

MEETING OF THE
BOARD OF TRUSTEES
MAY 19, 2015



PRESENTED FOR REVIEW AND APPROVAL
AUGUST 18, 2015

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

**MAY 19, 2015
ERS Board Room
ERS Building – 200 E. 18th Street
Austin, Texas 78701**

TRUSTEES PRESENT

Brian Ragland, Chair
Frederick E. Rowe, Jr., Vice-Chair
Doug Danzeiser, Member
Cydney Donnell, Member
Yolanda Griego, Member
I. Craig Hester, Member

ERS STAFF PRESENT

Ann S. Bishop, Executive Director
Porter Wilson, Executive Director Designate
Larry Zeplin, Chief Operating Officer
Paula A. Jones, General Counsel and Chief Compliance Officer
Tony Chavez, Internal Auditor
Bernie Hajovsky, Director Enterprise Planning Office
Jordan Hajovsky, Director Operations Support
Robin Hardaway, Director of Customer Benefits
Robert Kukla, Director of Benefit Contracts
Wendy McAdams, Director Operations Support
Shack Nail, Deputy Director of Governmental Affairs
Ralph Salinas, Director of Human Resources
Catherine Terrell, Director of Governmental Affairs
Kathryn Tesar, Director of Benefit Communications
Tom Tull, Chief Investment Officer
Charles Turner, Chief Information Officer
Mike Wheeler, Chief Financial Officer
Nora Alvarado, Benefit Contracts
Lori Blewett, Benefit Communications
Georgina Bouton, Benefit Contracts
Lisa Caffarate, Benefit Contracts
Kelley Davenport, Executive Office
Cristi Davis, Customer Benefits
Brian Dowdy, Finance
Leah Erard, Governmental Affairs
Mike Ewing, Governmental Affairs
Beth Gilbert, Internal Audit
Ginger Grissom, Benefit Contracts
Megan Hunter, Benefit Contracts
Dana Jepson, Governmental Affairs
Sharmila Kassam, Investments
Debbie Leatham, Finance
Betty Martin, Investments
Patricia Maugham, Executive Office
Johnathan Puckett, Internal Audit
Lauren Russell, Benefit Contracts
DeeDee Sterns, Human Resources
John Streun, Investments

Angelica Torres, Benefit Communications
MaryJane Wardlow, Governmental Affairs
Keith Yawn, Governmental Affairs

ALSO PRESENT

Steve Alexander, UnitedHealth Care
Nick Arnold, Humana
Sharon Barnes, Texas Commission on Environmental Quality
Teresa Carroll, Legislative Budget Board
Ilesa Daniels, Self
Phil Dial, Rudd & Wisdom, Inc.
Kristen Doyle, Aon Hewitt
Lynn Gordon, Minnesota Life
Jennifer Guidry, Community Health Clinic
Kris Hefner, CVS/Caremark
Caffee M. Hill, NGA HR
Jim Hille, ERS Investment Advisory Committee Member
Seth Hutchinson, TSEU
John Ide, JP Morgan
Casey Jones, White Oak Global
Andy Knapp, JP Morgan
Charles Leamons, ERS Retiree
Kim McLeod, United HealthCare
Ken Mindell, ERS Investment Advisory Committee Member
Daisy Morales, Community Health Clinic
Nicole Stevens, Scott & White Health Plan
Bryan Sweeney, Altius
Vernon Torgerson, ERS Investment Advisory Committee Member
Joy Yoder, Altius
Brad Young, Altius
Laura Zarate, Texas Commission on Environmental Quality

Mr. Brian Ragland, Chairman of the Board of Trustees of the Employees Retirement System of Texas (ERS), called the meeting to order and read the following statement:

“A public notice of the Board of Trustees meeting containing all items on the proposed agenda was filed with the Office of the Secretary of State at 10:21 a.m. on Thursday, May 7, 2015 as required by Chapter 551, Texas Government Code, referred to as “The Open Meetings Law.”

Upon adjournment of the Audit Committee, the Board of Trustees convened as a committee of the whole to consider the following Board agenda items. Minutes to the February 24, 2015 Audit Committee Meeting are located under the Audit Committee agenda minutes.

IV. REVIEW AND APPROVAL OF THE MINUTES TO THE FEBRUARY 24, 2015 MEETING OF THE BOARD OF TRUSTEES

Board of Trustee Chair, Brian Ragland opened the floor for a motion on the approval of the minutes to the Board of Trustees Meeting held on February 24, 2015.

MOTION made by Ms. Yolanda Griego, seconded by Mr. Craig Hester and carried unanimously by the present members of the Board of Trustees of the Employees Retirement System of Texas to approve the minutes held on February 24, 2015.

V. **REVIEW, DISCUSSION AND CONSIDERATION OF ADOPTION OF AMENDMENTS TO THE RULES OF THE BOARD OF TRUSTEES, TEXAS ADMINISTRATIVE CODE, TITLE 34, PART IV: CHAPTER 87**

Mr. Rob Kukla, Director of Benefit Contracts and Georgina Bouton, Assistant Director of Benefit Contracts presented the next agenda item on changes to Chapter 87 Texas Administrative Code. Mr. Kukla reminded the Board there was past discussions to change the governance of the 457 plan to match up with the TexaSaver 401(k) plan. The TexaSaver 401(k) plan is governed by a plan document. Mr. Kukla also informed the board the TexaSaver 457 plan and prior 457 plan is governed by rules defined within Texas Administrative Code, Title 34, Part IV, Chapter 87.

Ms. Bouton recognized several staff for their diligence and tenacity during the governance transition; Mike Ewing from Governmental Affairs, David Lacy from Legal Service, Nora Alvarado and Pamela Maas from Benefit Contracts. She stated there were three sections within Chapter 87 that had to be amended. This was to recognize the governance transition for the TexaSaver 457 plan to a plan document.

Ms. Bouton reported Section 87.9 is the deletion of a reference within the investment product section. This deletion is in respect to 87.31, which is going to be recommended to be repealed. Section 87.29 is under the termination of coverage which clarifies there is a grievance procedure stipulated under section 87.23 which will continue to apply to the 457 plan.

Ms. Bouton then reported to the board on the four sections within the chapter that would have to be repealed with these sections being: 87.27 and 87.31 which removes the applicability of the TexaSaver 457 plan; 87.33 would be repealed in whole and also applies to the Economic Growth and Tax Relief and Reconciliation Act; 87.35 would be specific to Roth contributions; and 87.37 highlights the plan document for the TexaSaver 457 plan.

The proposed changes were published in the April 3, 2015, issue of the *Texas Register* and no comments were received by the May 4, 2015 deadline.

Mr. Doug Danzeiser asked a question to Mr. Kukla wanting to know how the board will be kept informed about what changes are being made to the plan document. Mr. Kukla responded by stating ERS will make presentations to the board as changes to the plan document occur. Ms. Paula A. Jones chimed in and noted that the 457 plan is not a qualified plan under the Internal Revenue Code. She then stated that generally when there are any significant changes within the Internal Revenue Code, that's when the plan needs to be amended. This allows the board and the system to be more nimble and not have to go through an exacting rule process. Ms. Bouton also noted updates to the board occur on an annual basis and any type of plan document changes would be covered in the December meeting as well.

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

MOTION made by Ms. Cydney Donnell, seconded by Mr. Craig Hester and carried unanimously by the present members of the Board of Trustees of the Employees Retirement System of Texas take the following actions with regard to the Rules of the Board of Trustees, Texas Administrative Code Title 34, Part IV, Chapter 87, as presented in this Agenda Item:

- Adopt amendments, as proposed, to the following sections as set forth in this agenda item:
 - §87.3, concerning Administrative and Miscellaneous Provisions;
 - §87.9, concerning Investment Products; and
 - §87.29, concerning Termination of Coverage.

- Adopt the repeal of the following sections as set forth in this Agenda item:
 - §87.27, concerning Incorporation by Reference: State of Texas Deferred Compensation Plan;
 - §87.31, concerning Revised Plan;
 - §87.33, concerning The Economic Growth and Tax Relief and Reconciliation Act; and

- §87.35, concerning Roth 457 Contributions.
- Adopt the addition of New Rule §87.37, concerning 457 Plan Document, as set forth in this Agenda item.

VI. REVIEW, DISCUSSION AND CONSIDERATION OF THE INSURANCE PLANS UNDER THE THE TEXAS EMPLOYEES GROUP BENEFITS PROGRAM FOR FISCAL YEAR 2016:

a. *Recommendations for TexFlex Flexible Spending Arrangement (FSA) Program Fees and Rates*

Ms. Georgina Bouton, Assistant Director of Benefit Contracts informed the board at the February 2015 board meeting, that the board approved the addition of a Qualified Transportation Fringe Benefits (QTFB) plan to the optional benefits and will be available to active employees. The QTFB is a qualified commuter benefit and active members could elect into the commuter benefit with pre-tax dollars.

The monthly contribution limits for a QTFB plan are set by the Internal Revenue Service (IRS) as part of IRS code, section 132. Ms. Bouton informed the board the IRS provides two separate components of the commuter benefit. The qualified parking has a maximum monthly contribution of \$250. The transit passes and vanpooling has a maximum monthly contribution of \$130. Participants could elect into either or both of these programs into the commuter plan.

Ms. Bouton reported the board selected ADP, LLC (ADP) as the claims administrator for both the TexFlex Flexible Benefits and QTFB programs. The initial contract period will begin on September 1, 2015 and end August 31, 2019. Ms. Bouton stated the implementation of ADP as the TexFlex Program's claims administrator is underway and on schedule for the September 1st transition date. She also reported the implementation of the QTFB is being coordinated with the Comptroller's office with a program launch in 2016.

Mr. Rob Kukla, Director of Benefit Contracts provided a brief overview on TexFlex Flexible Spending Accounts (FSA) and stated the TexFlex program is comprised of two plans: the TexFlex Health Care Reimbursement Plan and the TexFlex Dependent Care Reimbursement Plan. The TexFlex Health Care plan is designed to provide payment of reimbursement for qualified healthcare reimbursement with a maximum contribution of \$2,500 annually. The dependent care plan has a maximum contribution of \$5,000 annually. Mr. Kukla informed the board both the health care and dependent care reimbursement plans are authorized under section 125 of the Internal Revenue Code and funded with pre-tax contributions.

Participation in the TexFlex plan is voluntary; enrollment is available during the annual enrollment period. The following table illustrates the changes in enrollment and contribution elections for FY 2015 as compared with the same period in FY 2014.

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TexFlex
Enrollment and Contribution Elections
Fiscal Years Beginning 2014 and 2015

Account Type	Enrollment (#)			Contribution Elections (\$)		
	FY 2014 Enrollment	FY 2015 Enrollment	Change in Enrollment (%)	FY 2014 Contribution Elections**	FY 2015 Contribution Elections**	Change in Elections** (%)
Health Care	51,694	49,966	(3.3%)	\$67,718,245.65	\$67,234,912.77	(0.7%)
Dependent Care	4,196	4,117	(1.9%)	\$15,305,441.00	\$14,813,037.00	(3.2%)
Participation in Both Plans	(2,854)	(2,679)	(6.1%)			
TOTAL* <i>(Participants)</i>	53,036	51,404	(3.08%)	\$83,023,686.65	\$82,047,949.77	(1.2%)

*Total enrollment is not equal to the sum of health care and dependent care enrollment because some members are enrolled in both plans.

**Contribution Elections are pledges into the program and are reported commitments for the applicable fiscal year.

Mr. Kukla reported on the plan forfeitures and stated TexFlex is a “Use or Lose It” plan and any money left over at the end of the year is forfeited back to the program. He also stated that in the past there was a grace period which allowed an additional 75 days at the end of the plan year with which a person could incur expenses and use the prior year’s money. The option is a \$500 carryover. Only one option can be allowed within the plans design; the IRS allows a carryover or a grace period. Mr. Kukla reported members were surveyed and 80% indicated they would rather have the \$500 carryover. On the healthcare plan side there is a \$500 carryover. The dependent care plan will have the grace period in effect with an additional 75 days.

At the May 2008 Board of Trustees meeting, the board established an administrative fee of \$2.19 per account/per month to defray the administrative cost associated with the TexFlex program. ERS projected the new administrative fee would cause TexFlex participation to decline by about 15% because payment of an administrative fee had not been required since 2003. However, the participation increased by about 11% indicating participants’ favorable perception and support of the program. In May 2010, the board approved a reduction of the administrative fee from \$2.00 to \$1.00 per account/per month and FY 2015 year-over-year growth rate in contributions to the TexFlex program was a negative 1.2% caused by a decline of (3.08%) in the number of TexFlex accounts. Mr. Kukla informed the board all members who enroll in the TexFlex plan will be issued a debit card with no additional fee included. Due to the amount of accumulated forfeitures, Benefit Contracts is recommending a fee holiday for TexFlex participants.

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

MOTION made by Ms. Yolanda Griego, seconded by Mr. Doug Danzeiser, and carried unanimously by the members of the Board of Trustees of the Employees Retirement System of Texas to approve an administrative fee holiday for the TexFlex program for fiscal year 2016.

b. Life and Accidental Death and Dismemberment Proposed Rates

The Employees Retirement System of Texas (ERS) provides basic and optional term life and accidental death and dismemberment (AD&D) insurance coverages under the Texas Employees Group Benefits Program (GBP). Mr. Rob Kukla, Director of Benefit Contracts informed the board the contribution rates are set by the board and benefits are funded through member contributions with the exception of the employee and retiree basic coverage which is funded by the state.

Mr. Kukla reported there is great participation in the optional life and AD&D program with over \$19.2 billion of life volume. The following table lists enrollment and volume for the life and AD&D plans as of March 31, 2015.

**GBP Life and AD&D Coverage
as of March 31, 2015**

Plan	Funding	Enrolled Members	Volume of Insurance
Basic Life	Fully Insured	313,240	\$ 1,317,597,500
Optional Life & AD&D	Fully Insured	207,964	\$ 19,202,292,300
Voluntary AD&D	Fully Insured	131,234	\$ 18,155,946,000
Dependent Life & AD&D	Fully Insured	112,001	\$ 490,627,500

Mr. Kukla noted that life rates were developed based on reasonable expectation of future claims, anticipated claim payment patterns, investment income, and maximum premium rates and administrative fees are included in the Minnesota Life contract.

Mr. Kula then proposed the board approve the member contribution rates for the life and AD&D plans effective September 1, 2015:

**GBP Life and AD&D Coverage
Proposed Monthly Member Contribution Rates for FY 2016
Effective September 1, 2015**

Plan	Proposed FY 2016	Change from current rate
Active and Retiree Basic Term Life and AD&D ⁽¹⁾	\$ 2.22	No change
Active and Retiree Optional Life and AD&D ⁽²⁾		
Under Age 25	\$ 0.05	No change
25-29	0.05	No change
30-34	0.06	No change
35-39	0.06	No change
40-44	0.08	No change
45-49	0.12	No change
50-54	0.19	No change
55-59	0.33	No change
60-64	0.57	No change
65-69	0.93	No change
70-74	1.48	No change
75-79	2.41	No change
80-84	3.92	No change
85-89	6.79	No change
90 & Over	10.57	No change

Active Dependent Life and AD&D ⁽¹⁾	\$ 1.38	No change
Retiree Minimum Optional Life ⁽²⁾	\$ 2.34	No change
Retiree Dependent Life ⁽¹⁾	\$ 3.05	No change
Voluntary AD&D		
Employee Only ⁽²⁾	\$ 0.02	No change
Employee & Family ⁽²⁾	0.04	No change

⁽¹⁾ Rates are per unit of coverage. \$5,000 of coverage for active employees and their dependents; \$2,500 of coverage for retired employees and their dependents.

⁽²⁾ Rates are per \$1,000 of coverage which is based on individual salary and coverage level, e.g., Elections I – IV. Retiree Optional Life does not include AD&D.

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

MOTION made by Mr. Craig Hester, seconded by Ms. Cydney Donnell, and carried unanimously by the members of the Board of Trustees of the Employees Retirement System of Texas approve the proposed fiscal year 2016 member contribution rates for the basic life, optional life and accidental death and dismemberment plans effective September 1, 2015.

c. Proposed Rates for the Short- and Long-Term Disability Plans

Mr. Kukla presented to the Board the proposed rates for the short- and long-term disability plans. He stated the contribution rates are set by the board and benefits are funded through member contributions. The Texas Employees Group Benefits Program (GBP) retains the risk for the self-funded plans.

The following table details the member enrollment and covered monthly payroll by type of disability coverage for the period ending March 31, 2015:

**GBP Disability Plans
as of March 31, 2015**

Coverage	Plan Type	Funding	Enrolled Members	Covered Monthly Payroll
Disability	Short Term	Self Funded	115,248	\$ 434,688,520
Disability	Long Term	Self Funded	89,395	\$ 360,788,970

Note: The GBP retains the risk under the self-funded plans.

Member contribution rates for the disability plans were developed based on reasonable expectations of future claims, anticipated claim payment patterns, expected investment income, and administrative fees included in the Aon Hewitt contract.

Mr. Kukla then proposed the board approve the contribution rates for the short- and long-term disability plans effective September 1, 2015.

GBP Disability Plans
Proposed Monthly Member Contribution Rates for FY 2016
(effective September 1, 2015)

Plan Description	FY 2016	Change from current rate
Short Term Disability*	\$0.30	No Change
Long Term Disability*	\$0.63	No Change

**Rates are per \$100 of monthly covered salary*

In a response to a question asked by Mr. Doug Danzeiser wanting to know what the costs of internal administration is based on, Mr. Kukla responded by stating the internal administration is based on two things; one is a system called Clarity in which each of the divisions keep track of their expenses to the plan and the other is Benefit Contracts allocates expenses from inside the insurance trust to each plan, based on premiums and members.

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

MOTION made by Mr. Craig Hester, seconded by Ms. Cydney Donnell, and carried unanimously by the members of the Board of Trustees of the Employees Retirement System of Texas approve the proposed fiscal year 2016 member contribution rates for the short-and long-term disability plans as presented and effective September 1, 2015.

d. State of Texas Dental Discount Plan, Dental Choice and Dental Health Maintenance Organization Proposed Rates –

Mr. Rob Kukla, Director of Benefit Contracts presented to the board the State of Texas Dental Choice PlanSM (Dental Choice) proposed rates. The Dental Choice is a self-funded preferred provider organization (PPO) plan. Contribution rates are set by the board and benefits are funded only through member contributions. Mr. Kukla reported that the self-funded plan assumes all risk for claim expenses in excess of member contributions.

The following table provides Dental Choice enrollment as of March 31, 2015 and the year-over-year change in enrollment for each coverage category.

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**State of Texas Dental ChoiceSM
Member Enrollment as of March 31, 2015**

	Employees	Retirees	Survivors	COBRA	Total	Year over year change FY14 – FY15
Member Only	61,815	21,222	1,702	504	85,243	+7.1%
Member & Spouse	14,824	13,701	0	120	28,645	+2.5%
Member & Children	20,087	1,100	53	40	21,280	+2.3%
Member & Family	17,973	1,473	0	49	19,495	+0.9%
Total	114,699	37,496	1,755	713	154,663	+4.8%

Mr. Kukla stated that to determine the proposed member contribution rates for the Dental Choice, staff and Rudd and Wisdom, Inc., ERS' consulting actuary for insurance, reviewed and analyzed the following:

- Historic claims experience through Mary 31, 2015;
- Estimated trends in per capita benefit costs;
- Projected provider reimbursement;
- Enrollment patterns;
- Contractual guaranteed administrative fees.

Mr. Kukla reported that in September 2014, Dental Choice was evaluated and was revised to provide more coverage to the participants and several changes were made. By eliminating charging preventive services against the benefit maximum, it means that the \$1,500 benefit maximum applies to only basic and major services. The program also added an extended maximum benefit. If a person reaches their policy maximum in any given year, they can still consume dental care and receive a 40% benefit of eligible expenses.

Mr. Kukla reported that as a result of the evaluation of claim experience, the plan enhancements and dental trend, staff is recommending a 3% increase in dental rates effective September 1, 2015.

The following chart on the next page reflects the increase in rates:

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**State of Texas Dental Choice Plan
FY16 Proposed Member Contribution Rates
(Effective September 1, 2015)**

Coverage Category	Current FY15 Rates	Proposed FY16 Rates	Change from Current Rate
Member Only	\$23.58	\$24.28	\$0.70
Member & Spouse	\$47.16	\$48.56	\$1.40
Member & Child(ren)	\$56.60	\$58.28	\$1.68
Member & Family	\$80.18	\$82.56	\$2.38
Spouse Only	\$23.58	\$24.28	\$0.70
Spouse & Child(ren)	\$56.60	\$58.28	\$1.68
Child(ren)	\$33.02	\$34.00	\$0.98

He then proceeded to report on the Dental Health Maintenance Organization (DHMO) plan which is a fully insured program through DentiCare, Inc., a wholly owned subsidiary of Humana, Inc. for the period beginning September 1, 2014 through August 31, 2015. The DHMO benefits are funded by member premiums and contribution rates are set by the board based on the DHMO premium rates.

The following table provides DHMO enrollment as of March 31, 2015, as well as the year-over-year change in enrollment for each coverage category. Staff closely monitored the enrollment numbers between the DHMO and the dental discount program as it was expected more participants would leave the DHMO for the discount option.

**Dental Health Maintenance Organization (DHMO)
Member Enrollment as of March 31, 2015**

	Employees	Retirees	Survivors	COBRA	Total	Year over year change FY14 – FY15
Member Only	34,241	9,838	576	209	44,864	(0.2)%
Member & Spouse	6,265	6,004	0	62	12,331	(5.3)%
Member & Children	9,567	746	20	26	10,359	(8.8)%
Member & Family	8,181	1,004	0	11	9,196	(11.6)%
Total	58,254	17,592	596	308	76,750	(3.7)%

Mr. Kukla reported that at Benefit Contracts request, DentiCare re-evaluated the original proposed rates after enrollment in the Dental Discount program was known to be low and as a result, DentiCare proposed a 3.8% decrease to the DHMO rates.

The following chart reflects the decrease in rates:

Dental Health Maintenance Organization Proposed Rates <i>(Effective September 1, 2015)</i>			
Coverage Category	Current Rates FY15	Proposed Rates FY16	Change Over Current Rates
Member Only	\$9.96	\$9.59	(\$0.37)
Member + Spouse	\$19.93	\$19.17	(\$0.76)
Member + Child(ren)	\$23.91	\$23.01	(\$0.90)
Member + Family	\$33.88	\$32.59	(\$1.29)
Spouse Only	\$9.96	\$9.59	(\$0.37)
Spouse + Child(ren)	\$23.91	\$23.01	(\$0.90)
Child(ren)	\$13.95	\$13.42	(\$0.53)

Mr. Kukla reported next on the Dental Discount Program which became effective on September 1, 2014 and is administered by Careington International. This program is a non-insurance option for participants. He reported participating dentists agree to accept a discounted rate for payment in full at the time of services. There are no claims to file with Careington.

The administrative fee for the Dental Discount Program is paid by the participants through contribution fees. ERS will evaluate the number of participants in the program each year and the administrative fee will be adjusted accordingly.

**Dental Discount Program
Member Enrollment as of March 31, 2015**

	Employees	Retirees	Survivors	COBRA	Total
Member Only	1,929	361	5	7	2,302
Member & Spouse	497	322	0	7	826
Member & Children	606	22	0	0	628
Member & Family	647	50	0	2	699
Total	3,679	755	5	16	4,455

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

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 approve the proposed member contribution rates for Fiscal Year 2016 for the State of Texas Dental ChoiceSM plan, the Dental Health Maintenance Organization plan, and the Dental Discount Program as presented in the agenda item effective September 1, 2015.

e. Recommendations for FY 2015-2016 Health Maintenance Organization Providers and Rates –

Mr. Rob Kukla, Director of Benefit Contracts presented to the board the recommendations for FY 2015-2016 Health Maintenance Organization (HMO) Providers and Rates. HMO coverage is funded in the same manner as HealthSelect of TexasSM. He stated that contribution rates are approved by the board. The eligibility, network and plan designs do differ from Health Select. They are not available in all Texas counties and there are no out-of-network benefits.

The table below provides the coverage areas and enrollment for the two current GBP participating HMOs: Community First Health Plans, Inc. (Community First or CFHP) and Scott and White Health Plan (Scott & White or SWHP). CFHP is an 8 county area in San Antonio and Scott & White covers 44 counties including Austin, San Angelo, Temple and Waco.

**Texas Employees Group Benefits Program
Participating HMOs Fiscal Year 2015
as of March 31, 2015**

HMO	Areas of Coverage	Enrolled Members	Enrolled Dependents	Total
Community First	San Antonio area (8 counties)	2,797	2,407	5,204
Scott & White	Austin, San Angelo, Temple and Waco areas (44 counties)	11,572	7,436	19,008

Mr. Kukla then discussed how things impacted the HMOs in the Federal Health Care Reform. In 2015, the Affordable Care Act required out-of-pocket limits placed on participants' coverage. In 2015, the HMOs had to apply an out-of-pocket maximum to all member cost sharing since the health plans provide both medical and pharmacy benefits. Mr. Kukla reported the coinsurance limit will remain at \$2,000 per participant. The maximum out-of-pocket limit, including coinsurance and copays will be set at \$6,450 per individual and \$12,900 per family. The cost associated with this requirement is included in the premium rates for fiscal year 2016.

Mr. Phil Dial, Rudd & Wisdom Inc., stated HMOs must meet a rating standard of the Theoretical Cost Index (TCI). The TCI is ERS' calculation of the health care cost of participants in the geographic service area. He reported that HealthSelect takes data into account related to the area such as age/sex demographic and health acuity. Mr. Kukla reported the request for application advises the HMO they must propose rates for the same plan design as HealthSelect and no greater than 95% of the TCI. Applications shall produce a savings to the GBP of at least 5% as compared to HealthSelect.

Based on the submitted application response, and the consulting actuary's rate analysis discussed, the ERS staff and consulting actuary recommend to the board to accept the application of Scott & White Health Plan contribution rates for FY 2016:

Scott and White Health Plan Proposed Monthly HMO Rates (Effective September 1, 2015)					
Coverage Category	Total Contribution Rate	State Contribution Rate	Member Contribution Amount	Change in Member Contribution	
				Amount	Percentage
Member Only	\$570.36	\$570.36	\$0.00	\$0.00	0%
Member + Spouse	\$1,226.28	\$898.32	\$327.96	\$17.76	5.7%
Member + Child(ren)	\$1,009.52	\$789.94	\$219.58	\$11.88	5.7%
Member + Family	\$1,665.44	\$1,117.90	\$547.54	\$29.64	5.7%

Based on the submitted application response, and the consulting actuary's rate analysis discussed, the ERS staff and consulting actuary recommend to the board to accept the application of Community Health contribution rates for FY 2016:

Community First Health Plans, Inc. Proposed Monthly HMO Rates (Effective September 1, 2015)					
Coverage Category	Total Contribution Rate	State Contribution Rate	Member Contribution Amount	Change in Member Contribution	
				Amount	Percentage
Member Only	\$494.24	\$494.24	\$0.00	\$0.00	0%
Member + Spouse	\$1,062.60	\$778.42	\$284.18	\$14.18	5.3%
Member +Child(ren)	\$874.80	\$684.52	\$190.28	\$9.50	5.3%
Member + Family	\$1,443.16	\$968.70	\$474.46	\$23.68	5.3%

Mr. Kukla reported ERS issued a Request for Application (RFA) on January 8, 2015 for qualified HMOs to provide coverage under the GBP for Fiscal Year 2015 and the responses were due on February 12, 2015. He stated four companies offered proposals by the deadline date: Aetna, Inc. (Aetna), Blue Cross and Blue Shield of Texas (BCBSTX), Community Health Choice, Inc. (CHC), and UnitedHealthcare of Texas, Inc. (United).

HMO RFA Respondent	Proposed HMO Coverage Area
Aetna, Inc. (Aetna)	3-county service area Fort Bend, Harris and Montgomery counties
Blue Cross and Blue Shield of Texas (BCBSTX)	In service area state-wide
Community Health Choice, Inc. (CHC)	5-county service area: Brazoria, Ft. Bend, Galveston, Harris and Montgomery counties
UnitedHealthcare of Texas, Inc. (United)	79-county service area: Aransas, Atascosa, Austin, Bandera, Bastrop, Bee, Bell, Bexar, Blanco, Brazoria, Brazos, Brooks, Burleson, Burnet, Caldwell, Calhoun, Cameron, Chambers, Collin, Colorado, Comal, Cooke, Dallas, De Witt, Denton, Duval, Ellis, Erath, Fannin, Fayette, Fort Bend, Galveston, Gillespie, Goliad, Grayson, Grimes, Guadalupe, Harris, Hays, Hidalgo, Hood, Hunt, Jackson, Jim Wells, Johnson, Karnes, Kaufman, Kendall, Kenedy, Kerr, Kleberg, Lavaca, Lee, Liberty, Live Oak, Matagorda, McLennan, Medina, Milam, Montgomery, Nueces, Palo Pinto, Parker, Refugio, Rockwall, San Patricio, Somervell, Starr, Tarrant, Travis, Victoria, Walker, Waller, Washington, Wharton, Willacy, Williamson, Wilson and Wise counties.

Mr. Kukla reported the proposals were evaluated on the following criteria as disclosed in the RFA:

- Compliance with RFA;
- Proposal evaluation criteria: minimum and preferred requirements;
- Financial considerations (TCI requirements);
- Operational capabilities;
- Contractibility; and
- Vendor service verification.

All respondents met the preferred and minimum criteria and were moved on for further evaluations. Mr. Kukla informed the board there is a review and clarification process involving all of the divisions within ERS evaluating the RFA. Mr. Kukla reported Aetna and United did not meet rating criteria for their proposed service areas. BCBSTX reduced service area to 108 counties in 11 geographic regions and did not meet rating criteria for 101 counties in 10 geographic regions. CHC met all of the evaluation criteria.

Based on the submitted application response, and the consulting actuary's rate analysis discussed, ERS staff and consulting actuary recommend to the board to accept the application of Community Health Choice. As a result, this HMO will be added as a choice of health coverage in the city of Houston, Harris and surrounding counties effective September 1, 2015 at the rates listed below:

Community Health Choice, Inc.
Proposed Monthly HMO Rates
Fiscal Year 2016

Coverage Category	Total Contribution Rate (Monthly)	State Contribution Amount (Monthly)	Member Contribution Amount (Monthly)
Member Only	\$ 481.76	\$481.76	\$0.00
Member & Spouse	1,035.80	758.78	277.02
Member & Child(ren)	852.72	667.24	185.48
Member & Family	1,406.76	944.26	462.50

In a response to a question asked by Mr. Danzeiser, who stated that it's been difficult to get HMOs to bid and wanting to know if the predominant factor is the TCI limitation, Mr. Kukla responded by stating that in the 1990's there were well over 20 HMOs serving this population and there was a big down turn in the HMO popularity. The HMO business providers backed away as did a number of employers and sponsoring HMOs. He continued by stating the HMO participation in the GBP declined with the trend down to 2 this year, Community Health Choice and Scott & White.

Mr. Danzeiser then asked if it is a burden for the HMO to have to go through an annual process every year. Mr. Kukla responded and stated all the requirements that are within the application process are established, as long as they are willing to work with ERS on the rating models and stay under the TCI. As a limited network more managed operation, an HMO should be able to control their healthcare spends even more so than a PPO plan like under the HealthSelect. Mr. Dial stated that Community First and Scott & White have done a good job for ERS. There is a lot of information required each year and it is not too inconsistent with what they would have with any other larger employer.

In a response to another question asked by Mr. Danzeiser questioning if there is much innovation seen from the HMOs in terms of managing care, Mr. Kukla responded by saying no, there is a model they have utilized for years that has worked. He stated the biggest hurdle they have is they have a much higher administrative cost than HealthSelect. He continued and said that .97 cents out of every dollar that comes into HealthSelect goes to the providers. In the case of an HMO, with the cost of administration, including the processing of their claims, the setting up of their network, and their management fees, it can be as much as four times higher so they have to bring down the healthcare costs to meet the TCI.

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

MOTION made by Ms. Cydney Donnell, seconded by Ms. Yolanda Griego, and carried unanimously by the members of the Board of Trustees of the Employees Retirement System of Texas approve the extension of the incumbent HMO Carrier plans at the the applicable contribution rates as presented in this agenda item be made available for for participation in the Texas Employees Benefits Program in Fiscal Year 2016 beginning September 1, 2015 and ending August 31, 2016:

Community First Health Plans, Inc. to provide services in the application area of San Antonio which includes the counties indicated in this agenda item.

- **Scott and White Health Plan** to provide services in the application areas of Austin, San Angelo, Temple and Waco which include the counties indicated in this agenda item.

I further move that based on the information provided to ERS in response to the Request for Application (RFA) to provide Health Maintenance Organization Services for the Texas Employees Group Benefits Program, the evaluation process and results presented to the Board at this meeting, we have received sufficient information to determine the best value to the retirement system for expansion of HMO Carrier plans to be made available to GBP Participants. Therefore, I move that the Board of Trustees of the Employees Retirement System of Texas approve the addition of

- **Community Health Choice, Inc.** as an HMO Carrier Plan to provide services in the application area of Brazoria, Ft. Bend, Galveston, Harris and Montgomery counties as indicated in this agenda item at the applicable contribution rates as presented in this agenda item.

The CHC HMO plan will be offered under the Texas Employees Group Benefits Program under a contract which will cover an initial four year term beginning September 1, 2015 through August 31, 2019.

I further move that the Board of Trustees of the Employees Retirement System of Texas authorize the Executive Director to negotiate and execute a contract with CHC with terms that are fully acceptable to ERS, and to authorize the Executive Director to thereafter administer the contract agreed to by the parties.

f. HealthSelect of TexasSM Proposed Rates –

Mr. Rob Kukla, Director of Benefit Contracts presented to the board the proposed rates on HealthSelect of TexasSM (HealthSelect). He noted HealthSelect is a point-of-service plan offered to employees throughout the state. It is funded by employee and state contributions. The state pays 100% of employee retiree costs and 50% of dependent costs. He also stated members have cost-sharing associated with this program through copayments, deductible and coinsurance. He reported there are almost 438,000 participants covered under HealthSelect. The balances of individuals are either covered under the HMOs, or one of the Medicare Advantage plans offered to retirees.

For fiscal year 2016 United Healthcare will continue to be the administrator for the medical side, and Caremark will continue to be the administrator for the pharmacy benefits. Internal administrative costs continue to be less than 1% and the vendor's administrative fees less than 3%.

HealthSelect will have a combined out-of-pocket maximum for medical and pharmacy benefits effective January 1, 2016. In the upcoming plan year, the individual maximum will be increased to \$6,450 and family maximums will be increased to \$12,900. Mr. Kukla reported the maximum out-of-pocket coinsurance limits will remain at \$2,000 for medical expenses, which is included in the overall maximum amount.

Mr. Kukla reported that in 2015, various fees associated with the impact of the Affordable Care Act (ACA) are approximately \$41.4 million, and the cost for fiscal year 2016 are expected to be approximately \$35.5 million. The reason for this is a reduction in the transitional re-insurance program fees, which are assessed through fiscal year 2016 and the Patient Centered Outcomes Research Institute (PCORI) funding will be assessed through 2019.

ERS has established alternative reimbursement programs with certain provider groups throughout the state in the HealthSelect network. ERS currently has five large, clinically-integrated; multi-specialty practice groups that have agreed to participate in the Patient-Centered Medical Homes (PCMH). These groups have agreed to provide care for their HealthSelect patients using quality-of-care standards and evidence-based best practices.

PCMH Clinic	Area	No. of GBP Participants As of March 31, 2015
Austin Regional Clinic	Austin	23,616 participants
Kelsey-Seybold Clinic	Houston	10,191 participants
Covenant Health	Lubbock	7,970 participants
Austin Diagnostic Clinic	Austin	5,640 participants
Trinity Mother Frances	Tyler	4,257 participants

Mr. Kukla reported that for fiscal year 2014, the GBP saved approximately \$10.7 million with the PCMH. ERS shared \$2.4 million of the savings with these clinics.

Mr. Kukla then gave the board some updates regarding the cost reduction strategies on the Employer Group Waiver Plan + Commercial Wrap (EGWP+Wrap). HealthSelect Medicare Rx was implemented on January 1, 2013, and is administered by SilverScript Insurance Company. The GBP saved approximately \$40 million in 2013. Mr. Kukla reported that calendar year 2014 savings are estimated to be \$50 million and calendar year 2015 projected savings are \$55 million. He stated the GBP continues to receive funds through the Medicare Part D (RDS) Subsidy program.

Mr. Kukla reported on the prescription drug program and stated that in 2014 ERS implemented a new strategy on coverage of compound drugs including a prior authorization review needed at prescriptions of \$300 or more and excluded any of the prescriptions which utilized bulk chemicals. He noted compound drugs were a major issue found last year in the month of June, with over \$6 million being spent on compound drugs in one month. Since that time it has dropped down to under \$100,000 in cost in a given month. He also stated that while there were over 11,000 members who were utilizing compound drugs, there were very few complaints. Mr. Kukla reported that starting on May 1st topical analgesics are being excluded all together as this drug category was being over charged.

In a response to a question asked by Mr. Danzeiser asking if there are any exceptions for medical necessity or blanket exclusion for topical analgesics, Mr. Kukla responded that anytime a member has seen something excluded, they have the option to appeal. First it would go through to Caremark and they would look at the situation and if for some reason Caremark didn't feel it was justified, they can bring it to ERS as a complaint which will look at it and determine whether or not the conclusion by Caremark was appropriate.

Beginning September 1, 2015, HealthSelect will have the following two changes effective in the program:

- *Outpatient Mental Health Copay:* The copayment for outpatient visits rendered by mental health specialists will be lowered from \$40 per visit to \$25 per visit.
- *Ophthalmologist Referrals:* The referral requirement for specialist visits to an ophthalmologist will be removed and no longer a requirement before seeking services from this specialist type.

The following factors are used by the Underwriting, Data Analysis, and Reporting (UDAR) unit of Benefit Contracts when determining the recommended contribution rates for Health Select:

- Revenue requirements
- Expected state funding
- Historical enrollment
- Claims experience
- Projected contingency fund balance
- Cost containment practices
- Anticipated increases in plan costs attributable to the ACA
- Impact of participating HMOs and funding for basic life and AD&D coverages

Mr. Kukla reported it is anticipated that the medical benefit cost trend will continue at an annual rate of about 6.5% through FY 2016. However, the prescription drug benefit cost trend is currently projected at 15% which will drive the total health plan benefit cost trend into the 8.5% range.

Analysis shows the need for a 12% increase in HealthSelect rates for fiscal year 2016 in order to maintain current benefits on a breakeven basis. House Bill 1 provided funding increase per capita contributions for the GBP health plan at 7% for fiscal year 2016. Mr. Kukla reported ERS would maintain benefits at the current level and use the contingency fund to supplement employer and member contributions during the biennium as necessary. ERS recommends a 7.26% increase in HealthSelect contribution rates. This would equal a 7% increase when averaged with HMO and basic life contributions.

In a response to a question asked by Mr. Hester wanting to know how much is coming from the contingency fund, Mr. Kukla stated we expect over \$200 million. Mr. Kukla reminded Mr. Hester that the legislature sets the funding for the biennium and next year we'll be looking at what the experience has been and what the requirements would be for fiscal year 2017 and will adjust accordingly based on where we stand with respect to the contingency fund.

In a response to a question asked by Mr. Danzesier in regards to the numbers that were given on the contingency fund, he wanted to know if they were just the HealthSelect accounting numbers. Mr. Kukla stated it is the entire fund. Mr. Danzeiser also questioned as to whether the deductible for prescription drugs was moving to a calendar year, and Mr. Kukla responded that it is on a plan year.

Below are the HealthSelect proposed contribution rates for fiscal year 2016:

HealthSelect of Texas
Proposed NTE Monthly Contribution Rates for FY 2016
 Effective September 1, 2015

Membership Category	Total Contribution	State Pays	Member Pays	Change in Member's Monthly Contribution
Member only	\$ 574.32	\$ 574.32	\$ 0.00	\$ 0.00
Member & Spouse	1,234.80	904.56	334.24	22.36
Member & Children	1,016.56	795.44	221.12	14.98
Member & Family	1,677.04	1,125.68	551.36	37.34

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

MOTION made by Ms. Cydney Donnell, seconded by Mr. Craig Hester, and carried unanimously by the members of the Board of Trustees of the Employees Retirement System of Texas approve the proposed HealthSelect of TexasSM not to exceed contribution rates for Fiscal Year 2016 as presented in this agenda item effective September 1, 2015.

VII. REVIEW, DISCUSSION AND CONSIDERATION OF THE 2015 COMPENSATION STUDY

Mr. Keith Yawn, Office of Management Support presented the next agenda item on the 2015 compensation study. He provided the board with a brief overview of the background and structure of the study and stated that the data that is gathered through the study will be used by executive officers and division management to inform upcoming budget and staffing recommendations to be taken up during the August board meeting.

On January 30, 2015, ERS released a request for proposal (RFP) through a competitive bid process and two vendors were evaluated. Mr. Yawn reported that on March 16, 2015, ERS executed a contract with CBIZ Human Capital Services. CBIZ has completed several compensation and incentive compensation reviews for ERS. There was a kick-off meeting on March 23rd which led into internal and external research that was completed in April 20, 2015. The final summary report is estimated to be delivered to ERS staff on July 1, 2015 and then presented to the ERS Board of Trustees at the August 2015 meeting.

Mr. Yawn mentioned there are 89 total positions included in the study; 66 of those are from the Investments division, 17 from the Benefit Contracts division, and 6 from Legal Services. He then noted the study is not looking at the specific individuals who are employed by the agency and their individual experience and backgrounds, but rather the positions the agency fills and trying to benchmark appropriate levels of compensation for those types of positions with peer organizations in both public and private entities.

Ms. Ann Bishop stated the State Auditor sets salaries for the Position Classification Act, and they do take information from surveys and market study and fold it into their recommendation to the legislature. Mr. Yawn noted that in addition to internal management's and the board's use of this information, it also serves as a resource to external entities that are reviewing the work and operation of the agency.

Mr. Yawn reported job analysis questionnaires were completed by ERS staff by April 10, 2015. Once those job analysis questionnaires were submitted, the supervisors for each position reviewed the responses received and provided additional comments on the responsibilities and criteria employees in those positions need to have to be effective in those positions. This information is important so the consultants can benchmark to appropriate peer positions within organizations which may differ structurally or organizationally to ERS.

Mr. Yawn reported CBIZ is releasing custom surveys to organizations identified as peer organizations to request specific information for this study, customized to ERS' positions and to the information ERS is seeking. He stated the peer organizations have been identified, including out-of-state entities involved in benefits administration and investments work, such as private sector organizations, private law firms, insurance companies, and investment banks with positions extremely similar to the positions ERS employees hold. CBIZ will take all the collected data and develop findings and recommendations for ERS management and board to use in making budget and staffing decisions.

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

VIII. REVIEW, DISCUSSION AND CONSIDERATION OF THE RISK APPETITE SURVEY RESULTS

Ms. Ann Bishop, Executive Director presented the next agenda item discussion on the risk appetite survey results and stated the surveys were designed to accomplish several things. One accomplishment was the ability to constantly improve governance documents and governance of the

board as well as the agency and to help staff and the board be aligned as far as developing road maps and strategic planning for the future. Ms. Bishop turned the topic over to Mr. Bernie Hajovsky, Director of Enterprise Planning to provide the board with some background history.

In 2012 as part of the asset liability study ERS conducted for the investments program, the Board and IAC members were polled to gauge their acceptance levels of investment risk and return to establish the asset allocation. Mr. Hajovsky reported this study served as the building block for the creation of the Enterprise Risk Management (ERM) program. Since its inception, ERM has assumed the role of conducting risk analysis across the agency and analyzing how internal and external factors impact key business processes and operations.

Mr. Hajovsky reported another important function within ERM is the developing of the actionable risk appetite statements. These risk statements are important for establishing the common ground between the board and ERS' executive management on the levels of risk acceptance essential to carrying out agency operations. When complete, Mr. Hajovsky noted they will serve as a guide for leadership to determine the appropriate action as risk present themselves.

Mr. Hajovsky informed the board all survey questions were developed with the goal of creating risk appetite statements, which will be presented for consideration at the August 2015 Board of Trustees meeting. The risk appetite survey was crafted over a course of a few months and in early March was finalized and launched to all 6 board members and 17 ERS staff. The survey contained a total of 31 questions across four strategic directions. Mr. Hajovsky reminded the board on the four strategic directions: supporting retirement security, sustaining competitive group benefits, engaging stakeholders for informed decision making, and enhancing agency performance and accountability. He noted staff and the board received the same set of questions and all responses were kept anonymous. ERS did make a distinction when analyzing the results between the board and staff responses. The analysis was completed by early April.

Mr. Hajovsky proceeded to discuss the steps in analyzing the results. The questions and responses were then separated into one of three categories: 1) where the board and staff were in agreement (or alignment), 2) of which the board and staff are misaligned (or disagreement), and 3) where the board was split right down the middle. Mr. Hajovsky stated that before finalizing the statements further discussion is necessary for those areas in which the board and staff are misaligned and where the board is split.

Moving forward, Mr. Hajovsky highlighted the survey results and stated the board and staff responses were in agreement nearly two-thirds of the time. He reported the board and staff are misaligned in two areas. The first is the health plan design in which the board is in favor of making changes to the health plan design from year-to-year in lieu of increasing premiums, whereas staff is in favor of increasing premiums to maintain a stable plan design. The other misaligned items has the board in favor of health plan participants needing to visit their primary care physician for a referral before visiting a specialist, whereas most of the staff feel health plan participants should be able to visit any provider at any time without a referral. Mr. Hajovsky reported on the category referred to as a split which includes areas of accountability relating to contracting and retirement funding, distribution methods for communicating with membership and how much responsibility to give members to make their retirement options without the counsel of an ERS employee. Mr. Hajovsky reported that additional discussion is needed among the board to determine if a simple majority can be reached on the areas currently split so that risk statements can be further refined and developed. He informed the board the risk statements will be presented at the August meeting.

In a response to a question asked by Ms. Donnell wanting to know if it is the intent that the board will follow up and have discussion on these items, Ms. Bishop responded that it is the intent to have follow-up discussions and it will be brought up again at the August meeting.

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

IX. REVIEW, DISCUSSION AND CONSIDERATION OF THE SPACE PLANNING STUDY

Ms. Wendy McAdams, Director of Operations Support provided the board with an update on the space planning feasibility study. The space planning study is a multi-year project to be conducted in three phases and the purpose of the project is to identify the options available to accommodate expected growth in personnel and, based on the study, provide options to the board for presenting at the next Board of Trustees meeting.

The ERS building plans were reviewed at the August 2014 Board of Trustees meeting and it was discussed that previous renovations were performed from 2007 to 2009, and how budgeted positions have increased on average seven positions per year over the previous five years. Since that meeting, the project team implemented phase 1 of the study and posted a Request for Qualifications (RFQ) in November and selected CBRE, Inc. in March to begin preliminary activities.

Ms. McAdams reported CBRE, Inc. kicked off the project in April with a visioning session with the division directors to identify project vision goals, drivers and metrics. Division directors completed departmental questionnaires gathering information for the programming schematics. She also reported CBRE will conduct focus group sessions with a diverse group of ERS colleagues for an open constructive dialogue about the future of the workplace environment. The team members include tenured staff, senior management and fairly new staff. CBRE will compile this data to conduct workplace strategy work sessions with ERS staff.

Ms. McAdams informed the board CBRE will tour the ERS facility in the next two weeks to understand and evaluate operating expenses, review parking operations and condition of the structure. Following the tour, CBRE will interview appropriate executives and managers to evaluate workplace effectiveness and efficiency. CBRE will review this data to identify areas of opportunity for operational improvement. At the end of phase 1, CBRE will gather all of the data and incorporate it into a report to be presented to the board at the August meeting.

Phase 2, CBRE will incorporate multiple scenarios to address growth for consideration by the board at the next August meeting. CBRE will prepare and present a major presentation and more detailed report for the board's consideration. Ms. McAdams informed the board ERS staff will identify and analyze timing and risk issues, as well as opportunity initiatives associated with all scenarios modeled by the consultant. Phase 2 is projected to begin towards the end of FY 2015. Phase 3 includes the implementation of the board approved building space scenario and this phase could begin towards the end of FY 2016, or beginning of FY 2017.

In a response to a question asked by Ms. Donnell requesting clarification on considering whether ERS stays in the existing space, reconfigure or limit to downtown Austin, Ms. McAdams responded that ERS' focus is mainly on the Austin metro area and Mr. Wilson chimed in to state the full spectrum of options are on the table from staying in the existing area and having greater more efficient utilization of the space to options for moving out of the downtown area. He continued by stating part of the process is seeing what the stakeholders and employees value in the way of location and where we could be most effective.

In a response to a question asked by Mr. Hester on if the cost of this type of project comes out of the trust or if funded by the legislature, Mr. Wilson responded that it comes out of the trust.

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

X. 84TH LEGISLATIVE SESSION UPDATE

Ms. Catherine Terrell, Director of Governmental Affairs discussed with the board the process of analyzing legislation and working with the legislature throughout the session. She introduced Mike Ewing, Governmental Affairs and noted whenever a bill is proposed, Mr. Ewing is the first to look at it to determine whether it applies to ERS, an ERS program, the agency or members. He then assigns it to an analyst within one of the various ERS divisions and they review the proposed legislation to see what impact it might have on ERS.

Ms. Terrell stated that because of the succession planning process, staff is learning through analyzing bills. It helps in cross-training as new analysts come every year and get assigned to do a bill analysis. Ms. Terrell then asked the members of the Legislative Analysis Group (LAG) to stand up and be recognized by the board. The LAG meets once a week and Mr. Ewing creates the agenda for the meeting and reviews each of the analyses done by the divisions.

Certain bills will require a cost estimate. When the state is concerned a piece of legislation is going to cost the state money and they want to know how much money they are looking at, they will ask for a cost estimate. Ms. Terrell recognized staff in the Finance division responsible for starting the cost estimates: Mike Wheeler, Chief Financial Officer, Machel Pharr, Assistant Director of Finance, and Brian Dowdy and Debbie Leatham of Finance division. Every cost estimate is approved by additional staff. Mary Jane Wardlow in Governmental Affairs reads and reviews all cost estimates as well as manages media inquiries during the legislative session, Mr. Keith Yawns also reviews, and then the final review is performed by the Executive Director.

Ms. Terrell made several introductions of staff and informed the board that Ms. Jennifer Jones is the account individual for Gabriel Roeder Smith, ERS' pension actuary. Ms. Dana Jepson is involved in the healthcare policy side, and Ms. Leah Erard handles stakeholder communications in addition to the work with the legislature.

Mr. Ewing informed the board that during this legislative session 4,340 bills and resolutions were filed in the House and 2,136 bills were filed in the Senate. That is a slight increase over last session. ERS tracked 224 bills and members of the LAG analyzed 121 bills. Mr. Ewing reported some of the complicated contracting bills being tracked will have multiple amendments, meaning the bills need to be re-analyzed and brought back up to the LAG meeting. Mr. Ewing thanked everyone involved in the process of analyzing bills and appreciated everyone's assistance. He also thanked Information Systems division and the Benefits Communications division for all of their hard work to communicate directly with the legislative offices and members.

Ms. Terrell then began to walk through the Board Report¹ given to the board during the meeting. The two major areas where ERS gets appropriations are the health insurance program and the retirement program. She reported most of the focus has been on the pension side and there have been a lot of discussions about pension funding. The retirement fund has an unfunded liability that is continuing to grow. Both the House and the Senate have in their budgets to increase the state contribution to the retirement program to 9.5%.

¹Exhibit A – Page 29

Mr. Nail, Special Projects and Policy Advisor to the Executive Director reported that House Bill 9 passed out of the Senate Committee and if it does pass the Senate, will become law and the funding period will be at 34 years. Ms. Terrell stated that 34 years is within the Pension Review Board's guideline of actuarial soundness. House Bill 9 raises the employee contribution to 9.5%, effective September 1, 2015. The current state contribution is at 6.9%.

Representative Dan Flynn is the author of the bill and the Chair of the House Pensions Committee. In addition, the House proposed budget includes an amount to offset the increased employee contribution by providing a 2.5% salary increase. Mr. Nail stated every employee group that was represented in the process agreed to this as opposed to making any benefit design changes to the existing pension plan. Mr. Nail reported House Bill 9 is structured in such a way that the state appropriation actually is in the Appropriation Act, whereas the employee contribution is in statute.

Ms. Terrell announced former Comptroller Susan Combs and current Comptroller Glenn Hegar have issued statements with regard to the pension unfunded liability and the need to address that in order to shore up the bond ratings for the state of Texas. Mr. Craig Hester thanked the staff for a job well done during this legislative session as well as thanking Ms. Bishop for communicating with the legislature on what the key issues were and how important to the bond rating of the state.

On page 4 of the Board Report, Ms. Terrell announced House Bill 1278 and Senate Bill 436 refer to a program ERS administers, a program called Chapter 615 where the state directly appropriates money to provide assistance to survivors of law enforcement members who are killed in the line of duty. This particular piece of legislation would double the amount of money the state pays. It currently pays \$250,000 to a qualified beneficiary, which would double to \$500,000 effective September 1, 2015. Ms. Terrell also noted that if the deceased peace officer or law enforcement officer has children, it pays them a monthly stipend up through their 18th birthday.

On page 5 of the Board Report, House Bill 966 and Senate Bill 482 would establish voluntary consumer directed health plan within the group benefits program for state employees and pre-Medicare retirees. Ms. Terrell reported this bill has been passed out of the House and referred to Senate State Affairs. House Bill 3307, requires ERS to offer a TRICARE Military Health supplemental plan, has been set for hearing in the Senate State Affairs Committee. Ms. Terrell reported there would be no state contribution for this and federal law prevents the State from providing any incentive for people to enroll in it.

The next several bills brought up were related to the ERS Board of Trustees. They would all essentially do the same thing in slightly different ways which is to allow one of the elected members to be a retiree. Senate Bill 1146 was referred to the Senate State Affairs Committee. The other two bills, House Bill 3227 and House Bill 3573 were both voted out of the House and referred to the Senate State Affairs Committee as well.

House Bill 3310 by Representative Paul would require ERS to work with their sponsor to develop a funding soundness restoration plan.

Mr. Nail reported ERS is scheduled for Sunset review starting this summer and some of the things to look forward to after session are contracting changes that are going to take place which is going to have a significant impact on our operations. He stated that contracting and purchasing processes would likely require more staff, more time and more oversight and reporting.

Mr. Ewing stated one of the issues Governor Abbott entered this session with was promoting ethics reform which is Senate Bill 19 and is currently awaiting hearing in the House Committee. If passed,

there will be some additional requirements for those who are required to file personal financial statements with the Ethics Commission. Mr. Ewing informed the board he will be updating the Board Report often as new information comes in. The Board Report is also posted to the Trustee secured website for viewing.

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

XI. REVIEW, DISCUSSION AND CONSIDERATION OF THE DRAFT BOARD OF TRUSTEES SELF-EVALUATION

Ms. Ann Bishop, Executive Director, presented the next agenda item on the draft Board of Trustees self-evaluation. The ERS Board follows best practices in board governance in order to fulfill its fiduciary obligation to the membership and the Fund. An essential part of sound governance is the practice of undertaking a board self-evaluation on a consistent basis. The purpose of the Board self-evaluation is to give all Board members an opportunity to evaluate and discuss the Board's performance from multiple perspectives.

Ms. Bishop turned it over to Mr. Tony Chavez, Director of Internal Audit to provide a brief overview of governance in the public sector. Mr. Chavez provided a handout to the board and noted it was generated by the American Center for Government Auditing, a sub-group of the Institute of Internal Auditors. He stated that governance establishes and guides an organizations actions. He reported that oversight is effective, risks are mitigated, and investments are protected. Governance is a combination of the board, management and audit.

Ms. Bishop reported the survey was presented to all six board members via SurveyMonkey and all six responded. There were 45 questions on a scale of 1-to 5 with 1 being strongly disagree and 5 strongly agrees. Thirty of the questions related to the Board in general and 15 questions related to participation or an evaluation of the individual as a board member.

Ms. Bishop reported that all questions on the group section scored at least 3.5 out of a 5-point scale and there was only one question that scored less than 3.5 which had to do with established criteria to measure the performance of the Board of Trustees and management in meeting the goals and objectives. Ms. Bishop stated that she expected this to be a low score because this was the first time it's actually been done.

Some of the strengths the board agreed on as a group was that they monitor the plan design and employee benefit programs and the impact on the membership, as well as service to members and the retirees; they have a good understanding of who the stakeholders are; required to disclose possible conflicts of interest, and they receive meeting notices and agendas and minutes and appropriate material in advance of the meetings. Ms. Bishop continued by reporting the board also agree there are appropriate ethics and values in the organization; they scored Internal Audit and third-party audits as very high; and they knew that the impact of annually approving a budget and the impact of that on the operations.

In terms of the individual assessments, Ms. Bishop reported there were a number of categories that scored very high with a 4.5 or higher. These included that the board attend all board meetings; arrive on time and stay until the meeting concludes; understand and complies with the board's fiduciary responsibility, including the duty of loyalty, prudence, care, diligence and confidentiality; and they fully understand it's their fiduciary duties to act on the benefit of all members and retirees.

Ms. Bishop reported there was one that scored lower, 4.17 and that was individual effort to be educated in aspects of the program areas that I don't understand. Ms. Bishop stated staff are always available to help educate the board and to bring information or meet with individual board or Investment Advisory Committee (IAC) members on any particular issue. She continued that sometimes it's very difficult for the board or IAC members who come in the middle of a cycle to understand where they fit into the cycle, so ERS will look at how the information is presented and try to do a better job of presenting the big picture as well as how the individual components fit into the big picture.

Ms. Donnell stated that she would like to see the IAC do something similar as well as the IAC give feedback to the board on what aspects of the board they see and vice versa. Ms. Bishop responded by saying that was one of the questions on the board survey.

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

XII. PRESENTATION OF BOARD RECOGNITION

Chair, Brian Ragland presented Ann Bishop with a photo frame signed by each of the Board of Trustees in honor of her upcoming retirement on June 30, 2015. Ms. Bishop announced her appreciation to all of the board, the IAC and staff. Mr. Craig Hester stated that it'd been a pleasure working with Ms. Bishop. Ms. Yolanda Griego congratulated Ann and thanked her for everything she's done.

XIII. RECESS OF THE BOARD OF TRUSTEES – FOLLOWING A TEMPORARY RECESS, THE BOARD OF TRUSTEES WILL RECONVENE WITH THE INVESTMENT ADVISORY COMMITTEE TO TAKE UP THE REMAINING AGENDA ITEMS

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

The dates for the 2015 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 are as follows:

Joint Meeting Dates:

Tuesday, February 24, 2015

Tuesday, May 19, 2015

Tuesday, August 18, 2015

2-Day Workshop:

Thursday – Friday, December 3 & 4, 2015

XX. EXECUTIVE DIRECTOR'S REPORT

Mr. Porter Wilson, Executive Director Designate proceeded with the next agenda item Executive Director's Report. His report to the Board is included with these minutes as Exhibit B

XXI. EXECUTIVE SESSION – THE BOARD OF TRUSTEES WILL MEET IN EXECUTIVE SESSION IN ACCORDANCE WITH SECTION 551.074, TEXAS GOVERNMENT CODE, TO DELIBERATE THE APPOINTMENT, EMPLOYMENT, COMPENSATION, EVALUATION, REASSIGNMENT, DUTIES, DISCIPLINE, OR DISMISSAL OF A PUBLIC OFFICER OR EMPLOYEE; OR TO HEAR A COMPLAINT OR CHARGE AGAINST AN OFFICER OR EMPLOYEE. THIS MAY INCLUDE DELIBERATION REGARDING THE EXECUTIVE DIRECTOR DESIGNATE, EXECUTIVE DIRECTOR AND OTHER INDIVIDUAL EMPLOYEES OR OFFICERS OF THE EMPLOYEES RETIREMENT SYSTEM OF TEXAS. THE BOARD OF TRUSTEES WILL ALSO MEET IN EXECUTIVE SESSION IN ACCORDANCE WITH SECTION 551.071, TEXAS GOVERNMENT CODE, TO SEEK THE ADVICE OF ITS ATTORNEY ABOUT A MATTER IN WHICH THE DUTY OF THE ATTORNEY TO THE GOVERNMENTAL BODY UNDER THE TEXAS DISCIPLINARY RULES OF PROFESSIONAL CONDUCT OF THE STATE BAR OF TEXAS CLEARLY CONFLICTS WITH THIS CHAPTER. THEREAFTER, THE BOARD MAY CONSIDER APPROPRIATE ACTION IN OPEN SESSION.

Agenda item XXII, Appointment of the Executive Director for the Employees Retirement System of Texas, was taken up by the Board of Trustees concurrently with agenda item XXI. At 5:00 P.M., Chair Brian Ragland announced the Board of Trustees will go into Executive Session in accordance with Section 551.074, Texas Government Code, to deliberate the appointment, employment, compensation, evaluation, reassignment, duties, discipline, or dismissal of a public officer or employee; or to hear a complaint or charge against an officer or employee. This may include deliberation regarding the Executive Director Designate, Executive Director and other individual employees or officers of the Employees Retirement System of Texas. The Board of Trustees will also meet in Executive Session in accordance with Section 551.071, Texas Government Code, to seek the advice of its attorney about a matter in which the duty of the attorney to the governmental body under the Texas Disciplinary Rules of Professional Conduct of the State Bar of Texas clearly conflicts with this chapter.

The Executive Session concluded at 5:55 p.m., at which time the Trustees returned to open session. Chair Brian Ragland stated that while in Executive Session, no action, decision, or vote was taken by the Board. The Board at this time also considered agenda item XXII, Appointment of the Executive Director of the Employees Retirement System of Texas. He then opened the floor for a motion.

The motion presented also considered and reflected the substance of agenda item XXII regarding the Appointment of the Executive Director for the Employees Retirement System of Texas. To this end,

MOTION was made by Craig Hester that the Board of Trustees of the Employees Retirement System of Texas, in accordance with Texas Government Code § 815.202, hereby appoint Porter Wilson, ERS' Executive Director Designate, to serve at the Board's will as the Executive Director of the Employees Retirement System of Texas with a salary of \$265,000 per year, effective June 1, 2015.

I further move that Mr. Wilson is hereby delegated the maximum and complete authority to assume and perform all responsibilities and duties identified and described in this agenda item (agenda item XXII) and as previously delegated to, performed by or otherwise permitted or required to be acted upon by the ERS Executive Director, regardless of when such delegation occurred, to the fullest extent permitted under the laws, rules, constitutional provisions, policies and contractual agreements applicable to ERS. To the extent he deems necessary in ERS' best interest, Mr. Wilson may designate one or more qualified ERS employees to perform a portion or all of the foregoing responsibilities. The Human Resources staff is directed to finalize performance standards and a job description for Mr. Wilson consistent with the expectations discussed during the interview process for the Executive Director Designate position.

In light of Mr. Wilson's appointment as Executive Director effective June 1, 2015, and in accordance with Texas Government Code §669.002, I move that the Board of Trustees reassign Ann Bishop to the position of Special Assistant to the Executive Director beginning June 1, 2015 through June 30, 2015, the date of her retirement, at her current salary.

The motion was subsequently seconded by Yolanda Griego and carried unanimously by the present members of the Board.

Ms. Cydney Donnell stated how happy she is to have Porter Wilson as the new Executive Director and Mr. Wilson responded by saying how humble he is with the board's confidence in him and noted that he has "big shoes" to fill.

XXII. APPOINTMENT OF THE EXECUTIVE DIRECTOR FOR THE EMPLOYEES RETIREMENT SYSTEM OF TEXAS

See agenda item XXI above.

XXIII. ADJOURNMENT OF THE JOINT MEETING OF THE ERS BOARD OF TRUSTEES AND INVESTMENT ADVISORY COMMITTEE

The May 19, 2015 Joint Meeting of the ERS Board of Trustees and Investment Advisory Committee adjourned at 6:00 p.m.

**Filed Legislation Affecting the Employees Retirement System of Texas
84th Texas Legislature, Regular Session**

Bill	Author	Summary	May 6, 2015
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GENERAL APPROPRIATIONS BILLS

		<p>Retirement:</p> <ul style="list-style-type: none"> • ERS – State contribution rates of 9.5% for both years of biennium; plus an additional state agency contribution at the rate of 0.5% of base payroll • LECOSRF – 0.5% state contribution rate for both years of biennium • JRS 2 – 15.66% state contribution rate for both years of biennium • JRS 1 – Fully funded 	
SB 2	Nelson	<p>Group Health Plan:</p> <ul style="list-style-type: none"> • Funded sufficiently to potentially avoid benefit changes through FY 2017 	
HB 1	Otto	<ul style="list-style-type: none"> • Maintains current 100% member and 50% dependent state contribution • Maintains 1% of base payroll contribution from participating state agencies and higher education institutions • Requires ERS to provide reports regarding the bidding and administration of the HealthSelect contract to LBB and SAO. • Requires ERS to work with Texas Diabetes Council to study pre-diabetes and consider developing a diabetes prevention program. <p>Other Benefits:</p> <ul style="list-style-type: none"> • Public Safety Benefits (Chapter 615) – Fully funded • Retiree Death Benefits – Fully funded 	

RETIREMENT

Retirement - Elected Class

HB 131	Simpson	Fixes elected class annuity at 2% of \$125,000 for members entering the class on or after 9/1/2015, with a maximum of 12 years of service.	Left pending in Pensions 4/27/15
SB 1683	Huffines		Referred to State Affairs 3/23/15
SB 110	Taylor, Van	Suspends or reduces annuities of elected class officers on final conviction of a felony or certain misdemeanors related to the officer's official duties.	Referred to State Affairs 1/27/15
HB 1538	Meyer		Referred to Pensions 3/10/15

Bill	Author	Summary	May 6, 2015
SB 115	Taylor, Van	Prohibits ERS from withholding as confidential the name or amount of annuity of a retired member of the legislature.	Referred to Business & Commerce 1/27/15
HB 1698	Capriglione		Referred to Pensions 3/12/15
HB 408	Turner, Chris	Prevents certain members of the elected class from transferring service to the employee class, or from retiring from the employee class while still in elected office.	Engrossed 5/5/15
SB 1773	Menendez		Referred to State Affairs 3/24/15
HB 425	Fallon	Makes elected officials ineligible to receive an annuity if convicted of bribery, embezzlement, or perjury.	Left pending in Pensions 3/23/15
HB 681	Sheets		Committee Report sent to Calendars 4/24/15
HB 3461	Fallon	Fixes elected class annuities at 2% of \$140,000 for members of the elected class with all service earned as member of the legislature.	Left pending in Pensions 4/27/15
HB 3699	Simpson		Left pending in Pensions 4/27/15
SB 19	Taylor, Van	Adds reporting requirements for individuals required to file financial reports to the Ethics Commission, including public and private retirement income. Applies to ERS Board members.	Referred to House State Affairs 5/5/15
SB 1516	Seliger	Fixes retirement annuity of members of the legislature and statewide elected officials at 2% of a district judge's salary, as that salary existed on August 31, 2015.	Referred to State Affairs 3/23/15
Retirement - Employee Class			
HB 442	Gonzales	Allows beneficiaries to have all or part of an employee's or retiree's death benefits be payable directly to a funeral director or establishment.	Referred to Senate State Affairs 5/4/15

Bill	Author	Summary	May 6, 2015
HB 3182	Fallon	Limits the maximum retirement annuity amount for new employees hired after August 31, 2015 to the amount of the gross salary of an active duty General or Admiral of the US armed forces.	Sent to Calendars 4/24/15
HB 701	Allen, Alma	Provides an immediate 10% COLA, effective 9/1/15, plus a 4% annual COLA for annuitants. Also provides a supplemental payment equal to the lesser of the monthly annuity or \$2,000, payable in January '16.	Left Pending in Pensions 5/4/15
SB 465	Taylor, Van	Suspends or reduces annuities of Texas Juvenile Justice Department employees on final conviction of a certain offenses against a minor student.	Referred to State Affairs 2/10/15
HB 9	Flynn	Raises the employee contribution to 9.5%, effective 9/1/2015, and ties the employee and state contributions together.	Referred to Senate State Affairs 4/23/15
HB 2859	Marquez	Permits an individual to establish service credit in the employee class for employment with a tribal government.	Referred to House Pensions 3/16/15
SB 1157	Hall	Repeals Section 814.009, Texas Government Code, which allows ERS to deduct membership fees for a state employee organization from a retiree's annuity.	Referred to State Affairs 3/17/15
SB 1917	Watson	Raises the employee contribution to 8%, the state agency contribution to 1%, and the state contribution required by the Texas Government Code to 10%, effective 9/1/2015.	Referred to State Affairs 3/25/15
SB 1941	Huffman	Clarifies that a member who terminates must designate a new beneficiary on returning to work, and that a death benefit is not payable to a member on leave without pay.	Referred to State Affairs 3/25/15
<i>Retirement - Law Enforcement and Custodial Officer Supplemental Retirement Fund (LECOSRF)</i>			
HB 1821	Alonzo	Permits peace officers employed by institutions of higher education and public schools to move from TRS to ERS, effective 1/1/2016, and participate in LECOSRF. Also adds certain peace officers employed by the state and correctional officers at the Texas Juvenile Justice Department to LECOSRF.	Left pending in Pensions 3/30/15

Bill	Author	Summary	May 6, 2015
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Retirement - JRS I & II

HB 3377	Hughes	Allows JRS II retirees to resume service in JRS II if they return to service as a judicial officer after a break of more than 12 months.	Sent to Calendars 5/1/15
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CHAPTER 615
(Survivor benefits for officers killed in the line of duty)

SB 436	Lucio	Increases lump sum survivor benefit from \$250,000 to \$500,000, and doubles the monthly benefit paid to surviving minor children.	Referred to State Affairs 2/09/15
HB 1278	Hughes		Placed on House Calendar 5/9/15

INSURANCE

Insurance - Coverages

SB 194	Ellis	Requiring HIV tests to be a part of routine blood work.	Referred to Health and Human Services 1/27/15
SB 264	Ellis	Allows dependents of the wrongfully imprisoned to participate in the GBP.	Referred to State Affairs 1/28/15
HB 3476	Coleman	Requires ERS to establish a telehealth and telemedicine pilot program for annuitants, to begin June 1, 2016.	Placed on the House Calendar 5/6/15
SB 575	Taylor, Larry	Requires health plans to offer abortion coverage as a separate coverage, and cover abortions under the supplemental plan only when a medical emergency exists.	Placed on the Senate Calendar 5/6/15

Bill	Author	Summary	May 6, 2015
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HB 1435	Smithee	Requires health plans to offer abortion coverage as a separate coverage, and cover abortions under the health plan only when a life-threatening physical condition exists.	Referred to House Insurance 3/10/15
HB 3130	Farney		Reported from House State Affairs 4/27/15

Insurance - Plan Design/Funding

HB 966	Crownover	Requires ERS to establish a voluntary consumer-directed health plan in the form of a high deductible health plan (HDHP) with a Health Savings Account (HSA) as an alternative to HealthSelect with coverage to begin September 1, 2016.	Engrossed 5/5/15
SB 482	Hancock		Referred to State Affairs 2/24/15

HB 2935	Sheffield	Requires ERS and TRS to jointly conduct a study of the benefits and disadvantages of establishing a patient-reported outcomes registry for musculoskeletal care.	Referred to Senate State Affairs 5/5/15
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HB 3307	Miller, Rick	Requires ERS to offer a TRICARE Military Health System Supplemental plan.	Set on House Calendar 5/7/15
SB 1816	Hinojosa		Referred to State Affairs 3/25/15

Insurance - Eligibility

HB 2123	King, Phil	Allows a member of the state military forces who has been on active duty for more than 60 days to participate in the GBP as a full-time state employee and receive a state contribution towards insurance premiums.	Set on House Calendar 5/6/15
SB 1834	Menendez	Allows a member of the Texas National Guard who is on active duty providing border security to participate in the GBP as a full-time state employee and receive a state contribution towards insurance premiums.	Referred to State Affairs 3/25/15

Bill	Author	Summary	May 6, 2015
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BENEFITS ELIGIBILITY

HB 1745	Bell	Prohibits state employees from recognizing any marriage license or certification that does not comply with Section 32, Article 1, Texas Constitution	Left Pending in State Affairs 3/25/15
SB 673	Perry		Referred to State Affairs 2/10/15
HB 1797	Marquez	Makes certain "qualified individuals" eligible to participate as dependents in the GBP if they are at least 18, not related to the GBP participant, financially interdependent, and cohabitating.	Left Pending in State Affairs 4/29/15
HB 3890	Stephenson	Makes a same-sex spouse of a member or retiree of a public retirement system ineligible for benefits from that retirement system.	Referred to State Affairs 3/23/15

INVESTMENTS

HB 3071	Anchia	Changes required reports on prohibited investments in Sudan and Iran from annually to 30 days after the updated list is received.	Referred to Int'l Trade, 3/24/15
SB 940	Taylor, Van		Reported from Int'l Trade 5/4/15

BOARD OF TRUSTEES

HB 3227	Hernandez	Allows one of the members elected to the Board of Trustees to be a retiree.	Engrossed 4/27/15
SB 1146	Watson	Adds option for one elected Board member to be a retiree.	Referred to State Affairs 3/17/15

Bill	Author	Summary	May 6, 2015
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HB 3573	Alonzo	Allows one of the members elected to the Board of Trustees to be a retiree.	Sent to Local & Consent 4/20/15
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FUNDING

HB 3310	Paul	Requires ERS to work with the Legislature to develop a funding soundness restoration plan.	Set on House Calendar 5/6/15
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SJR 68	Eltife	Proposed constitutional amendment to transfer \$1.5 billion from the Economic Stabilization Fund (Rainy Day Fund) to the ERS trust.	Referred to Finance 4/8/15
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CONTRACTING

HB 15	Otto		Engrossed
SB 20/HB 3241	Nelson/Price	These bills create various new processes for state agency contracting. Provisions included in the various bills include increased reporting and disclosure requirements, new oversight and review authority, required contract terms, and other provisions. ERS is working with the various authors and other stakeholders to track these bills. Versions of all three bills (HB 15, SB 20, and SB 543) have passed out of their chamber of origin.	Engrossed
SB 543/HB 1426	Zaffirini/Elkins		Engrossed

PUBLIC AGENDA ITEM - # 20
20. Executive Director's Report

May 19, 2015

New Trustee Elected to Board

Ilesa Daniels has been elected to serve as the next Trustee beginning September 1. Daniels is currently a Program Specialist for Texas Health and Human Services Commission and has more than 24 years of state experience. She is devoted to representing ERS members and ensuring they maintain quality benefits.

Voting ran from March 6 through April 10. Survey and Ballot Systems, the third-party election administrator, presented the election results at a May 6 meeting held at ERS. Ms. Daniels will fill the Trustee position currently held by Yolanda "Yoly" Griego, who will be retiring from the ERS Board later this year. ERS extends its deepest gratitude to Yoly for her dedicated service to our members, retirees and dependents over the past 12 years.

Results of the 2015 Trustee election are provided below:

2015 Trustee Election Results		
<i>Candidate</i>	<i>Votes Received</i>	<i>% of Votes</i>
Ilesa Daniels	14,114	46.1%
Jerry McGinty	14,073	45.9%
Louri O'Leary	2,455	8.0%
Total	30,642	100.0%

Modernized Benefits Administration (MBA) Program Status Update

The MBA is a multi-year project that was initially introduced to the board in August 2014. The MBA team continues to collaborate in drafting the Request for Proposal (RFP) which describes all business requirements desired to meet both current and future needs for benefits enrollment and administration services.

At current state we are on schedule to meet established deadlines. The RFP draft has been submitted to ERS legal for review. Following legal review the RFP will be submitted to the Contract Advisory Team (CAT). The RFP is scheduled to be published in early August 2015.

Due to size and scope of the MBA project, the RFP requires review by the CAT, a committee created to assist state agencies in improving contract management practices. It is anticipated the CAT will engage the Quality Assurance Team (QAT) during its review. The QAT is an oversight committee charged with

ensuring quality assurance reviews of technology projects for the State of Texas. Our RFP timeline has been adjusted to include the estimated time required for this review and feedback. Based on the initial reviews, the QAT may have additional reviews during the implementation stages of the project.

Summer Enrollment for Plan Year 2016

Summer Enrollment for plan year 2016 will take place over a five week period from June 29- July 31. The phased approach has shown to be a success in past years, improving the overall customer experience by allowing the demand on the contact center to be spread out.

Summer Enrollment for Plan Year 2016					
June 29, 2015 – July 31, 2015					
	Monday June 29	Friday July 3	Friday July 10	Friday July 17	Thursday July 31
Phase 1 (June 29 – July 13)	█				
Phase 2 (July 3 – July 17)		█			
Phase 3 (July 10 – July 24)			█		
Phase 4 (July 17 – July 31)				█	

ERS will be hosting 45 Summer Enrollment fairs across the State and four webinars, from June 22, 2015 through July 29, 2015. The fairs give ERS an opportunity not only to share important benefits information with members and retirees, but also to hear what’s on their minds.

Fall Enrollment for our Medicare-eligible retirees will be in the October-November timeframe to coincide with the federal Medicare enrollment period.

Tobacco Certification - Reasonable Alternative “Choose to Quit” Program

Effective January 1, 2012, ERS implemented a monthly Tobacco User Premium for GBP health plan participants who use one or more tobacco products. This premium is considered a wellness program, and as such is subject to Health Insurance Portability and Accountability Act (HIPAA) requirements as well as certain Patient Protection and Affordable Care Act of 2010 (ACA) provisions.

Because the Tobacco User Premium is a health-contingent wellness program, in order to not violate HIPAA and ACA nondiscrimination regulations it must include a reasonable alternative for participants to get the benefit if they are unable to meet the health factor (not using tobacco). To meet this requirement, in 2012 ERS provided for a Physician Affidavit process, whereby participants who are unable to meet the standard for non-tobacco use due to health reasons were able to submit a Physician’s Affidavit attesting to this, and the Tobacco User Premium would be waived. This premium waiver has no expiration date, and is valid until the participant leaves the GBP.

Additional guidance and clarification was recently published, indicating that the Physician Affidavit process would no longer be an acceptable alternative.

The “Choose to Quit” program will be implemented in June 2015 to meet these reasonable alternative standards. Specifically, if participants wish to have the Tobacco User Premium waived for the plan year, they must:

- Contact his/her doctor and establish a tobacco cessation program that is right for him/her;

- Complete that program;
- Return to the doctor and have him/her sign the Choose to Quit Certification Form; and,
- Submit the properly completed Choose to Quit Certification Form to ERS.

Upon successful completion of the Choose to Quit program, the member will have the Tobacco User Premium waived for the remainder of the plan year. Further, the member will receive a refund of all Tobacco User Premiums paid to date within that plan year.

The Choose to Quit program must be completed each plan year in order to have the Tobacco User Premiums waived / refunded for that plan year. In order to have the Tobacco User Premium permanently removed, an individual must certify as a “Non-Tobacco User”.

Support for Other State Agencies

ERS is working with the Department of Family and Protective Services (DFPS), specifically Child Protective Services (CPS), to educate current and prospective employees about ERS-administered benefits. We hope that by making them aware of the value of their benefits, we can help the agency in its recruitment and retention efforts. Based on discussions with DFPS, we expect specific outreach to include:

- a webinar for recruiters to familiarize them with ERS-administered benefits and help in efforts to recruit caseworkers,
- benefits webinars and possibly seminars for new CPS employees,
- input on DFPS' benefits webpages, including updated links to relevant ERS webpages, and
- a recruiting handout with an overview of benefits.

ERS has had initial discussions with staff at the Health and Human Service Commission. HHSC would like ERS to include more information about the psychosocial aspects of retirement in its materials. ERS is exploring the opportunity and also asked HHSC to see if it might include more information about preparing for a financially secure retirement in its materials for HHSC employees.

Educational Video on Health Insurance Cost-Sharing

Based on the success of the two animated videos educating members and stakeholders about retirement issues – which have had a total of about 10,000 views to date – ERS developed a third video to educate our audiences about health insurance issues. The video is available on our YouTube channel, with a link featured on our homepage.

Investments Awards

Tom Tull won the Institutional Investor's Investor Intelligence Award for Chief Investment Officer of the Year. Employees Retirement System of Texas is fortunate to have Tom's over 40-year industry experience. During Tom's tenure as CIO, Tom and his team have been accelerating the shift to an internally managed portfolio (63% of assets) while adjusting the asset allocation model to emphasize return-seeking investments. The 3-year record of accomplishment through November 2014 is a 10.9% average annual return.

In addition, Robert Lee, III has won the Institutional Investor's Investor Intelligence Award for Alpha Generation. The four-person hedge fund team has delivered consistent excess returns with low volatility, and low correlation and beta to the ERS Trust. The hedge fund program continues to grow through hedge fund allocations within the traditional asset classes such as public equity and fixed income.

Texa\$aver 2015 Platinum Hermes Creative Awards

Texa\$aver submitted communication award entries for its **“DO YOU HAVE A PLAN? What's your Excuse”** enrollment campaign and was awarded the following:

[Association of Marketing and Communication Professionals](#) (AMCP) announced Texa\$aver is the winner of four 2015 Platinum Hermes Creative Awards, the highest honor in the competition, in the following categories; Writing/Publication Overall, Publications/Benefits, Integrated Marketing Campaign, Publication/Brochure. The Program was also awarded two gold awards in the Marketing Collateral/Branding/Special Item and Website Element/Web Copy categories and two Honorable mentions in Design/Illustration/Graphic Design, and Advertising/Direct Mail Piece.

The campaign made a special focus on enrolling new participants into the 401(k) plan who were not participating in the Texa\$aver Program prior to the January 2008 auto enrollment of new employees and who were also eligible to enroll in the 457 Plan. The campaign consisted of more than 20 touch-points and asked employees **“DO YOU HAVE A PLAN?”** through creative print and promotional marketing communications. Each touch-point featured a cleverly designed **“What’s Your Excuse”** call-out, and then addressed common excuses like **“The fees are too high.”**

The campaign helped 2,110 participants enroll in the Texa\$aver Program. The Texa\$aver Program emphasizes the three-legged stool for retirement savings: contributions to the ERS retirement plan, Social Security, and additional savings through a Texa\$aver 401(k) or 457 account.

AMCP is an international organization consisting of marketing, communication, advertising, public relations, media production, web, and freelance professionals. As part of its mission, AMCP fosters and supports the efforts of marketing and communication professionals who contribute their unique talents to public service and charitable organizations.

Get Fit Texas Challenge Award

ERS was awarded the **“#2 Fittest State Agency in Texas”** for Mid-size state agencies with a completion rate of 38.9. The 10-week state employee wellness challenge concluded on March 20.

Thanks to all ERS employees that participated and all those that made the challenge a success!