

Fiscal Year 2014

AT A GLANCE



ERS
EMPLOYEES RETIREMENT
SYSTEM OF TEXAS

A Few FY14 Accomplishments



Lowered total HealthSelect charges by \$5.8 billion through vigilant cost management programs.



Achieved 14.7% gross one-year rate-of-return for ERS Retirement Trust Fund.



Reduced HealthSelect's pharmacy costs by \$6 million a month in the face of a 250% increase in compound drugs costs.



Implemented a Dependent Eligibility Verification program, **saving the State Employees Group Benefits Program approximately \$8.7 million in a single year.**



Increased the HealthSelect provider network by 17% to ensure that participants in all areas of the state have access and choice when using HealthSelect benefits.



Implemented the State of Texas Dental Discount Plan, providing an affordable option and **access to more than 6,700 dental providers.**



Helped 2,000 employees increase Texa\$aver retirement savings contributions with "What's Your Excuse?" campaign.



Kept administrative costs of the trust fund low—only about 0.3% of the fund's total value—primarily by managing the majority of the portfolio in-house and carefully negotiating contracts with external managers and investors.

Retirement

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

- **\$26.2 billion trust fund**
- **14.7% gross** (14.58% net of fees) one-year rate-of-return on investments
- **134,728 contributing members**
(ERS – 134,162; LECOSRF – 37,084*; JRS 1 – 12; JRS 2 – 554)
- **96,649 non-contributing members**
(ERS – 96,507; LECOSRF – 11,311*; JRS 1 – 3; JRS 2 – 139)
- **96,513 retirees and beneficiaries**
(ERS – 95,840; LECOSRF – 10,024*; JRS 1 – 406; JRS 2 – 267)
- **\$2.0 billion in retirement payments annually** (for all plans)
- **77.2% ERS Trust funded ratio**
 - The trust is not fully funded due to inadequate funding in 19 of the last 20 years, several economic downturns and changes in the state workforce. **Unless significant action is taken, it is expected to run out of money in 2063.**

*LECOSRF members included in ERS total.

Typical State Agency Retiree



Worked 22 years for the State

Retired at 58

Is 68 years old

Receives \$1,600/mo. in ERS retirement benefits

Defined Benefit Plans Require Balance



State contribution



State employee salary contribution



Benefits



Investment earnings

Operating expenses



Retirement Contribution Rates

	Fiscal Year 2014	Fiscal Year 2015
ERS		
State	7.5%	7.5%
Agency	0.5%	0.5%
Employee	<u>6.6%</u>	<u>6.9%</u>
Total Contribution	14.6%	14.9%
LECOSRF*		
State	0.5%	0.5%
Dedicated Revenue (Court Cost)	1.2%	1.2%
Employee	<u>0.5%</u>	<u>0.5%</u>
Total Contribution	2.2%	2.2%
JRS 2		
State	15.66%	15.66%
Employee**	<u>6.6%</u>	<u>6.9%</u>
Total Contribution	22.26%	22.56%

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

**For JRS 2, this amount reflects the employee contribution of those members actively contributing. After 20 years of service (or reaching Rule of 70 and have served 12 years on an appellate court), JRS 2-eligible employees can either stop contributing, or they can continue to contribute and earn additional service. Since not all members choose to do so, the effective contribution rate for FY14 was 6.57%.

Investments

ERS manages a \$26.2 billion retirement trust on behalf of state employees and retirees who are the beneficiaries of the trust.

Investment returns continue to be the largest funding component of retirement benefits, accounting for 65% of the value of the ERS trust.

A 14.7% gross investment return for FY14 helped the ERS Retirement Trust moderate some of the losses incurred in recent years. ERS also continues to surpass its investment goals over the long term, with a **30-year rate-of-return of 8.65%**.

Day-to-day investment decisions are managed by ERS' professional investment staff within the policies, procedures, and risk management guidelines set by the ERS Board of Trustees. To keep costs low, ERS manages about two-thirds of its investment portfolio in-house and aggressively negotiates with outside investors who advise on the other third.

ERS Fiscal Year Investment Returns

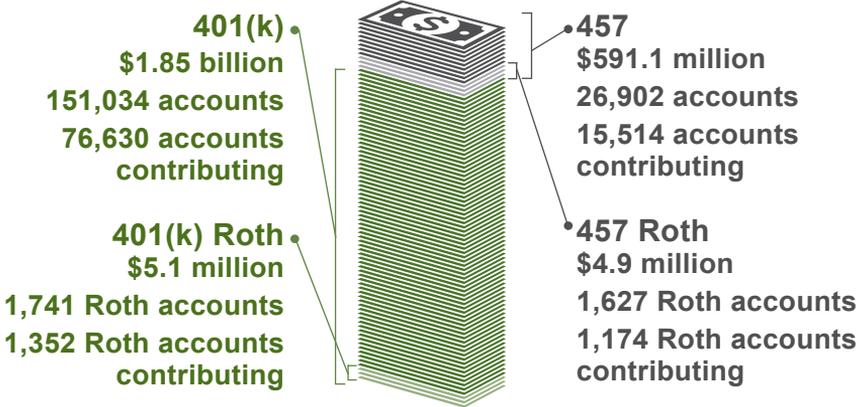
Gross	Net
1 year – 14.70% (ending August 31, 2014)	1 year – 14.58% (ending August 31, 2014)
3 year – 10.96%	3 year – 10.80%
5 year – 10.41%	5 year – 10.23%
10 year – 7.40%	10 year – 7.26%
30 year – 8.65%	30 year – N/A

TEXA\$AVER

401(k) / 457 Program

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

\$2.4 Billion in Total Assets



Insurance

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

The Affordable Care Act requires insurers of large plans to spend 85 cents of every health insurance dollar on health care costs. Although this part of the law does not apply to the GBP, HealthSelectSM of Texas far exceeds this standard, with 97 cents of every HealthSelect dollar going toward health care costs.

- **540,934 participants**
(228,805 employees, 104,770 retirees, 206,215 dependents, and 1,144 COBRA)
- **The health plan paid more than \$2.7 billion* in health care claims.**
- **Plan participants paid \$500 million in out-of-pocket costs, such as copays and coinsurance.**

*estimated

TEXFLEX

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

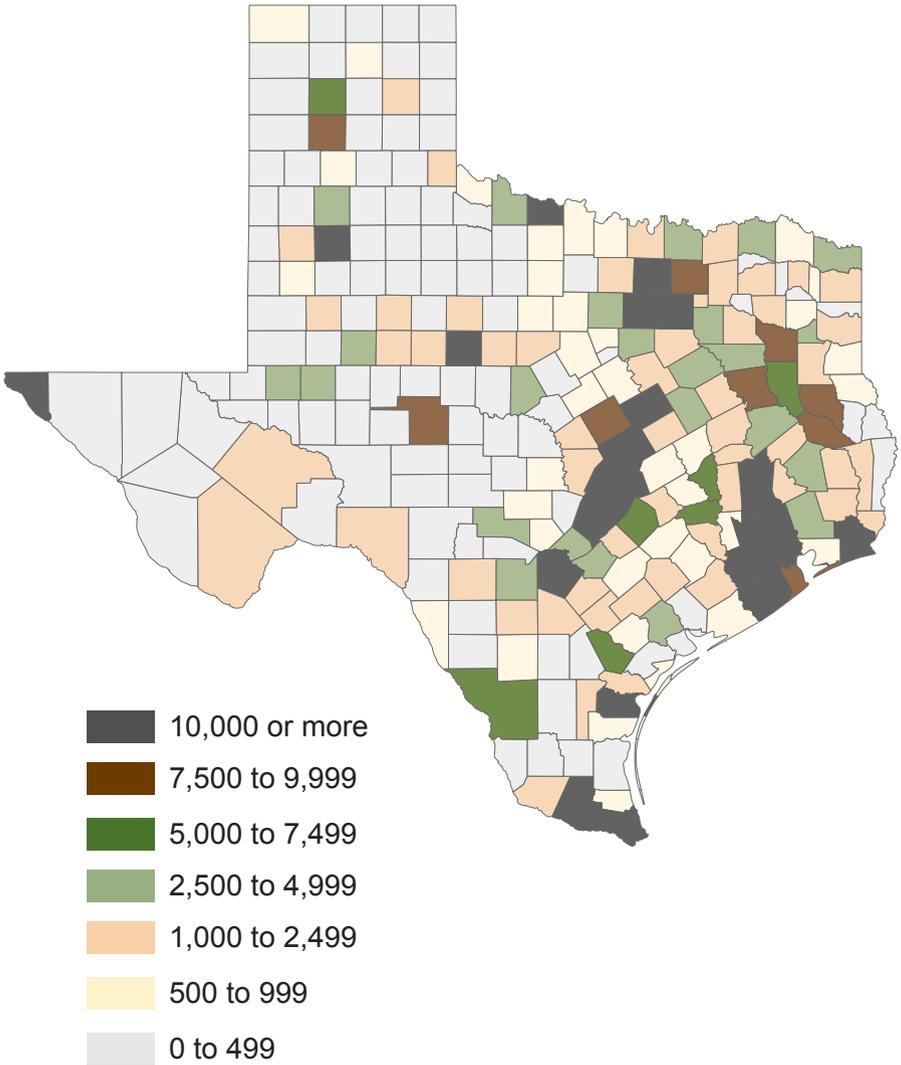
- **\$80.3 million contributed to TexFlex accounts by state employees**
- **50,023 health and dependent care accounts**
- **\$429 million in insurance premiums redirected**
- **\$115.3 million* in tax savings for participants (FICA and FIT)**
- **\$39 million* in tax savings for State (FICA)**

*estimated

FICA: Federal Insurance Contributions Act tax

FIT: Federal Income Tax

Number of ERS Participants and Annuitants by County, Fiscal Year 2014



State retirees' annuities are earned benefits that support the Texas economy. About 96% of state retirees continue to live in Texas, spending more than \$1 billion here each year and providing economic support to their communities.

For source information, please visit www.ers.state.tx.us/About_ERS/Reports/Overview.

