

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

**February 23, 2016
ERS Board Room
ERS Building – 200 E. 18th Street
Austin, Texas 78701**

TRUSTEES PRESENT

I. Craig Hester, Chair
Doug Danzeiser, Vice-Chair
Ilesa Daniels, Member
Cydney Donnell, Member
Brian Ragland, Member

TRUSTEES NOT PRESENT

Frederick E. Rowe, Jr., Member

ERS STAFF PRESENT

Porter Wilson, Executive Director
Catherine Terrell, Deputy Executive Director
Shack Nail, Special Projects and Policy Advisor
Paula A. Jones, General Counsel and Chief Compliance Officer
Tony Chavez, Internal Auditor
Robin Hardaway, Director of Customer Benefits
Robert Kukla, Director of Benefit Contracts
Wendy McAdams, Co-Director of Operations Support
Machelle Pharr, Interim Chief Financial Officer
DeeDee Sterns, Acting Director of Human Resources
Kathryn Tesar, Director of Benefits Communications
Tom Tull, Chief Investments Officer
Charles Turner, Chief Information Officer
Nora Alvarado, Benefit Contracts
Brannon Andrews, Legal Services
Georgina Bouton, Benefit Contracts
Lisa Caffarate, Benefit Contracts
Leena Chaphekar, Legal Services
Ashley Collier, Legal Services
Kelley Davenport, Executive Office
Christi Davis, Customer Benefits
Pablo De La Sierra, Investments
Blaise Duran, Benefit Contracts
Leah Erard, Governmental Affairs
Lindsay Feldner, Enterprise Planning Office
Liz Geise, Benefits Communications
Ginger Grissom, Benefit Contracts
Megan Hunter, Benefit Contracts
Jennifer Jones, Governmental Affairs
Deborah Legg, Enterprise Planning Office
Pamela Maas, Benefit Contracts
Michelle Moore, Benefits Contracts
Davis Peacock, Investments
Matt Riermersma, Information Services
Lauren Russell, Benefit Contracts
Randi Schultz, Benefit Contracts
Gabrielle Stokes, Legal Services
Bernely Tharp, Benefit Contracts

Angelica Torres, Benefit Contracts
Glenda Workman, Benefits Communications
Keith Yawn, Enterprise Planning Office
Serena Zetina, Benefits Communications

ALSO PRESENT

Steve Alexander, UnitedHealthcare
Andrew Clark, Office of the Speaker of the House of Representatives
David Dorman, AHM
Katy Fallon, Legislative Budget Board
Kris Hefner, Caremark
John Hryhorchuk, Office of the Governor
Seth Hutchison, Texas State Employees Union
Peter Jansen, CBRE
Emily Johnson, Sunset Commission
Andrea Kearekordos, Wells Fargo
Felice Herrera Kish, Texas Department Of Transportation
Jeremy Mazu, Sen. Van Taylor office
Brittany McCollum, Caremark
Emily Morganti, Legislative Budget Board
Joel Pardu, Aetna
Laura Pinkard, Humana
Lola Shores, Self
Trina S. Smith, Texas Department Of Transportation
Nora Velasco, Legislative Budget Board
Brad Young, Altius

Mr. Craig Hester, Chairman of the Board of Trustees of the Employees Retirement System of Texas (ERS), noting a quorum was present, 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 9:23 a.m. on Thursday, February 11, 2016 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 these following Board agenda items. Minutes to the February 23, 2016 Audit Committee Meeting are located under the Audit Committee agenda minutes.

XII. REVIEW AND APPROVAL OF THE MINUTES TO THE DECEMBER 4, 2015 MEETING OF THE BOARD OF TRUSTEES

Board of Trustee Chair, Mr. Craig Hester opened the floor for a motion on the approval of the minutes to the Board of Trustees Meeting held on December 4, 2015.

MOTION made by Ms. Cydney Donnell, seconded by Mr. Brian Ragland and carried unanimously by the present members of the Board of Trustees of the Employees Retirement System of Texas to approve the minutes to the meeting held on December 4, 2015.

XIII. REVIEW, DISCUSSION AND CONSIDERATION OF THE TEXAS EMPLOYEES GROUP BENEFITS PROGRAM

a. *Health Insurance Financial Status Update for the First Quarter Fiscal Year 2016 -*
Health care cost trend is higher than expected at 10.2% with prescription drug cost as the driver. Increased prescriptions of Diclofenac for off label use increasing costs at a 780% trend from FY 2014 to date. If claims are submitted for off label use, they will be denied.

Fiscal Year 2016 is projected to have a larger than expected fund balance in excess of \$428 million. Cost-saving measures were instituted with shared provider payments, specifically with Patient-Centered Medical Homes, Dependent Eligibility Audits, and the soft launch of the Virtual Visits program. While no data is yet available for the Virtual Visit program as it began in January cost savings for all three programs are expected to have a positive impact. Discussion of the new telemedicine program, Virtual Visits, explained that phone or computer visits scheduled with a doctor to address routine medical issues, such as cold and flu symptoms is a convenient way to see a doctor without an unnecessary trip to the emergency room, at a substantial cost savings.

In response to a Legislative interim study, ERS was tasked with studying cost and prevalence of prediabetes in our member population and evaluating potential solutions. As a result, ERS is implementing the new UnitedHealthcare prediabetes management program called Real Appeal. It is an online program for pre-diabetic and diabetic patients to aid in prevention and to help control weight and disease.

ERS is exploring the potential benefits and cost savings from a new payment model called Bundled Payments and anticipates issuing a request for proposal. Under this prospective program, a provider puts together "an episode-based bundled payment" which combines all necessary services such as the facility, surgeons, anesthesiology, radiology, and pathology – whatever services are needed for a successful outcome, for a single unit price. An example is knee replacements, at about 700 per year, which are scheduled in advance and can widely vary in cost. Under this program, members work with the provider to get into one of the bundled payment programs for lower cost and high quality care. This takes out much of the variability, with standardization of the process using quality products and services. The board expressed positive remarks concerning the alleviation of anxiety experienced by members knowing the procedures total cost with provider coordination of an in network total care package without balance billing.

Ms. Lola Shores addressed the Board of Trustees concerning her daughter's health issue and scheduling a specialist. Ms. Shores asked for more genetic doctors in Austin. Staff noted they offered Ms. Shore's daughter an appointment in Houston or Dallas. ERS legal counsel, Ms. Paula A. Jones, noted this is not an issue with coverage or delivery of benefits. It is a market issue with the availability of specialists in Austin. Chair Hester empathized with Ms. Shores issue and thanked her for her bringing it to their attention. ERS staff noted they will facilitate a resolution of Ms. Shore's daughters care issue.

After public comment, the Board continued with the presentation by Mr. Rob Kukla and Mr. Blaise Duran.

This agenda item is provided for informational and discussion purposes only. No action is required.

b. *Plan Design for the High Deductible Health Plan for Fiscal Year 2017* - The Texas legislature, HB 966, required ERS to establish a Consumer Directed Health Plan (CDHP) which has two parts, the High Deductible Health Plan (HDHP) – the insurance plan and a Health Savings Account (HSA) – the bank account for health care savings. ERS is charged with keeping the plan as revenue neutral as possible. Administered by UnitedHealthcare, the HDHP is another insurance plan under the same cost structure as HealthSelect, so there are no changes in rates or administrative fees to ERS.

The CDHP and the HSA have many IRS requirements for in-network benefits and HSA tax savings. All preventive services provided by in-network providers are covered at 100% and are not subject to the deductible. All prescription drugs are subject to the deductible. Board members expressed concerns, noting this is a legislative mandate and a risk/reward proposition emphasizing personal responsibility.

Communications by ERS and UnitedHealthcare will be the key to understanding this product. UnitedHealthcare will have projection tools to compare both HealthSelect and the CDHP. ERS plans to use multiple communications tools among them in person, print, video and web contact. Each member's family will need to have a critical conversation about current health care needs.

The CDHP is another insurance option, no one has to participate. Deductibles and out-of-pocket maximum accumulations do not usually cross apply between in-network and out-of-network and can be incurred separately.

Assumptions for the pricing model were reviewed. A variety of plan designs, including rates and out-of-pocket maximums were discussed. Board members asked for clarification on selection of UnitedHealthcare as the 3rd party administrator with staff stating this is a plan design change and another insurance option without additional cost, so should be administered by the same entity as HealthSelect. Board members asked about ongoing plan monitoring to make sure the program is working and members know what they are getting into. Staff reiterated that preventive services are covered at 100% with no deductible and that prescription drugs will have the deductible applied. Members that enroll in HDHP in July cannot change their choice later, not until the next year's open enrollment.

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

MOTION made by Mr. Doug Danzeiser, seconded by Ms. Cydney Donnell and carried unanimously by the present members of the Board of Trustees of the Employees Retirement System of Texas approve the High Deductible Health Plan Design in order to meet the legislative requirement of HB 966, passed by the 84th Texas Legislature as presented as option #3 in this agenda item to be made available for participation in the Texas Employees Group Benefits Program in Fiscal Year 2017 beginning September 1, 2016 and ending August 31, 2017.

c. Selection and Contract Award Recommendation for Health Savings Account Administrator – Health Savings Account (HSA) is a tax-advantaged medical savings account, authorized by IRS code 223 and is triple taxed advantaged. Members contribute pre-tax dollars, earnings are not taxed and if you use these funds for healthcare, they are not taxed when taken out of the HSA. Impact on other plans,

- If a member has a standard flexible spending account (FSA) they cannot have an HSA.
- IRS code allows members to have a limited purpose flexible spending account (LPFSA)
- The LPFSA can only be used to reimburse qualified dental and vision expenses.
- The HSA doesn't affect the Dependent care flexible spending account.

An RFP was issued in September, 2015 and ERS received proposals from eight vendors. After evaluation on minimum requirements, five proposals received further review. Finalist proposals were presented by UnitedHealthcare and Wells Fargo bank. After reference checks, face to face interviews, site visits and analysis of best value under current procurement guidelines, UnitedHealthcare Services was recommended for a one year term.

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

MOTION made by Mr. Doug Danzeiser, seconded by Ms. Cydney Donnell and carried unanimously by the present members of the Board of Trustees of the Employees Retirement System of Texas and Based on the information provided to ERS in response to the Request for Proposal, 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 the selection of a third-party administrator for the health savings accounts. Therefore, move that the Board of Trustees of the Employees Retirement System of Texas approve the selection of UnitedHealthCare Services, Inc. to provide administrative services for the Health Savings Accounts offered under the Texas Employees Group Benefits Program pursuant to the terms and conditions in the governing contract.

It is 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 UnitedHealthCare Services, Inc. with terms that are fully acceptable to ERS, and to authorize the Executive Director to thereafter administer the contract agreed to by the parties.

In the event that a contract fully satisfactory to ERS is not timely executed with UnitedHealthCare Services, Inc., or if it appears to the Executive Director during the term of the contract that UnitedHealthCare Services, Inc. will not be capable of performing the required HSA administrative

services to ERS' satisfaction, then the Board authorizes the Executive Director to resume the due diligence process and contract negotiations with one or more of the other qualified respondents, and to negotiate and execute contract terms with the next top-ranked qualified respondent that are fully acceptable to ERS, and to authorize the Executive Director to thereafter administer the contract agreed to by the parties.

XIV. REVIEW, DISCUSSION AND CONSIDERATION OF THE RULES OF THE BOARD OF TRUSTEES, TEXAS ADMINISTRATIVE CODE, TITLE 34, PART IV, REQUIRED RULE REVIEWS AND AMENDMENTS TO:

a. Chapter 61 (Terms and Phrases) and Chapter 65 (Executive Director)- Ms. Paula A. Jones, ERS General Counsel and Chief Compliance Officer presented the required rule review and proposed amendment to Chapter 61 (Terms and Phrases) and the required rule review and proposed amendments and addition of new rules to Chapter 65 (Executive Director).

Section 61.1 (Definitions) is proposed to be amended to include a term "interested person" to clarify who an interested person may be with regard to ERS rules. The reasons to readopt Chapter 61 continue to exist with the proposed amendment.

Section 65.3 (Records of the System) is proposed to be amended to repeal subsection (c) since it is not necessary. ERS is required to follow the Office of the Attorney General's rules regarding costs associated with producing information for Public Information Act requests pursuant to §552.262, Texas Government Code. Chapter 65 (Executive Director) is also proposed to be amended to add new rules §65.11 and §65.13 pursuant to the 84th Legislature, Regular Session.

Additions to Rule 65

New rule 65.11 (Reimbursement for Training or Education) is proposed to comply with Chapter 366 (H.B. 3337) Acts of the 84th Legislature, Regular Session, 2015, which added §656.047(b) to the Texas Government Code, requiring agencies to adopt rules requiring the agency's executive head to authorize tuition reimbursement payments for employees.

New rule 65.13 (Enhanced Contract Monitoring) is proposed to be added to comply with Chapter 326 (S.B. 20), Acts of the 84th Legislature, Regular Session, 2015, which added §2261.253 to the Texas Government Code. This new law requires state agencies to establish procedures to identify each contract that requires enhanced contract or performance monitoring, and to submit information on the contract to the Board.

Ms. Jones informed the Board that notices of the proposed amendments, and addition of new rules were published in the January 8, 2016 issue of the *Texas Register*, as required by statute. No comments were received on the proposed amendments or new rules. The Board was also informed that the law requires ERS to review its rules every four years to determine if the reason for adoption still exists. Notices of the intent to review Chapters 61 and 65 were published in the May 8, 2015 issue of the *Texas Register*, as required by statute. No comments were received on the proposed rule reviews.

The reasons to adopt Chapter 65 continue to exist with the proposed amendments.

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

MOTION made by Ms. Cydney Donnell, seconded by Mr. Brian Ragland, and carried unanimously by the 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, as presented in this agenda item:

- Adopt the proposed amendments to:
 - Chapter 61, Terms and Phrases, §61.1 (Definitions); and

- Chapter 65, Executive Director, §65.3 (Records of the System), and addition of new rules §65.11 (Reimbursement for Training and Education) and §65.13 (Enhanced Contract Monitoring).
- Readopt the following chapters of the Rules of the Board of Trustees because the reasons to adopt the rules in these chapters continue to exist:
 - Chapter 61 (Terms and Phrases) as Chapter 61 was amended by the Board as provided by this agenda item and
 - Chapter 65 (Executive Director) as Chapter 65 was amended by the Board as provided by this agenda item.

The adopted amendment to 34 TAC, §61.1 was subsequently published in the March 11, 2016 issue of the *Texas Register*, 41 TexReg 1858;

The adopted amendments to 34 TAC, §§65.3, 65.11 and 65.13 were subsequently published in the March 11, 2016 issue of the *Texas Register*, 41 TexReg 1859; and

The re-adoptions of Chapters 61 and 65, were subsequently published in the March 4, 2016 issue of the *Texas Register*, 41 TexReg 1725.

b. Chapter 63 (Board of Trustees) - Mr. Mike Ewing, Governmental Affairs, addressed the mandated rule review of Chapter 63 concerning the Board of Trustee election process and suggested changes.

63.1 - Clarification that the Board's appellate jurisdiction of appeals is provided in Chapter 67, Hearings on Disputed Claims.

63.3 –Concerning Election of Trustees (Nomination Process) – amended to clarify the maximum number of signatures ERS will accept on a petition (at least 300 but no more than 600 signatures). Petitions must include original signatures.

63.4 – Concerning Election of Trustees is amended to clarify that ERS will set the time and location for the drawing for the order of names to appear on the ballot and to remove reference to a run-off election.

The board questioned what kind of information can be asked of a candidate and received clarification on current information requested of candidates, such as background checks. There are statutory questions that specify information required of candidates. The board may be asked to approve any additional information and consequences if a candidate does not comply.

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

MOTION made by Mr. Brian Ragland, seconded by Mr. Doug Danzeiser and carried unanimously by the members of the Board of Trustees of the Employees Retirement System of Texas to adopt the proposed amendments to Chapter 63, concerning Board of Trustees, as reflected in Exhibit A and presented in this agenda item and re-adopt Chapter 63, which includes the changes adopted by the Board, because the reasons for initially adopting the chapter continue to exist.

c. Chapter 85 (Flexible Benefits) Required Rule Review - The proposed amendment will expand the voluntary benefits available to active employees under the State of Texas Employees Flexible Benefit Program (TexFlex). TexFlex is currently funded by pre-tax salary contributions that are used to reimburse participants for health and day care expenses. The benefits have been expanded to include a Qualified Transportation Fringe Benefits (QTFB) plan which allows employees to use pre-tax dollars to pay for qualified expenses associated with their daily commute such as mass transportation and parking fees.

85.1 – Clarifies that the grace period still applies to employees participating in dependent care reimbursement accounts.

85.1, 85.4 – Update the rules to offer TexFlex participants a qualified transportation benefit plan as permitted by Internal Revenue Code 132.

85.7 – Provides that carryover amounts less than \$25.00 shall be forfeited to pay the administrative costs of the plan.

85.9 – Clarifies that a health care reimbursement account participant with insufficient funds to pay for the monthly election amount during the plan year will be liable to make after-tax contributions to pay the monthly election.

85.13 – Clarifies that after a Qualifying Life Event, claims will be accounted for using a non-blended approach.

In the May meeting, Chapter 85 – A proposal will be made to amend the Rules to include a limited purpose flexible spending account (LPFSA)

- Only HealthSelect participants are eligible to participate in a limited-purpose health care reimbursement account.
- Allows participants to defer additional funds to defray the costs of qualifying expenses
- Qualifying expenses are limited to vision, dental and orthodontia expenses incurred during the benefit plan year. Staff noted that an employee enrolling into the High Deductible Health Plan and the HSA will no longer be able to have a health care flexible spending account.

The Board expressed concern and discussed the need for participants to receive warnings about the nuances of this program and clarification on participants' potential loss of funds.

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

MOTION made by Mr. Doug Danzeiser, seconded by Mr. Brian Ragland and carried unanimously by the 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, promulgated in 34 Texas Administrative Code, Part IV, as set forth in Exhibit A, which is attached to the incorporated by reference into the Agenda item:

- Adopt the proposed amendments to Chapter 85, concerning Introduction and Definitions, Separate Plans, Enrollment, Payment of Claims from Reimbursement Accounts, and Funding, as reflected in Exhibit A and this agenda item and
- Readopt Chapter 85, which includes the changes adopted by the Board as provided by Exhibits A and this agenda item, because the reasons for initially adopting the chapter continues to exist.

XV. REVIEW AND DISCUSSION OF ELIGIBILITY AND COMPLIANCE FOR CALENDAR YEAR 2015 OF THE INVESTMENT ADVISORY COMMITTEE (IAC)

Chair Hester called upon Tom Tull, ERS Chief Investments Officer, to discuss the required annual review of the IAC members' eligibility and qualifications to serve. Using revised Investment Policy and pertinent Texas government codes, ERS staff confirmed that all IAC members affirmed their eligibility pursuant to ERS Investment Policy.

This agenda item is provided for informational and discussion purposes only. No action is required.

XVI. REVIEW, DISCUSSION AND CONSIDERATION OF REAPPOINTMENT OF ERS INVESTMENT ADVISORY COMMITTEE MEMBER

Chair Hester called upon Tom Tull, ERS Chief Investments Officer, to discuss the board's reappointment of Ms. Lenoir Sullivan to a three year term on the Investment Advisory Committee to end February 28, 2019 and to authorize the Executive Director to execute and administer contracts in connection with the reappointment of Ms. Sullivan. Ms. Sullivan's qualifications and other supporting information accompanied the agenda item.

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

MOTION made by Ms. Cydney Donnell, seconded by Mr. Doug Danzeiser and carried unanimously by the members of the Board of Trustees of the Employees Retirement System of Texas to reappoint Ms. Lenore Sullivan to the Investment Advisory Committee for a three-year term ending February 28, 2019 and move that the Executive Director be authorized to execute and administer contracts in connection with the reappointment of Ms. Sullivan.

XVII. REVIEW AND DISCUSSION OF SECURITY AWARENESS

Mr. Chuck Turner, ERS Chief Information Officer discussed initiatives to maintain security at ERS:

- Annual Assessment of information security,
- Incident Response Plan – ERS has a plan (2013) and currently updating. Working with business partners to be ready update plan and be prepared for potential breaches,
- TAC 202 changes for 2016 and 2017 from DIR – ERS is 88% compliant and will be 100% compliant by February 2017 the date communicated by DIR.

Mr. Matt Riemersma, Information Security Officer discussed results and sustainability:

- Vulnerability analysis has been improved with sophisticated scans,
- Patch management capacities added,
- IS performed a third party penetration test, without any exploited vulnerabilities,
- Instituted an intrusion prevention device which blocked over 140,000 undesired attempts over the last quarter,
- Monitoring all email traffic for known and suspected viruses,
- Data Loss Prevention – IS systems monitors for protected health information moving outside ERS environments,
- all enterprise level and workstation storage is encrypted and
- 100% of ERS staff have completed required annual training. Covered all required topics with live presentations on phishing.

Board asked for clarification on policy on incidental use of personal email and ransomware. Personal email access is permitted and scanned. Use of business email address for personal business is minimal. Mr. Turner mentioned that phishing is a tremendous issue with security in general, and a common entry point for ransomware. ERS has addressed through continuous training, and demonstrated good results on unannounced internal phishing campaigns. We get the most recent signatures for all viruses, but there is no foolproof in information security. There are always zero day or new exploits identified. We keep virus definitions as current as possible so anything that is identified as a vulnerability is usually on our detection system within 24 hours, if not sooner. ERS has also invested to improve Intrusion Detection systems.

This agenda item is provided for informational and discussion purposes only. No action is required.

XVIII. REVIEW AND DISCUSSION OF THE SPACE PLANNING STUDY

Ms. Wendy McAdams, Co-Director of Operations Support, presented an update on the multiyear space planning study. The purpose of the project was to identify the options available to accommodate expected growth in personnel and, based on the study, provide options to the board. The genesis of the

project is our space needs. We identified that ERS budgeted positions had increased from 340 in FY 2010 to 375 in FY 2014. Which is an average increase of seven positions per year, and this year's budgeted positions has grown to 384 for FY16. Staff growth is due to a number of factors and is needed to properly support programs and members such as the addition of Investment Asset Class Managers and staff throughout the agency. Current space utilization is well below industry standards. Overviews of the Feasibility and Massing Studies as well as the outcomes of an RFI for the development community were presented. Four massing options showed what could fit on the ERS city block. While there is sufficient space for today, it's not the right type or amount of space to effectively deliver services in the future.

Mr. Peter Jansen, CBRE, suggested there were multiple options ranging in cost from \$7 to \$25 million. Parking for ERS staff will always be provided by the Texas Facilities Commission and is not a consideration. Board and staff need to establish a consensus on priorities and risks related to future building plans.

The Board and Executive Director discussed direction and forming a smaller group to explore most likely options with risks and benefits. Ms. Cydney Donnell, Board member, will lead a work group made up of the Executive Office, Operations Support, Legal Services and Investment staff over the summer. They are charged with identifying major policy issues directing the RFP focus. A discussion of RFP timing concluded with projected award in December 2016. Chair Hester asked that the group work to prepare this data and develop a questionnaire for the board to be able to move forward.

This agenda item is provided for informational and discussion purposes only. No action is required

XIX. PRESENTATION AND DISCUSSION OF AGENCY PERFORMANCE MEASURES

Ms. Dana Jepson of Governmental Affairs reported on the Data Dashboard, a cross-divisional roadmap project to provide strategic decision support to the Executive Office, the strategic planning team and the budgeting process. A team of agency data experts is centralizing key program statistics to identify emerging trends, priorities and resource needs. They are also developing agency performance measures to report to the Board. The Data Dashboard has formalized a process for triage and tracking of external data requests from the Governor's Office, the legislature, agencies and stakeholder associations. The team has responded to 35 requests since December. An executive advisory group guides Data Dashboard policy. The ultimate goal is to ensure ERS always has the most accurate, consistent, and up-to-date information for decision-making and stakeholder communications. Entering phase 2 of this project, we are coordinating with other ERS data projects to build true dashboarding capabilities into the SharePoint content management system.

Ms. Kathryn Tesar, Director of Benefits Communications, representing a 13-member team, presented an overview of agency communications. BCOM is responsible for communications to both ERS members and employers that participate in the Texas Employees Group Benefits Program. The most often used communication tool is the ERS website www.ers.state.tx.us. BCOM produces a monthly electronic newsletter for active employee members called **News About Your Benefits**, and an online and printed quarterly newsletter for retirees, **Your ERS Connection**. We also produce a number of additional printed and online publications about ERS retirement, the various GBP offerings and related programs, many in print form, all of them online.

We also do presentations and events. We have a two-person team who travel the state and meet with our members face-to-face during two annual enrollment periods and for other events. And we engage in social media, specifically through Facebook and YouTube.

For employers, BCOM manages the Benefits Coordinator Community Group (BCCG), an online community group for HR professionals and benefits coordinators. We also produce a biweekly e-newsletter, **Update-express**. The BCCG includes two very detailed manuals essential to processing benefits and enrolling agency employees in those benefits.

This year, unique website visits grew to 25,000. Mobile device access almost doubled over the last two years. This is an important development because we know some of our members don't have regular access to computers. As a part of the upcoming web site assessment we will be developing the site to be mobile responsive, so no matter what type of screen a visitor is using, the website will actually adapt to that screen so it is more efficient and readable.

Other important publications are:

- Annual enrollment packets – About 340,000 annual enrollment packets are printed and mailed.
- New Employee Benefits Guide, a 38-page booklet available in print and on the website. We depend on benefits coordinators and HR departments at state agencies and institutions to make sure new employees are aware of and have access to the guide. ERS prints about 50,000 copies of the guide each year, at considerable expense. Although the Guide is supposed to be for new employees, we think some employers are using it as a recruitment tool, to explain benefits to prospective employees. To reserve the guide for its appropriate use, last year we developed a one-sheet overview of state employee benefits that agencies and institutions can print at almost no cost for their recruitment efforts.

The most well attended events are the enrollment fairs and presentations in the summer for employees and retirees who are not eligible for Medicare and in the fall for Medicare-eligible retirees. Attendance is expected to increase because of the introduction of the consumer-directed health plan (CDHP) as well as vision insurance. The Ready, Set, Retire! and Medicare Preparation sessions are well attended too.

As for social media, we are active on Facebook and YouTube. We are developing a video explaining the overall concepts of the CDHP to members and we will be promoting that as we're educating them about the CDHP.

Engaging the employer is challenging. There are about 1,800 people registered in the BCCG. They also automatically receive the biweekly newsletter, **Update Express**. As the first source of benefits information for many active employees, these coordinators are really important to us.

Ms. Robin Hardaway, Director of Customer Benefits, presenting monitored customer benefits performance measures and interesting data monitored in our division.

Customer Benefits main core functions are:

- Administration of retirement benefits for state employees and
- Insurance enrollment benefits for state and higher education employees.

Customer Benefits boils down to the service provided to members. Numerous surveys help measure performance and measures are used to continuously improve. Call center contacts are measured for thorough, accurate and timely communication and how friendly and knowledgeable they are with customers. Quarterly customer service surveys were presented with performance measurement for Customer Benefits contact center staff and the performance of the overflow vendor, ACT. Customer service survey results are used in reporting CB performance measures to the LBB and used internally.

Board asked what percent of calls go to overflow at ACT. Ms. Hardaway stated ACT answers over 200,000 calls annually. These calls are more customer service oriented and directed to beneficiary updates or updating personal data information. Not the complex calls answered by the ERS contact center. Survey measurement for one-on-one counseling sessions with our membership reflects a 100% of our members' strong satisfaction with counselor's assistance.

All new retirees are surveyed monthly. On average, we have about 400 retirees per month, 6,000 per year. That survey reflects 97% member satisfaction with retirement and payment process for both FYs 15 and 16. Surveys are reportable measures we report to external sources as well our customer satisfaction.

Although member satisfaction is high, Customer Benefits does have challenges. Internal measures

are in place to monitor performance. The contact center is our main point of contact for counseling and educating our members. Delivering service by phone, email and in person counseling, the ERS Contact Center is not a typical call center environment although we have an internal measure for call management - answering 70% of our calls in 60 seconds which is an industry standard.

Insurance calls take about eight and a half minutes. A retirement call could take about eleven minutes with the cost for retirement call being close to \$6 per call for that interaction. Call volume increases due to the complexity of the calls on insurance and retirement benefit plan changes and new benefit plan designs. This fluctuates from quarter to quarter and year to year.

Attracting and retaining quality staff in this demanding work environment is a challenge. The contact center is considered an entry point into ERS, but that entry point requires a lot of knowledge about our benefits. Typically, this lower paying position delivering complex information can lead to high burnout. Because of their knowledge and work ethic, many staff are promoted out of the contact center but within our division, and sometimes to other ERS divisions.

Ms. Hardaway, answered staffing questions from the board and asked Ms. Carol Chapnek, Customer Service Assistant Director, to address contact center recruitment. Using a staffing agency to attract candidates, Customer Service does a temp-to-hire model. This model gives us an opportunity to try them out in the job, to ensure we get the right people in a high demand work environment. The same pool of 10 staff, work with members on the phone, email and member visits – the same pool of staff do all those functions. Daily work is not deferrable. Member visits average 35 to 37 minutes per interaction and cost more than \$17 per interaction.

Customer Benefits monitors and reviews member data. As an example, first retirement eligibility analysis shows that more than 15,000 current active employees, 11% of our workforce, are currently eligible to retire. This number does not consider the non-contributing population that may age into retirement at some point or could purchase some type of service credit to help meet eligibility sooner; or have service with Teacher Retirement System that may transfer to help them meet eligibility; or have proportionate service with a city or county that helps them meet eligibility sooner. This is strictly our active population; so many more could be eligible to retire.

Customer Benefits has identified agencies with the highest volume of employees eligible to retire. Texas Department of Criminal Justice is our largest employer with over 7,000 retirement eligible employees, followed by the Texas Department of Transportation, Department of Aging and Disability Services, State Health Services and Health and Human Services.

Monitoring retirement account withdrawals is another function in CB. The 83rd legislative session decreased account interest from 5% to 2%; which led to a large number of withdrawals - over 14,000 that year. A normal withdrawal average is about 9,000 members annually. The board asked about retirement withdrawals. Ms. Hardaway reviewed retirement payout options and choices. Sixty percent of retirees choose the standard annuity, which is the highest benefit that they can receive for their lifetime. Survivor options were also reviewed. In FY '15, almost 5,800 retirees, close to 27% of retirees, took a partial lump sum option.

This agenda item is provided for informational and discussion purposes only. No action is required

XX. REVIEW AND DISCUSSION OF PENSION FUNDING POLICY

Ms. Jennifer Jones, Governmental Affairs, presented research on pension funding policies. This agenda item is informational in nature and not an action item.

Ms. Jones asked the board for feedback to gauge the board's interest in developing a Pension Funding Policy for ERS. A multi-division workgroup including staff from Finance, Governmental Affairs and the Executive Office researched funding policies and their components. A funding policy is a document outlining the objectives and procedures for pension contributions. An emerging best practice, the funding policy objective is to outline methods to fund the expected cost of the all the promised benefits, manage contribution volatility from year to year for budget predictability, and intergenerational equity, as well as

balancing all these objectives.

Because of nationwide pension funding challenges and new GASB 67/68 requirements, there is an increased focus on systems setting their own funding standards through a funding policy. Examples of systems creating policies are in the meeting materials, such as the City of Austin, Texas County and District Retirement System and the Texas Municipal Retirement System.

In response to the board asking about existing funding policy, Ms. Jones stated ERS has most of the components of a funding policy, but that a full funding policy helps the Board set priorities. That document serves as a guideline for legislative funding requests and as a publicly defined document outlining priorities and methodologies.

Key components of a funding policy are:

- **Actuarial cost method:** Allocates the total present value of benefits between past service (actuarial accrued liability) and future service (normal cost);
- **Asset smoothing:** The technique used to recognize pension assets gains and losses over time to reduce the effects of market volatility and stabilize year-to-year contributions and
- **Amortization period:** The length of time and the structure selected for increasing or decreasing contributions to systematically eliminate any unfunded actuarial accrued liability or surplus.

In particular, with unfunded liabilities to pay down, the long term goal is to return to a 100% funded ratio. Texas Government Code 811.006 sets a de facto standard of a 31-year period for paying off any unfunded liabilities. Some entities view a 31-year standard as outside the norm of what is considered an emerging best practice. Within Texas, the Texas Pension Review Board (PRB) oversees all Texas public plans. They publish a set of actuarial soundness guidelines. The current PRB standard for a system with unfunded liabilities is a max of 40 years but ideally no more than 15 to 25 years. Similar recommendations come from other groups (typically actuarial panels like the Conference of Consulting Actuaries and the Blue Ribbon Panel). The board discussed funding standards and Ms. Jones used the example of the PRB's recommendations for fewer years and a finite funding period.

The Legislature controls benefit enhancements. But a funding policy document is a statement of priorities. As an example, the City of Austin's policy outlines their viewpoint on cost of living adjustments (COLAs) and using its policy, sets criteria for granting any future COLAs. A board approved funding policy will guide funding and benefit enhancement discussions with legislative offices and the Governor's Office.

ERS has not previously adopted a funding policy because the main plan was scheduled to deplete and the focus was on getting the plan on a sound path.

There are limitations to developing a policy. The legislature funds the plan on a fixed percent of payroll and sets the contribution rates. That rate is not adjusted year to year based on what the actuary determines is needed to meet current statutory requirements (although the legislature reviews the latest actuarial information during the legislative session when setting contribution rates). However, once rates are set through the appropriations process for a given biennium, the rate is not adjusted even if the need changes based on an actuarial valuation. This dynamic would need to be recognized within the funding policy.

A comprehensive funding policy will guide board and legislative discussions. The policy can be updated as needed based on any trends or changes. The goal today was to provide an educational background and start the process of getting informal feedback. If the board is interested in moving forward, staff can present a draft document as early as the next Board meeting.

After lengthy discussion and noting a consensus to move forward, the board asked for a draft funding policy to be presented at the May 2016 board meeting.

XXI. EXECUTIVE DIRECTOR'S REPORT

Mr. Porter Wilson, Executive Director proceeded with the next agenda item, Executive Director's Report. His report¹ to the Board is included with these minutes.

XXII. 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 2016 meetings 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 follow:

Tuesday, February 23, 2016

Tuesday, May 17, 2016

Tuesday, August 16, 2016

2 Day Workshop:

Thursday – Friday, December 1 & 2, 2016

XXIII. ADJOURNMENT OF THE BOARD OF TRUSTEES

The February 23, 2016 Meeting of the Board of Trustees adjourned at 4:58 p.m.

PUBLIC AGENDA ITEM - # 21

21. Executive Director's Report

February 23, 2016

Legislative Update

ERS was asked to testify before the Senate State Affairs committee last Thursday, February 18th. The committee examined issues related to the Texas judiciary, and asked ERS to provide information on the link between judicial salaries and the retirement annuities of elected officials.

On January 25, 2016, Attorney General Ken Paxton issued his opinion in response to the request made by Chairman Dan Flynn last July. Chairman Flynn asked the Attorney General "what procedure a state agency should follow if the U.S. or Texas Supreme Court recognizes a new constitutional right and compliance with that ruling requires the expenditure of additional state funds."

In the opinion, the Attorney General noted that in light of the *Obergefell v. Hodges* decision, ERS, TRS, UT, and A&M were all extending state insurance benefits to same-sex couples, and that all four entities were able to do so without the need for additional appropriations. The rest of the opinion described the methods for requesting emergency appropriations when necessary.

On January 20, 2016, Governor Greg Abbott sent a letter to the statewide retirement systems reminding them of the prohibition of investment in Iran. The retirement system's investment policy, as adopted by the Board of Trustees, continues to prohibit such investments.

Sunset Commission Review Update

Since December, ERS staff have continued to work closely with the Sunset review team to provide requested information, access to files and operational materials, and coordinate internal discussion meetings and opportunities to observe program activities. ERS completed two consolidated data requests submitted by the Sunset team – the first completed in December, and the second completed at the beginning of February. ERS is now responding to specific ad hoc requests from Sunset as received.

As of February 10, 2016, ERS staff participated in 37 unique program discussions and observational meetings to allow Sunset staff to view various operational activities in action. In addition, there have been numerous discussions with staff by phone and email regarding more detailed program data or histories. The agency has created more than 125 unique reports, analyses, flow charts and documents in response to Sunset requests for historical data, process descriptions, and program explanations. Agency wide, staff has expended more than 2,500 staff hours in support of the review.

The research stage of the review is scheduled to conclude in April 2016, with a report published at the beginning of May. The Sunset staff report will be presented to the Sunset Commission in a pair of open public meetings during the summer of 2016. At that time the Commission will also hear public testimony regarding ERS. Sunset Commission members will approve final recommendations related to ERS during the second meeting; these recommendations will form the basis of legislation that will be prepared for the 85th Regular Legislative Session. In Addition, some recommendations may take the form of management directives to the agency.

The Texa\$averSM 401(k)/457 Program Continues Its Winning Streak

Texa\$aver submitted award entries for its "Pump Up Your Savings" video and has been awarded the following:

MarCom Awards announced Texa\$aver as the winner of three 2015 Gold MarCom Awards in the following categories: Digital Video Creation: Animation, Video / Film: Government and Web Video: Educational.

MarCom Awards is a creative competition for any individual or company involved in the concept, writing and design of print, visual, audio and web materials and programs. Entries come from corporate marketing and communication departments, advertising agencies, PR firms, design shops, production companies and freelancers. The MarCom competition has grown to perhaps the largest of its kind in the world with about 6,000 entries per year. A look at the winners shows a range in size from individuals to media conglomerates and Fortune 50 companies.

Videographer Awards announced TexaSaver as the winner of three 2015 Videographer Awards. In the category Creativity: Graphics/Design, Award of Distinction, the highest honor in the competition; in category of Video Production: Government and Web Based Production: Government, Award of Excellence.

The Videographer Awards is one of the oldest and most respected awards programs in the industry. Judging for the Videographer Awards was done this year by the Association of Marketing and Communication Professionals (AMCP). AMCP is a third party evaluator of creative work by marketing and communication professionals and has been judging competitions for two decades. AMCP judges are chosen based on their extensive experience and proven creativity in the video field. The Videographer Award of Excellence is awarded to those entries whose ability to capture the event or communicate the message is exceptional. The Award of Distinction is presented for projects that exceed industry standards.

Pension & Investments announced TexaSaver as the winner of a 2016 Eddy Award in the category of Special Projects. The award place of First, Second or Third will be announced on March 7, 2016.

The P&I Eddy Awards were created over 20 years ago to identify and reward the best practices in providing investment education to defined contribution plan participants. The awards are judged by an independent panel of plan sponsors and consultants. Awards are given out in seven categories; broken down by corporate employee size and/or type of firm.

AVA Digital Awards announced TexaSaver as the winner of two 2016 AVA Digital Awards. In the category Video for the Web: Government, Platinum Award, the highest honor in the competition and in the category, Video for the Web: Informational, Gold Award.

AVA Digital Awards is an international competition that recognizes excellence by creative professionals responsible for the planning, concept, direction, design and production of digital communication. Work ranges from digital engagement campaigns, audio and video production, website development, social media interaction and mobile marketing.

In an effort to generate awareness about the benefits of the program, TexaSaver created the custom, educational and informative "Pump Up Your Savings" video that used facts and relatable animation to bring attention to the importance of enrolling in TexaSaver to help close the income gap some people may face in retirement. It also focused on how increasing participant contributions, in conjunction with compounded growth, could result in greater savings at retirement.

The video, released on June 17, 2015, was promoted from **www.texasaver.com** via a clickable web banner and a targeted email which resulted in a 40% open rate, well above the industry average. From the video's release through September 28, an additional 4.4% of eligible participants enrolled in TexaSaver and 10,148 participants increased their contribution percentage in TexaSaver. This is a 123% increase from the same time period last year.* The "Pump Up Your Savings" video educated and informed current and prospective participants of how TexaSaver can help close the savings gap and help them PUMP UP THEIR SAVINGS.

*Contribution percentage may include individuals automatically enrolled at 1% in the 401(k) plan.

2016 Get Fit Texas!

The 2016 Get Fit Texas! Challenge kicked off on January 17. At ERS, Get Fit is considered “operation bring home the gold.” Since Get Fit’s inception in 2013, ERS has dominated the mid-size agency category. In 2013 and 2014, ERS earned #1 Fittest State Agency. In 2015 we slipped to second place but intend on reclaiming the top spot.

By providing employees multiple times daily for group walks, ERS employees are working to earn bragging rights of the #1 Fittest State Agency again this year. Nine Get Fit “champions” throughout the building are encouraging their co-workers during the challenge to log 150 minutes of physical activity each week.

ERS employees who successfully complete the challenge will earn an 8 hour leave incentive. In addition, there will be door prize drawings at the end of the 10 weeks.

2015 State Employee Charitable Campaign

The ERS 2015 State Employee Charitable Campaign (SECC) won awards in all of the categories for Capital Area state agencies from 300 to 499 due to the generosity of ERS employees who contributed \$47,939.00. The awards were:

1. Highest Participation – 67% (252 employees donated)
2. Largest per Capita Gift - \$127.84
3. Rising Star Award – Most improved campaign

It is the second year in a row, ERS won Largest per Capita Gift and Rising Star Awards under the leadership of SECC Committee Chair, Beth Gilbert. Core team members were Carla Lawrence, Shastina Smith, Dawn Eserini and Martha Whitted.

The SECC is the only statutorily authorized workplace campaign for state agency and higher education employees throughout Texas. One of the great benefits of the SECC is the wide variety of charities and causes represented – there is something for everyone.

Charities must meet stringent legal requirements, and then be scrutinized by teams of state employees to ensure:

- They are recognized by the IRS as 501(C)(3) nonprofit organizations and registered with the Secretary of State
- They are audited annually by an accountant in accordance with generally-accepted auditing standards
- They provide direct or indirect health and human services
- They spend no more than 25 percent of the funds raised on administration

Resignation of Board Member

Frederick E. “Shad” Rowe tendered his resignation on January 21, 2016. Shad was initially appointed to the Board on November 28, 2011 by Speaker of the House Joe Straus. We appreciate Shad’s service and commitment to ERS and its membership.