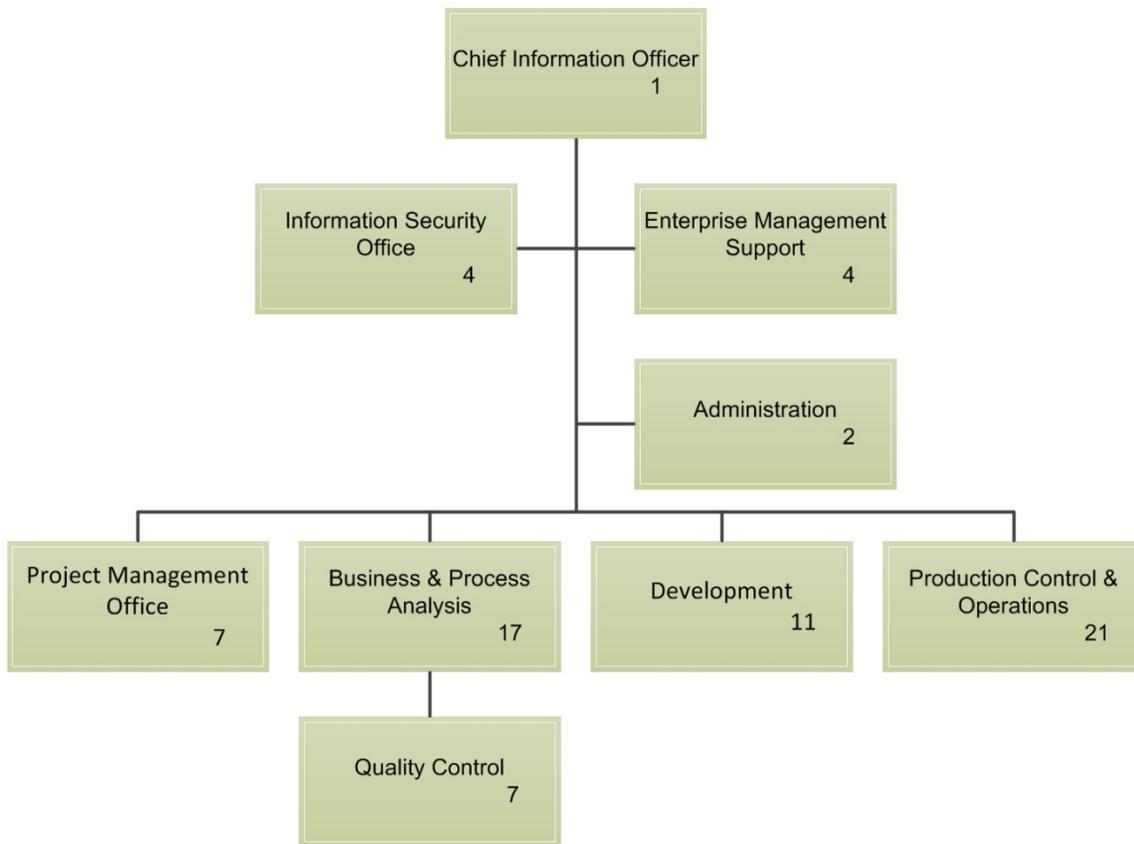
¹Classified Salaries and Other Salary Costs – Increase is due to division reorganization for succession planning, the legislative increase, career ladder equity adjustments, and merits and promotions.

²Computer System Services – The decrease is a result of FY 2014 implementation of the Investment Accounting Database Warehouse to be used by Investment Operations and Investment Accounting for reconciliation and reporting purposes.

³Subscriptions and Electronic Communications – The decrease is due to FY 2014 implementation of the Investment Accounting Database Warehouse used by Investment Operations and Investment Accounting for reconciliation and reporting purposes.

INFORMATION SYSTEMS

ORGANIZATIONAL CHART – FISCAL YEAR 2015



TOTAL FTES: 74

FISCAL YEAR 2014 ACCOMPLISHMENTS

- Delivered the upgrade to the Pro-Law application in June for the Legal Division. Additional functionality to include integration with Microsoft Outlook in July.
- Completed the PeopleSoft Security Access redesign to revise PeopleSoft security role assignments and the role/user assignment process to improve management of access privileges to data and processes.
- Worked with Benefits Communications to enable members the ability to sign up and receive electronic delivery of ERS newsletters.
- Implemented changes to the Texas Identification Number System (TINS) as required by the Texas Comptroller of Public Accounts. The changes were designed to improve personal information security by moving to a TINS identification number for financial transactions within the state of Texas.
- Continued SharePoint implementation with rollout of centralized research library and several Finance processes including the agency-wide training request system and the redesigned annual budget and CAFR sites. Redesigned Operations Support SharePoint site as a pilot for an agency template.
- Simplified the required Actuarial Factors refresh using OPA to convert from a database table refresh to calculations using a single Life Expectancy table. The changes reduced effort for this and future refreshes.
- Assisted Investment's enhancements of cloud based investments database supporting fund management reporting.

Fiscal Year 2014 Accomplishments (continued):

- Implemented website usability enhancements involving extensive web navigation, page layouts, content management process and an upgrade of supporting systems and software.
- Completed multiple changes supporting Tier III pension, insurance, and interest rate regulations enacted during the 83th Legislative Session.
- Implemented the Dental Discount Plan for Annual Enrollment.
- Enhanced data and reporting capability of the Business Intelligence Data Warehouse. Added several data sets to enable requested business reporting. Improved system processing from multiple days to several hours enabling business partners timely access to the data.
- Designed encryption at rest solution to simplify management of encryption keys for partners exchanging files with ERS via secure file transfer protocol.
- Identified and contracted firm to conduct an analysis of the benefits administration processes. Analysis of business and system process will drive Request for Proposal supporting modernization of benefits administration.
- Increased agency bandwidth capacity to support agency growth in video, multi-media, data and communication needs.
- Installed next generation storage devices to support enterprise data encryption at rest initiatives.
- Improved security stance by extending hard drive encryption to include desktop computers.
- Upgraded the KnowledgeLake scanning solution supporting scanning and processing of documents to SharePoint.
- Changed mobile devices to improve security and international service.
- Conducted fall enrollment as a standard enrollment process for Medicare eligible participants.
- Developed Dependent Eligibility Audit as a continuous monthly process.
- Improved annual disaster recovery testing. Ran more tests and completed them in less time than in previous years. Tested use of network attached storage (NAS) device for VMware environment saving about 12 hours.
- Implemented backup of Cisco device configurations further improved disaster recovery ability.
- Improved the inclement weather notification process. Dedicated scripts, process changes and dedicated staff line for inclement weather notification and routing to voice mail from the inclement weather notification voice mail box.

MAJOR FISCAL YEAR 2015 INITIATIVES

- Develop a plan to expand the use of current technological solutions (Clarity, SharePoint). The focus will be on formalizing the use of these tools, enhancements based on feedback focusing on specific areas of expansion, and improving system management and focusing on specific areas of expansion. (Strategic Direction #4)
- Expand the content and functionality of the Business Intelligence Data Warehouse (BIDW) to continue growth in use throughout the agency as appropriate; update and upgrade the infrastructure and architecture to better position for the agency's future reporting needs. (Strategic Direction #2)
- Implement Tracking solutions for business needs. Bid and procure a robust tracking tool that ERS can apply to multiple business needs for case tracking that shortens time to build, provides the appropriate security for HIPAA data and allows business users to manage business criteria with minimal system changes. (Strategic Direction #4)
- Evaluate PeopleSoft applications and PeopleTools versioning. This effort encompasses the development of a strategy to mitigate approaching technological constraints (both hardware and software) for the current systems running PeopleSoft applications within ERS. (Strategic Direction #4)

MAJOR FISCAL YEAR 2015 OPERATIONAL PROJECTS

- Work with the Customer Benefits and Finance Divisions to implement identified pension system improvements. (Strategic Direction #4)
- Support annual and fall enrollment activities. (Strategic Direction #4)
- Conduct business impact analysis for business continuity and disaster recovery plans. (Strategic Direction #4)
- Support the Form 1099-R project and introduce additional self-service functionality. (Strategic Direction #4)
- Support the preparation of the actuarial valuation. (Strategic Directions #1 and #2)
- Support the implementation of the TexasSaver 457 plan contribution change. (Strategic Direction #1)

INFORMATION SYSTEMS FISCAL YEAR 2015 BUDGET

	FY 2014 BUDGET (A)	FY 2014 FORECAST (B)	FY 2015 APPROVED BUDGET (C)	CHANGE (C-B) (D)	EXHIBIT B
Classified Salaries ¹	\$ 5,436,566	\$ 5,312,472	\$ 5,900,715	\$ 588,243	
Other Salary Costs ¹	1,348,013	1,342,271	1,528,335	186,064	Note 17
Computer System Services ²	2,425,550	2,803,046	3,212,745	409,699	Note 4
Professional Services - Educational	10,000	3,570	26,000	22,430	Note 12
Professional Services - Other	75,000	50,000	60,000	10,000	
Travel	48,400	24,525	39,800	15,275	
Supplies & Materials	3,300	3,090	4,400	1,310	
Telecommunications ³	325,700	310,826	427,300	116,474	
Repair & Maint. Equip & Furniture	38,000	23,000	30,000	7,000	
Repair & Maintenance - Computer	972,420	957,645	1,049,089	91,444	
Rent on Computer Software & Equipment	684,730	564,306	570,185	5,879	
Employee Training	86,300	57,088	79,900	22,812	
Subscriptions and Electronic Communications	83,000	75,245	78,200	2,955	
Membership Fees	6,400	6,110	6,400	290	
Classified Advertising	1,500	3,415	3,000	(415)	
Miscellaneous Expenses	12,700	5,933	11,350	5,417	
Other Contracted Services	10,500	9,400	70,500	61,100	
Equipment & Furniture	2,000	1,899	5,000	3,101	
Books/Reference Materials	4,500	2,494	3,500	1,006	
Computer Software ⁴	344,050	619,385	415,896	(203,489)	
Computer Equipment	6,000	119,576	48,922	(70,654)	
Telecommunications Equipment	23,000	45,880	124,123	78,243	
Building Improvements	9,000	17,500	14,000	(3,500)	
Total Budget	\$11,956,629	\$12,358,676	\$13,709,360	\$1,350,684	
Full Time Equivalent Staff	71	72	74	2	

EXPLANATIONS OF VARIANCE

¹Classified Salaries & Other Salary Costs – The FY 2015 Budget includes the legislative increase, merit and promotions and career ladder equity adjustments. One new project manager position was added and one systems analyst was added to support agency projects and initiatives.

²Computer System Services – The increase in the FY 2015 Budget includes additional skilled resources to support strategic projects including:

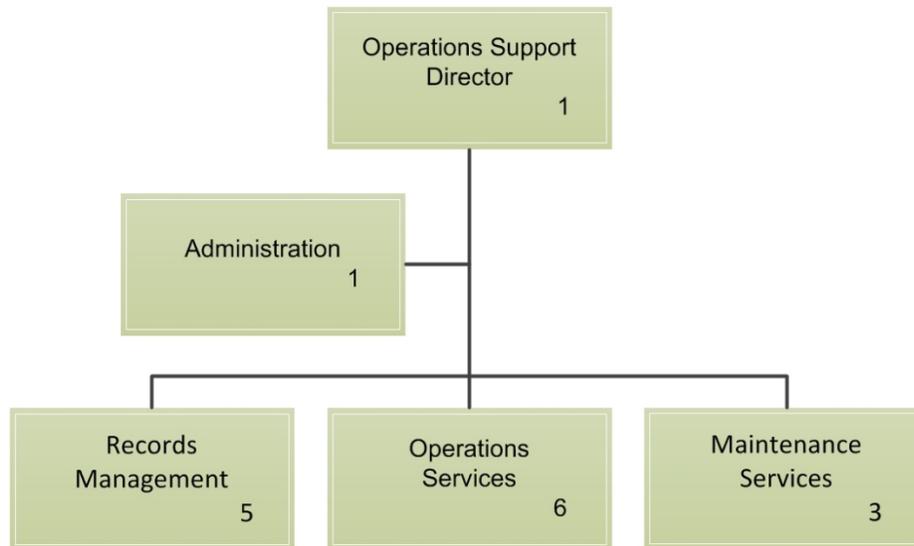
- Modernization of Benefits Administration (MBA).
- Investment Accounting & Reporting Systems.
- Improve Business Intelligence Data Warehouse (BIDW) Reporting and Transfer of Knowledge.

³Telecommunication Services – Increase is due to an increase in mobility services and a doubling of bandwidth to support ERS business needs.

⁴Computer Software – The decrease is because of two high end application purchases in FY 2014. The Complaint Tracking System and the FireAmp Security application were one-time purchase expenditures.

OPERATIONS SUPPORT

ORGANIZATIONAL CHART – FISCAL YEAR 2015



TOTAL FTES: 16

FISCAL YEAR 2014 ACCOMPLISHMENTS

- Building Maintenance and Repair:
 - Repaired/Replaced parapets.
 - Added UV lighting to air handler system to improve indoor air quality.
- Improved energy efficiency by reducing consumption:
 - Replaced exterior lighting with LED lighting.
 - Replaced water heaters.
 - Replaced sprinkler system with drip line irrigation for water conservation.
- Expanded Records Management training and consulting program:
 - Provided customized training for division Records Coordinators and Assistant Records Coordinators.
 - Continued to work with classification and tagging of records in SharePoint.
- Obtained recertification of agency records retention schedule.
- Statistics for major accomplishments are listed below:
 - Records Management – services provided to internal agency customers:
 - Scanned approximately 180,000 images of incoming mail regarding members.
 - Scanned approximately 118,500 images of confidential information: PHI, Disability, Legal and Grievance case files.
 - Shredded approximately 24,000 pounds of confidential records.
 - Operations Services: Over 1,570,000 pieces of mail processed.
 - Maintenance Services: Over 3,150 work orders completed.

MAJOR FISCAL YEAR 2015 INITIATIVES

- Improve energy efficiency by reducing consumption:
 - Repair/replace cooling tower parts.
- Continue Records Management training and consulting program:
 - Provide additional training to Records Coordinators and Assistant Records Coordinators.
 - Continue to work with classification and tagging of records in SharePoint.
 - Develop additional training classes on Records Management topics.
- Complete space planning feasibility study.

MAJOR FISCAL YEAR 2015 OPERATIONAL PROJECTS

- Support annual and fall enrollment activities.
- Conduct business impact analysis for business continuity and disaster recovery plans.
- Distribute 1099-Rs to retirees, beneficiaries, survivors, and refunding members.

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

OPERATIONS SUPPORT FISCAL YEAR 2015 BUDGET

	FY 2014 BUDGET (A)	FY 2014 FORECAST (B)	FY 2015 APPROVED BUDGET (C)	CHANGE (C-B) (D)	EXHIBIT B
Classified Salaries	\$ 722,696	\$ 714,968	\$ 756,005	\$ 41,037	
Other Salary Costs	256,099	265,133	277,919	12,786	Note 17
Consulting Services ¹	4,000	4,000	204,000	200,000	Note 10
Professional Services - Edu.	200	200	200	0	Note 12
Professional Services - Other	8,000	8,000	8,000	0	
Architectural Services	10,000	10,000	10,000	0	
Travel	1,800	1,800	1,800	0	
Supplies & Materials	227,225	232,725	237,225	4,500	
Telecommunications	0		0	0	
Utilities	313,000	300,000	313,000	13,000	
Repair & Maint. Equip & Furniture	13,900	13,900	13,900	0	
Repair & Maintenance - Computer	9,000	8,250	8,000	(250)	
Repair & Maint. Land & Building	350,620	374,155	352,035	(22,120)	
Rent on Office Equipment	263,742	263,742	314,342	50,600	
Rental of Space	23,040	23,040	22,040	(1,000)	
Reproduction Services	35,000	28,000	35,000	7,000	
Employee Training	13,620	12,620	11,669	(951)	
Subscriptions and Electronic Communications					
Subscriptions & Elec. Comms.	200	200	0	(200)	
Membership Fees	1,925	1,925	1,925	0	
Contract Temps & Data Entry	0	0	0	0	
Insurance	53,000	70,000	53,000	(17,000)	
Classified Advertising	1,000	1,000	0	(1,000)	
Miscellaneous Expenses	14,745	16,960	16,210	(750)	
Postage ²	696,061	851,270	951,849	100,579	Note 19
Other Contracted Services	43,950	43,950	43,950	0	Note 19
Security Guard Services	1,500	1,500	1,500	0	
Equipment & Furniture	21,500	26,500	21,500	(5,000)	
Books/Reference Materials	300	300	300	0	
Computer Equipment	1,240	17,739	2,524	(15,215)	
Building Improvements ³	120,000	250,000	0	(250,000)	
Total Budget	\$ 3,207,363	\$ 3,541,877	\$ 3,657,893	\$ 116,016	
Full Time Equivalent Staff	16	16	16	0.00	

EXPLANATIONS OF VARIANCE

¹Consulting Services – The increase is due to a Space Planning Feasibility Study.

²Postage – The increase is a result of the following:

- Benefit Communications increased ERS Connection mailings from 4 to 8 pages.
- Benefit Communications increased the Personal Enrollment Statements to 12 pages.
- Trustee Election Ballot mailings – postage has increased 11% since the last election.

³Building Improvements – The decrease is due to replacing and repairing the parapets on the building during FY 2014.



EXHIBIT A

Employees Retirement System of Texas

FULL TIME EQUIVALENT COMPARISON FY 2014 VS. FY 2015

DIVISION	FY 2014 BUDGET (A)	FY 2014 FORECAST (B)	FY 2015 APPROVED BUDGET (C)	ADDITIONAL REQUESTS (C-B)
Executive Office	7	6	7	1
Legal	17	17	17	0
Internal Audit	4	4	4	0
Governmental Affairs	3	8	9	1
Human Resources	4	4	5	1
Benefits Communication	17	12	12	0
Investments	67	67	72.33	5.33
Benefit Contracts	21	21	22	1
Customer Benefits	98	98	100	2
Finance	37	37	37	0
Information Systems	71	72	74	2
Operations Support	16	16	16	0
Agency Total	362	362	375.33	13.33

EXPLANATION OF ADDITIONAL POSITION REQUESTS

Executive Office – Two positions for part of the year (one FTE) to support transition and succession planning.

Government Affairs - One position to support transition and succession planning.

Human Resources – One new position to support increased workload and an automation initiative.

Investments – Seven new positions (5.33 FTEs) Note: one current position was repurposed and 2 of the new positions are effective on January 1, 2015.

- One position to support the ongoing development of the maturing Real Estate program.
- One Fixed Income position to examine credit quality of various issuers & credit opportunities.
- One position to broaden current Hedge Fund due diligence process across other asset classes.
- One private equity position to focus on labor reporting, systems management and valuation processes.
- One position for implementation, monitoring reporting systems for risk/asset allocation across all asset classes, along with implementation of new strategies involving cash and derivatives instruments.
- One position to assist with analysis on the universe of managers for the Strategic Research/External Management program.
- One Investment Operations position to focus on development of the derivatives program.

Customer Benefits – Two positions were added to support the modernization of the benefits administration system.

Information Systems – One project manager was added to support agency strategic initiatives and projects. One Systems Analyst was added to support agency SharePoint users.

EXHIBIT B

NOTES FOR CERTAIN CONTRACTS AND OTHER COSTS RELATED TO FY 2015 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 appointed member per meeting plus actual travel expenses for 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 FY 2015 are based on current contract fee schedules. The market value of global equities is assumed to grow at a rate of 8% and fixed income is assumed to grow between a range of 2.3 %– 5.2% 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	
JPMorgan International	2,736,587	
JP Morgan Emerging	1,801,820	
Templeton Institutional	2,722,910	
Fountain Capital	539,508	
Legato	652,527	
Leading Edge	583,552	
Urdang	745,078	
Barrow Hanley	1,550,084	
Lazard	2,097,089	
Omega	4,683,690	
Small/Mid Cap	800,000	
Total	<u>\$ 21,368,120</u>	(estimated)

Notes for Certain Contracts Related to the FY 15 Operating Budget (continued)

- Note 4 This item includes application development & support for legislative changes, investments system management, system programming support, external website usability, and 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 and a space planning feasibility study.
- 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 consulting services benefitting agency Proposed projects.
- Note 16 This item is for contract auditors to assist with internal audits.
- Note 17 This item excludes retiree insurance allocation. For FY 2015, it is estimated that 159 former ERS employees have retired from the agency. The average annual insurance rate is \$7,842.48 resulting in a total retiree insurance amount of \$1,223,426.88 for ERS. Retiree insurance is a state requirement with no impact on current operations. 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 \$1,039,084.
- 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 custody fees.

EXHIBIT C

2015 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 proposed timeline.

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

AGENCY MAJOR PROJECTS											
SEP	OCT	NOV	DEC	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG
Coordinate Form 1095 Issuance for ACA Reporting											
Conduct Space Planning Feasibility Study											
Develop Comprehensive GBP Wellness Program											
Modernization of Benefits Administration											
Evaluate Current GBP Condition Management Programs											
Expand BIDW Data Content and Usability											
Measure Internal Customer Service Performance											
Evaluate and Define Business Plan for Third Party Asset Management											
Bid, Evaluate, and Install New Contract for FSA Administration											
Define Enterprise Risk Appetite Model											

EXHIBIT D

FISCAL YEAR 2015 INVESTMENT RELATED BUDGET – OTHER DIVISIONS

	FY 2014 BUDGET (A)	FY 2014 FORECAST (B)	FY 2015 APPROVED BUDGET (C)	CHANGE (C-B) (D)
Legal Services -				
Classified Salaries	\$ 510,962	\$ 510,962	\$ 537,153	\$ 26,191
Other Salary Costs	105,076	105,076	150,403	45,327
Class Sal - Incent. Comp. Plan	151,267	151,267	237,104	85,837
Legal Services (Outside)	1,745,000	1,213,104	1,408,500	195,396
Finance Division -				
<i>Investment Accounting</i>				
Classified Salaries	472,777	371,291	406,097	34,806
Other Salary Costs	123,932	103,961	113,707	9,746
Subscriptions-Investment Accounting System	200,000	200,000	0	(200,000)
Internal Audit -				
Classified Salaries	80,800	37,033	86,448	49,415
Other Salary Costs	18,645	10,369	24,205	13,836
Information Systems -				
<i>Business Analysis</i>				
Classified Salaries	58,600	61,515	72,384	10,869
Other Salary Costs	15,171	17,224	20,268	3,043
Computer System Services	0	0	292,400	292,400
Total Budget	\$ 3,482,230	\$ 2,781,803	\$ 3,348,670	\$ 566,867
Full Time Equivalent Staff	14	14	14	0

EXPLANATIONS OF OTHER DIRECT INVESTMENT RELATED COSTS

The FY 2012 Asset/Liability Study resulted in a more diverse portfolio which increased the complexity and workload for the agency.

Legal Services supports the Investments program through three dedicated positions, plus the General Counsel's expertise 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 endure 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 has one dedicated position. Information Systems has dedicated computer system service contractors for the Investment program.

EXHIBIT E

BUDGET TREND ANALYSIS (FY 2007 - FY 2015)

	FY 2007	FY 2008	FY 2009	FY 2010
Investment Budget*	\$11,890,740	\$13,526,617	\$18,047,598	\$17,541,548
Non-Investment Budget	\$31,136,745	\$33,403,082	\$34,476,618	\$32,740,008
Total Agency Budget	\$43,027,485	\$46,929,699	\$52,524,216	\$50,281,556
Investment Expenditure (Forecast)	\$8,398,163	\$11,209,437	\$12,842,652	\$14,434,808
Investment Advisory Fees	\$18,085,109	\$18,737,220	\$10,856,970	\$11,914,627
Investment Management Fees (PriE/PRE/HF/EM/Infstr/PubE/FI)**	\$1,367,156	\$6,077,860	\$12,788,968	\$22,856,620
Number of Investment Deals (PriE/PRE/HF/EM/Infstr/PubE/FI)**	3	2	12	11
Investment Division FTE's	45	52	56	56
Direct Investment-related Positions in Other Divisions	6	8	12	12
Non-Investment FTE's	263	267	272	272
Agency FTE's	314	327	340	340
Net Position (Pension Funds)	\$24,460,276,281	\$22,384,273,034	\$19,938,287,862	\$ 20,474,228,057
Total Return	13.88%	-4.58%	-6.60%	6.65%
Benchmark Return	12.06%	-5.51%	-7.55%	6.80%
Over (Under) Benchmark Return	1.82%	0.93%	0.95%	-0.15%
Num. of ERS Accounts Maintained	200,300	208,068	215,578	223,617
Num. of Active ERS Members	133,036	135,171	141,779	143,051
Num. of ERS Retirees & Beneficiaries	71,060	73,266	76,335	79,922
Overall Customer Service Interactions (at both ERS & ACT beginning in FY 2012)	336,355	314,918	319,705	357,336

*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.

FY 2011	FY 2012	FY 2013	FY 2014	FY 2015
\$20,875,560	\$20,441,208	\$20,798,738	\$24,985,661	\$26,488,081
\$31,618,124	\$31,869,079	\$34,291,114	\$35,647,289	\$39,896,609
\$52,493,684	\$52,310,287	\$55,089,852	\$60,632,950	\$66,384,690
\$16,314,888	\$17,491,733	\$18,605,600	\$23,649,809	
\$12,661,642	\$13,335,197	\$17,911,859	\$20,204,491	\$21,368,120
\$35,333,591	\$27,173,045	\$33,013,164	\$37,973,966	
15	21	25	40	36
59	59	61	67	72.33
12	12	12	14	14
271	271	273	281	289
342	342	346	362	375.33
\$22,201,131,244	\$22,869,229,941	\$23,967,596,439	\$26,296,144,024 (as of 6/30/2014)	
12.58%	8.22%	10.07%	15.6% (as of 6/30/2014)	
12.02%	8.11%	9.52%	15.4% (as of 6/30/2014)	
0.56%	0.11%	0.55%	0.20%	
228,059	225,042	231,110	231,350 (as of 5/31/14)	
137,856	133,227	134,227	134,999 (as of 5/31/14)	
84,083	88,447	92,042	92,542 (as of 5/31/14)	
388,904	520,803	517,805	524,913 (estimated for FY 2014)	

** 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 (FY 2007 - FY 2015)

FY 2007

- Added staff to equity and fixed income teams.
- Added investment tools for portfolio management and oversight.
- Established infrastructure to begin private equity investing.
- Broadened securitized real estate portfolio to include international stocks.

FY 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.

FY 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.

FY 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.

FY 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.

FY 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.

FY 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.

FY 2014

- Implement a third retirement tier with new rules, actuarial tables, and various program changes as required by legislation.
- Document separate accounting and actuarial calculations for LECOS participants as required by legislation.
- Implement a new 0.5% retirement contribution from agency appropriations as required by legislation.
- Implement 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.
- Implement a second insurance enrollment period in the fall for retirees.
- Add 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).
- Add 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.

FY 2015

- Support the 84th Legislative Session with briefings and communication, response to inquiries, open communication, collaboration on the process for appropriations and funding, and respond timely and accurately to requests for cost estimates on proposed legislation.
- Work closely with the legislature to develop solutions for the pensions' unfunded liabilities.
- Implement features of the Federal Affordable Care Act including system changes for requirements including tobacco reasonable alternative option requiring retroactive refund to the beginning of the plan year. The Act will also require detailed reporting.
- Work with a vendor to administer the ERS Board of Trustee election. The election occurs in odd fiscal years only.
- Promote and expand the deferred compensation program through evaluation and enhancement of the Texa\$aver Program. Efforts are underway to expand plan contribution options for the 457 plan to allow percentage based contribution. There are also plans to evaluate and install new contracts for the large Cap and International Fund options in Texa\$aver.
- Hire a wellness coordinator and develop a comprehensive Group Benefits Plan wellness strategy.

- Bid, evaluate & install a new contract for the administration of the Flexible Spending Account beginning in FY 16.
- Evaluate the financial impact of offering a Medicare Advantage plan to eligible retirees.
- Continue development of the investment program infrastructure to provide the best access, fees, and terms with external managers. Investments is implementing a derivatives program and expanding alternative investments.
- Increase the investment-related staffing by seven positions (5.33 FTEs). The asset classes of real estate, fixed income, and private equity added analysts. Investment Operations added a financial analyst to focus on derivatives. The strategic research section also added an analyst. Hedge Funds added a portfolio manager, and Risk Management and Applied Research added a portfolio manager.
- Enhance agency performance and accountability by evaluating and recommending solutions for modernization of our benefits administration systems to include review of best business practices, selection of vendors & systems to support the demands of our customers, adding flexibility for changing environments, and utilizing a more up-to-date platform for system operations. Customer Benefits added two positions to support the project and Information Systems added two positions, a project manager and a systems analyst to support SharePoint.
- Add a position to support transition and succession planning in Executive Office and Government Affairs.
- Complete the space planning feasibility study.
- Implement the new Government Accounting Standards Board (GASB) Statements 67 & 68.
- Initiate a proposal for a compensation study and a new Human Resource Information Management System and begin a phased-in implementation. Human Resources added a position to support agency growth and the system implementation.



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