

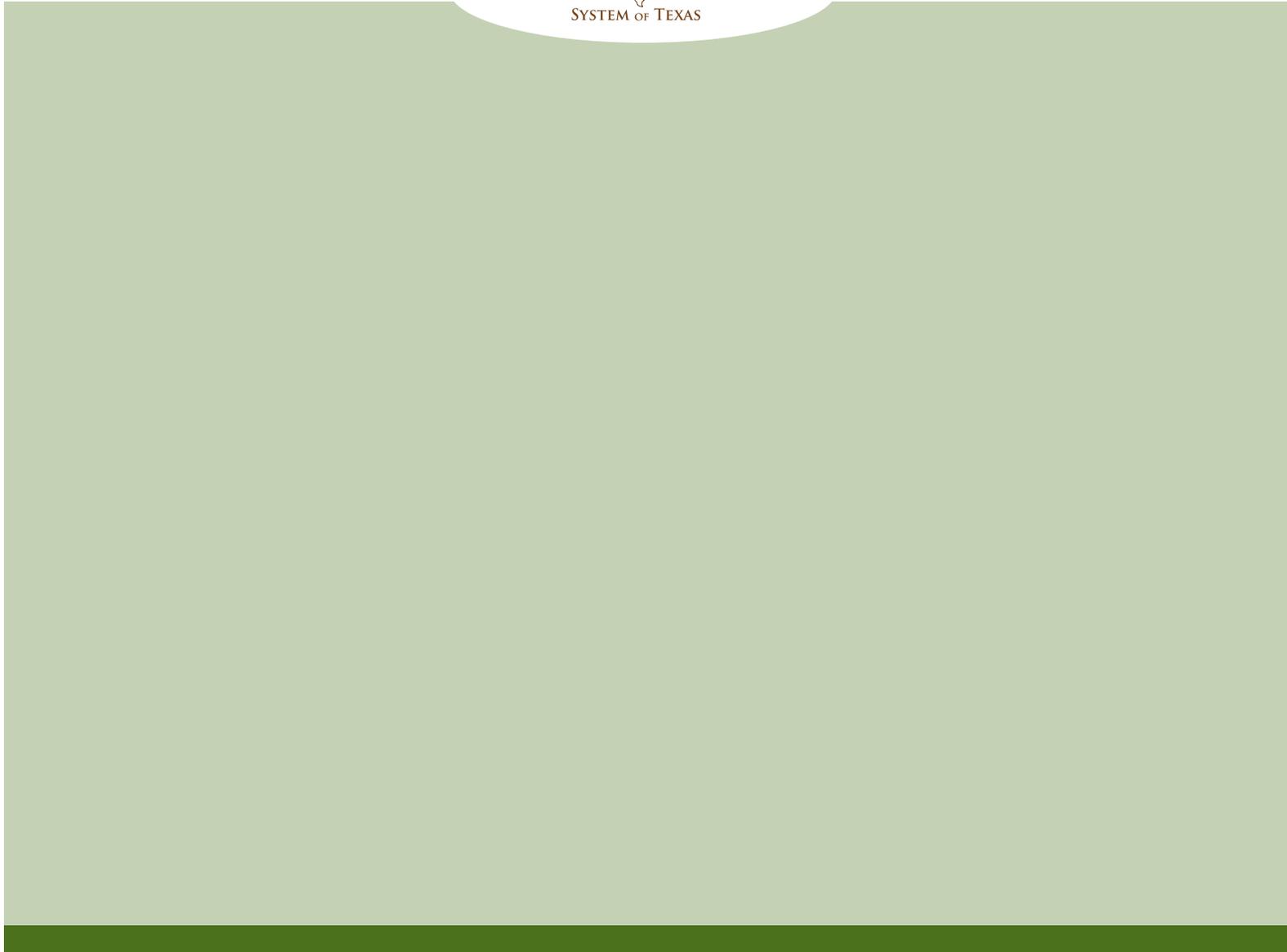


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# ERS

EMPLOYEES  RETIREMENT  
SYSTEM OF TEXAS

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**BOARD OF TRUSTEES MEETING  
EMPLOYEES RETIREMENT SYSTEM OF TEXAS**

**August 20, 2013  
ERS Board Room  
ERS Building – 200 E. 18<sup>th</sup> Street  
Austin, Texas 78701**

**TRUSTEES PRESENT**

Cheryl MacBride, Chair  
Brian Ragland, Vice-Chair  
Cydney Donnell, Member  
Yolanda Griego, Member  
I. Craig Hester, Member  
Frederick E. Rowe, Member

**ERS STAFF PRESENT**

Ann S. Bishop, Executive Director  
Larry Zeplin, Chief Operating Officer  
Tony Chavez, Internal Auditor  
Paula A. Jones, General Counsel and Chief Compliance Officer  
Robert P. Kukla, Director of Benefit Contracts  
Mel Mireles, Chief Information Officer  
Shack Nail, Director of Governmental Relations  
Ralph Salinas, Human Resources Director  
Marc B. Sundbeck, Manager of Enterprise Risk Management  
Catherine Terrell, Director of Communications and Research  
Tom Tull, Chief Investment Officer  
Debbie Warren, Director of Customer Benefits  
Mike Wheeler, Chief Financial Officer  
Brannon Andrews, Legal Services  
Bill Bittick, Internal Audit  
Tracy Caraway, Benefit Contracts  
Kelley Davenport, Executive Office  
Brian Dowdy, Finance  
Leah Erard, Governmental Relations  
Lynne Fowler, Investments  
Wesley Gipson, Investments  
Sharmilla Kassam, Investments  
Debbie Leatham, Finance  
Leona Rao-Blevins, Finance  
Cheryl Scott Ryan, Legal Services  
Jim Sherwin, Investments  
Jackie Talley, Executive Office  
Martha Wall, Communications and Research  
Mary Jane Wardlow, Communications and Research  
Erin Williams, Finance

## **ALSO PRESENT**

Kristen Doyle, Hewitt EnnisKnupp  
Ryan Falls, Gabriel Roeder Smith & Company  
Adam Jones, Weaver L.L.P.  
Alyssa Martin, Weaver L.L.P.  
Joe Newton, Gabriel Roeder Smith & Company  
Mike Stein, Weaver L.L.P.

Ann S. Bishop, Employees Retirement System of Texas (ERS) Executive Director, opened the meeting with the following statement:

A public notice of the Joint Meeting of the Board of Trustees (Board) and Investment Advisory Committee (IAC) containing all items on the proposed agenda was filed with the Office of the Secretary of State at 11:22 a.m. on Friday, August 9, 2013 as required by Chapter 551, Texas Government Code, referred to as "The Open Meetings Law."

The Board of Trustees convened as a committee of the whole at 1:35 p.m. to consider Audit Committee agenda items.

## **X. PRESENTATION, DISCUSSION AND CONSIDERATION OF AUDIT COMMITTEE AGENDA ITEMS:**

**a. Internal Audit Reports** – Mr. Tony Chavez, ERS Internal Auditor, presented to the Audit Committee (Board) two audit engagements completed as part of the approved annual audit plan. The first engagement presented was the Group Benefit Program (GBP) Procurement audit. Joining Mr. Chavez in presenting this report were Alyssa Martin, Weaver L.L.P. (co-source audit partner) and Rob Kukla, Director of Benefit Contracts. The audit objective for this engagement was to determine whether internal controls are in place and working effectively to ensure GBP goods and services are procured to provide high quality, affordable and accessible benefit options at the best value to ERS and its members. The overall assessment was satisfactory and internal controls are effective and working as intended.

Mr. Chavez communicated audit work for this engagement focused on two specific areas: 1) GBP Procurement, Development, and Planning and 2) GBP Bid Evaluation, Selection and Recommendation.

The first scope area, GBP Procurement Development and Planning was determined to have effective internal controls and utilizing best practices. Best practices included collaboration efforts amongst the ERS divisions and use of external subject matter experts in the bid development process.

The second scope area, GBP Bid Evaluation, Selection and Recommendation was determined to need improvement with two observations reported. The first observation was control activities over the evaluation scoring process need to be improved. Mr. Chavez noted that bid evaluations are a collaborative effort amongst divisions within ERS with subject matter experts evaluating and scoring vendor bids. Benefit Contracts Division is responsible for consolidating and summarizing these scores. Errors were identified in the scoring summary process however these errors did not negatively impact results. The second observation was to enhance and clarify formal policies for the GBP procurement methodology process.

Mr. Chavez presented the second audit engagement, the Investment Compliance Quarterly Report. Mr. Chavez communicated no significant issues were noted this quarter.

Ms. Cydney Donnell asked for clarification on instances ERS voted differently when compared to ERS proxy voting guidelines. Mr. Chavez introduced Bill Bittick, ERS Investment Compliance Officer to address Ms. Donnell's question. Mr. Bittick stated there are a standard set of guidelines for proxy voting.

However in certain instances Investment staff may determine that voting in accordance with guidelines would not be in the best economic interest of ERS. In those instances staff will document rationale. Internal Audit reviewed rationale in voting against guidelines and determine votes were appropriate.

In a response to a question asked by Ms. Bishop in regards to clarifying personal trading policy and the requirements to get pre-clearance, Mr. Bittick responded that the Chief Investment Officer, Tom Tull has been very open with his employees in terms of stressing the need to get personal pre-clearance for trades. Mr. Tull has also stressed personal trading is a privilege and not every investment firm allows this practice. Mr. Tull added that ERS does take the personal trading policy very serious and it is routinely communicated to staff so there is no excuse for any violation.

There were no questions or further discussion, and no action was required on this item

**b. Fiscal Year 2014 Audit Plan and Administration Update** – Mr. Chavez reminded the Board Internal Audit's Peer Review is scheduled for September 16, 2013 - October 11, 2013. Mr. Chavez announced Amy Barrett, TRS' Chief Audit Executive will be the audit team lead and results will be presented at the December 2013 Audit Committee meeting. Mr. Chavez noted the Board approved the Quality Assessment Review to be performed by the State Agency Internal Audit Form Peer Review Process at the May 2013 Audit Committee meeting.

Mr. Chavez reported on the FY 2014 Internal Audit performance initiatives which are being incorporated to improve effectiveness and efficiency of the internal audit function. Internal Audit will use audit management software (TeamMate) in performance of audits to increase process efficiency and compliance with standards. Mr. Chavez stated they will identify opportunities for greater use of data analytics to improve focus and effectiveness of audit engagements. Additionally, Internal Audit will incorporate procedures to track and monitor productivity. Internal Audit will utilize the ERS Clarity time keeping system to track individual projects and tasks in combination with Teammate Software.

Ms. MacBride commented that she thought it was great that TRS was able to work on the peer review and with TRS' investment experience it will add a lot of value. Mr. Chavez stated he will soon be coordinating interviews with TRS (Amy Barrett) and the Board.

Mr. Chavez confirmed with the Board the organizational independence of the internal audit activity in accordance with the Audit Charter. Mr. Chavez also noted that each staff member completed an annual auditor independent statement.

Mr. Chavez next presented the FY 2014 ERS Internal Audit Plan<sup>1</sup> for review and approval. Mr. Chavez provided an overview of the audit plan development process which included steps to gain an understanding of the business environment, assess risk and develop the audit universe. Mr. Chavez presented risk assessment results in Exhibit B<sup>2</sup> (FY 2014 Annual Audit Risk Assessment). The risk assessment utilized a ten point risk criteria that included complexity of operations, financial exposure, public image and headline risk, and prior audit results.

Ms. MacBride inquired as to which engagements in the FY14 audit plan would utilize co-source auditors. Mr. Chavez communicated that four engagements on the audit plan have been designated as utilizing co-source auditors. Mr. Chavez also noted for those engagements that have not be designated as utilizing co-source auditors, if assistance were determined to be needed, he would contact the co-source audit partner. Mr. Chavez noted the co-source audit partner will be utilized when Internal Audit may not have sufficient skill-sets in a particular area such as the information technology (IT).

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<sup>1</sup>Exhibit A – Page 11

<sup>2</sup>Exhibit B– Page 12

Mr. Hester asked if the FY 14 Annual Audit Risk Assessment document will serve as the roadmap for where ERS will target the Audit Plan for 2014 and Mr. Chavez confirmed that it would.

There being no further questions or discussion, the Board then took the following action:

**MOTION** made by Ms. Yolanda Griego, and seconded by Mr. Craig Hester and carried unanimously by the members that the Board of Trustees of the Employees Retirement System of Texas approve and adopt the Fiscal Year 2014 ERS Internal Audit Plan.

**XI. ADJOURNMENT OF THE AUDIT COMMITTEE – Following adjournment of the Audit Committee, the Board of Trustees will take up the remaining agenda items**

**XII. REVIEW AND APPROVAL OF THE MINUTES TO THE MAY 21, 2013 MEETING OF THE BOARD OF TRUSTEES**

Chair Cheryl MacBride opened the floor for a motion on the approval of the minutes to the Board of Trustees meeting held on May 21, 2013.

**MOTION** made by Ms. Cydney Donnell, seconded by Mr. Craig Hester and carried unanimously by the members that the Board of Trustees of the Employees Retirement System of Texas approve the Minutes to its meetings held on May 21, 2013.

**XIII. REVIEW, DISCUSSION AND UPDATE OF RETIREMENT ACTUARIAL SERVICES**

Ms. Martha Wall presented the next agenda item and reminded the Board that at its May meeting they elected Gabriel Roeder Smith and Company (GRS) as its consulting actuary for retirement effective June 1, 2013. Ms. Wall then introduced Mr. Ryan Falls and Mr. Joe Newton of GRS. The transition to GRS began immediately with their first task being to replicate the August 31, 2012 valuations. This process of replicating the fiscal year end (FYE) valuation allows GRS to become familiar with the ERS plans prior to conducting the FYE 2013 valuation and provides a peer review which results in a better acquainted base for GRS to begin providing actuarial services to the ERS Board.

Ms. Wall reported that since August 2012 there have been changes to the retirement plan including the passage of SB 1459, the ERS Omnibus Bill by the 83<sup>rd</sup> Legislature and increased contributions in the general appropriations the agency receives.

Mr. Newton proceeded to inform the Board that GRS is solely focused on serving their clients, especially public sector employers. GRS brings perspectives from clients in other areas of the country who are faced with similar issues as ERS and also they have six fully-staffed regional offices.

Mr. Falls then reported that GRS received all the necessary information and data from ERS staff and the prior actuary. GRS has completed replication of the 2012 valuation for the primary ERS retirement plan and are finalizing replication of the Law Enforcement and Custodial Officer Supplemental Retirement Fund (LECSRFB), Judicial Retirement System Plan 2 (JRS2) and Judicial Retirement System Plan 1 (JRS1). Ms. Bishop commented that one of the best practices that a lot of funds do not do is to review their assumptions or review their results and she stated that changing actuaries gives ERS an opportunity to do that validation. Mr. Falls added that GRS is comfortable with all of the current assumptions and methods.

Mr. Falls highlighted some of the changes to benefits for members hired after August 2013. Members retiring before age 62 (57 for LECOS), receive a 5% per year retirement reduction factor and the final average salary calculation is based on the highest 60-months of salary. Mr. Falls then reported that the interest on all ERS member account balances [starting January 1, 2014] will go from 5% to 2% and the member, employer and state contribution rates increased.

Ms. Bishop questioned if GRS looked at the payroll growth assumption and asked if it was reasonable. Mr. Falls stated it is reasonable and in line with the inflation assumption. Some retirement systems will assume payroll growth is an additional 50-100 basis points beyond inflation, so ERS is in line with inflation which is conservative. He then clarified that the assumption for membership is flat – no growth in membership is assumed.

Mr. Falls noted that changes implemented by SB 1459 are an important step in the right direction however contribution rates are not efficient to amortize the unfunded liability.

He stated that ERS, as directed by the legislature, will look at general employees and separate out the LECOSRF members to better understand the aggregate assets and liabilities attributable to these members and retirees. As part of the actuarial valuation for 2014, GRS will report the obligations for these employees and the funding levels needed for each group separately.

Mr. Falls then discussed the new Governmental Accounting Standards Board (GASB) reporting standards. He reported that the actuarial valuation that GRS presents to the Board and the way the funded status of the plan is tracked and how the actuarial soundness is determined will not change as a result of the new accounting standards. It will change the way the retirement systems report the accounting numbers in ERS' Comprehensive Annual Financial Report (CAFR), and in the subsequent year, it is going to impact the way the State discloses its retirement pension liability on its financial statements. The annual actuarial valuation and legislative appropriation requests will continue to focus on the plan's funding needs based on the Board's adopted assumptions.

Mr. Newton thanked the Board for allowing time to introduce themselves. Ms. Wall then concluded the presentation by reporting that GRS will be back in December presenting the FY 2013 valuation report along with the new actuarial factor tables that are related to the assumptions that the Board adopted in February, and the new benefit tier established under SB1459.

There were no questions or further discussion, and no action was required on this item

#### **XIV. REVIEW, DISCUSSION AND CONSIDERATION OF THE INVESTMENT COMPENSATION STUDY AND THE ERS INCENTIVE COMPENSATION PLAN FOR FISCAL YEAR 2014**

Mr. Ralph Salinas, Director of Human Resources proceeded with the next agenda item and introduced Tom Tull, Chief Investment Officer, Shar Kassam, Investments Chief of Staff and ERS' consultant Priya Kapila from CBIZ Humana Capital Services (CBIZ). Mr. Salinas reminded the Board that on August 21, 2012, they adopted the FY 2013 Operating Budget which included Investment Equity Adjustments to be allocated based on a compensation study conducted by an independent compensation consultant. Using the RFP process, CBIZ was selected and hired to perform the compensation study. The objective of the study was to provide ERS with market competitive data that would enhance the ability to attract, retain and motivate qualified people, establish pay ranges that meet our changing needs and to align the compensation program with ERS' broader goals and strategies.

Mr. Salinas reported that CBIZ followed their standard approach to conduct the compensation survey. This approach included identifying survey participants, developing and distinguishing job analysis questionnaires completed by ERS staff, developing a customized tool to survey public pension plans and analyzing the data as well as conducting a total cash compensation analysis. CBIZ reviewed ERS' current compensation practices and made recommendations related to the current pay compared to

market value, assessed internal equity and to made recommendations for salary ranges that would fit within the State of Texas position classification plan. As a result of the study, salary actions were implemented for FY 2013 and certain equity adjustments will be proposed later for FY 2014 and FY 2015. Mr. Salinas reported that based on guidance from CBIZ and discussions among Investments, Human Resources staff, and the Executive Office, staff recommends that a Compensation Philosophy and the Investments Compensation Policy be adopted.

In a response to a question by Ms. Donnell asking if Mr. Salinas is satisfied that the proper adjustments were taken into consideration given the cost of living in Austin versus other locations, Mr. Salinas responded yes. Ms. Kapila then addressed the Board by stating that CBIZ did look at both public and private sectors, focusing on Investment professionals. CBIZ looked at database information to ensure they were reflecting an appropriate geographic location and regressed the data to be equivalent to the cost of living in Austin.

Mr. Hester questioned if the staff that are within the year ranges of 3-5 and greater will be adjusted immediately or if the changes will gradually be implemented, Mr. Salinas responded that the proposed policy sets the framework for implementation and adjustments so they coincide with employee performance evaluations. Ms. Bishop added that there have been adjustments in FY 2013 and will continue to be adjustments based on the study. Ms. Kassam also stated that those FY 2014 adjustments are included in the proposed budget. At Ms. Bishop's request, Ms. Kassam walked the Board through an example of what the compensation philosophy is in terms of the ranges.

In a response to a question asked by Ms. MacBride regarding State of Texas classification tables, Mr. Salinas responded that CBIZ looked into the ranges for each classification. The non-investment staff equity adjustments were done within the SAO State Classification System.

Mr. Tull then proceeded to discuss the Incentive Compensation Plan (ICP) issue with the State Auditor's Office (SAO) evaluation of the plan and their recommendation that the Board formally approve the ICP document prior to the beginning of each plan year. Mr. Tull stated that the ICP is extremely important in attracting and retaining people into the investment department. He added that this year there were a couple of minor changes and clarifications as part of the revisions in the plan. The main change is to account for a number of services throughout the agency that are providing input to investments and that associated expenses would be factored into the net performance.

There being no further questions or discussion, the Board then took the following action:

**MOTION** made by Ms. Cydney Donnell, and seconded by Ms. Yolanda Griego and carried unanimously by the members that the Board of Trustees of the Employees Retirement System of Texas adopt a proposed Compensation Philosophy and Investment Division Compensation Policy as presented in this agenda item. I further move that the Board of Trustees of the Employees Retirement System of Texas approve the ERS Incentive Compensation Plan for Key Investment Professionals and Leadership Employees.

**XV. REVIEW, DISCUSSION AND CONSIDERATION OF THE ERS FISCAL YEAR 2014 PROPOSED OPERATING BUDGET**

Mr. Larry Zeplin, Chief Operating Officer, presented the next agenda item on the ERS FY 2014 Proposed Operating Budget. Mr. Zeplin recognized the Finance staff (Brian Dowdy, Leona Rao-Blevins and Erin Williams) who were involved in putting together the Operating Budget along with division directors who worked together in updating the strategic plan as the first step in the Operating Budget. Mr. Zeplin highlighted the changes in the presentation of the budget document and then turned it over to Mike Wheeler, Chief Financial Officer and Debbie Leatham, Budget & Special Projects Manager.

Mr. Wheeler highlighted some of the accomplishments from FY 2013 including ERS working with the legislature and Legislative Budget Board and the Comptroller on innovative funding strategies and plan changes to improve the funding status and sustainability of the ERS pension plan. In the Investments program, ERS expanded private equity and private real estate portfolios and initiated the hedge fund and infrastructure asset classes. The insurance area implemented the EGWP Plan achieving 97% enrollment for 73,298 retiree members and then expanded the Texa\$aver deferred compensation program achieving assets over \$2.1 billion.

The FY 2014 Proposed Operating Budget increase is \$4.8 million, or 8.66% over the FY 2013 approved budget with Salaries and ICP being the largest increase. Mr. Wheeler noted there will be additional positions added to implement the new asset allocation plan.

	<b>FY 2013 Budget</b>	<b>FY 2014 Budget</b>	<b>FY 2013-2014 INCR (DECR)</b>
Salaries	\$ 31,139,000	\$ 33,767,000	\$ 2,628,000
Investments Incentive Compensation Plan	1,253,000	2,536,000	1,283,000
Other Expenses	22,698,000	23,556,000	858,000
<b>Total</b>	<b>\$ 55,090,000</b>	<b>\$ 59,859,000</b>	<b>\$ 4,769,000</b>

Mr. Wheeler briefly compared the FY 2013 forecast and the FY 2014 proposed budget. The FY 2013 forecast is about \$2 million or 3.6% below budget and that is because of vacant positions. Mr. Wheeler reported that unspent budget funds remain in the trust fund. FY 2014 includes funds for merits and promotions, career ladder equity adjustments, and 16 new positions. Also, the state legislation included a 1% pay raise for all employees and an increase in the state retirement contribution by 1.5% to 8%.

Mr. Wheeler then provided information on the major initiatives for FY 2014 starting with *Strategic Direction 1 – Support Retirement Security*. Some of the major initiatives are transition to the new asset allocation, evaluate risk management technology, research a derivative program, and implement legislative changes associated with the additional 0.5% contribution from agency appropriations. Mr. Wheeler also stated that ERS will document accounting and actuarial valuation data for ERS/LECOS members.

For *Strategic Direction 2 – Sustaining Competitive Group Benefit Programs*, ERS will implement Accountable Practice Models with Third Party Administrators. Mr. Wheeler also stated that ERS will be evaluating the Medicare Advantage Program, the Employer Group Waiver Plan (EGWP) plus Wrap, HealthSelect cost containment strategies and conduct summer and fall annual enrollment periods for members in FY 2014.

*Strategic Direction 3 – Engaging Stakeholders for Informed Decision Making*, Mr. Wheeler informed the board that next year a series of meetings will be held to coordinate and support strategic plan development, develop a communication strategy, and conduct a follow-up survey to benchmark employee perceptions. Mr. Wheeler added that engagement to gauge effective communication efforts and establishing a centralized research library with key documents will also be performed.

With the *Strategic Direction 4 – Enhancing Performance and Accountability*, Mr. Wheeler reported that ERS will address opportunities identified by the Survey of Employee Engagement, and completing the PeopleSoft security access re-design to improve management of access privileges to data and processes. He reported another major initiative is to enhance and improve the pension system functionality.

Mr. Wheeler discussed explanations of variances from FY 2013 forecast and FY 2014 budget. Any variance greater than \$250,000 at the agency summary level is explained and any division level items over \$100,000 are noted. Salaries and other salary costs make up approximately 60% of the budget with most of the variance in salary and other salary costs due to unfilled positions in FY 2013 and an increase in positions proposed for FY 2014. Mr. Wheeler added that the incentive compensation plan increased because the amount includes payouts for 3 performance years and Legal Services' increased costs related to the projected 40 more complex deals projected in FY 2014.

Ms. Debbie Leatham then highlighted information available in the budget book by divisions starting with organizational charts that show FTE's by section and division as well as the FY 2013 accomplishments and FY 2014 initiatives. She concluded by informing the Board that with their approval of the FY 2014 budget the Executive Director is authorized to contract on behalf of ERS for professional services and other contracted services.

Mr. Hester commented that ERS made some great improvements on the budget this year and stated, "this is one of the most thorough budget documents I've seen ever. It's very well put together." Mr. Hester then proposed to the Board that the non-investment related growth section of the budget be increased by 2% or approximately \$697,000 which would allow the Executive Director to have the flexibility to reward, motivate and attract the kind of people needed for this agency.

There were no questions or further discussion. The Board then took the following action:

**MOTION** made by Mr. Craig Hester, seconded by Ms. Yolanda Griego, and carried unanimously by the present members that the Board of Trustees of the Employees Retirement System of Texas approve the *Fiscal Year 2014 Proposed Operating Budget*, for the Employees Retirement System of Texas as amended that the non-investment related budget be increased by 2% or approximately \$697,000 and authorize the Executive Director to administer the operating budget as necessary for the efficient and effective administration of this system and authorize the transfer of interest from the interest account as required to fund the operating budget.

## **XVI. EXECUTIVE DIRECTOR'S REPORT**

Ms. Ann Bishop proceeded with the next agenda item, Executive Director's Report. Her report to the Board is included with these minutes as <sup>1</sup>Exhibit C.

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<sup>1</sup>Exhibit C – Page 13

**XVII. ELECTION OF CHAIR AND VICE-CHAIR OF THE ERS BOARD OF TRUSTEES FOR FISCAL YEAR 2014**

Texas Government Code, Title 8, 815.201, provides that the Board shall elect new officers from its membership. As a result of such an election, the newly elected Chair and Vice-Chair of the ERS Board of Trustees will each serve a one-year term beginning September 1, 2013 and ending August 31, 2014.

Chair Cheryl MacBride opened the floor for a motion on the election of Chair and Vice-Chair of the ERS Board for fiscal year 2014

**MOTION** made by Mr. Craig Hester, seconded by Ms. Yolanda Griego and carried unanimously by the members of the Board of Trustees of the Employees Retirement System of Texas elect Mr. Brian Ragland as Chair and Mr. Frederick E. Rowe as Vice-Chair of the ERS Board of Trustees for one-year terms beginning September 1, 2013 and ending August 31, 2014.

**XVIII. EXECUTIVE SESSION – In accordance with Section 551.074, Texas Government Code, The Board of Trustees will meet in executive session to evaluate the duties, performance and compensation of the Executive Director of the Employees Retirement System of Texas; and to deliberate the appointment, employment, evaluation, reassignment, duties, discipline, or dismissal of one or more public officers or employees.**

**The Board of Trustees will also meet in executive session to seek the advice of its attorney about pending or contemplated litigation or a settlement offer in accordance with Section 551.071, Texas Government Code. Following the executive session, the Board may consider appropriate action.**

At 4:00 p.m. on August 20, 2013, Chair Cheryl MacBride announced that the Board of Trustees (Board) will now meet in Executive Session in accordance with Section 551.074, Texas Government Code, to evaluate the duties, performance and compensation of the Executive Director of the Employees Retirement System of Texas; and to deliberate the appointment, employment, evaluation, reassignment, duties, discipline, or dismissal of one or more public officers or employees.

The Board of Trustees will also meet in executive session to seek the advice of its attorney about pending or contemplated litigation or a settlement offer in accordance with Section 551.071, Texas Government Code. Following the executive session, the Board may consider appropriate action.

Upon returning from Executive Session, Ms. MacBride announced that it is 5:15 p.m. on August 20, 2013. The Board is now in Open Session. No action, decision, or vote was taken by the Board while in Executive Session. At this time Ms. MacBride opened the floor up for a motion.

Trustee Cydney Donnell stated that the Executive Director has worked tirelessly for the benefit of the State and the retirees as well as other beneficiaries of various ERS programs, and she noted the efforts that were put into working with the Legislature this year. The Executive Director has shown leadership in encouraging the investment division to restructure, and she has embraced the areas of Enterprise Risk Management. Ms. Donnell would like the Executive Director's Fiscal Year 2013 Accomplishments to be attached to the minutes [<sup>1</sup>Exhibit D]. She also wanted the Board of Trustees to consider the following motion:

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<sup>1</sup>Exhibit D – Page 18

**MOTION** made by Ms. Cydney Donnell, seconded by Mr. Craig Hester and carried unanimously by the present members that the Board of Trustees of the Employees Retirement System of Texas award ERS Executive Director Ann S. Bishop an increase in her annual compensation by 3.08% of her Fiscal Year 2013 annual salary, effective September 1, 2013. I further move that the Executive Director be awarded incentive compensation based on her participation in the Incentive Compensation Plan for fiscal year 2013, at the rate of 55%, prorated for the nine months that the Executive Director was actively employed at ERS.

**XIX. SET DATE FOR THE NEXT JOINT MEETING OF THE ERS BOARD OF TRUSTEES AND INVESTMENT ADVISORY COMMITTEE, THE NEXT MEETING OF THE BOARD OF TRUSTEES, AND THE NEXT MEETING OF THE AUDIT COMMITTEE**

Thursday, December 5, 2013 and Friday, December 6, 2013 were set for the next regular meetings of the Board of Trustees and Investment Advisory Committee, Board of Trustees and Audit Committee

**XX. ADJOURNMENT OF THE BOARD OF TRUSTEES**

The August 20, 2013 Board of Trustees meeting adjourned at 5:20 p.m.



**Proposed FY 2014 ERS Internal Audit Plan**

<b>Core Business Function</b>	<b>Primary Division</b>	<b>Audit Name</b>
		Review of Retirement Rules Management Automation ( <i>Oracle Policy Automation</i> )
Retirement	Customer Benefits	
Operations	Communicaton and Research	Review of Web Administration
Operations	Legal	Review of Contract Administration
Operations	Finance	Review of Travel Administraton and Policy Compliance
Operations	Operations Support	Review of Records Retention & Record Disposal
Investments	Investments	Review of Investment Management & Advisory Fees
Investments	Investments	Review of External Advisor Trading
Investments	Investments	Investment Compliance Monitoring (Quarterly Report)
Investments	Investments	Incentive Compensation Compliance (AUP)
<b>Contingent Audits</b>		
Group Benefits	Benefit Contracts	Review of GBP Cost Analysis Process
Retirement	Customer Benefits/Finance	Review of Retirement Benefit Payments
Retirement	Customer Benefits/Finance	Review of Retirement Contribution Receipts
Operations	Human Resource	Review of Employee Training and Development Programs
Operations	Information Systems	Disaster Recovery

FY2014 Annual Audit Risk Assessment				
Division	Function	Impact	Probability	Total Risk Score
Finance	Investment Acctg and Recon	38	32	70
Benefit Contracts	Underwriting and Reporting	35	35	70
Customer Benefits	Enrollment	32	32	64
Customer Benefits	Payroll Processing	33	31	64
Information Systems	Information Security	31	31	62
Information Systems	Product Development (Business Analyst, Development, QC)	31	31	62
Information Systems	Configuration Management	31	31	62
Information Systems	Technology Operations	32	29	61
Legal	Contracts	31	29	60
Customer Benefits	Insurance Premium Collections	31	29	60
CAR	Marketing	31	29	60
Benefit Contracts	Deferred Comp	29	31	60
Benefit Contracts	GBP Contract Compliance	31	29	60
Customer Benefits	Specialty Retirements	29	29	58
Customer Benefits	Disability & Survivor Benefits	29	29	58
Benefit Contracts	Benefit Procurement	30	28	58
Benefit Contracts	Federal Programs	29	29	58
Information Systems	Enterprise Architecture	29	28	57
Human Resources	Recruitment & Refinement	31	26	57
Finance	Benefits (Client) Recon	33	24	57
Customer Benefits	Counseling Services	28	29	57
Customer Benefits	Customer Services	27	28	55
Operations Support	Records Mgmt	28	26	54
Benefit Contracts	Services - Grievances	28	26	54
Legal	Litigation/Administrative Law/Counsel	29	24	53
Information Systems	Enterprise Systems	27	26	53
Human Resources	Personnel Programs and Compliance	28	25	53
Human Resources	Payroll Administration	27	26	53
Customer Benefits	Support Services	28	25	53
Information Systems	Project Management Office	26	26	52
Information Systems	Enterprise Content Management	27	25	52
Finance	General Accounting	28	24	52
Customer Benefits	Business Integration Team	26	26	52
CAR	Education Outreach	26	26	52
Governmental Relations	Governmental Relations	25	25	50
Finance	Revenue Processing (Revenue Receipts)	29	21	50
Operations Support	Operations Services	27	22	49
Legal	Special Projects	25	24	49
Finance	Travel	27	22	49
Customer Benefits	Quality & Training	24	23	47
CAR	Public Relations	24	22	46
Operations Support	Maintenance Services	25	20	45
Finance	Budget and Special Projects	25	20	45
Customer Benefits	Vendor Relations	22	22	44
CAR	Research/Program Implementation	22	22	44
Finance	Purchasing	21	19	40
Operations Support	Bldg Security	19	16	35

## PUBLIC AGENDA ITEM - #16

## 16. Executive Director's Report

August 20, 2013

**Legislation Implementation Update:**

During the 83rd Regular Session, ERS tracked 323 bills, formally analyzing 142 of them. 10 bills required actuarial impact statements, and over 120 cost estimates were completed at the request of the Legislative Budget Board. Here is a summary of some of the major legislation. As always, it's important to start with the money – the most important legislative decision each year for our programs.

**SB 1 – General Appropriations Act**

- Increasing retirement program revenue –
  - The legislature agreed to transfer unexpended balances originally budgeted for the insurance trust fund to instead increase the state's retirement contribution to the equivalent of 7.5% of payroll in 2014. Any revenue remaining after the 7.5% will be credited to the insurance fund. ERS is working with the Comptroller and Legislative Budget Board to complete this process.
  - In FY 2015, the state will increase retirement contributions to 7.5% of payroll. Employees increase their payroll contributions slightly over the next two years – to 6.6% in FY 14 and to 6.9% in FY 15.
  - In addition to the state general revenue contributions, and the employee contributions, employers will now contribute to the retirement fund from their operating budgets. Each state agency will start contributing 0.5% of agency payroll on September 1, 2013. ERS estimates this will add \$55.5 million to the trust for the biennium. The Comptroller will communicate this requirement to appropriated agencies, and ERS will do so for locally funded ones.
- Insurance Plan Funding –
  - The State appropriated enough revenue to the Group Benefits Program to continue the health and life insurance programs as currently structured, if current cost trends meet expectations. ERS will use balances in the insurance contingency fund to cover the gap between the appropriated funds and the expected claim costs. Employees will continue to receive 100% for their health insurance premium contribution, and 50% for dependent coverage.
  - Current retirees with health insurance will also continue to receive 100% of their insurance premium contribution and 50% of the dependent contribution. (SB 1459 changes these contribution levels for future retirees who don't meet grandfathering criteria).

- Universal tobacco certification –
  - The Appropriations bill now requires all employees, retirees and adult family members covered in health insurance to certify their tobacco usage, or non-usage. Certified tobacco users pay an additional \$30 to \$90 per month depending on the number of covered tobacco users. Those who fail to do any certification, are assumed to be tobacco users and charged the additional premium.
  - Prior to the change, only tobacco users were required to certify their usage, beginning January 1, 2012. Since that time, 434,432 certifications (including dependents) have been done. At this point, 29,863 members (not including dependents) have not certified.
  - Medicare eligible retirees' certification period will coincide with their enrollment period this fall.
  - ERS has communicated directly with participants about the certification, and has also worked with employers to get the message out. Employers were provided lists of non-certified employees before and after the enrollment period. Non-certified members will also be sent letters, and get an automated phone call reminding them that their premiums will increase unless they take action to certify as a non-tobacco user.

#### **SB 1459 – ERS Omnibus Bill**

- Retirement benefit changes for new employees -
  - ERS contributing employees hired after September 1, 2013, will be subject to a number of benefit design changes implemented by the legislature to improve the actuarial status of the retirement trust fund. Divisions across the agency are coordinating the implementation of these changes.
  - Annuity reduction if retiring before age 62 (57 for LECOS members). Although eligibility to retire is not changed, employees will have their annuities reduced 5% per year for each year the employee retires before age 62 (57 for law enforcement). There is no cap on the reduction. An employee who retires at age 52, for example, would have his or her annuity reduced by 50%.
  - Annual leave election. Employees remain subject to the 2009 provision that sick and annual leave credit cannot be used to become eligible to retire and may only be used to increase the formula for calculating their annuity. Employees now must choose between being paid for that credit, or having it added to their annuity. Employees who prefer to get paid a lump sum for that credit, cannot have that credit added to their annuity payment.
  - Final average salary. ERS will calculate an employee's final average salary using the highest 60 months of salary. Depending on your hire date, ERS currently calculates your salary based on your highest 48 or 36 months of salary.
- Tiered Retiree insurance - Beginning on September 1, 2014, any employee without five years of service in the Group Benefits Program on that date will no longer be eligible for a 100% insurance contribution if they retire with 10 years of service credit. For employees who are not grandfathered, insurance contributions at retirement will be tiered based on years of service. An annuitant with 10-15 years of service will get a 50% contribution; 15-20 will get a 75% contribution, and only after 20 years of service will the annuitant get a full state contribution.

**HB 13 (Pension transparency) –**

- Under HB 13, ERS is required to give the Pension Review Board some additional actuarial reporting. In addition, the PRB is required to develop minimum training standards and ethics policies for board members of public retirement systems. ERS will monitor these standards as they are developed, and work with the PRB and the Board to comply if necessary.

**HB 1675 (Sunset) –**

- Under HB 1675, ERS will be subject to Sunset Commission review following the next regular legislative session which begins in January 2015. The law does not allow ERS to be abolished as a result of the Sunset Commission review.

**HB 200 (Iran) –**

- Under HB 200, the PRB is required to prepare a list of scrutinized companies performing active business in Iran. If, after notice by ERS to a listed company in which ERS has direct or indirect holdings, ERS will eventually be required to sell, redeem, divest, or withdraw all publicly traded securities of the company. The ERS legal and investment teams will work with the Board to update Addendum A, Certain Companies Conducting Direct Business with Iran, of the Socially Constrained Investment Program Procedures, and incorporate it into the ERS Investment Policy.

***Financial Update on Health Plan:***

**Contingency Fund Balance –**

- The Texas Employees Group Benefits Program (GBP) health plan, HealthSelect of Texas<sup>sm</sup> (HealthSelect), continues to run well under the first year with United HealthCare (United) as the Third Party Administrator (TPA). Using claim data paid through June 2013, we project to finish the year with a gain of \$38.4 million, which would generate a year-end contingency fund balance of \$323.2 million. This balance is more than sufficient to offset losses during the next biennium due to the difference between the 7% increase in FY 14 -15 state contributions, and the estimated 8% health benefit cost trend, plus new fees and taxes imposed by the Affordable Care Act.

**HealthSelect -**

- Results are on track to meet savings target estimate during bid evaluations. The number one challenge HealthSelect members have faced has been balance billing by non-contracted hospital based physicians, specifically anesthesiologists, at in-network facilities. These situations improve as United contracts with physician groups in key areas, such as west Texas. In addition, ERS is working with United to contract with the most utilized non-contracted anesthesiologists around the state.
- Other issues include differences in medical management such as referrals to specialist lasting only 6 months, or 6 visits, while the prior TPA approved them for up to one year. In addition, United requires treatment plans from chiropractors and therapists, which were not required by the prior TPA. This difference in medical management is designed to ensure that the medical treatment is necessary and that the provider can justify the treatment. While these issues do not necessarily reduce or eliminate benefits for members, it is a change that both members and providers have noticed.

#### HealthSelect Medicare Rx Program -

- In January, ERS implemented the HealthSelect Medicare Rx Program, an Employer Group Waiver Plan + Wrap (EGWP + Wrap) plan to cover Medicare eligible members. SilverScripts administers the program. ERS estimated that the plan would save the GBP \$27 million in Calendar Year 2013 and those projections appear to be on track.
- Shortly after the start of the program SilverScripts told ERS that due to issues with their eligibility system they had been sanctioned by the Centers for Medicare and Medicaid Services' (CMS). While SilverScripts works to rectify these eligibility system issues the sanction remains in place. Due to this sanction, ERS chose to discontinue the enrollment of newly eligible Medicare retirees until the sanctions were lifted. We anticipate allowing new enrollments to start again January 1, 2014.

#### Accountable Practice Model Program (APM) –

- ERS is expanding our Accountable Practice Model program (APM) and now has four APMs. The latest addition is Austin Diagnostic Clinic which started July 1, 2013. United continues to work on adding APM's and we hope to have one or two more added by the end of the calendar year. Our evaluation shows that the providers participating in this model meet their quality of care targets at a lower total cost when compared to the market they serve.

#### ***Plan Year 2014 Annual Enrollment Update:***

The Annual Enrollment period for GBP participants ended August 9, 2013. Many staff are involved in this major annual effort to serve our vast customer base, reviewing benefits materials and approving any changes, getting the system ready, and communicating in print, in person and on the phone. .

- New this year was the ability for our customers to apply for additional life insurance and short and long term disability online. GBP members have always been able to make certain changes via our ERS OnLine system, but this was a first for EOI applications.
- ERS prepared for the additional system transactions due to the required tobacco user certifications through a series of system performance tunings that resulted in doubling the amount of concurrent users who could transact in ERS OnLine.
- ERS staff traveled the state to meet with participants. We hosted 50 fairs, and 6 webinars for those who did not or could not attend an event. ERS partners with employers to host these events, which include representatives from each of our benefit programs. About 5,000 members attended during the enrollment period. Attendees were able to certify their tobacco use at the fairs, and make other enrollment changes.
- Annual enrollment is a big driver of telephone calls to ERS and this year was no exception. About 53,000 customers called during the enrollment period, 11,432 calling specifically for enrollment information or to transactions. ERS has a contract with an external contact center to help us handle this call volume – they handled the majority of the enrollment calls, freeing up ERS staff for more complex customer issues.
- 122,652 members logged into ERS OnLine and made at least one enrollment change.

- The annual enrollment effort continues through September as premium changes are implemented, corrections are made, new agency salary files are reported and benefits billing changes are made.

Medicare Retiree Enrollment period –

- Preparations are underway for the fall enrollment for our Medicare retiree population. The dates for their enrollment period will be November 4 to November 22. Retirees are sent a custom enrollment statement with information about their options and costs. ERS will host 24 fairs in different locations around Texas. The fall enrollment period coincides with the Medicare enrollment period and many retirees receive information from companies sending out commercial Medicare Advantage plan information. We hope that timing our enrollment to this period will help minimize the confusion.

***Certificate of Achievement for Excellence in Financial Reporting:***

- ERS earned the annual Certificate of Achievement for Excellence in Financial Reporting, awarded by The Government Finance Officers Association (GFOA) of the United States and Canada for its Comprehensive Annual Financial Report for the fiscal year ended August 31, 2012. The Certificate of Achievement is a prestigious national award recognizing excellence in the preparation of state and local government financial reports. To be awarded a Certificate of Achievement, a government unit must publish an easily readable and efficiently organized comprehensive annual financial report whose contents meet or exceed program standards. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

ERS has received a Certificate of Achievement for each of the last 24 years. The Finance Division staff leads this effort each year, with support from management and many other agency employees.

## LEGAL SERVICES

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 2013):

- Opened 94 administrative cases; closed 34 administrative cases; 44 subrogation files opened and reviewed - includes 14 subrogation intervention matters referred to the Office of the Attorney General (OAG); and insurance subrogation amounts of approximately \$1,499,834 recovered for the Texas Employees Group Benefits Program (GBP).
- Recovered “collections” of approximately \$12,947, which includes QDRO overpayments, annuity overpayments, fraud and return-to-work disability repayments; this does not reflect 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 12 subpoenas and collected \$126 in fees (subpoenas that are grand jury, Attorney General, IRS or responses less than \$10 in fees are not billed).
- Resolved all pending collections matters internally; timely referred 1 case to the OAG for collection of trust fund money valued at approximately \$17,826.
- Reviewed, negotiated and/or drafted 331 contracts/amendments/requests.
- Closed 9 private equity transactions and additional commitments to existing investments for a total capital commitment of \$200,000,000, €71,308,200 and £60,000,000.
- Closed 5 private market real estate transactions and additional commitment to an existing investment for a total commitment of \$255,000,000 and £45,000,000.
- Closed 6 private hedge fund transactions and additional commitment to an existing investment for a total commitment of \$240,000,000.
- Closed 2 private infrastructure transactions for a total commitment of \$80,000,000.
- Participated in 37 depositions, represented ERS in 24 administrative appeals before the State Office of Administrative Hearings; 1 prehearing conference and 5 district court hearings.
- Received and responded to 272 Public Information Act requests; \$165 in fees were collected as permitted under applicable rules for providing the information.
- Approved, rejected and/or reviewed 164 domestic relations orders and Transfers and Releases submitted to ERS under Chapter 804 of the Texas Government Code.
- Completed 91 requests for legal services/opinions.
- Assisted in the implementation of the required provisions of the Patient Protection and Affordable Healthcare Act and subsequent federal reconciliation bill (PPACA), in conjunction with the GBP.
- Assisted with the review and implementation of the required provisions of the HIPAA Omnibus Rule (which impacted the HIPAA Privacy, Security, Breach Notification and Enforcement Rules) in conjunction with the GBP and updated related training materials.
- Assisted Benefit Contracts with the Early Retiree Reinsurance Program (ERRP) audit.
- Advised and assisted with the review of Requests for Proposal, Requests for Offer and Requests for Application and, if applicable, drafted and negotiated related contracts in connection with the:
  - Health maintenance organization services, including Medicare Advantage HMO.
  - Third party administrator (TPA) of the short- and long-term disability program.
  - Auditor of the GBP health and welfare programs.
  - Long-term care insurance benefit services.
  - Dental services providers, including a PPO provider, DHMO provider and dental discount products and services provider.
  - Actuarial and consultative services.
  - Compensation consulting services.
  - Succession planning consulting services for the retirement program.

## Fiscal Year 2013 Accomplishments (continued)

- Property and casualty insurance protection services for ERS.
- Electrical services related to building improvements.
- Fixed income risk measurement and monitoring tool.
- Compliance review of the TPA of the deferred compensation Texa\$aver program.
- Investment data warehouse interfaces and reporting enhancements.
- ERS obtained favorable IRS determination letters issued by the Internal Revenue Service for the ERS plan, the Judicial Retirement System, Plan II, and for the Texa\$aver 401(k) plan. These favorable IRS determination letters covered the period February 1, 2009 through January 31, 2014.
- Assisted with the completion of the Interim Benefits Studies.
- Supported the Executive office in connection with the 2013 Trustee election.
- Assisted with the implementation of the disability income insurance plan TPA and NDA's.
- Reviewed and revised the HealthSelect in-area and out-of-area Master Benefit Plan. Documents and related Summary of Benefits and Coverage documents.
- Legal support of enforcement audit against Dearborn National Life.
- Successfully defended ERS' ability to maintain confidentiality of member records in a suit brought against ERS and Texas Comptroller of Public Accounts in connection with an open records request.
- Successfully represented ERS in connection with a request for an OAG opinion by another agency.
- Advised and assisted with the successful implementation of new disability services administrator.
- Advised and assisted with the successful implementation of new disability evidence of insurability (EOI) administrator.
- Advised and assisted with the successful implementation of a new pharmacy benefit manager for the self-funded Medicare Part D Employer Group Waiver Plan with a self-funded Wrap Prescription Drug Plan for Medicare-primary participants.
- Enforced contract obligations against vendors.
- Attended meetings on behalf of ERS for a newly created interagency Open Records/Privacy attorney group.
- Advised and assisted Investments in renewing existing trading process and advisor funding for recommendations for improvement.
- Advised on transactions and research of fixed income investments related to new asset allocation.
- Assisted with revision of the Investment Advisory Committee orientation manual.
- Reviewed and investigated applicable disability retirement files, insurance cases, evidence of insurability misrepresentation cases, and return-to-work cases to ensure continued eligibility for benefits.
- Prepared applications for registration of new service marks.
- Updated 2012 ERS Rules Books.
- Completed review and revisions for Chapter 81.9, and completed statutory rule review for Chapter 79 of the Trustee Rules.
- Advised ERS management and assisted in implementing changes related to applicable federal and state laws and regulations.
- Analyzed, reviewed and drafted legislation filed during the 83<sup>rd</sup> Legislative Session, and advised management regarding its application to ERS.
- Coordinated ethics-related training of ERS staff provided at Board/IAC workshop regarding recent developments and market terms for hedge fund investments.
- Hired two in-house attorneys, one with specialty of health care law and one with specialty in investments and securities.

## **INTERNAL AUDIT**

- Completed 5 audits on the FY 2013 ERS Internal Audit Plan.
- Conducted compliance monitoring on the Investment Program.
- Coordinated the FY 2012 Financial Audit with the State Auditor's Office.
- Implemented Co-sourced Internal Audit services.

## GOVERNMENTAL RELATIONS

- Passage of the ERS omnibus bill, Senate Bill 1549. The bill will have a positive impact on the financial status of the ERS trust fund, retirement program, and group benefits program, as well as a number of administrative improvements. Passage involved:
  - meeting with ERS staff to develop initial list of legislative suggestions,
  - drafting bill and managing edits,
  - meeting with House and Senate sponsors, legislative staff, and stakeholders to discuss provisions of the bill,
  - meeting with system actuaries and finance staff to determine fiscal impact, and
  - providing appropriate background material on the bill.
- Successfully worked with House Appropriations and Senate Finance leadership to increase funding to the retirement program and maintain funding for the health insurance program.
- Distributed ERS Retirement and Insurance studies to legislature, and provided background and explanations.
- Successfully worked with the Chair, members, and staff of the new House Pensions committee.
- Provided legislative briefings and maintained open communication with key state employee and retiree associations.
- Served as the agency's liaison for all ERS related legislation responding 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.
- Co-coordinated the Legislative Analysis Work Group (LAG) process for the 83rd Legislative Session:
  - 323 bills tracked,
  - 142 bills formally analyzed, and
  - 10 bills required actuarial cost impacts by consulting actuaries, including multiple versions of SB 1549 as benefit design changes were negotiated.
- Worked with the Finance Division and actuaries to prepare fiscal notes on proposed legislation.
- Coordinated the process for ERS' Legislative Appropriations Request with the Legislative Budget Board, Senate Finance, the House Appropriations Committee, system actuaries and internal staff.
- Initiated the agency's legislative implementation efforts.
- Planned and hosted the Capitol Health Fair for legislators and staffers providing various health screenings and showcasing wellness tools and resources offered by ERS programs.
- Assisted the State Agency Wellness Director in planning the annual State Agency Wellness Conference.
- Worked with legislators and staffers on individual constituent issues and concerns.
- Organized and documented monthly ERS Policy Group meetings, providing written decisions to the Executive Director for approval.
- Worked with ERS staff to identify and draft Board of Trustee Rules.

## HUMAN RESOURCES

- Research companies/vendors with experience in developing succession plan for critical staff.
- Initiate and complete all phases of a Request for Proposal for professional services to develop a succession plan. A management decision was made to develop a succession plan internally.
- Work with division leadership to address training opportunities identified by the Survey of Employee Engagement. Leverage skills and talents of ERS staff through employee and organizational development.
- Research companies/vendors with experience in conducting a comprehensive compensation study for Investments staff. Initiate and complete all phases of a Request for Proposal for professional services for the compensation study.
- Research and procure services to develop metrics for the incentive compensation plan for non-investments staff. A management decision was made to message and rebrand the existing One-Time Merit payment policy.
- Extensive research and analysis of compensation data.
- Coordinated the State of the ERS.
- Assisted the ERS Board of Trustees in the recruitment and hiring of the Internal Auditor.
- Coordinated and hosted the 2013 Longevity Awards.
- Assisted the State Auditor's Office with the gathering of data for the Incentive Compensation Audit.
- Extensive research on a request from the Investments Division to hire an employee in India.
- Coordinated an external and independent review of the Internal Audit Division.
- Administered internal training for ERS staff and 52 training sessions were scheduled throughout the year.
  - Understanding Individual and Organizational Change,
  - Communicating for Results: You don't have to be right to get it right,
  - Personal and Professional Resilience,
  - Business Writing: Better Business Correspondence,
  - Both Sides of the Coin: How social media can advance your career without it costing your job,
  - Managing Holiday Stress,
  - Understanding the ERS Records and Retention Schedule,
  - Ethics Training,
  - The Basics of the Public Information Act,
  - Write Right,
  - Various Microsoft Applications,
  - CPR and AED Training, and
  - On Point and Positive: Applying ERS Message Maps to your job.
- Supported divisions to achieve greater staffing
  - posted 60 job vacancies,
  - screened 648 State applications,
  - processed 283 personnel actions
  - processed 52 new hires and 30 contract temporary workers, and
  - processed 19 separations.
- Sourced an Executive Assistant for the Executive Office.
- Arranged 2013 Summer Internships.
- Accounted all leave records for the GetFit Challenge.

#### Fiscal Year 2013 Accomplishments (continued)

- Conducted 27 HR Well-Check sessions:
  - Benefit Contracts,
  - Finance,
  - Information Systems,
  - Investments, and
  - Legal Services.
- Revised 4 policies:
  - Salary Administration,
  - Standards of Conduct: Criminal History Checks,
  - Family Medical Leave, and
  - Bereavement Leave.
- Handled 16 Employee Relations matters.
- Responded to 5 unemployment benefits claims and appeals.
- Added seven new telecommuters.
- Added 12 employees to the Compressed Workweek Schedule.
- Staff spent approximately 56 hours on the PeopleSoft Leave Accounting Software Upgrade.
- Staff spent approximately 30+ hours cleaning up files from the S-drive.
- Participated in various salary surveys.

## COMMUNICATIONS & RESEARCH

Supported legislative session and updated communications about legislative changes.

- Tracked 323 bills during the 83<sup>rd</sup> legislative session, coordinated and reviewed bill analysis for 142 bills, supported the internal cost estimate production process and reviewed more than 120 cost estimates.
- Coordinated the Legislative Analysis Group (LAG), trained users on the legislation tracking system.
- Responded to legislative related inquiries.
- Summarized legislative information for board members, system members and public. Updated website with legislative information.
- Testified at hearings.
- Created numerous custom presentations, handouts, testimony, briefing documents, follow-up letters.
- Attended/monitored hearings and developed follow-up plans.
- Provided expertise and information to Legislative Budget Board and House Research Organization.

Coordinated Data Analysis Group which coordinates data requests coming into ERS and researches and standardizes responses.

Created Key Document Index for easy retrieval of important agency data and policy documents.

Conducted communications campaign for HealthSelect Medicare Rx Program

- Held over 50 enrollment sessions
- Create new materials and new branding
- Created custom program website for enrollees
- Fewer than 38% opted out

Reviewed external website and mobile applications.

Worked with IS to eliminate duplication of printed retiree newsletters and electronic newsletter distribution

Conducted communications campaigns for:

- Annual Enrollment,
- Implementation of new administrator for the disability program, including creating new branding (Texas Income Protection Plan) and marketing/educational campaign, new vendor administration, new provisions for the
- The Board of Trustee election,
- Continued support of the Health Select TPA transition
  - approved 142 communication pieces
  - Supported legislative communications about the transition

## Fiscal Year 2013 Accomplishments (continued)

Published the Interim Benefits Studies, and supported education about the findings, including conference presentations and numerous briefings

- Conducted enhanced benchmarking research, continued to build relationships with other public sector entities on the insurance benefit design and best practices

Promoted and supported 7 Solution Sessions, created website, recorded, posted and archived presentations, provided SME expertise to attend and analyze proposals for further action

Supported launch of two new Texa\$aver funds and conducted campaign to increase contributions (3-legged stool)

Assisted in facilitation of and provided subject matter expertise throughout the asset allocation study.

Produced the Annual Cost Containment Report and provided supporting material.

Updated key agency messaging and trained staff

Formalized editorial production/resource allocation processes and communicated process to other divisions. Completed 341 job requests, 38% were planned and 62% were unplanned. Worked with IT to automate request form.

Created best practice documents, checklists and templates for program implementation communications, website maintenance, board meetings

Conducted 155 events (12 Ask ERS, 10 NEO, 15 BH2U, 5 HE RSR, 6-Retiree Meetings, 67 RSR, 4 Table Service, 21 Fairs and Wellness Events, 15 MRIS) with approximately 12,000 attendees, as well as auditorium video software and recording and streaming events.

Communication touchpoints – pubs, emails, facebook  
GovDelivery

- 622,923 total subscriptions (29% increase from last year)
- 337,502 total subscribers (9% increase from last year)
- 184 bulletins sent between 6/1/2013-5/31/2013
- 6,366,429 total recipients
- 1,274,693 emails opened (20% open rate)
- 655,023 links clicked (10%)

Facebook

- 2,249 total likes
- During the last month, we have received 101 likes.
- During the last month, we have had 767 timelines views.

Videos (YouTube)

- 67 videos uploaded to YouTube
- 59,690 views through our YouTube channel (58,548 minutes watched)
- 50 Youtube subscribers
- 11 likes
- 60% female/ 40% male
- 17% under age 35; 83% over age 35

## Fiscal Year 2013 Accomplishments (continued)

### Website Analytics

- 1,282 HTML content
- 511 documents and PDFs
- 383,006 Visitors (Jan 1-May 31)
- Over 3M page views; average of 3.66 pages per visit
- 10% of our visitors were using mobile devices (including tablet)

### Community Group

- BCCG members: 1,647 members
  - 583 active members (logged in during the past month)
  - 242 members logged during 2013 (Jan 1- April 30)
  - 368 members logged in during 2012 only
  - 186 members logged in during 2011 only
  - 268 members have never logged into the group
- Board members: 42 members
  - 16 active members (logged in during the past month)
  - 1 member has never logged into the group

Streamlined benefits coordinator registration process and worked to improve the group site functionality

## INVESTMENTS

- Completed FY2012 Asset/Liability Study.
- Began transition to new asset allocation targets as determined by the FY2012 asset liability study.
- Continued to optimize the mix of internally managed and externally advised portfolios.
- Established Policies and procedures program for equity, fixed-income and infrastructure asset classes.
- Increased liquidity of transition portion of portfolio through a \$1.3 billion exchange of investment grade holdings for fixed income Exchange Traded Funds (ETFs) to tactically implement Fixed Income portfolio.
- Funded Emerging Markets advisor.
- Furthered branding of ERS and ERS' investment program through conference sponsorships and presentations such as Emerging Managers for Alternatives, Texas Hedge Fund Conference, Institutional Investor, Buyouts Texas Conference, Connex International, Texas Systematic Risk Conclave, SEO Alternative Conference, Roundtable for Public and Taft Hartley Plans, Opal Financial Group Emerging Market Summit West, CalPERS Emerging Manager Forum, TxPERS Annual Conference, Women in Private Equity Conference, Pension Bridge Conference, Alternative Investment Management Symposium, IMN Conference, PERE Investors' Council, and aiCIO Conference.
- Committed \$384 million to Private Equity through May 31, 2013, and closed on 7 funds and 2 co-investments.
- Committed \$324 million to Private Real Estate through May 31, 2013, and closed on 5 deals.
- Committed \$240 million to Hedge Funds through May 31, 2013, and closed on 6 investments.
- Committed \$80 million to Infrastructure and closed on 2 deals as of May 31, 2013.
- Completed implementation of private markets software.
- Implemented new risk management measurement and monitoring tools.
- Reorganized staff for new Fixed Income allocation.
- Added ETF capability for a more tactical approach (fixed income)
- Implemented Yield Book and Bloomberg PORT (Portfolio Optimization Reporting Tool) for a Fixed Income risk management system.
- Developed and facilitated legislative communication on Investments special projects.
- Completed SharePoint conversion.
- Filled vacancies for Chief Investment Officer, 1 Infrastructure Portfolio Manager, 2 Hedge Fund Portfolio Positions, 2 Real Estate Portfolio Managers, 1 Executive Assistant, 1 Administrative Assistant, 1 International Analyst, 1 Senior Investment Operations Specialist, 1 Performance Analyst, and 1 Trader.
- Reorganized equity team structure to improve efficiency, professional development, and workload distribution.
- Completed compensation study and related employee communications.
- Initiated work on development of career path program for Investments employees.
- Reorganized Investment Division for operational efficiencies.
- Increased intra-agency and internal division communication.
- Produced fiscal year to date through June 30, 2013, gross rate of return for the pension fund of \*\*% compared to the benchmark return of \*\*%.

## BENEFIT CONTRACTS

- Developed and Published 8 bid solicitations:
  - GBP Audit RFP (Published 12/13/13),
  - Deferred Compensation Compliance Audit RFP (republished (3/14/13),
  - Disability RFP (Re-published 10/11/2012),
  - Long Term Care RFP (published 5/2/13),
  - Dental and Dental Discount RFP (published 5/31/2013),
  - HMO FY 14 RFA (published 1/3/13),
  - MA HMO FY 14 RFA (published 12/13/12), and
  - International Fund RFI (published 12/6/12).
- Milestone: TexaSaver Program has assets totaling over \$2.1 billion.
- Milestone: Roth contributions are included in over 1,500 accounts with assets totaling \$3.3 million.
- Implemented the Real Asset and Short Term Government Fund into the Core Fund Line up with combined assets totaling \$1.3 million.
- Initiated Self-Initiated Auto Escalation feature for both plans: 128 participants in the 401(k) plan and 21 participants in the 457 plan have taken advantage of this option.
- Manage increasing volume of grievance appeals- up by 146% year to date.
- Implement transition of disability administrator from Dearborn National to Aon Hewitt.
- Implement transition of Medicare-eligible retirees prescription benefit from the Retiree Drug Subsidy (RDS) program to an Employer Group Waiver Plan plus Wrap administered by to SilverScript Insurance, a subsidiary of CVS/Caremark.
- Implemented online Evidence of Insurability process for Life and Disability products.
- Oversaw and Facilitated Implementation of additional ACA requirements.
- Engaged in various activities to increase enrollment in the Medicare Advantage plan from 60% to 65%.
- Completed post-implementation enhancements to the HealthSelect program.
- Implemented a contract to audit participation in the Retiree Drug Subsidy program.
  - Retiree Drug Subsidy Program: Collected a total of \$12,887,384.16 from RDS Subsidy program during the four months the program was utilized in FY 2013.
  - Added new Provider Group to PCMHs.
  - Participated in an audit of the Early Retiree Re-insurance (ERRP) program.

## CUSTOMER BENEFITS

- Enhanced Customer Benefits member interactions, through:
  - engaging 435,169 members through calls (171,113 at ERS and 244,784 at ACT),
    - meeting with 5,336 visitors, and
    - responding to 13,936 emails.
  - promoting the “3 Steps-to-Retirement” process and increasing the retirement estimator self-service utilization,
  - completing a campaign to encourage Direct Pay participants to sign up to have their monthly insurance premiums electronically deducted from their bank account,
  - reconciling the premium waiver population to identify and correct enrollment, as well as creating reports and processes to catch incorrect drops or enrollments on a monthly basis, and
  - processing corrections to over 3,400 records in ERS OnLine with incorrect Medical Support Order identifiers that had been identified by UHC.
- Reconciled and distributed 102,470 1099s to members and beneficiaries who were issued payments in calendar year 2012.
- Issued more than \$ 1.49 billion in payments for retirees, beneficiaries, and retirement account withdrawals.
- Processed more than 513,000 pieces of incoming and outgoing mail and more than 120,000 work list requests.
- Conducted intensive cross training for staff.
- Completed the initial flexible engine rules (OPA) project, through:
  - performing system testing,
  - posting migration validation,
  - monitoring processes by following migration for calculations related to QDRO members, CPO retirees with Additional Service Credit (ASC), and
  - implementation of the retirement and death eligibility and calculation rules.
- Completion of evaluation for IVR service improvements to our members.
- Provided support for the PeopleSoft Security Redesign initiative.
- Implementation of the HealthSelect Medicare RX for Medicare eligible participants, through:
  - determining system requirements, performing testing, and updating eligibility, and
  - participating in the Medicare Retiree Information Sessions, servicing these members through calls, visits and emails.
- Oversaw the customer service aspects of Annual Enrollment, including:
  - assisting in identifying system requirements,
  - performing system testing and updating eligibility,
  - coordinating with CAR to identify communication needs and coordinate avenues to promote the communication, and
  - continuing the roll out of the Tobacco Premium differential including certifying tobacco on all interactions (calls, emails, and visitors) where members are not certified, in an effort to minimize this activity during Annual Enrollment.
- Implementation of the EOI online process with Minnesota Life, through:
  - Identifying business and system requirements,
  - developing new screens for ERS OnLine, and
  - performing testing and system validation as required for processing and consistency.

#### Fiscal Year 2013 Accomplishments (continued)

- Implementation of the new Short and Long-term Disability vendor, through: Identifying business and system requirements and system validation as required for continuity of benefits and consistency of information.
- Coordination and review of TINS conversion project with Texas Comptroller of Public Accounts.
- Support Legislative process, through:
  - bill analysis,
  - cost estimates, and
  - beginning work on implementation of passed bills.

## FINANCE

- Utilized improved SharePoint technology to efficiently collaborate with Executive Office to prepare over 130 cost estimates for the 83<sup>rd</sup> Legislative Session.
- Managed and coordinated the audit and completion of the FY 2012 CAFR for ERS, and received the Certificate of Achievement for Excellence in Financial Reporting from the Government Finance Officers Association for the 24<sup>th</sup> consecutive year.
- Prepared Fiscal Year 2012 Administrative Operating Budget, monitored division budgets and processed over 130 budget transfers.
- Assisted in the testing and implementation of the upgrade for eFront Financial Solutions.
- Coordinated and tested the implementation of the new reporting in eFront Financial Solutions for the Alternative Investment reconciliation process.
- Assisted with the preparation of the Comptroller's TINS conversion to be implemented in March 2014
- Collected data and prepared quarterly Roadmap Status reports for the Board of Trustees and agency management.
- Successfully implemented the upgrade of Eagle Investment Systems from Version 11 to Version 11.1.1.
- Coordinated purchasing for 16 large solicitations and more than 1,100 purchase requisitions
- Increased security for transmitting sensitive information.
- Developed a Microsoft Access database to reconcile the fair value of alternative investments reported by the general partner to the one reported in the general ledger and the Eagle Investment Accounting System.
- Assisted in the testing and implementation of new requirements from the 82<sup>nd</sup> Legislative Session, including:
  - Retirement contribution rate change
- Assisted in the implementation of new vendors including:
  - Aon Hewitt - Long term & Short term disability program
  - SilverScript - EGWP + WRAP Medicare Part D program
- Coordinated and prepared the FY 2014 Operating Budget
- Conducted the following estimated financial transactions for FY 2013:
  - Revenue Processing:
    - Processed 66,377 checks
    - Processed approximately 20,795 BPAY warrants totaling over \$2 billion, and
    - Sent over 3,106 deposits totaling \$2.6 billion to the Comptrollers for deposit;
  - Purchasing:
    - Coordinated 16 large solicitations
    - Coordinated close to 1100 purchases, and
    - Coordinated close to 200 purchase order revisions;

## Fiscal Year 2013 Accomplishments (continued)

- General Accounting:
  - 2,100 invoices for administrative expenses were processed
  - 616 invoices for insurance claims totaling \$2.7 billion have been processed
  - 607 travel vouchers totaling \$541,322 were processed
  - 4701 W-2 forms for agency employees were processed for the calendar year of 2012, and
  - W-2 forms for employees with disabilities were processed for the calendar year of 2012;
- Client Reconciliation:
  - \$87 million in TexFlex claims were processed
  - 4,090 service purchases totaling \$46.2 million were processed
  - 28 tests were performed on the PeopleSoft Pension system;
- Investment Accounting:
  - Modified and completed the general ledger transaction detail process improvement reporting for the Alternative Investment reconciliation purpose.
  - Developed a Microsoft Access database to reconcile the STAR accounting data and the PACE warehouse data in the Eagle Investment Accounting System
  - Modified and Implemented audit recommendations by creating and testing security roles and procedures to strengthen internal controls
  - Setup of 6 new portfolios in domestic, fixed income and infrastructure security markets and the opening of 17 new funds which consist of 7 funds in the private equity, 6 funds in the private real estate and 4 hedge funds.
  - The investment accounting management of 12 investment pools and monthly reconciliation of more than 70 investment portfolios grouping many different investment accounts, ( within some of these portfolios, each international currency traded by ERS (approximately 35) is reconciled monthly, and the reconciliation process also includes general ledger reconciliations, securities lending and tax reclaims, resulting in more than 4,500 completed reconciliations annually, or more than 375 reconciliations performed each month.
  - 80 wires totaling 4.3 billion were processed for pension and insurance
  - 464 wires totaling 1.5 billion were processed for United Health Care payments
  - Daily cash settlements of the buying, selling, income and expenses swept from the custodian bank to ERS-totaling \$1.7 billion in income, \$10.9 billion in purchases, and \$10.1 billion in sales for FY2013

## INFORMATION SYSTEMS

- Began a detailed analysis of the Benefit Administration module with the results indicating additional options, other than the Oracle Policy Automation (OPA) tool, should be considered before implementing any given solution.
- Implemented various improved site designs for collaboration and workflow in the Enterprise Content Management (ECM) environment. These improvements offer a more intuitive user experience with workflows and document collaboration.
- Upgraded production servers for all applications and databases, including the operating system to increase performance and ensure continued vendor support.
- Upgraded ERS Online, Financial, and HR databases to Oracle 11G. The upgrade allows ERS to use the latest tuning and tools to improve performance and continued stability in our production environments.
- Developed workflow and collaboration sites supporting Security Access Request, Correspondence Management system, Legislation and Data Request Groups.
- Enhanced the Correspondence Management System to use improved workflows, additional fonts, and an improved user interface.
- Supported 83<sup>rd</sup> Legislation related analysis and data request.
- Implemented Employer Group Waiver Plan (EGWP) achieving a 97% enrollment rate providing cost effective coverage to 73,298 retiree members.
- Implemented Short Term / Long Term Disability vendor install.
- Provided project management for the Board of Trustee Election effort.
- Implemented the Qualified Domestic Relation Order (QDRO) rules in Oracle Policy Automation. Project included strengthening the regression testing script library and use of automated testing.
- Enabled business partners to directly update the 1099-R form using the correspondence management system. This allows the business teams to implement annual changes with less dependence on developers.
- Upgraded Eagle Investment Accounting System to version 11.
- Supported Interim Benefits Studies.
- Developed a System Integration map/diagram.
- Enhanced open enrollment system processing to improve performance by approximately 50% through improved table and date management.
- Improved efficiency of Disaster Recovery testing using newly implemented technology.
- Formed a cross-team SEE committee to actively address SEE findings.
- Developed a server vulnerability risk ranking matrix enabling security and enterprise systems to quickly evaluate severity and priority of potential vulnerabilities.
- Mapped ERS' logical network architecture identifying relationships between systems and data.
- Tailored and deployed the Security Awareness Program. All agency employees completed the online training program within 1 month. HR engages new hires during the onboarding process ensuring continued 100% participation.
- Automated a paperless Access Request Form for PeopleSoft access using SharePoint forms and workflows.
- Modifications to improve efficiencies and deliver new features in managing phone systems.

Fiscal Year 2013 Accomplishments (continued)

- Provided Microsoft Office training to 120 staff members.
- Strengthened IT security:
  - developed and deployed Network Intrusion Protection System,
  - enhanced Data Loss Protection (DLP) strengthening Web and email personal identifiable information detection capabilities,
  - conducted multiple security reviews covering SFTP access, IVR systems, and DMZ and Active Directory access, and
  - launched agency wide ISO monthly newsletter delivered via Share Point.

## OPERATIONS SUPPORT

- Improved energy efficiency by reducing consumption
  - replaced 4 rooftop AC units,
  - replaced water heaters, and
  - converted pneumatic controls on Trane chiller (HVAC) to direct digital controls.
- Implemented Records Management training and consulting program
  - developed one-hour training modules and presented 4 training sessions, and
  - continued to train division staff on classification and tagging of records in SharePoint.
- Upgraded/retrofitted Electrical Motor Control Center.
- Statistics for major accomplishments are listed below:
  - Records Management – services provided to internal agency customers,
    - scanned approximately 147,000 images of incoming mail regarding members,
    - scanned approximately 105,000 images of confidential information: PHI, Disability, Legal and Grievance case files, and
    - shredded approximately 22,000 pounds of confidential records;
  - Operations Services: Over 1,106,643 pieces of mail processed; and
  - Maintenance Services: Over 3,415 work orders completed.