

## 2. Meeting of the ERS Board of Trustees

December 10, 2019



## Public Agenda Item #1.1

*Call Meeting of the ERS Board of Trustees to Order*

December 10, 2019

## Public Agenda Item #2.1

*Review and Approval of the Minutes to the  
August 21, 2019 ERS Board of Trustees Meeting - (Action)*

December 10, 2019

Questions?  
Action Item

## Public Agenda Item #3.1

*Executive Session – In accordance with section 551.074, Texas Government Code, the ERS Board of Trustees will meet in executive session to deliberate the employment, evaluation and duties of the Internal Auditor of the Employees Retirement System of Texas.  
Thereafter the Board may consider appropriate action in open session.*

December 10, 2019

## Public Agenda Item #4.1

*Review, Discussion and Consideration of the Rules of the Board of Trustees, Texas Administrative Code, Title 34, Part IV, Chapter 73.47 - (Action)*

December 10, 2019

Robin Hardaway, Director of Customer Benefits

# Proposed Amendments to Chapter 73 Concerning Benefits



## Reasons for proposed amendments to Chapter 73

- During the 86<sup>th</sup> Legislative session, House Bill 3522 added Tex. Gov't Code § 814.404 and § 814.504 to permit designated beneficiaries of ERS members and retirees to assign lump-sum death benefits to licensed funeral directors or funeral establishments.
- Death Benefits that can be assigned include:
  - Active account death benefits (lump sum of account balance and additional death benefit)
  - Retiree death benefits (\$5,000)
  - Occupational death benefits

# Proposed Amendments to Chapter 73 Benefits



Proposed Amendments to Chapter 73 (Benefits) adding new rule Section 73.47 Assignment of Death Benefit for Funeral Services

- Section 73.47 (a) allows a designated beneficiary of a member or retiree to assign a death benefit.
- Section 73.47(b) clarifies that an assignment must be made on a form promulgated by the System, and gives the System sole discretion to determine if the assignment is valid and legal.
- Section 73.47(c) clarifies assignment when there are multiple beneficiaries..



# Proposed Amendments to Chapter 73

## Benefits (Continued)



- Notice of the proposed amendments to Chapter 73 was published in the October 25, 2019 Texas Register (44 TexReg 6284).
- The deadline to receive comments was Monday, November 25, 2019. No comments were received.

Questions?  
Action Item

## Public Agenda Item #5.1

### *Report of the Group Benefits Advisory Committee Activities*

December 10, 2019

Bernie Hajovsky, Director of Enterprise Planning  
Dr. Janet Bezner, Chair, Group Benefits Advisory Committee

# GBAC Annual Report

## *Committee Background*



- ❑ Inaugural members were appointed by the Board between December 2017 – March 2018
- ❑ Committee provides stakeholder and expert input in the planning and development of the Group Benefits Program



# GBAC Annual Report

## *March 2019 Meeting Recap*



### Items Discussed

- ❑ Proposed legislation with impact to the GBP
- ❑ Strategies to combat opioid use
- ❑ Address challenges of GBP communications
- ❑ Upcoming membership benefits survey
- ❑ Overview of Discount Purchase Program offerings

### Proposed Topics for Future Discussion

- ❑ Ways to incent participation in wellness programs
- ❑ Coverage of alternative treatments (e.g. acupuncture) under the health plans
- ❑ Benchmark voluntary coverages across other states' plans

# GBAC Annual Report

## *October 2019 Meeting Recap*



### Items Discussed

- ❑ New legislation impacting the GBP
- ❑ Assess, Manage, Prevent (AMP) campaign
- ❑ Tobacco certification policy
- ❑ Optional add-on (voluntary) plans available through the GBP

### Proposed Topics for Future Discussion

- ❑ Incentives for participation in wellness-based programs
- ❑ Other states' health care cost sharing between the employer and the employee
- ❑ Review of Discount Purchase Program offerings

# GBAC Annual Report

## *What Lies Ahead in 2020?*



### **Orient new committee members**

- ❑ At least five (5) new members with terms beginning next year

### **Committee to provide input on....**

- ❑ Ways to promote, encourage or incent participation in wellness programs
- ❑ Offerings in the Discount Purchase Program

Questions?



## Public Agenda Item #5.2

### *Appointment of Group Benefits Advisory Committee Members - (Action)*

December 10, 2019

Bernie Hajovsky, Director of Enterprise Planning

# Appointment of GBAC Members

## *Membership*



- ❑ Up to 11 committee members
- ❑ Requires at least one (1) year of GBP enrollment and employer support
- ❑ Serve 3-year staggered terms
- ❑ **Serve at the will of the Board**

# Appointment of GBAC Members

## *Committee Representation*



- ❑ (2) State agencies, large (800+ GBP enrollees)
- ❑ (2) State agencies, mid-sized (100-799 enrollees)
- ❑ (1) State agencies, small (<100 enrollees)
- ❑ (1) Institutions of higher education, 4-year
- ❑ (1) Institutions of higher education, 2-year
- ❑ (2) Retirees (1 Medicare, 1 non-Medicare)
- ❑ (1) Health-related institution academic, administrator or practitioner
- ❑ (1) Insurance or benefits design professional

# Appointment of GBAC Members

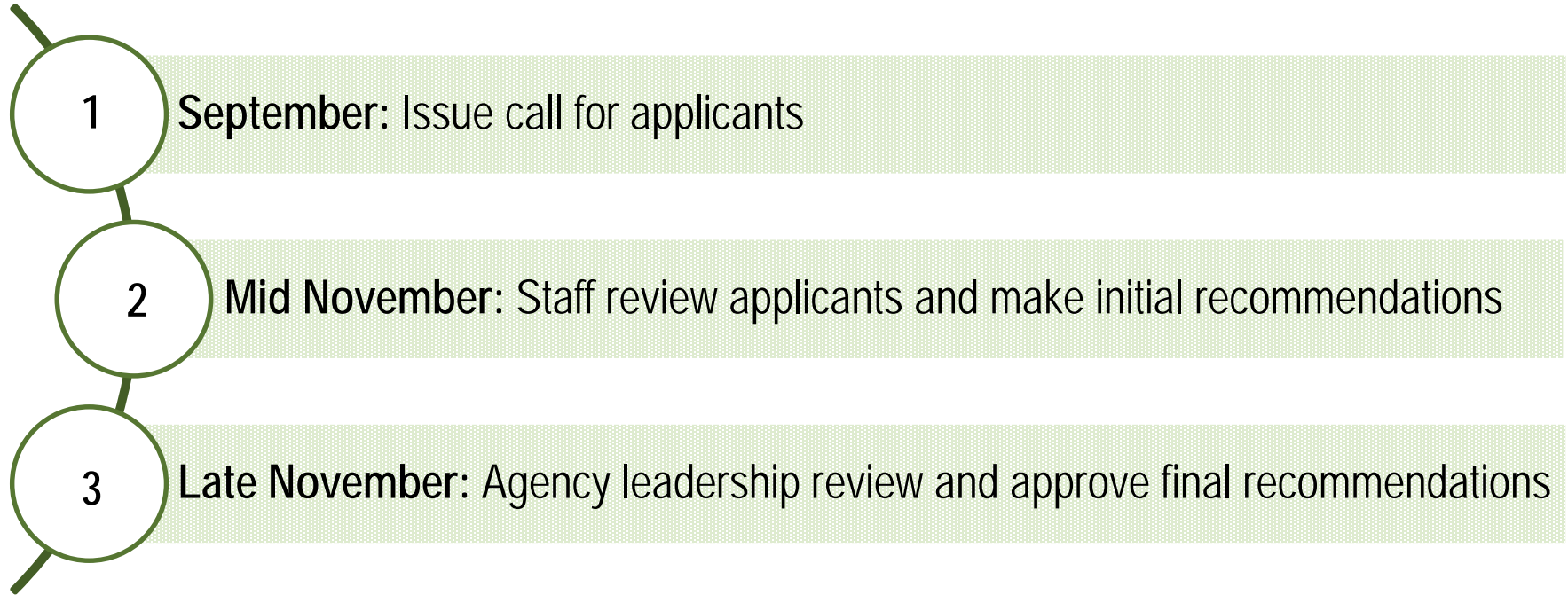
## *Six Vacancies Across Five Categories*



- ❑ *State agencies, large (2)*
- ❑ *State agencies, mid-sized (1)*
- ❑ *State agencies, small (1)*
- ❑ Institutions of higher education, 4-year
- ❑ *Institutions of higher education, 2-year (1)*
- ❑ Retirees
- ❑ Health-related institution academic, administrator or practitioner
- ❑ *Insurance or benefits design professional (1)*

# Appointment of GBAC Members

## *Applicant Review Process*



# Appointment of GBAC Members

## *Staff Recommendations*



Nominee	Category	Organization	Title
Sandra White	State Agencies, Large	Dept. of Criminal Justice	Nurse Investigator
Matthew Miller	State Agencies, Large	Dept. of Motor Vehicles	Gov't Relations Specialist
Jan Thomas	State Agencies, Mid-Sized	Lottery Commission	Human Resources Director
Teresa Nelson	State Agencies, Small	Dept. of Savings and Mortgage Lending	Sr. Supervisory Analyst
Missy Kittner*	Inst. of Higher Education, 2-Year	McLennan CC	Human Resources Director
Jennifer Cawley	Insurance or Benefits Design Professional	Texas Association of Life and Health Insurers	Executive Director

\* Current GBAC Member

Questions?  
Action Item

## Public Agenda Item #6.1

### *Health Insurance Financial Status Update for Fiscal Year 2019 and Outlook for Fiscal Year 2020*

December 10, 2019

Diana Kongevick, Director of Group Benefits

Blaise Duran, FSA, MAAA, Actuarial and Reporting Services, Group Benefits

Philip S. Dial, FSA, Rudd and Wisdom, Inc.



# HealthSelect Review

## Trends



- The self-funded HealthSelect programs saw continued favorable experience in FY19:
- Both medical and pharmacy trend were lower than expected.
- Medical utilization in FY19 did not increase as much as expected.

	FY18	FY19	FY20 Projected
Medical Trend*	-12.7%	4.2%	5.5%
Pharmacy Trend**	4.3%	7.2%	11.4%
<b>Combined Medical and Pharmacy Trend</b>	<b>-8.7%</b>	<b>5.0%</b>	<b>7.1%</b>

\*TPA contract change September 1, 2017

\*\*PBM contract change January 1, 2017

# HealthSelect Review

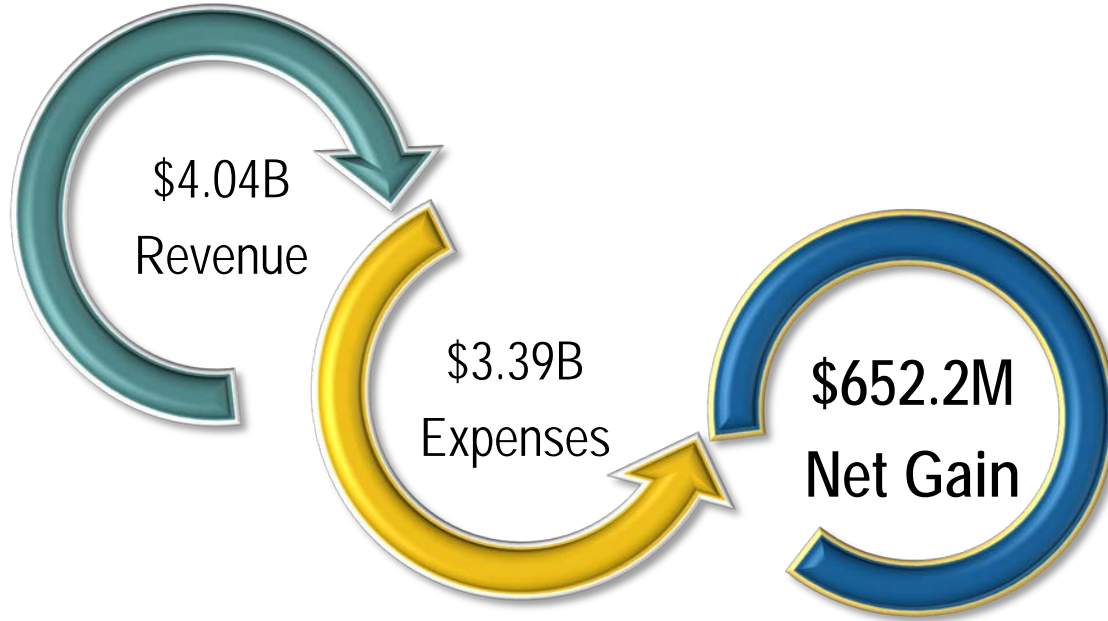
## *FY20 Projections*



- Medical trends are expected to return to historic norms in FY20.
- Pharmacy trend is projected to return to a normal trend of 11.4%.
- Average contribution rates remained at the FY19 level. The plan is projected to have a gain of \$385 million due to the continued contract savings.

# Health Plan Review FY19 Results

*Texas Employees Group Benefits Program - Health Plan Performance*



GBP finished the  
Plan Year with  
**\$2.09 billion**  
in the  
Contingency Fund

Includes all Texas Employees Group Benefits Program (GBP) health plans

*Agenda item 6.1 – Board of Trustees Meeting, December 10, 2019*

# Fiscal Year Projections

## Health Plan Performance (in millions)



	FY19	FY20 Projected	FY21 Projected	FY22 Projected	FY23 Projected	FY24 Projected	FY25 Projected	FY26 Projected
Revenue	4,044	4,082	4,224	4,345	4,442	4,560	4,678	4,794
Expenditures	3,392	3,697	4,062	4,455	4,892	5,386	5,930	6,535
Net Gain (Loss)	652	385	162	(110)	(450)	(826)	(1,252)	(1,741)
Contingency Fund Balance	2,093	2,478	2,640	2,530	2,080	1,254	2	(1,739)

Includes all GBP health plans

# HMO Update



- HMO plans first participated in GBP in 1977.
- In 2000, 22 HMOs participated. Today, only two HMOs are in the GBP.
- In addition to market changes, it is a challenge for HMO plans to meet ERS rating requirements due to the success of the HealthSelect of Texas plan.
- No increase in state funding to GBP and therefore, no rate increases to HMOs.

# Legislative Update

86<sup>th</sup> Legislative Session



- **HB 170** – Effective September 1, 2020. Requires the GBP to cover diagnostic mammography at the same benefit level as screening mammography.
- **HB 392** – Effective September 1, 2019. Allows the GBP to offer individual long-term care insurance.
- **HB 1584** – Effective September 1, 2020 for all plans. Prohibits step therapy for drugs prescribed for the treatment of stage 4, advanced, metastatic cancer.

# Legislative Update

86<sup>th</sup> Legislative Session (continued)



- **SB 1264** – Effective January 1, 2020. The bill applies to GBP health plans (except Medicare Advantage plans) and prevents patient surprise billing (also known as balance-billing).
- **Rider 10.06** – Directs the University of Texas Health Science Center Houston to provide data analysis and individual benchmarking for HHSC, ERS, TRS, and TDCJ.

# Legislative Update

## 86<sup>th</sup> Legislative Session Riders (continued)



- **Rider 15** – Requires ERS to participate in an ongoing collaboration with Health Related Institutions on quality-based initiatives.
- **Rider 16** – Directs ERS to incent participants to shop for lower cost in-network healthcare services through the use of shared savings.



Questions?

## Public Agenda Item #6.2

### *Discussion of the Group Health Benefits Program and Compliance Information*

December 10, 2019

Diana Kongevick, Director of Group Benefits

Lauren Russell, CTCM, Health Plan Operations, Group Benefits

# Group Health Benefits Programs

## Overview



### Health Benefits

#### HealthSelect<sup>SM</sup>

- HealthSelect<sup>SM</sup> of Texas
- Consumer Directed HealthSelect<sup>SM</sup>
- HealthSelect<sup>SM</sup> Prescription Drug Program

#### Health Maintenance Organizations (HMOs)

- Community First Health Plans
- Scott & White Health Plan



### Medicare-eligible Retiree Health Benefits

#### Medicare-Eligible Retiree Plans

- HealthSelect<sup>SM</sup> Medicare Advantage Plan, a preferred provider organization (MA PPO)
- KelseyCare Advantage Medicare health maintenance organization (MA HMO)
- HealthSelect<sup>SM</sup> Secondary plan
- HealthSelect<sup>SM</sup> MedicareRx - Employer Group Waiver Plan (EGWP) + Wrap

#### Health Maintenance Organizations (HMOs)

- Community First Health Plans
- Scott & White Health Plan



### Optional Add-on (Voluntary) Benefits

#### Dental Plans

- State of Texas Dental Choice Plan<sup>SM</sup>
- HumanaDental DHMO

#### State of Texas Vision

#### Optional Life, AD&D Insurance

# Contract Monitoring Overview

## *Performance Guarantee Assessments*



- A performance guarantee (PG) is connected to a business-critical service function(s) required of a vendor throughout the contract period.
- PG metrics are formulated from regulatory standards and industry best practices. Each PG is then risk-rated using risk assessment modeling and given a PG severity level.
- Severity levels identify the basis for the assessment amount in the event a PG is missed. The severity levels are:
  - Severity 1: Emergency
  - Severity 2: Critical
  - Severity 3: Moderate
  - Severity 4: Minor

# HealthSelect Medical Plans

## *Blue Cross and Blue Shield of Texas*



- Blue Cross and Blue Shield of Texas (BCBSTX) became the HealthSelect medical third-party administrator (TPA) effective September 1, 2017 and the contract is effective through August 31, 2023.
- BCBSTX administers both the HealthSelect of Texas and the Consumer Directed HealthSelect plans.
- Approximately 80% of employees, retirees and their dependents are enrolled in HealthSelect of Texas, with less than 1% enrolled in the Consumer Directed HealthSelect.

# HealthSelect Medical Plans

## BCBSTX Performance Reporting, FY19



Severity Level	PG Category	Vendor Performance Results	PG Assessments	PG Requirement	PG Actual
1	Emergency PGs	1 Emergency PG missed	<b>System Availability Rate</b> 1 PG assessed (1 of 4 quarters)	99.5% per quarter	99.33%
		1 Emergency PG under review	<b>System Availability Rate</b> 1 PG assessment pending (1 of 4 quarters)	99.5% per quarter	99.27%
2	Critical PGs	1 Critical PG under review	<b>Identification Card Mail Out Rate, Initial</b> 1 PG assessment pending (1 of 12 months)	100% per month	98.97%

# HealthSelect Medical Plans

## BCBSTX Performance Reporting, FY19 (continued)



Severity Level	PG Category	Vendor Performance Results	PG Assessments	PG Requirement	PG Actual
3	Moderate PGs	1 Moderate PG missed	<b>Financial Accuracy Rate of Claims</b> 1 PG assessed (1 of 12 months)	99% per month	98.69%
4	Minor PGs	2 Minor PGs under review	<b>Identification Card Mail Out Rate, Reissues</b> 1 PG assessment pending (1 of 12 months)  <b>Participant Satisfaction Survey</b> 1 PG assessment pending (FY19)	100% per month  85% per fiscal year	99.07%  83.56%

# Regional HMOs



- The Texas Employees Group Benefits Plan (GBP) currently offers two fully-insured regional HMO plans.
  - Community First Health Plans (CFHP)
  - Scott & White Health Plan (SWHP)
- All HMOs must provide coverage at a lower plan cost than HealthSelect of Texas.
- Effective September 1, 2019, KelseyCare powered by Community Health Choice (CHC HMO) in the Houston area voluntarily withdrew from the GBP.
- For Fiscal Year 2019 compliance reporting, all three HMOs are shown (including CHC HMO).



# Regional HMOs

## CFHP Performance Reporting, FY19



Severity Level	PG Category	Vendor Performance Results	PG Assessments	PG Requirement	PG Actual
1	Emergency PGs	1 Emergency PG missed	<b>Maintenance Eligibility File Processing</b> 1 PG assessed (1 of 12 months)	100% per occurrence	80.00%
2	Critical PGs	2 Critical PGs missed	<b>Identification Card Mail Out Rate, Initial</b> 2 PGs assessed (2 of 12 months)	100% per month	82.55% - 97.82%
3	Moderate PGs	No Moderate PGs missed	N/A	N/A	N/A
4	Minor PGs	1 Minor PG missed	<b>Identification Card Mail Out Rate, Reissues</b> 1 PG assessed (1 of 12 months)	100% per month	97.34%

# Regional HMOs

## CHC HMO Performance Reporting, FY19



Severity Level	PG Category	Vendor Performance Results	PG Assessments	PG Requirement	PG Actual
1	Emergency PGs	1 Emergency PG missed	<b>Maintenance Eligibility File Processing</b> 1 PG assessed (1 of 12 months)	100% per occurrence	85.00%
2	Critical PGs	No Critical PGs missed	N/A	N/A	N/A
3	Moderate PGs	1 Moderate PG missed	<b>Written Correspondence Rate</b> 1 PG assessed (1 of 4 quarters)	100% per quarter	98.00%
4	Minor PGs	1 Minor PG under review	<b>Reporting Requirements</b> 1 PG assessment pending (1 of 12 months)	100% per month	0.00%

# Regional HMOs

## SWHP Performance Reporting, FY19



- Performance guarantees were *met* for Emergency (severity level 1), Critical (severity level 2) and Moderate (severity level 3) and assessments did not apply.
- Performance guarantees were *not met* for Minor (severity level 4) and assessments did apply.

Severity Level	PG Category	Vendor Performance Results	PG Assessments	PG Requirement	PG Actual
4	Minor PGs	1 Minor PG missed	Identification Card Mail Out Rate, Reissues 1 PG assessed (1 of 12 months)	100% per month	95.59%

# Medicare Advantage Plans

## *Medicare-eligible Retirees*



- Two fully-insured medical plans are available for Medicare-eligible retirees. Both plans are paired with the HealthSelect<sup>SM</sup> MedicareRx - Employer Group Waiver Plan (EGWP) + Wrap prescription drug program.
  - HealthSelect<sup>SM</sup> Medicare Advantage Plan, a preferred provider organization (MA PPO), administered by Humana Insurance Company.
  - KelseyCare Advantage Medicare Health Maintenance Organization (MA HMO).

# HealthSelect MA PPO

## Humana Insurance Company Performance Reporting, CY18



- Performance guarantees were *met* for Emergency (severity level 1), Critical (severity level 2) and Moderate (severity level 3) and assessments did not apply.
- Performance guarantees were *not met* for Minor (severity level 4) and assessments did apply.

Severity Level	PG Category	Vendor Performance Results	PG Assessments	PG Requirement	PG Actual
4	Minor PGs	1 Minor PG Missed	<b>Reporting Requirements</b> 1 PG assessed (1 of 12 months)	100% per month	89.0%

# KelseyCare Advantage MA HMO

## KelseyCare Advantage Performance Reporting, CY18



- Performance guarantees were *met* for Emergency (severity level 1), Critical (severity level 2) and Moderate (severity level 3) and assessments did not apply.
- Performance guarantees were *not met* for Minor (severity level 4) and assessments did apply.

Severity Level	PG Category	Vendor Performance Results	PG Assessments	PG Requirement	PG Actual
4	Minor PGs	1 Minor PG Missed	<b>Reporting Requirements</b> 1 PG assessed (1 of 12 months)	100% per month	<100% timely delivery

# Texas Employees Group Benefits Program

## *HealthSelect Prescription Drug Plans*



- HealthSelect Prescription Drug Program administered by UnitedHealthcare Services Inc. (OptumRx)
  - Self-funded, comprehensive prescription drug program paired with HealthSelect medical plans for active employees and non-Medicare retirees
- HealthSelect Medicare Rx Plan administered by UnitedHealthcare Services Inc.
  - A comprehensive Employer Group Waiver Plan (EGWP) + Wrap paired with medical plans for Medicare-enrolled retirees

# HealthSelect Prescription Drug Plans

## *UHC Performance Reporting, FY19 and CY18*



- Prescription drug programs are required to adhere to performance standards defined in each contract.
- For Fiscal Year 2019:
  - UnitedHealthcare Services, Inc. performance guarantees were *met* for all performance standards and assessments did not apply for the HealthSelect Prescription Drug Program.
- For Calendar 2018:
  - UnitedHealthcare Services, Inc. performance guarantees were *met* for all performance standards and assessments did not apply for the HealthSelect Medicare Rx Plan (EGWP + Wrap).



# Optional Add-on (Voluntary) Plans

## *Dental Plans*



- Two dental insurance plans are available under the GBP:
  - Self-funded State of Texas Dental Choice Plan<sup>SM</sup>, a dental preferred provider organization (PPO) available nationally, administered by Delta Dental.
  - Fully insured HumanaDental DHMO available in Texas, administered by DeltaCare USA.
- The transition from the prior dental plan administrator to Delta Dental and DeltaCare USA was successfully completed on September 1, 2019.
- For the compliance review time period of Fiscal Year 2019, Humana Dental was the Dental PPO administrator, and DentiCare Inc. was the DHMO carrier.

# Optional Dental Plans

## *Dental Plan Performance Reporting, FY19*



- Dental plan vendors are required to adhere to performance standards defined in each contract.
- For Fiscal Year 2019:
  - Humana Dental performance guarantees were *met* for all performance standards and assessments did not apply for the Dental Choice plan.
  - DentiCare, Inc. (an affiliate of Humana Dental) performance guarantees were *met* for all performance standards and assessments did not apply for the DHMO plan.

# Optional Vision Plan

## *State of Texas Vision*



- ERS offered the State of Texas Vision plan effective September 1, 2016.
- The plan is available to all employees, retirees and their eligible dependents.
- It is a self-funded plan administered by Superior Vision Services, Inc.
- Provides comprehensive vision and eyewear benefits nationwide.

# State of Texas Vision

## *Superior Vision Performance Reporting, FY19*



- Performance guarantees were *met* for Emergency (severity level 1) and Critical (severity level 2) and assessments did not apply.
- Performance guarantees were *not met* for Moderate (severity level 3) and Minor (severity level 4) and assessments did apply.

# State of Texas Vision

## Superior Vision Performance Reporting, FY19



Severity Level	PG Category	Vendor Performance Results	PG Assessments	PG Requirement	PG Actual
3	Moderate PGs	3 Moderate PGs Missed	<b>Adjudication Rate of Clean Claims</b> 3 PGs assessed (3 of 12 months)	100% per month	Range from 99.81% to 99.99%
4	Minor PGs	9 Minor PGs Missed	<b>Reporting Requirements</b> 9 PGs assessed (9 of 12 months)	100% per month	Range from 66.67% to 99.96%

# GBP Optional Plans

## *Optional Life and AD&D (Active Employees)*



- The Life Insurance Plans are administered by Minnesota Life Insurance Company (Securian)
  - Optional Term Life including AD&D
    - Additional life coverage; up to 4X annual salary
  - Voluntary AD&D
    - Additional coverage; up to \$200,000
  - Dependent Term Life including AD&D
    - \$5,000 coverage for each eligible dependent

*Participant pays full cost of coverage*

# Optional Term Life and AD&D

## *Life and AD&D Performance Reporting, FY19*



- The life and AD&D insurance vendor is required to adhere to performance standards defined in each contract.
- For Fiscal Year 2019:
  - Minnesota Life Insurance Company (Securian) performance guarantees were *met* for all performance standards and assessments did not apply to the life insurance and AD&D plans.

Questions?



## Public Agenda Item #7.1

*Update and Compliance Information:  
TexFlex, Texas Income Protection Plan (TIPP) and Texa\$aver*

December 10, 2019

Diana Kongevick, Director of Group Benefits

Georgina Bouton, CTCM, Assistant Division Director of Group Benefits

Nora Alvarado, CTCM, Voluntary Income Plans of Group Benefits

# Voluntary Income Plans

## *Optional coverage and benefits*



### State of Texas Employees Flexible Benefit Program

#### TexFlex Flexible Spending Account (FSA)

§ 125 reimbursement account

- TexFlex health care FSA
- TexFlex dependent care FSA
- TexFlex limited FSA

#### TexFlex Commuter Spending Account (CSA)

§ 132(f) reimbursement account



### Short- and long-term disability insurance

#### Texas Income Protection Plan (TIPP)

Short-term disability coverage

#### TIPP

Long-term disability coverage



### Deferred compensation plans

#### Texa\$aver 401(k) plan

- Target date funds
- Mutual funds and collective investment trusts: equities, fixed income, and cash equivalents
- Self-directed brokerage account

#### Texa\$aver 457 plan

- Target date funds
- Mutual funds and collective investment trusts: equities, fixed income, and cash equivalents
- Self-directed brokerage account

# Contract Monitoring Overview

## *Performance Guarantee Assessments*



- Performance guarantees (PGs) are connected to business-critical service functions required of a vendor throughout the contract period.
- PG metrics are formulated from regulatory standards and industry best practices. Each PG is then risk-rated using risk assessment modeling and given a PG severity level.
- Severity levels identify the basis of the assessment amount in the event of a performance miss. The levels are:
  - Severity 1: Emergency
  - Severity 2: Critical
  - Severity 3: Moderate
  - Severity 4: Minor

# TexFlex

## *Flexible Spending Account Overview*



- TexFlex is available to active employees.
  - Voluntary benefit
  - Fully funded by enrolled participants
- FSA allows pre-tax dollars from a paycheck be set aside to be used for eligible out-of-pocket expenses.
- Administered by Wageworks, Inc.

PG Severity	PG Category	Vendor Performance Results	PG Review Period	PG Business-Critical Service Description of Performance Issue
1	Emergency Performance Guarantees (PG)	No Missed Emergency PGs	N/A	N/A
2	Critical PG	No Missed Critical PGs	N/A	N/A
3	Moderate PG	No Missed Moderate PGs	N/A	N/A
4	Minor PG	2 Minor PGs assessment	8/2019	Communication Materials Failed to send communications timely and to the correct population

# Texas Income Protection Plan (TIPP)

## Overview



- TIPP is optional insurance coverage for short-term and long-term disability.
- Can increase an employee's financial security
- Provides assistance when employee is unable to work due to an illness or medical condition
- Self-insured; funded by plan participants
- Administered by Reed Group Management, LLC

# TIPP

## Reed Group Performance Reporting, FY19



PG Severity	PG Category	Vendor Performance Results	PG Review Period	PG Business-Critical Service Description of Performance Issue
1	Emergency PG	No missed Emergency PGs	N/A	N/A
2	Critical PG	No missed Critical PGs	N/A	N/A
3	Moderate PG	No missed Moderate PG	N/A	N/A
4	Minor PG	1 Minor PG assessment	July 2019	<b>Reporting Requirement</b> Payroll file was not submitted timely

# Texa\$aver<sup>SM</sup> Program

## Overview



- Three-legged stool approach to retirement income planning shows retirement preparation is a shared responsibility.
- State of Texas offers a tax-deferred, supplemental retirement program which has two separate plans.
- Great-West Life Insurance and Annuity/Empower Retirement (Empower) is the program administrator.



# Texa\$aver Program

## *Empower Retirement Performance Reporting, FY19*



- For Fiscal Year 2019:
  - Texa\$aver performance guarantees were *met* for all performance standards and assessments.

Questions?

## Public Agenda Item #7.2

### *Review, Discussion and Consideration of Recommended Updates to Texa\$aver 401(k)/457 Program – (Action)*

December 10, 2019

Diana Kongevick, Director of Group Benefits

Georgina Bouton, CTCM, Assistant Division Director of Group Benefits

Angelica Harborth, CTCM, Plan Manager, Group Benefits

# Texa\$aver<sup>SM</sup> 401(k)/457 program

## Overview



- Texa\$aver 401(k)/457 program (Texa\$aver) is a voluntary tax-deferred supplemental retirement program
  - Designed to help state and eligible higher education employees with personal retirement savings
- Texa\$aver is comprised of two plans
  - 401(k) plan - available to state agency employees
  - 457 plan - available to state agency and eligible higher education employees



# Texa\$aver<sup>SM</sup> 401(k)/457 program

## *Investment options*



- Diversified selection of 10 core funds (mutual funds and collective trust funds), 10 target date funds, and a self-directed brokerage account option
- Institutionally-priced funds
- Investment offerings between the plans are the same

# Texa\$aver program

## *Investment options*



- Texa\$aver 401(k)/457 Program Investment Policy
  - Provides guidelines for the ongoing administration and evaluation of the program's investment products
- Product Review Committee
  - Serves in a consultative capacity regarding investment options, fund managers, and investment advisory services
  - Comprised of no more than six (6) ERS employees and three (3) designated IAC members

# Texa\$aver program

## *Product Review Committee (PRC)*



Semi-annual PRC meeting held on May 8, 2019

- Determined that two funds required additional due diligence
  - First Eagle Fund of America Y  
Mid cap blend fund offering
  - Victory Munder Mid-Cap Core Growth Y  
Mid cap growth fund offering
- Established a due diligence sub-committee

# Texa\$aver program

*First Eagle Fund of America Y (First Eagle fund)*



## First Eagle

As of September 30, 2019

Total number of participant accounts	28,728
Total Assets under Management (AUM)	\$96,048,332
% of Texa\$aver program	2.8%

Number of participant accounts, 401(k)	15,753
AUM, 401(k)	\$69,324,642
Number of participant accounts, 457	12,975
AUM, 457	\$26,723,690



# First Eagle fund

## *Due Diligence Activities Overview*



FIRST EAGLE	Deliverable Dates	Enhanced Due Diligence Activities
	August 27, 2019	Fund manager call
	September 19, 2019	Due diligence sub-committee meeting
	October 22, 2019	Site Visit to First Eagle's offices in Westport, CT
	November 4, 2019	Due diligence sub-committee meeting
	November 20, 2019	PRC Meeting
	December 3, 2019	Fund search sub-committee meeting

# Texa\$aver program

## *Victory Munder Mid Cap Core Growth Y*



### Victory Munder As of September 30, 2019

Total Number of Participant Accounts	27,581
Total Assets under Management (AUM)	\$124,643,452
% of Texa\$aver Program	3.6%

Number of Participant Accounts, 401(k)	14,706
AUM, 401(k)	\$87,729,360
Number of Participant Accounts, 457	12,875
AUM, 457	\$36,914,092

# Victory Munder fund

## *Due Diligence Activities Overview*



VICTORY MUNDER	Deliverable Dates	Enhanced Due Diligence Activities
	August 28, 2019	Fund manager call
	September 19, 2019	Due diligence sub-committee meeting
	October 29, 2019	Site Visit to Victory Munder's offices in Birmingham, MI
	November 4, 2019	Due diligence sub-committee meeting
	November 20, 2019	PRC Meeting
	December 3, 2019	Fund search sub-committee meeting

# Next steps



- Sub-committee will identify finalists
- Following finalists presentations to PRC,
  - Propose delegating authority to Executive Director for fund selections in the January 2020 timeframe
- TPA and ERS staff will coordinate operational process for fund transitions
  - Timing considerations
  - Funds mapping
  - Communication strategy for participants

# Texa\$aver program

## *Staff recommendations*



Staff requests a delegation authority to the Executive Director to:

- Select mid cap funds from the finalists selected by the Product Review Committee
- Negotiate and execute any required documentation acceptable to ERS to include the selected investment options in the Texa\$aver program
- Remove First Eagle Fund of America Y and Victory Munder Mid Cap Core Growth Fund Y funds from the Texa\$aver program with the selection of the mid cap blend fund and mid cap growth fund

Questions?  
Action Item

## Public Agenda Item #8.1

# *Review and Discussion of the Texas Employees Group Benefits Program: Actuarial Valuation of Retiree Health Insurance Benefits as of August 31, 2019*

December 10, 2019

Machelle Pharr, Chief Financial Officer  
Philip S. Dial, Rudd and Wisdom, Inc.  
Mitchell L. Bilbe, Rudd and Wisdom, Inc.  
Christopher S. Johnson, Rudd and Wisdom, Inc.

# Employees Retirement System of Texas

## Texas Employees Group Benefits Program (GBP)

Actuarial Valuation of  
Other Post Employment Benefits (OPEB)  
Provided Under the GBP  
for Fiscal Year 2019

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Board of Trustees  
December 10, 2019

Philip S. Dial  
Mitchell L. Bilbe





# FY 2019 GBP OPEB Valuation

## General Information

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- ❑ The GBP provides Other Post Employment Benefits (OPEB) to the retirees of state agencies, certain higher education institutions and other employers (see Appendix for list of other employers).
- ❑ OPEB provided through the GBP include the following benefits.
  - Health
  - Basic Life
- ❑ OPEB does not include optional benefits available to retirees under the GBP (dental, vision, and life insurance), since those benefits are fully funded by member contributions and, therefore, do not generate employer obligations.
- ❑ OPEB does not include retirement benefits.

# FY 2019 GBP OPEB Valuation

## GBP Membership

Category	Members	Covered Spouses	Covered Dependent Children	Total
Actives	233,887 <sup>1</sup>	39,363 <sup>2</sup>	123,809 <sup>2</sup>	<b>397,059<sup>2</sup></b>
Deferred Vested	12,114	0 <sup>2</sup>	0 <sup>2</sup>	<b>12,114<sup>2</sup></b>
Retirees and Nominees	127,044 <sup>3</sup>	31,289	10,735	<b>169,068</b>
<b>Total - August 31, 2019</b>	<b>373,045</b>	<b>70,652</b>	<b>134,544</b>	<b>578,241</b>
Total - August 31, 2018	365,825	70,706	135,040	571,571
Change	7,220	(54)	(496)	6,670

<sup>1</sup> Includes (a) return-to-work retirees and (b) employees who have not yet satisfied the waiting period.

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

<sup>3</sup> Includes 4,328 retirees who receive the Opt-Out Credit in lieu of health benefits.

# FY 2019 GBP OPEB Valuation

## Application of GASB 74/75 Reporting Standards

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- ❑ GASB Statement No. 74 (GASB 74), which governs plan reporting for OPEB, became effective for ERS GBP reporting beginning with FY 2017.
  - The FY 2019 valuation is the third GASB 74 OPEB valuation for the GBP.
  
- ❑ GASB Statement No. 75 (GASB 75), which governs employer reporting for OPEB, became effective for GBP-participating employer reporting beginning with FY 2018.
  - The Comptroller reports OPEB expense and liability information for ERS and TRS in the financial statements in the State's CAFR.
  - In addition, GASB 75 requires increased reporting by some GBP participating employers (i.e., they must report proportionate shares of Net OPEB Liability and OPEB Expense).
    - ❑ Community colleges
    - ❑ A few state agencies that prepare audited financial statements; e.g., TXDOT.

# FY 2019 GBP OPEB Valuation

## Actuarial Cost Method and Assumptions

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### ❑ Actuarial cost method

- Entry Age actuarial funding method.
- Same method used for ERS retirement plan valuation.
- Normal cost and 30 year amortization amounts for Actuarially Determined Contribution are determined as level percentages of pay.

### ❑ Actuarial assumptions

- Demographic and economic assumptions
- Discount Rate
- Per Capita Health Benefit Costs
- Health Benefit Cost Trend

# FY 2019 GBP OPEB Valuation

## Demographic and Economic Assumptions

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- The demographic and economic assumptions are the same as those used for the FY 2018 OPEB valuation.

Demographic	Economic
<ul style="list-style-type: none"><li>• Mortality</li><li>• Disability</li><li>• Termination</li><li>• Retirement</li></ul>	<ul style="list-style-type: none"><li>• Inflation</li><li>• Payroll growth and inflationary salary increases</li><li>• Salary increases for merit, promotion and longevity</li></ul>

- For state agency employees and retirees, we use the same demographic and economic assumptions as those utilized by ERS for its FY 2019 retirement plan valuation.
- For higher education employees and retirees, we use the same demographic and economic assumptions as those utilized by TRS for its FY 2019 retirement plan valuation.

# FY 2019 GBP OPEB Valuation

## Discount Rate Assumption

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- ❑ Since OPEB benefits provided under the GBP are funded on a PAYGO basis, GASB 74 requires the Discount Rate assumption to be based on yields of 20-year, tax-exempt general obligation municipal bonds with an average rating of AA/Aa or higher.
  - Yields are determined as of the measurement date.
- ❑ For this purpose, we use the Bond Buyer Index of general obligation bonds with 20 years to maturity with an average credit quality that is roughly equivalent to Moody's Investors Service's Aa2 rating and Standard & Poor's Corp.'s AA rating.
- ❑ Due to the requirements of GASB 74, this rate will change annually potentially causing significant volatility in OPEB liability.
  - FY 2018 Discount Rate: 3.96%
  - FY 2019 Discount Rate: 2.97%

# FY 2019 GBP OPEB Valuation

## FY 2019 Per Capita Health Benefit Costs

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- HealthSelect (for participants for whom Medicare is not primary and for Medicare-primary participants who elect to remain in HealthSelect)
  - Extensive historical data allows us to examine both current cost as well as evolving cost trends.
  - HealthSelect experience data through FY 2019 is used to establish current gender/age-specific costs for HealthSelect medical and prescription drug benefits.
- HealthSelect Medicare Advantage (for Medicare-primary participants who elect HealthSelect Medicare Advantage)
  - Per capita medical costs are based on the HealthSelect Medicare Advantage premiums applicable to the fully insured medical benefits and the associated Health Insurance Provider Fee as required under the Affordable Care Act (ACA).
  - Per capita prescription drug costs are the same as those applicable to HealthSelect participants, since HealthSelect Medicare Advantage participants have the same prescription drug coverage as HealthSelect participants.

# FY 2019 GBP OPEB Valuation

## Health Benefit Cost Trend

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- ❑ A select and ultimate trend assumption is used which begins at the levels we are using for the current biennium.
- ❑ The trends have been revised to reflect updated projections for FY 2021 – FY 2028.
- ❑ The Health Benefit Cost trend is expected to be 7.3% in FY 2021, 7.4% in FY 2022 and then decline over the next six years to a “sustainable” ultimate level.
- ❑ The ultimate level is 200 basis points in excess of the assumed rate of inflation ( $4.5\% = 2.5\% + 2.0\%$ ).
- ❑ The Health Benefit Cost trend has been established consistent with other economic assumptions as required by GASB.



# FY 2019 GBP OPEB Valuation

## Health Benefit Cost Trend

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Fiscal Year	FY 2018 Valuation	FY 2019 Valuation
2021	7.4%*	7.3%*
2022	7.0%	7.4%*
2023	6.5%	7.0%
2024	6.0%	6.5%
2025	5.5%	6.0%
2026	5.0%	5.5%
2027	4.5%	5.0%
2028 and beyond	4.5%	4.5%

\*Trend for HealthSelect only; the HealthSelect Medicare Advantage trend is expected to be higher in FY 2021 as a result of the reinstatement of the ACA Health Insurance Providers Fee for CY 2020 following its suspension in CY 2019.

# FY 2019 GBP OPEB Valuation

## Results (See page II-1 of the GASB No. 74 Actuarial Valuation Report.)

Member Class	APVPBP	NC (2019)	APVFNC (After 2019)	Total OPEB Liability
Actives	\$37,748M	\$1,540M	\$17,977M	\$18,231M
Vested Non-Contributing	2,121M	0	0	2,121M
Retirees	14,271M	0	0	14,271M
Total	\$54,140M	\$1,540M	\$17,977M	\$34,623M

### Terminology

- APVPBP = Actuarial Present Value of Projected Benefit Payments
- NC = Normal Cost
- APVFNC = Actuarial Present Value of Future Normal Costs
- Total OPEB Liability = APVPBP – NC (2019) – APVFNC (After 2019)

# FY 2019 GBP OPEB Valuation

## Results (See page II-3 of the GASB No. 74 Actuarial Valuation Report.)

<b>Actuarially Determined Contribution (ADC)</b>		
OPEB Measure	FY 2018	FY 2019
Normal Cost	\$1,206M	\$1,540M
Amortization of Net OPEB Liability	1,127M	1,147M
Total ADC	\$2,333M	\$2,687M

OPEB Measure	FY 2018	FY 2019
Normal Cost - % Payroll	10.0%	12.5%
Amortization - % of Payroll	9.4%	9.3%
ADC - % Payroll	19.4%	21.8%

# FY 2019 GBP OPEB Valuation

## Reconciliation with FY 2018

(See page II-5 of the GASB No. 74 Actuarial Valuation Report.)

OPEB Measure	Actual FY 2018	Expected FY 2019 Based on FY 2018 Assumptions	Change Attributable to			Actual FY 2019
			Differences in Actual vs Expected	Assumption Changes	Plan Change	
Total OPEB Liability	\$30,018M	\$31,705M	(\$89M)	\$3,007M	0	\$34,623M
Normal Cost	\$1,206M	\$1,254M	(\$13M)	\$299M	0	\$1,540M

- a) Year-to-year increases will occur if actual and expected experience are the same:
  - Total OPEB Liability: Since OPEB is funded on a PAYGO basis, the excess of NC plus interest over the PAYGO amount increases the Total OPEB Liability.
  - Normal Cost (NC): NC is determined as a level percentage of payroll; therefore the dollar amount increases due to growth in active employment and/or inflationary increases in salaries.
- b) Gains/losses from differences in actual vs expected will occur to the extent that the assumptions are too pessimistic or optimistic; e.g., fewer retirements than were expected would create a gain.
- c) Assumption changes primarily reflect the reduction in the Discount Rate assumption.

# FY 2019 GBP OPEB Valuation

## Impact Of Assumption Changes

Assumption Change	Approximate Increase / (Decrease)			
	Total OPEB Liability		Normal Cost	
	Amount	Percentage*	Amount	Percentage*
Discount Rate	\$5.0 Billion	15.6%	\$380 Million	30.6%
Claims and Trend	(\$2.0 Billion)	(6.2%)	(\$83 Million)	(6.7%)
Demographic	\$0.0 Billion	0.0%	\$2 Million	(0.2%)
Total	\$3.0 Billion	9.4%	\$299 Million	23.7%

\*As a percentage of corresponding amount prior to assumption changes.

# FY 2019 GBP OPEB Valuation

## Sensitivity Analysis

The note disclosures and supplementary information required under GASB 74 must include an analysis of the sensitivity of the Net OPEB Liability to  $\pm 1\%$  changes in (a) the Discount Rate assumption, and (b) the Health Benefit Cost trend rate assumption.

Sensitivity to Changes in Discount Rate			
	1% Decrease (1.97%)	Current (2.97%)	1% Increase (3.97%)
Net OPEB Liability	\$41.2 Billion	\$34.6 Billion	\$29.4 Billion

Sensitivity to Changes in Health Benefit Cost Trend			
	1% Decrease	Current	1% Increase
Net OPEB Liability	\$29.0 Billion	\$34.6 Billion	\$41.8 Billion

# Appendix

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- ❑ See Section X of the GASB No. 74 Actuarial Valuation Report for the definitions of certain terms used in this presentation.
- ❑ Other employers include the following:
  - Community Supervision and Corrections Departments
  - Texas Cooperative Inspection Program
  - Texas County and District Retirement System
  - Texas Municipal Retirement System
  - Texas Turnpike Authority
  - University of Texas Medical Branch at Galveston
  - University of Texas Mental Sciences Institute
  - Windham School District

Questions?



## Public Agenda Item #9.1

# *Review of Retirement Program Actuarial Valuations and Financial Status*

December 10, 2019

Ariana Whaley, Pension Policy Analyst

Ryan Falls, Gabriel Roeder & Smith, Senior Consultant

Joe Newton, Gabriel Roeder & Smith, Pension Practice Leader

Tom Bevins, Gabriel Roeder & Smith, Actuary

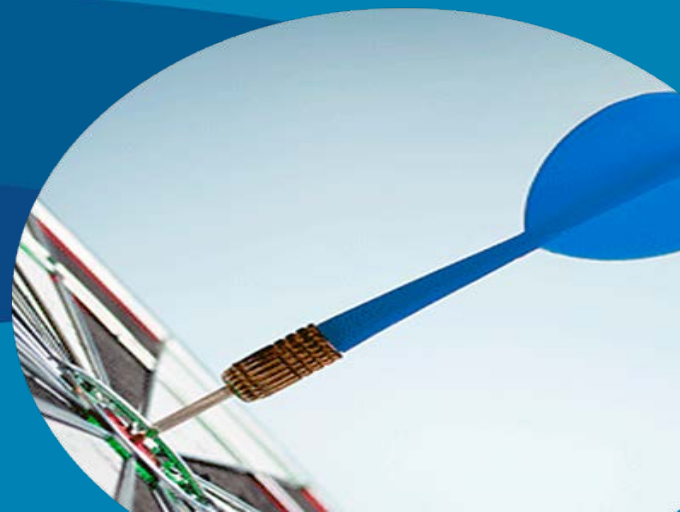
# Actuarial Valuations of the ERS Retirement Funds as of August 31, 2019

Ryan Falls, FSA, EA, MAAA

Joe Newton, FSA, EA, MAAA

Tom Bevins, ASA, MAAA

December 10, 2019



# Agenda

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- Impact of Asset Returns
- Actuarially Determined Funding
- ERS Funding Valuation Results
- LECOSRF and JRS2 Funding Valuation Results
- Accounting Results at August 31, 2019

# Purpose of Actuarial Valuation

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- Snapshot as of August 31, 2019 using member data, financial data, benefit and contribution provisions, actuarial assumptions and methods as of that date
- Purposes:
  - Measure the actuarial liabilities and funding levels
  - Determine adequacy of current statutory contributions
  - Provide other information for reporting
    - GASB 67/68, Comprehensive Annual Financial Report
  - Explain changes in actuarial condition of the plans
  - Track changes over time
  - Analyze future outlook

# Where are we headed now?

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- Outlook is similar to last year as all three trust funds are projected to run out of money and the funds would not be able to pay earned benefits to current members during retirement
  - ERS trust is projected to run out of money in  $\approx 50$  years
  - LECOSRF trust is projected to run out of money in  $\approx 25$  years
  - JRS2 trust is projected to run out of money in  $\approx 50$  years
- Changes are required to limit risks to benefit security
- Legislature missed opportunities to make necessary changes
  - Delay makes adjustments more costly

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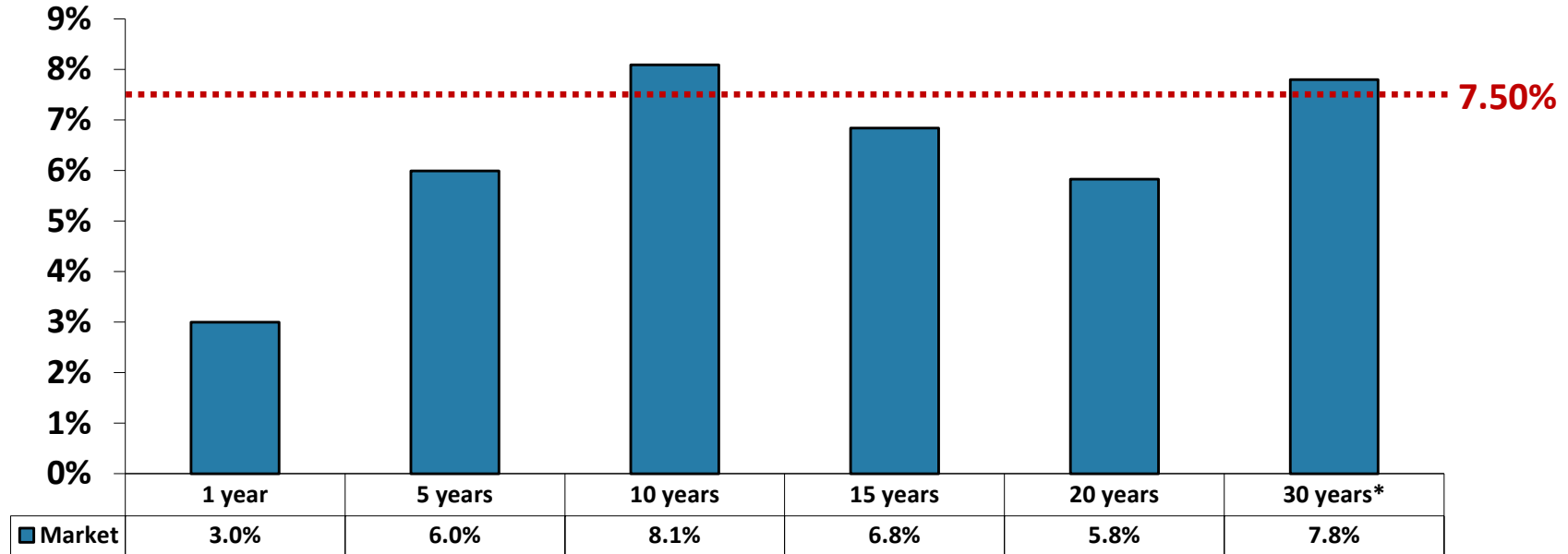
# Impact of Asset Returns

# Asset Experience

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- Actual rate of return on market was  $\approx 3.0\%$
- Actuarial metrics primarily based on smoothed value of assets (actuarial value, or AVA), not market value
- Actuarial value only reflects a portion of the actual market returns over the past five years
  - Recognize 20% of the unexpected asset gain/loss each year
- 5 year smoothed return on AVA was 6.9% in FY 2019
- \$709 million in net deferred losses, not yet recognized
  - \$393 million deferred gain from last year fully recognized
  - Will be recognized over next four years

# Estimated Historical Yields Based on Market Value of Assets



*\* The 30-year return is provided as a gross return due to data limitations.*



# Assumptions vs Funding

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- If the investment experience had met the current assumptions over the last 20 years, ERS would effectively be fully funded
  - Actual returns have not been available in the market to meet the assumption
- The assumption is supposed to be a starting point, useful for decision making
- For the successful program, contributions have to adapt as experience unfolds to make up shortfall
- While historical investment returns have been a significant source of the solvency issues facing ERS today, the actual cause is a funding strategy that has not reacted appropriately

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# Actuarially Determined Funding

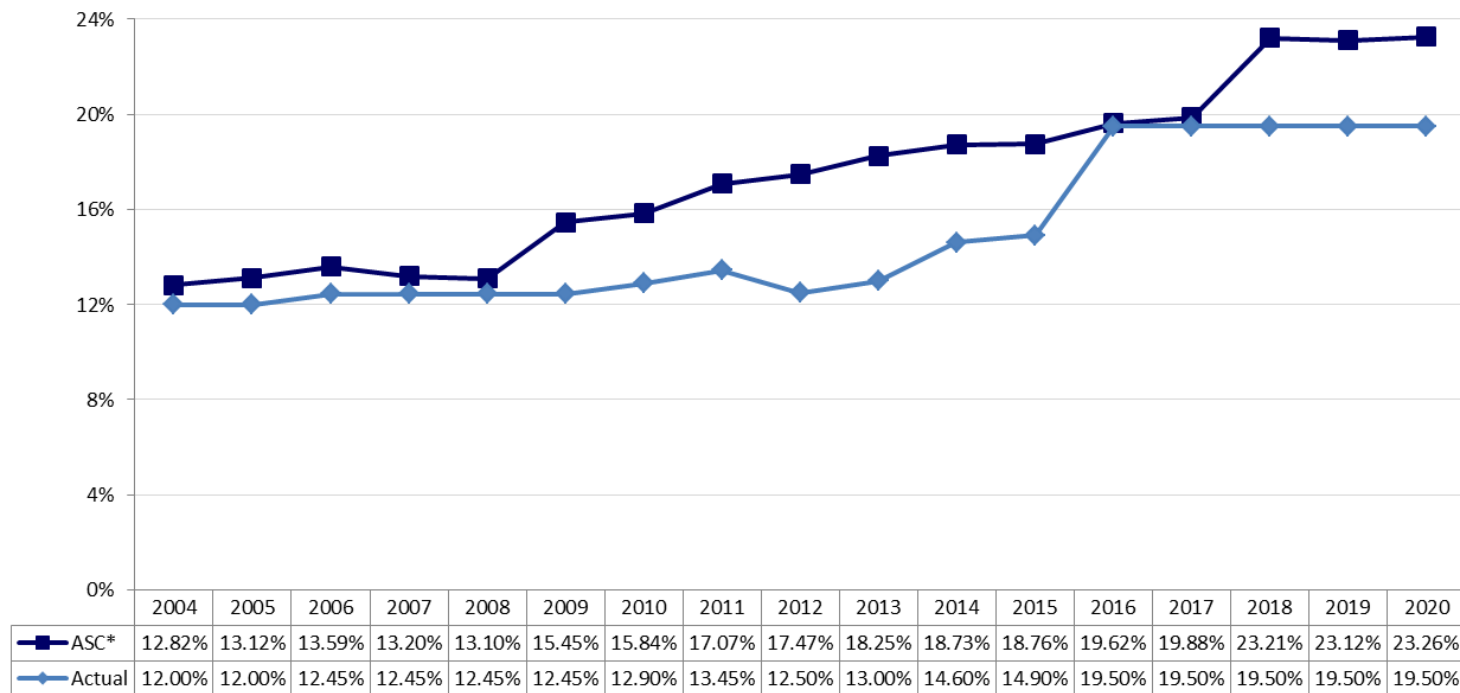
# Plan Funding – Fixed Rate

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- Pensions plans in Texas (including ERS) have traditionally been funded via a negotiated fixed contribution rate
- This rate can only change again in the future via another budget negotiation
  - For ERS, that can only occur every 2 years
  - With this setup, it is up to the membership and the retirement system to initiate the negotiation, with the status quo being an insufficient contribution amount
- With all current stakeholders wanting to maintain their current provisions, negotiations usually end up with inappropriate funding targets
- While the other systems in the State must now maintain a 40 year funding period, the legislature does not have that requirement for ERS and TRS

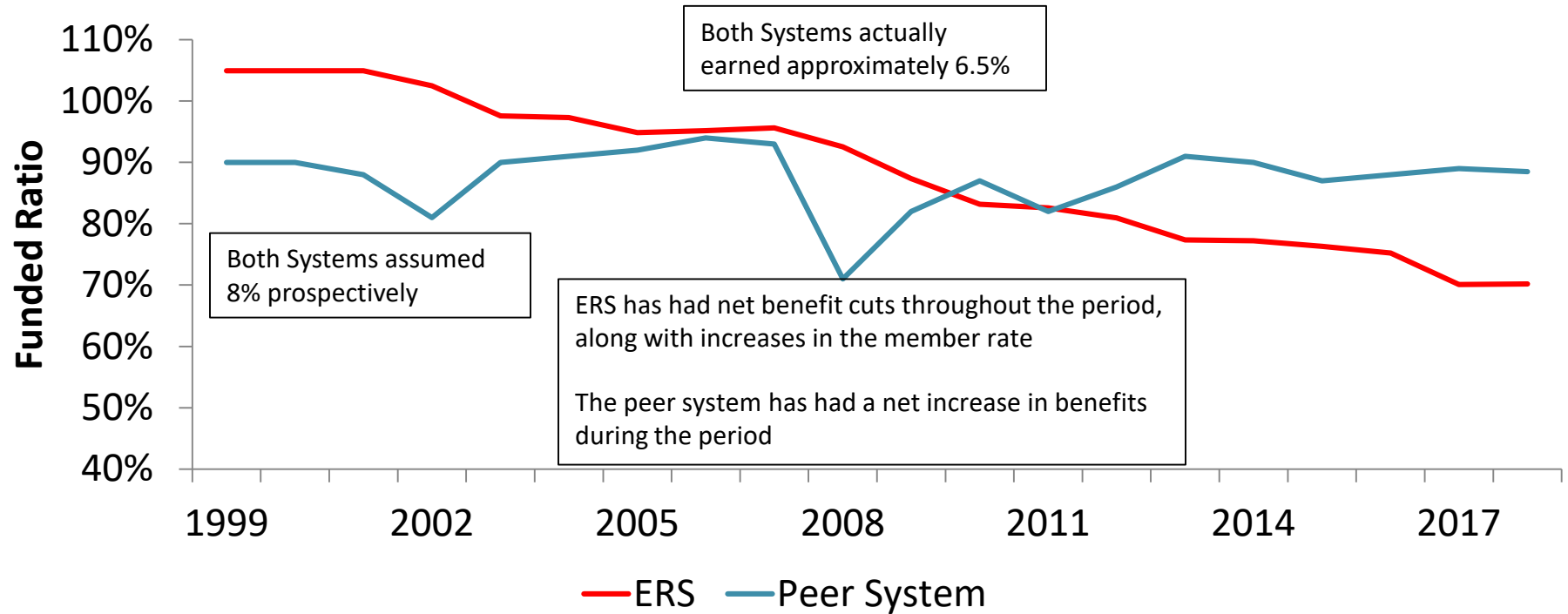
# Actual vs. Actuarial Contributions\* (ERS)

(% of Payroll, by Fiscal Year)

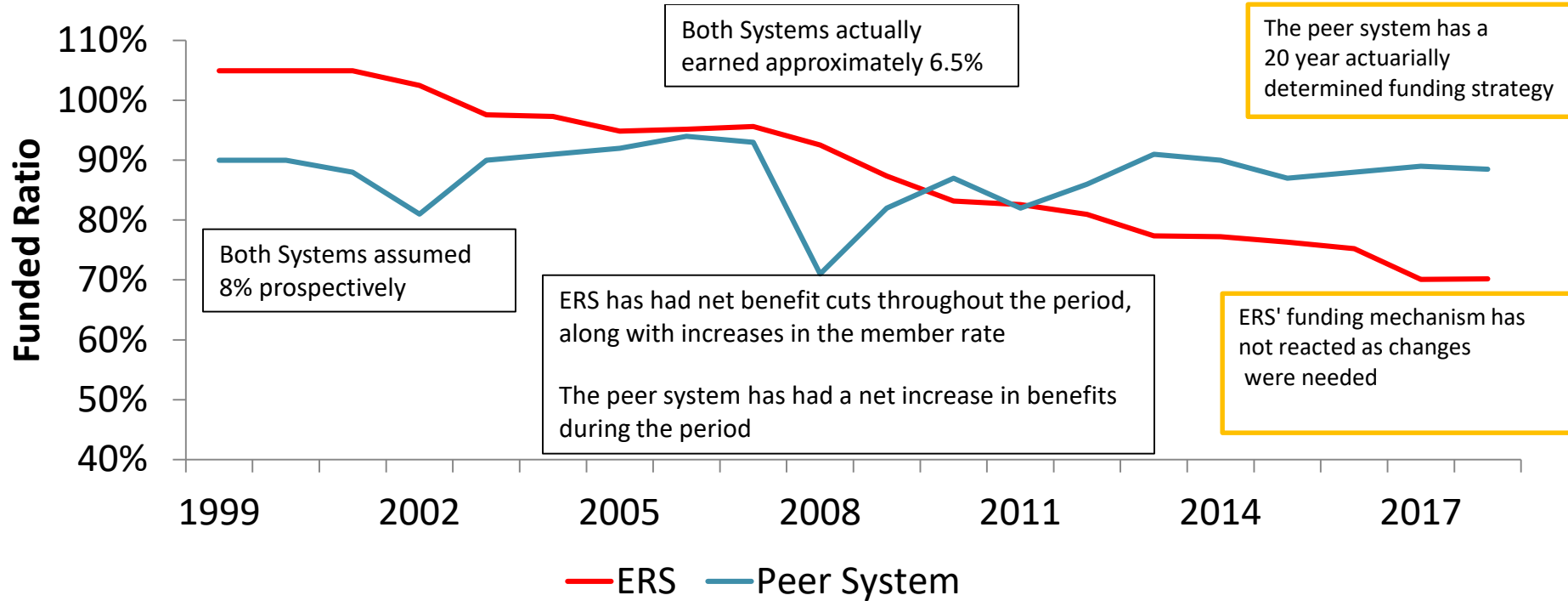


\*Actuarially Sound Contribution defined as normal cost plus 31-year amortization of unfunded

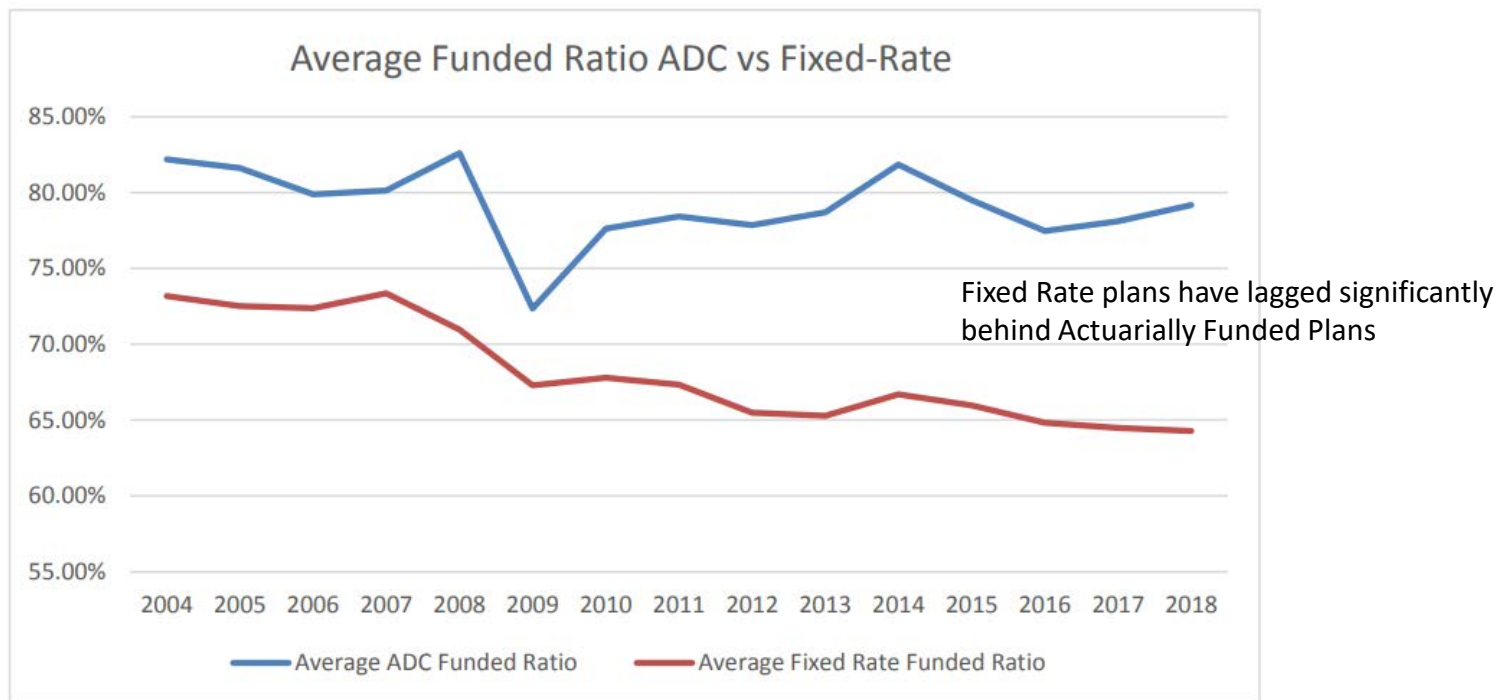
# Peer Comparison



# Peer Comparison



# Funding Policies for Fixed-Rate Pension Plans Issued by the Texas Pension Review Board in 2019



*Public Pension Plans in Texas*

# Plan Funding – Actuarially Determined

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- Conversely, a funding policy that is actuarially determined will have a pre-defined formula that will calculate the contributions
- Does not necessarily have to change each year, but change has to occur when change is needed
  - Can be revenue and/or liabilities
- Successful programs generally have the formulas set by the Board, with consultation from their actuary
- The plan sponsor has no discretion
  - If the plan sponsor believes relief is needed, the burden is on the plan sponsor to initiate the negotiation, with the status quo being an appropriate contribution amount



# Plan Funding – Actuarially Determined

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- Many effective strategies are available to providing benefit security and support the funded status
- However, some strategies can provide substantial contribution rate volatility
- There are some rate stabilization techniques being utilized in the industry to provide relief, but they all force change when change is needed
  - Examples include the funding corridors in the City of Houston policies from the 2017 legislative session or floating approaches utilized by the States of Utah and South Carolina

# Takeaway

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- The more short term the decision making, meaning the more the decision impacts the decision maker, the worse the decisions are and the less sustainable the program
- There needs to be a pre-defined policy for automatic adjustments as experience unfolds
  - Can either be contributions or liabilities, but must occur automatically and without discretion
- Doing nothing cannot be an option

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# ERS

## Funding Valuation Results

### at August 31, 2019

# Funded Status (ERS)

(\$ in millions)

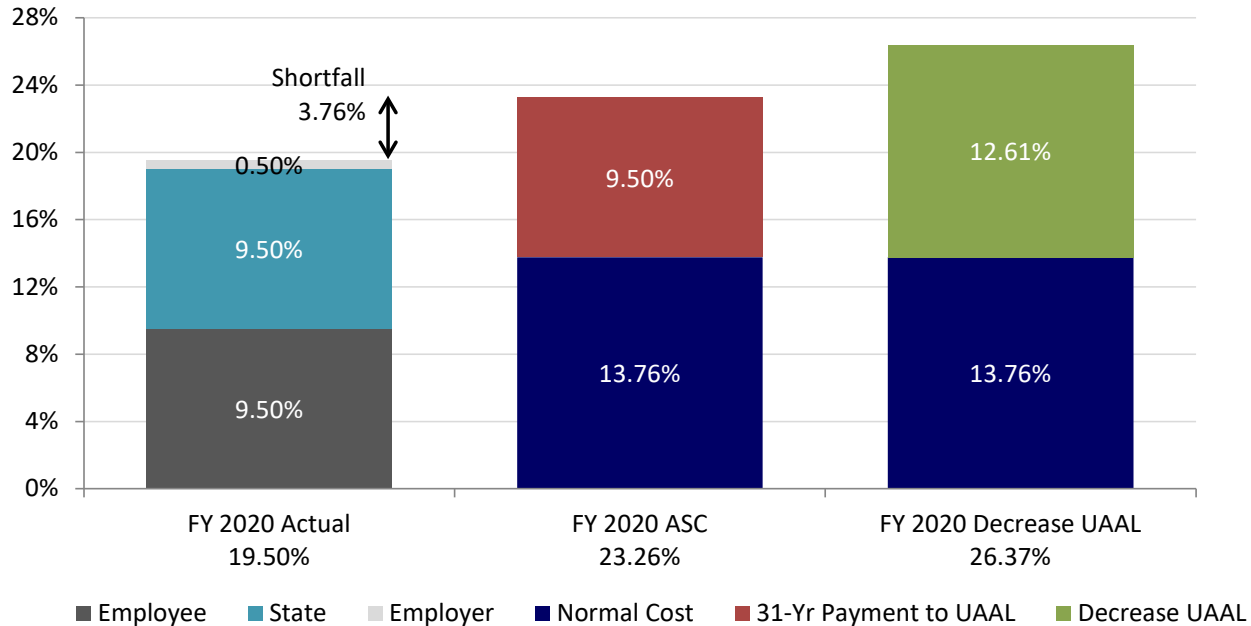
Actuarial Valuation as of August 31, 2019		
	AVA	MVA
Actuarial Accrued Liability	\$39,801	\$39,801
AVA / MVA	<u>28,060</u>	<u>27,351</u>
Unfunded Accrued Liability	\$11,741	\$12,450
Funded Ratio	70.5%	68.7%
Funding Period	Never	Never
Actuarial Valuation as of August 31, 2018		
	AVA	MVA
Actuarial Accrued Liability	\$38,989	\$38,989
AVA / MVA	<u>27,360</u>	<u>27,753</u>
Unfunded Accrued Liability	\$11,629	\$11,236
Funded Ratio	70.2%	71.2%
Funding Period	Never	Never

# Funding Guidelines

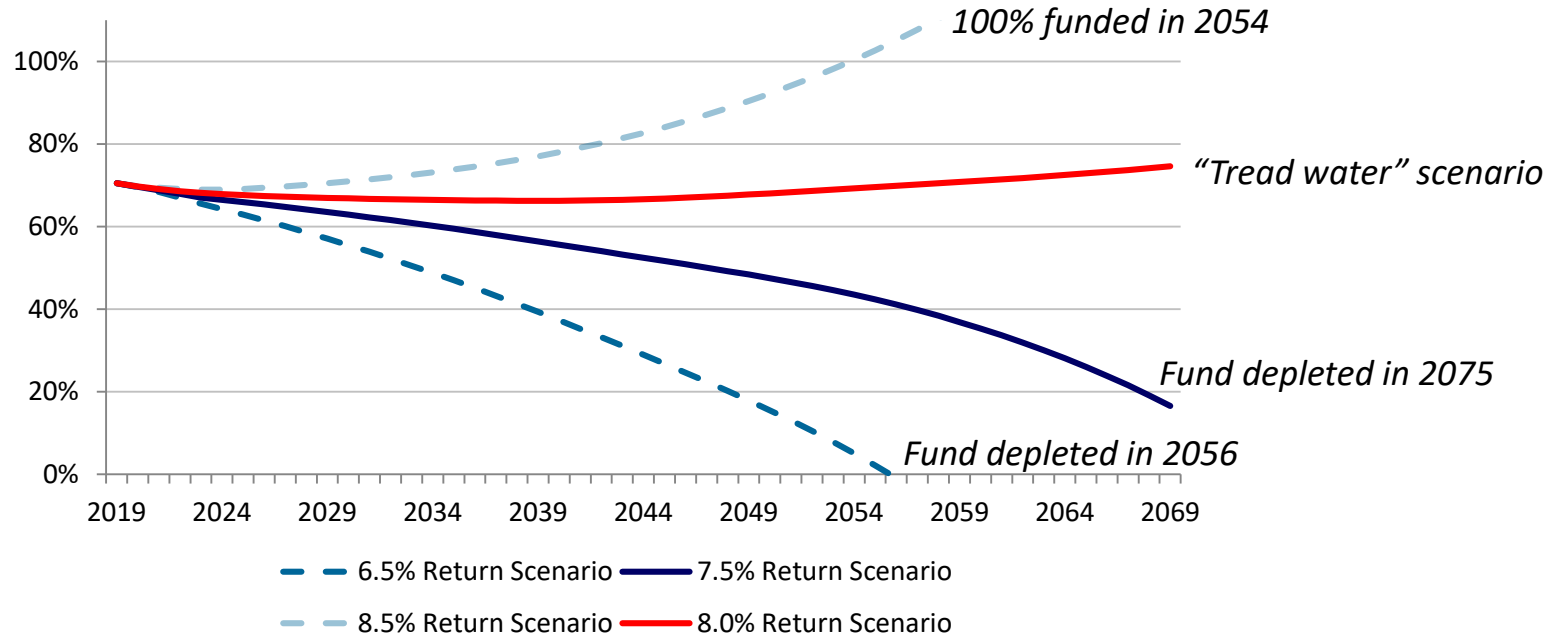
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- Board approved the Pension Funding Priorities and Guidelines on May 23, 2018
- Policy laid out a multi-level funding period goal to gradually achieve funding on sound actuarial principles
  1. Avoid trust fund depletion,
  2. Meet current statutory standard of a 31-year funding period, and
  3. Match funding period to the average years of service at retirement once a 31-year funding period is achieved, and closed.
- With projected depletion date in 56 years, none of the Board's funding period goals are being met

# Actuarially Sound Contribution (ERS)

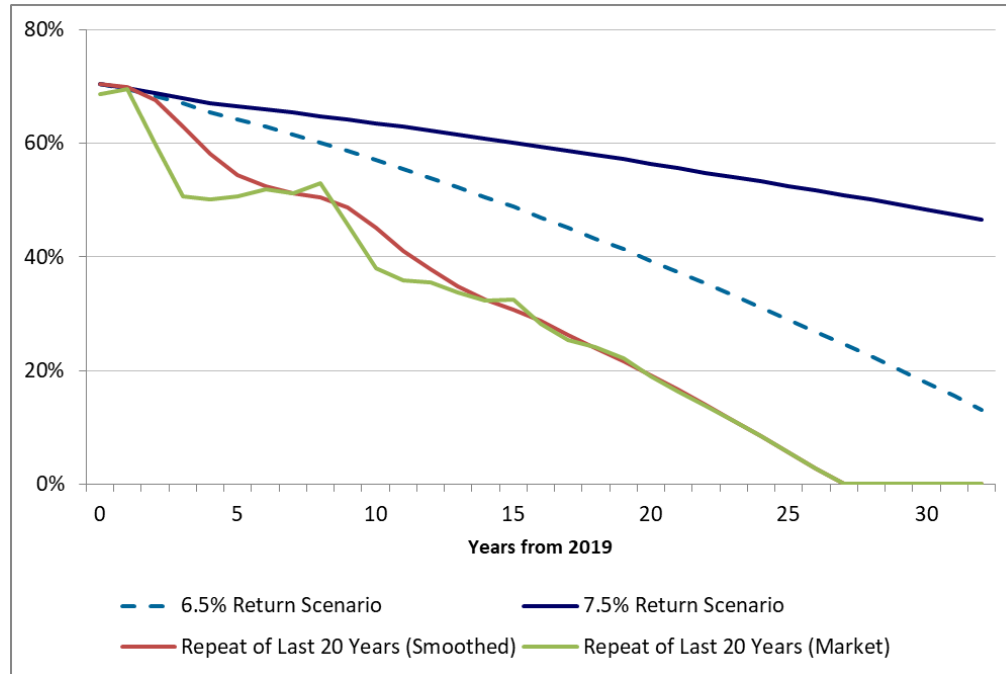


# Funded Ratio Projections (ERS)



*Projections assume no changes to current assumptions and except actual asset returns, as noted, all other assumptions are met and future contributions continue at current levels.*

# Funded Ratio Projections (ERS) Historical Scenario



*Fund depleted in 2075*

*Fund depleted in 2056*

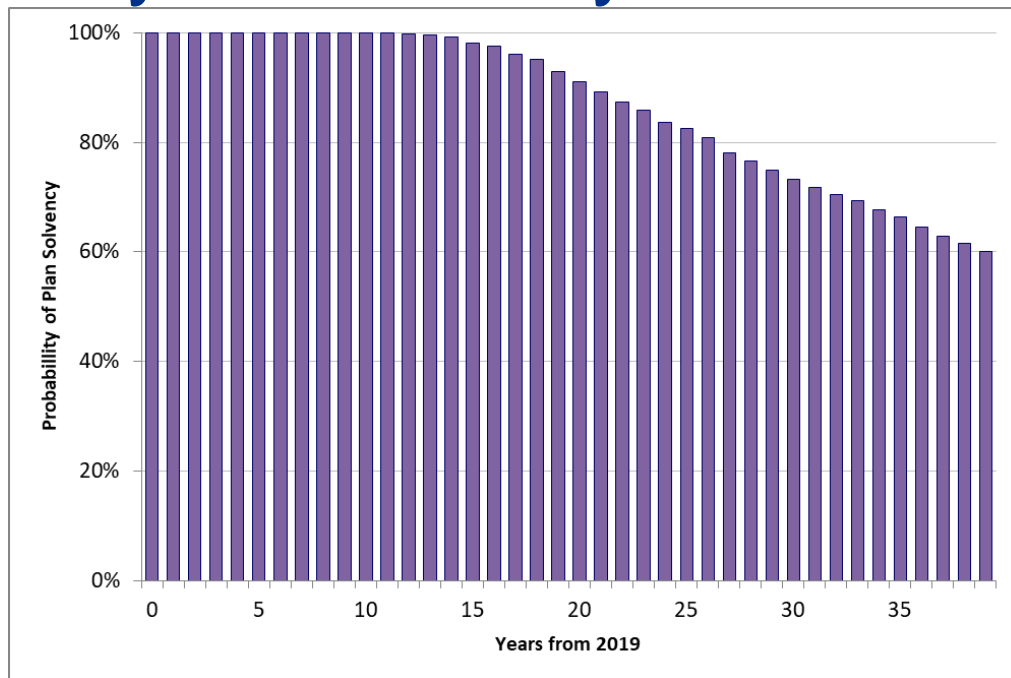
*Fund depleted in 2046*

*Projections assume no changes to current assumptions and except actual asset returns, as noted, all other assumptions are met and future contributions continue at current levels.*



# Funded Ratio Projections (ERS)

## Probability of Solvency



*This represents the probability of the trust fund having assets at the beginning of each year*

*Stochastic Projections based on 7.5% median return expectation and 11.6% standard deviation*

*Projections assume no changes to current assumptions and except actual asset returns, as noted, all other assumptions are met and future contributions continue at current levels.*

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# LECOSRF and JRS2 Funding Valuation Results at August 31, 2019

# LECOSRF and JRS2 Results

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- LECOSRF had a reduction in funded status
  - Contributions are not sufficient to sustain the plan
  - Projected depletion date in 24 years
- JRS2 had a reduction in funded status
  - Judicial pay changes negatively impacted plan
  - Despite 2% increase in member contribution rate, contributions are not sufficient to sustain the plan
  - Projected depletion date in 57 years

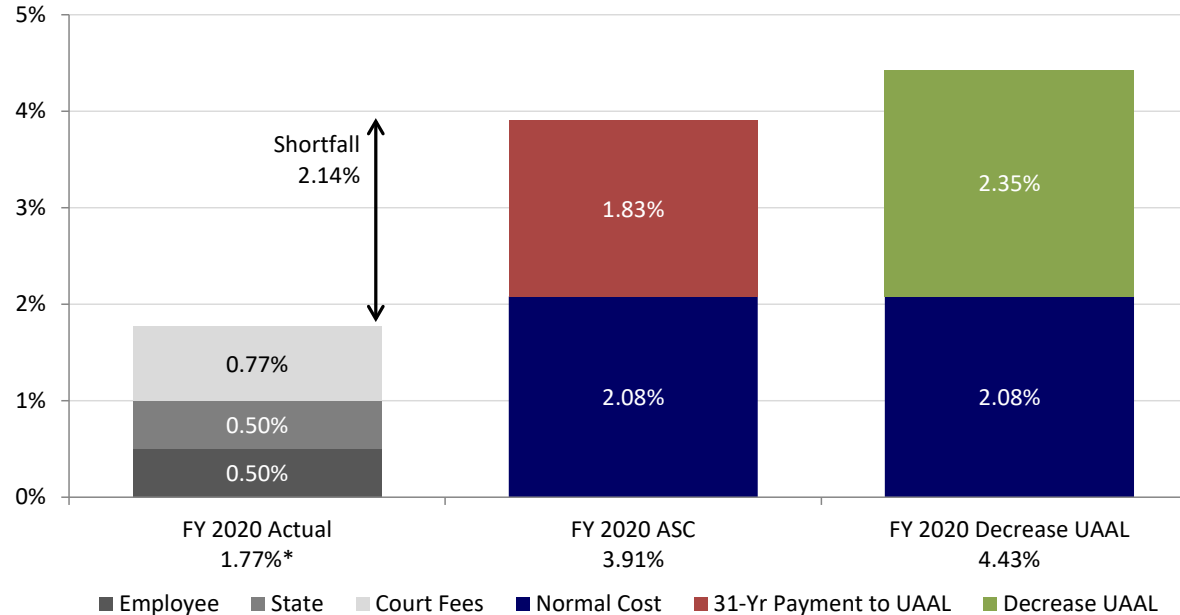
# Funded Status

(\$ in millions)

Actuarial Valuation as of August 31, 2019		
	LECOSRF	JRS2
Actuarial Accrued Liability	\$1,483	\$535
Actuarial Value of Assets	<u>968</u>	<u>468</u>
Unfunded Accrued Liability	\$515	\$67
Funded Ratio	65.3%	87.5%
Funding Period	Never	Never

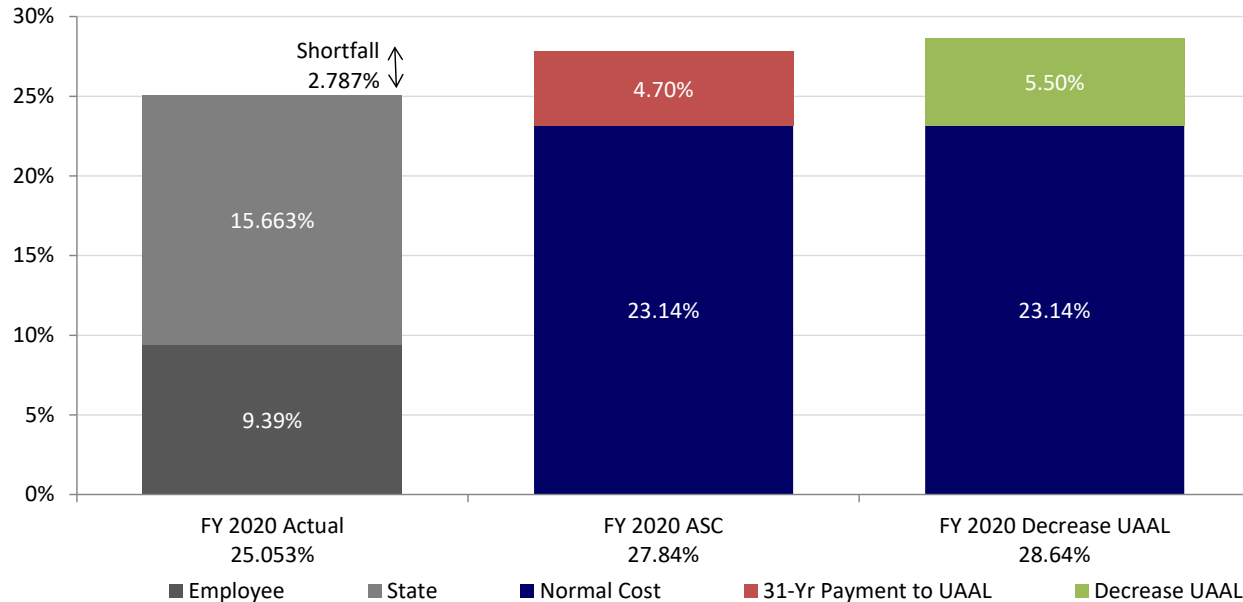
Actuarial Valuation as of August 31, 2018		
	LECOSRF	JRS2
Actuarial Accrued Liability	\$1,453	\$488
Actuarial Value of Assets	<u>953</u>	<u>447</u>
Unfunded Accrued Liability	\$500	\$41
Funded Ratio	65.6%	91.7%
Funding Period	Never	69

# Actuarially Sound Contribution (LECOSRF)



*\*Court fees received by LECOSRF are projected to be about \$17.1 million for FY2020 and beyond, based on actual FY19 amounts. This amount is equivalent to 0.77% of pay for the next 31 years.*

# Actuarially Sound Contribution (JRS2)



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# Accounting Results as of August 31, 2019

# Accounting Valuation Results

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- ERS adopted GASB 67 for plan year ending August 31, 2014
- GASB 68 measures were included in Texas state reporting starting in fiscal year ending August 31, 2016
  - State has elected to utilize one year reporting lag
    - GASB 67/68 valuation as of August 31, 2018 used for August 31, 2019 reporting
- GASB 73 outlines reporting for JRS1



# Determining Discount Rate

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- Discount rate used in determining the Total Pension Liability (TPL) is a blend of two rates
  - Long-term expected rate of return on pension plan investments (7.50% based on current investment policy)
    - Can be used to discount plan obligations as long as there are projected assets sufficient to pay projected plan benefits
  - Yield or index rate for a 20-year, tax-exempt general obligation municipal bond (2.63% as of August 31, 2019)
    - Used to discount plan obligations after the projected assets have been extinguished
  - JRS1 uses municipal bond rate since there are no trust assets

# Accounting Valuation Results

(\$ in millions)

August 31, 2019	ERS	LECOSRF	JRS2	JRS1
Single Discount Rate (SDR)	4.42%	3.29%	5.45%	2.63%
Total Pension Liability	\$57,336	\$2,609	\$648	\$245
Plan Fiduciary Net Position	<u>27,351</u>	<u>944</u>	<u>456</u>	<u>0</u>
<b>Net Pension Liability (NPL)</b>	<b>29,985</b>	<b>1,665</b>	<b>192</b>	<b>245</b>
August 31, 2018				
Single Discount Rate (SDR)	5.69%	4.48%	7.50%	3.69%
Total Pension Liability	\$47,944	\$2,150	\$487	\$255
Plan Fiduciary Net Position	<u>27,753</u>	<u>967</u>	<u>453</u>	<u>0</u>
<b>Net Pension Liability (NPL)</b>	<b>20,191</b>	<b>1,183</b>	<b>34</b>	<b>255</b>

*With stronger funding strategy, NPL could immediately drop to:*

*ERS: \$12.4 billion  
LECOS: \$539 million  
JRS2: \$78 million*

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# Summary

# Summary

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- For ERS, LECOSRF, and JRS-2, current contribution levels are not sufficient to sustain the system
  - Without an increase of contributions over the current schedules, or a reduction of benefits, the funded status will continue to decline

# Summary

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- Scheduled to review investment return assumption again before the next actuarial valuation
  - All current results currently based on 7.50% investment return assumption
  - Return expectations for peer systems and from investment professionals have continued to decline since the last ERS review in the summer of 2017
  - Current general guidance is that 2020 capital market expectations from investment professionals will be the lowest yet

# Disclaimers

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- This presentation is intended to be used in conjunction with the actuarial valuation reports issued in December 2019. This presentation should not be relied on for any purpose other than the purpose described in the valuation reports.
- This presentation shall not be construed to provide tax advice, legal advice or investment advice.

Questions?

## Public Agenda Item #10.1

Review, Discussion and Consideration of *Contract Award Recommendation for Pension Actuarial Services* -(*Action*)

December 10, 2019

Gabrielle Schreiber, Director of Procurement and Contract Oversight

Keith Yawn, Director of Strategic Initiatives



# Pension Actuarial Services

## *Background*



ERS contracted with Gabriel, Roeder, Smith, & Company (GRS) as ERS's pension consultant on May 22, 2013.

# Pension Actuarial Services

## *Request for Proposals (RFP)*



- ERS issued a Request for Proposals (RFP) on June 20, 2019.
- Requested Services include:
  - Annual Valuation;
  - Mid-Year Valuation;
  - Experience Study and Actuarial Table Adjustments;
  - Comprehensive Annual Financial Report; and
  - Other Ad Hoc Consulting Reports and Special Projects.

# Pension Actuarial Services

## *Request for Proposals (RFP)*



- Proposals were due on July 19, 2019.
- The following three entities submitted proposals:
  - GRS;
  - Rudd and Wisdom, Inc. (R&W); and
  - The Segal Group, Inc., d/b/a Segal Consulting (Segal).

# Pension Actuarial Services

## *Staff Recommendation*



Based on the evaluation process we will now discuss, Staff recommends that the Board of Trustees of the Employees Retirement System of Texas award the Pension Actuarial Services contract to [\_\_\_\_\_].

# Pension Actuarial Services

## *Preliminary Review Phase*



- ERS's Office of Procurement and Contract Oversight (OPCO) evaluated the following criteria on a pass/fail basis:
  - Responsiveness;
  - Compliance with the RFP; and
  - Certain vendor performance checks required by the Texas Comptroller of Public Accounts.

# Pension Actuarial Services

## *Proposal Review Phase*



OPCO also verified the following Minimum Requirements:

- Each Respondent and its pertinent staff meet certain experience qualifications;
- Each Respondent holds the requisite business and professional licenses and certifications.

Each Respondent passed the Preliminary Review Phase.

# Pension Actuarial Services

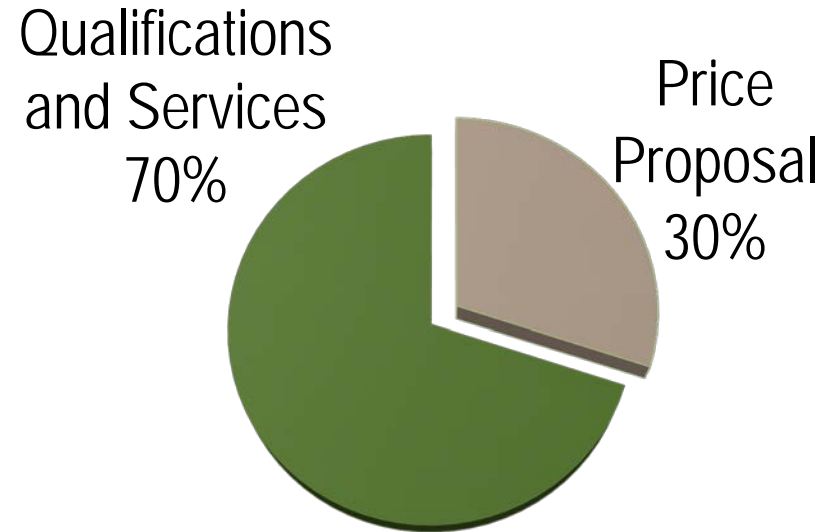
## *Proposal Review Phase*



Two main categories scored:

- Qualifications and Services: 70%
  - Firm Qualifications
  - Staff Qualifications
  - Methodology
  - Technology
- Price Proposal: 30%

### Evaluation Criteria



# Pension Actuarial Services

## *Proposal Review Phase*



Pass/fail items:

- Contractibility (initially reviewed);
- Legal Requirements and Regulatory Compliance (initially reviewed); and
- Financial Stability (finally evaluated).



# Pension Actuarial Services

## *Finalists Review Phase*



Based on the Pass/Fail items and the scoring of Price Proposals and Qualifications and Services requirements during the Proposal Review Phase, three Respondents were recommended as Finalists:

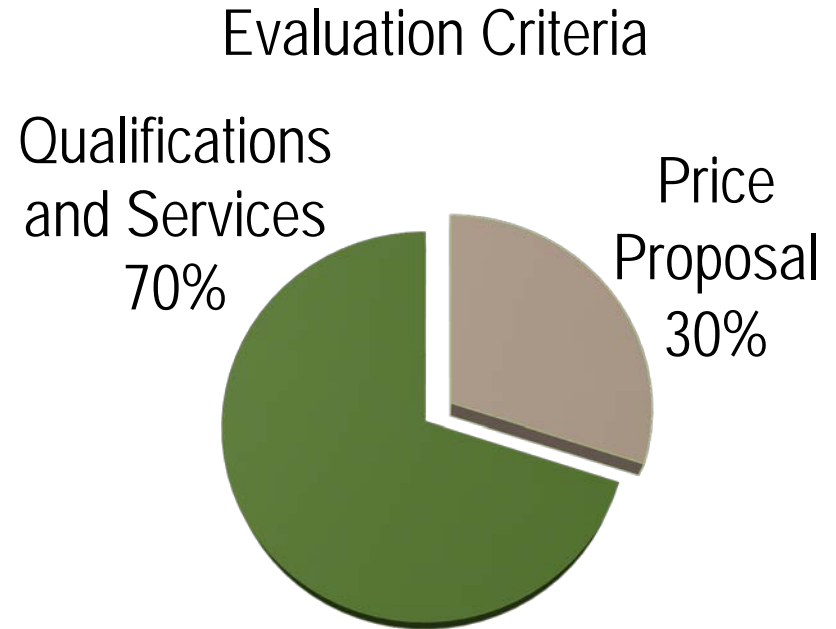
- GRS;
- R&W; and
- Segal.

# Pension Actuarial Services

## *Finalists Review Phase*



- Finalists Review Phase
  - Face-to-Face Interviews
  - Information Technology Site Visits
  - Price Best and Final Offers
  - Past Performance
  - Contractibility and Legal Requirements and Regulatory Compliance (finalized)



# Pension Actuarial Services

## *Finalists Review Phase*



- Staff met with Executive Office and reviewed RFP evaluation team findings.
- A best-value determination was made.

# Pension Actuarial Services

## *Staff Recommendation*



Staff recommends that the Board of Trustees of the Employees Retirement System of Texas award the Pension Actuarial Services contract to [\_\_\_\_\_].

Questions?  
Action Item

# Public Agenda Item #11.1

## *Agency Update*

December 10, 2019

Porter Wilson, Executive Director

# Executive Director's Report

## *86<sup>th</sup> Legislative Session Implementation Update*



SB 2224 requires a public retirement system to adopt a funding policy

- Pension Review Board (PRB) provided informal guidance for developing a funding policy
- ERS Pension Funding Priorities and Guidelines (as adopted May 2018) will be submitted to the PRB in January 2020
- ERS will continue to seek opportunities to include emerging best practices and concepts to better communicate funding needs to the Legislature

# Executive Director's Report

## *Interim Legislative Committee Charges*



## Senate

- Finance Charges
  - Review efficiencies in state-funded health care programs to reduce or contain costs
  - Study investment of state funds, state contracting and state budget spending limit
- Business and Commerce Charges
  - Study cost of healthcare
  - Monitor implementation of SB 1264 (balance billing)



# Executive Director's Report

## *Interim Legislative Committee Charges*



### House of Representatives

- Joint Charge – Appropriations and Pensions, Investments & Financial Services
  - Review actuarial soundness of ERS and TRS pension funds
  - Examine cost and strategy for achieving actuarial soundness
  - Study the effect of unfunded liabilities on state credit rating
  - Examine state investment policies and practices
- Appropriations Charges
  - Examine cost of state employee turnover
  - Study the Economic Stabilization Fund to maximize investments and establish source of funding for long-term liabilities

# Executive Director's Report

## *Interim Legislative Committee Charges*



### House of Representatives

- Pensions, Investments & Financial Services (PIFS) Charges
  - Monitor 86<sup>th</sup> Session legislation implementation
    - SB 322 – evaluation and reporting of investment practices of public retirement systems
    - SB 2224 – public retirement system adoption of funding policy

# Executive Director's Report

## *Staying Connected Retiree Fairs*



### Session-year updates on benefits changes and issues

- More than 665 appreciative retirees at five fairs in August and September:
  - San Antonio
  - Arlington
  - South Austin/Kyle
  - Houston
  - Central Austin
- Also attending: State Rep. Jim Murphy in Houston and State Rep. Gervin-Hawkins' staff in San Antonio

Staying   
Connected

# Executive Director's Report

## *Stakeholder Engagements*



More opportunities to educate members this fall

- Retired State Employees Association, October 3
- Dept. of Public Safety Officers Association, October 4
- State Agency Coordinating Council, November 14
- Parks & Wildlife Dept. IT team, December 4
- Regular briefings of retiree and employee association representatives

# Executive Director's Report

## *AMP Wellness Campaign Goals*



**Assess:** Increase completion of an online health assessment to help participant identify health needs

- First-stage goal: 20% (FY18 completion: 2.44%)

**Manage:** Increase enrollment in available weight management programs (Naturally Slim and Real Appeal)

- First-stage goal: 5% (FY18 enrollment: 1.33%)

**Prevent:** Increase number of participants who get a preventive screening annually

- Goal: 70% (FY18: 45%)

# Plan Year 2020 Fall Enrollment

## *Benefits Enrollment Information*



ERS mailed  
95,062 PBES  
packets



The ERS website had  
435,764 pageviews by  
almost 100,000 visitors



Members made  
6,415 coverage  
changes



192 retirees attended  
seven fairs across  
Texas and two  
webinars

# Executive Director's Report

## *FY19 Accomplishments and State of ERS*



### Annual poster and presentation for ERS employees

- Key accomplishments of just-ended fiscal year
- Overview of select initiatives for current year
- Opportunity for recognition and reflection
- Video recording (no space for live presentation)



# Executive Director Agency Update

## *Outreach to Membership via Survey*



- Partnered with a UT expert to develop and launch member surveys on retirement and benefits programs
- Surveys sent by email beginning November 15 to employees and retirees
  - Retirement: ~32,000
  - Benefits: ~40,000
- Survey results will be shared with the Board at the March meeting



# Executive Director Agency Update

## *Evaluation of Board Meeting Management Services*



- Implemented the BoardDocs service in May 2017 to manage board portal
- Published Request for Offer for board meeting management service proposals on August 27
- Finalizing contract with top vendor
- Plan to implement service for the March 2020 meeting

# Executive Director's Report

## 2019 State Employee Charitable Campaign



- Surpassed 2018 participation, with 368 employees donating (91%)
  - Several divisions reached 100%
- Exceeded our donation goal of \$55,000 (102%)

In addition to the individual donations employees made to the charities of their choice, ERS had two fundraisers that garnered a total of more than \$600.

Employees voted to donate those funds to Meals on Wheels/Senior Nutrition Program.



# ERS Building Update

# Current Status



*Agenda item 11.1 – Board of Trustees Meeting, December 10, 2019*

# BIG BLOCK

## AVAILABILITY (40K SF)



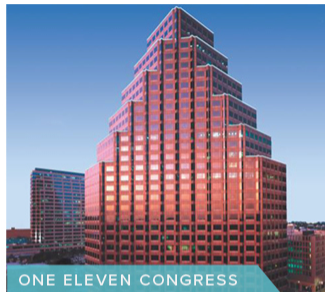
Area (SF)	433,024
Typical Floor Plate (SF)	21,505
Vacant (SF)	43,024
Sublease (SF)	13,679
Available (SF)	182,264
Largest Contiguous Available (SF)	50,161
Coworking (SF)	0
% Vacant	10%
% Leased	90%
Asking Net Rent	\$42.00
Estimated Operating Expenses	\$21.62
Gross Rent	\$63.62
Parking Ratio	1.3
Parking Costs (Unreserved)	\$200
Parking Costs (Reserved)	\$250
Year Built	1983
Owner/Developer	Cousins Properties
Listing Company	JLL
Major Tenants	TRS Lloyd Gosselink Texas Monthly



Area (SF)	446,839
Typical Floor Plate (SF)	19,015
Vacant (SF)	64,860
Sublease (SF)	75,517
Available (SF)	117,672
Largest Contiguous Available (SF)	48,436
Coworking (SF)	0
% Vacant	15%
% Leased	85%
Asking Net Rent	\$40.00
Estimated Operating Expenses	\$25.03
Gross Rent	\$65.03
Parking Ratio	1.6
Parking Costs (Unreserved)	\$250
Parking Costs (Reserved)	\$310
Year Built	1985
Owner/Developer	Prudential
Listing Company	HPI
Major Tenants	RetailMeNot Gerson Lehrman Group Morgan Stanley



Area (SF)	410,248
Typical Floor Plate (SF)	19,535
Vacant (SF)	4,085
Sublease (SF)	2,596
Available (SF)	94,640
Largest Contiguous Available (SF)	62,073
Coworking (SF)	29,090
% Vacant	1%
% Leased	99%
Asking Net Rent	\$43.00
Estimated Operating Expenses	\$25.61
Gross Rent	\$68.61
Parking Ratio	1.6
Parking Costs (Unreserved)	\$195
Parking Costs (Reserved)	\$275
Year Built	1987
Owner/Developer	Cousins Properties
Listing Company	JLL
Major Tenants	Norton Rose Baker Botts Outbound Engine



Area (SF)	518,385
Typical Floor Plate (SF)	18,598
Vacant (SF)	21,430
Sublease (SF)	0
Available (SF)	74,832
Largest Contiguous Available (SF)	38,744
Coworking (SF)	23,150
% Vacant	4%
% Leased	96%
Asking Net Rent	\$43.00
Estimated Operating Expenses	\$23.55
Gross Rent	\$66.55
Parking Ratio	1.6
Parking Costs (Unreserved)	\$195
Parking Costs (Reserved)	\$275
Year Built	1985
Owner/Developer	Cousins Properties
Listing Company	JLL
Major Tenants	Wells Fargo Husch Blackwell Bracewell



Area (SF)	373,334
Typical Floor Plate (SF)	21,264
Vacant (SF)	4,034
Sublease (SF)	110,000
Available (SF)	18,734
Largest Contiguous Available (SF)	14,700
Coworking (SF)	0
% Vacant	1%
% Leased	99%
Asking Net Rent	\$50.00
Estimated Operating Expenses	\$26.86
Gross Rent	\$76.86
Parking Ratio	2.6
Parking Costs (Unreserved)	\$225
Parking Costs (Reserved)	\$250
Year Built	2015
Owner/Developer	Cousins Properties
Listing Company	JLL
Major Tenants	Parsley Energy Atlasian Scott Douglas



# PRE-LEASING UNDER CONSTRUCTION

## 701 RIO



BUILDING SF:	120,934
AVAILABLE SF:	120,934
% LEASED:	0%
ASKING NNN/SF:	\$43.50
DELIVERING:	2021
LANDLORD/DEVELOPER:	Diana Zuniga/ Investor Alliance
STORIES:	5

## BLOCK 185



BUILDING SF:	790,000
AVAILABLE SF:	0
% LEASED:	100%
ASKING NNN/SF:	\$42.00
DELIVERING:	2022
LANDLORD/DEVELOPER:	Trammell Crow/ MSD Capital
STORIES:	35

## RIVERSOUTH



BUILDING SF:	350,611
AVAILABLE SF:	281,938
% LEASED:	20%
ASKING NNN/SF:	\$43.50
DELIVERING:	Late 2021
LANDLORD/DEVELOPER:	Stream
STORIES:	15 stories

## 1836 SAN JACINTO

## BLOCK 71



BUILDING SF:	669,130
AVAILABLE SF:	231,629
% LEASED:	65%
ASKING NNN/SF:	\$48.00
DELIVERING:	2021
LANDLORD/DEVELOPER:	UT System/Trammell Crow/Principal Real Estate/Investors
STORIES:	Indeed / TRS

## 405 COLORADO



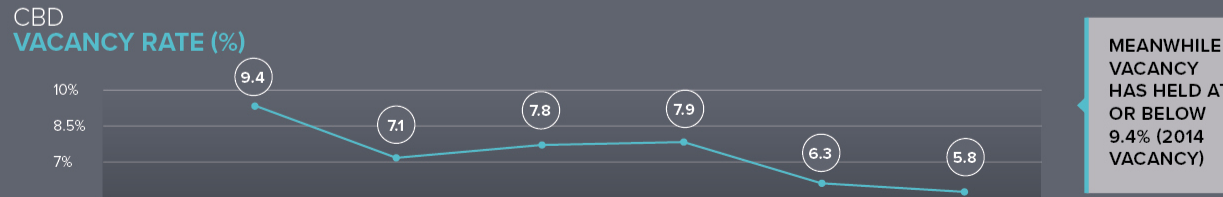
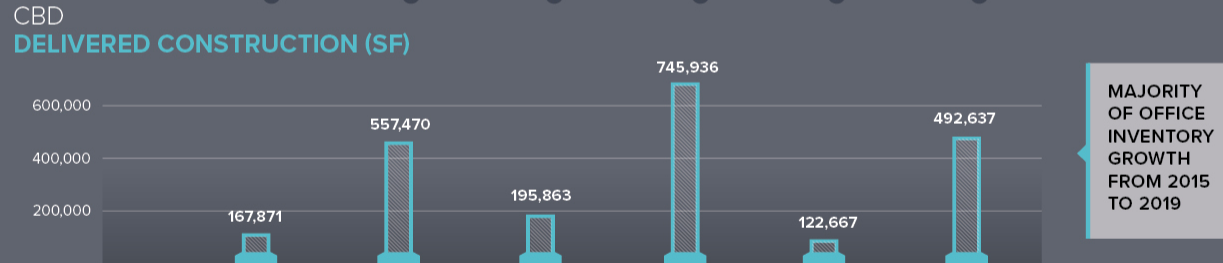
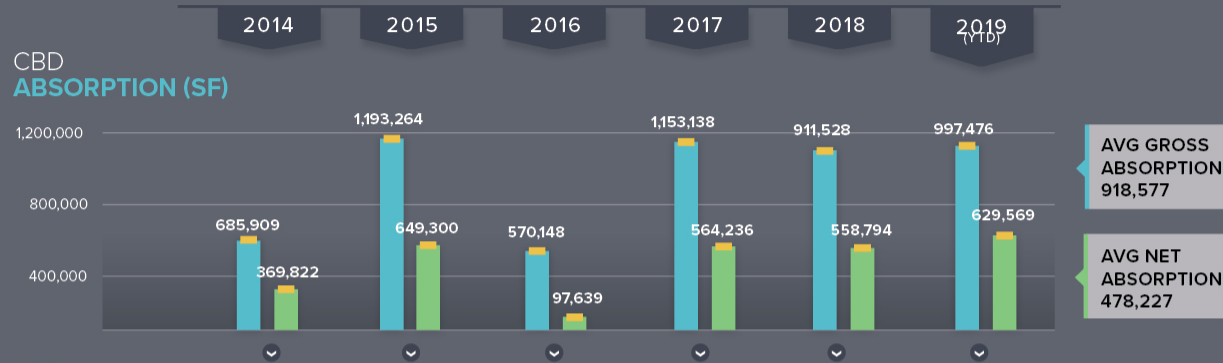
BUILDING SF:	205,496
AVAILABLE SF:	102,937
% LEASED:	50%
ASKING NNN/SF:	\$47.00
DELIVERING:	2020
LANDLORD/DEVELOPER:	Brandywine
STORIES:	25

## 300 COLORADO



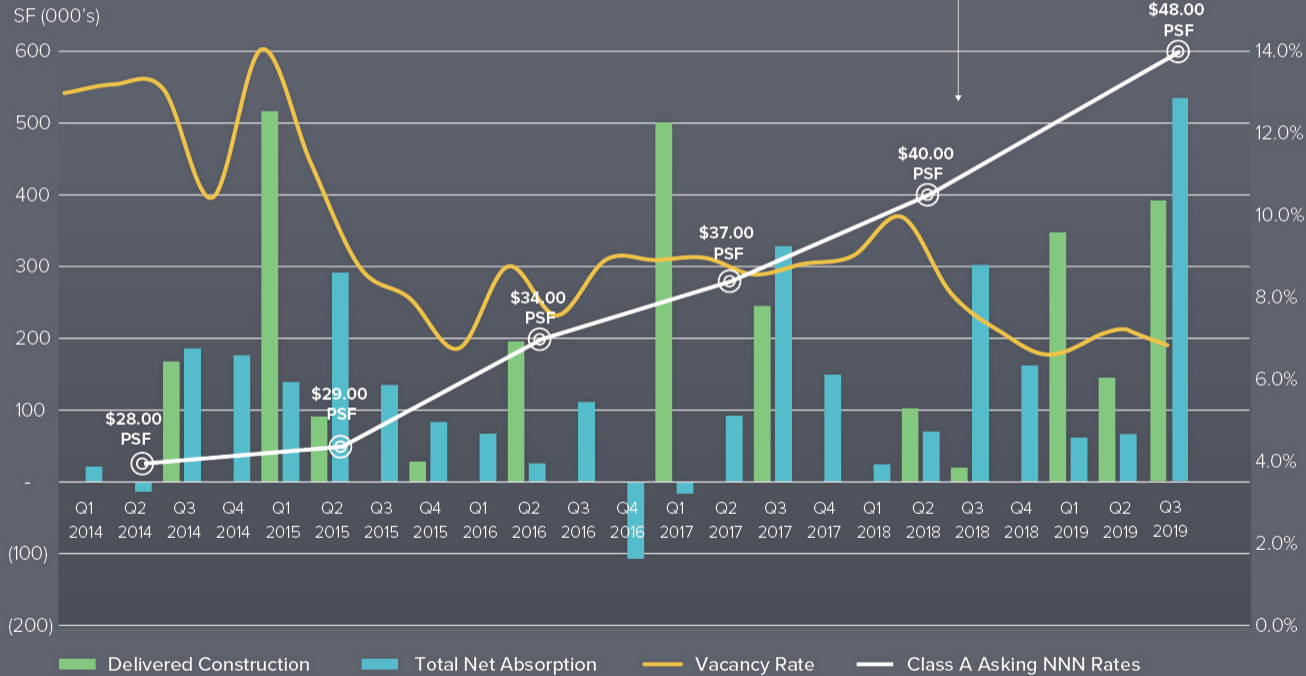
BUILDING SF:	368,798
AVAILABLE SF:	44,000
% LEASED:	88%
SUBLEASE SF:	110,000
ASKING NNN/SF:	\$45.00
DELIVERING:	2021
LANDLORD/DEVELOPER:	Cousins Properties/ Riverside Resources/ Ironwood Real Estate
STORIES:	Parsley Energy

# ABSORPTION & VACANCY



# CBD FUNDAMENTALS SNAPSHOT

## CBD SUPPLY | DEMAND





Questions?

## Public Agenda Item #12.1

*Set 2020 Meeting Dates for the Joint Meeting of the ERS Board of Trustees and Investment Advisory Committee, the Meeting of the Board of Trustees and the Meeting of the Audit Committee*

December 10, 2019

# Proposed Calendar Year (CY) 2020 Meeting Dates



## Proposed Meeting Dates for CY20

Wednesday, March 11, 2020

Wednesday, May 20, 2020

Wednesday, August 19, 2020

2-Day Workshop:

Tuesday – Wednesday, December 8-9, 2020

Questions?

## Public Agenda Item #13.1

*Executive Session – In accordance with Section 551.072 Texas Government Code, the ERS Board of Trustees will meet in executive session to deliberate the purchase, exchange, lease or value of Real Property and the ERS building. Thereafter, the Board may consider appropriate action in open session.*

December 10, 2019

# Public Agenda Item #14.1

## *Recess of the Board of Trustees*

December 10, 2019