

Meeting of the ERS Board of Trustees' Audit Committee

May 17, 2017



Public Agenda Item #1.1

Call Meeting to Order

May 17, 2017

Public Agenda Item #2.1

*Approval of the Minutes to the February 22, 2017
ERS Audit Committee Meeting*

May 17, 2017

Public Agenda Item #3.1

Review of Internal Audit Reports

May 17, 2017

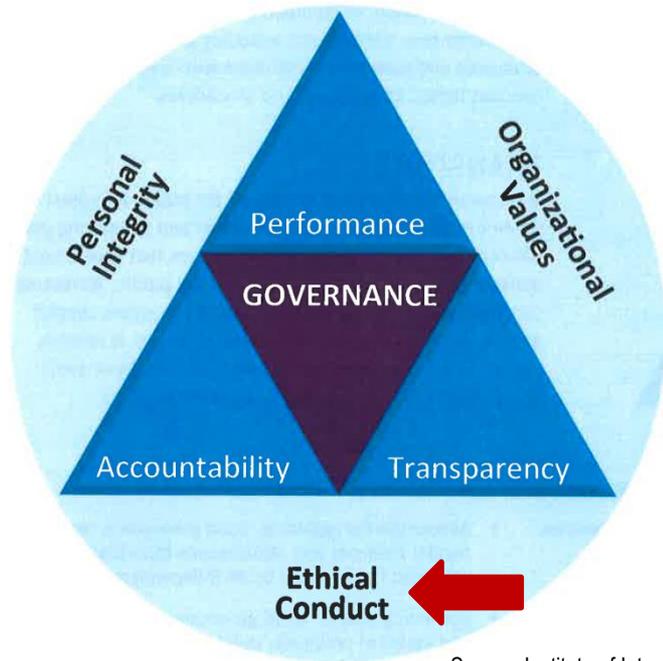
Tony Chavez, Director, Internal Audit Division

Ethics Audit

Tony Chavez, Director, Internal Audit Division

Beth Gilbert, Internal Audit

Ethics is Part of the Governance Framework



Source: Institute of Internal Auditors

Ethical conduct includes defining acceptable behaviors and expectations and clearly communicating them at all levels of the organization.

Audit Best Practices



Professional Standard 2110 – Internal Audit must evaluate design, implementation and effectiveness of the organization’s ethics-related objectives, programs and activities



Ethics Audit



Objective: Determine if the Ethics program provides reasonable assurance of compliance with applicable laws, regulations and ERS policy

- Policy & Communication
- Education
- Compliance

Audit Criteria included best practices from Industry and Pension Fund Peers

Leading Practices



- **Complies with state laws and Federal Sentencing Guidelines**
- Annual ethics training
- Act with care in handling confidential information
- Articulates standards and principles
- Insider trading policy requires annual certification
- Gifts registry program

Summary Results

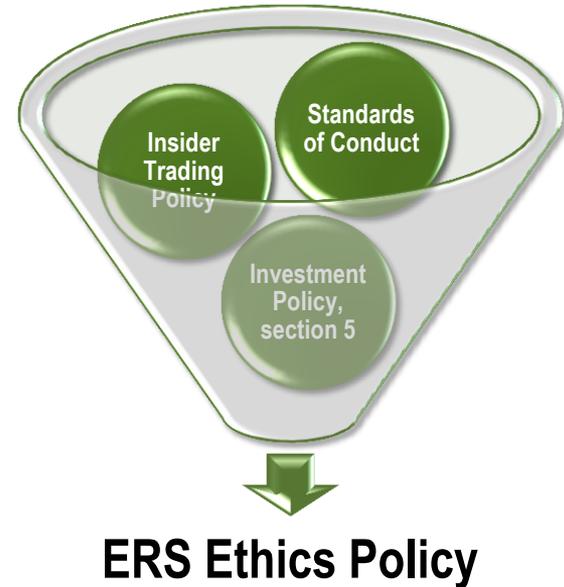


Overall Assessment		Satisfactory
Scope Area	Results	Rating
Policy & Communication	See Observation One	Satisfactory
Education	All ERS employees received ethics training related to their roles and responsibilities Employees understand the ethics requirements and associated responsibilities Board ethics training requirements are communicated	Satisfactory
Compliance	The adoption of a statutory gift limit (up to \$50) minimized risk exposure ERS external vendors comply with the conflict of interest requirements	Satisfactory

Policy & Communication



- Stakeholders may not realize ethical governance is in place
- Improve transparency & sustainability by developing a single standalone reference document



Questions?

Standard Retirement Audit

Tony Chavez, Director, Internal Audit Division

Jonathan Puckett, Internal Audit

Greg Magness, Internal Audit

Standard Retirement Audit

Background



Audit Objective: To determine if standard retirement benefits are processed in accordance with regulatory requirements and annuity payments are accurately calculated.

Audit Sub-Objectives / Scope Areas:

- Retirement Processing
- Annuity Payments

Standard Retirement Audit

Background



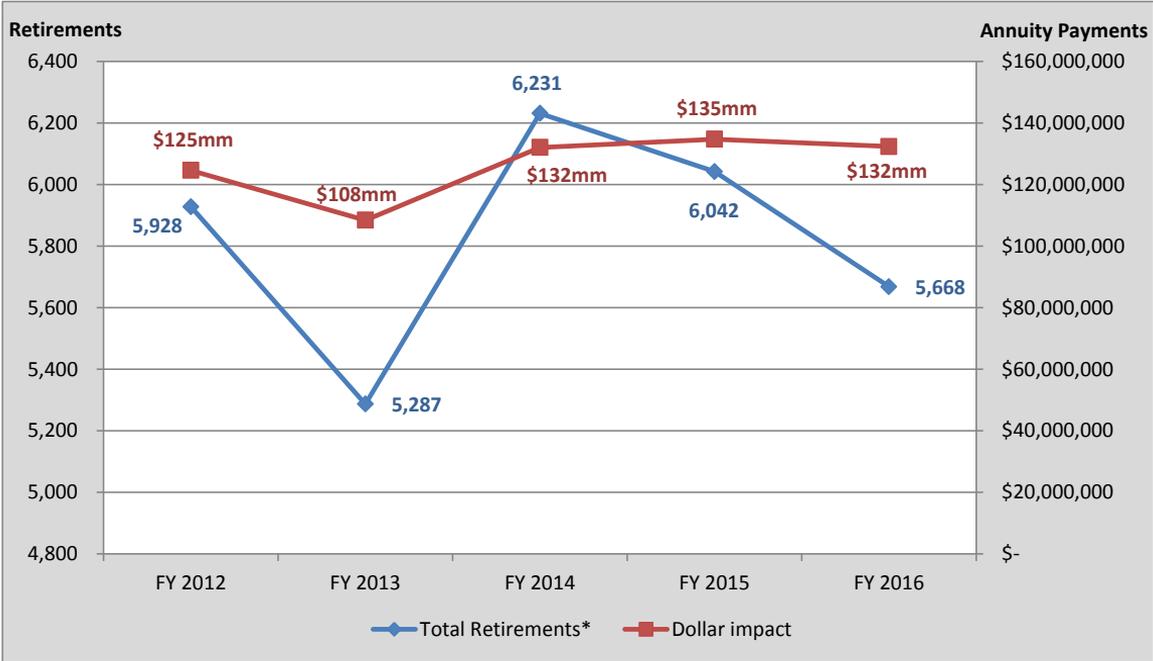
- Members who have retired, including regular service, LECOS, JRS I and JRS II
- Texas statute establishes retirement requirements
- Retirement benefits include annuity and insurance
- Annuity calculation is complex with several factors

Standard Retirement Audit

Background



FY 2012—FY 2016 Added Retirees With Annuity Payments



Summary Results



Overall Assessment		Satisfactory
Scope Area	Results	Rating
Retirement Processing	All sub-objectives noted above were met.	Exemplary
Annuity Payments	All sub-objectives noted above were met.	Satisfactory

Leading Practices



- Each applicant is personally guided through the retirement process.
- Automated system calculates annuity payments and determines eligibility for retirement benefits.
- Automated process identifies and updates deceased retiree accounts.
- Survivor Team performs additional online research to identify deceased retirees.

Questions?

Investment Compliance

January 1 – March 31, 2017

Tony Chavez, Director, Internal Audit Division

Beth Gilbert, Internal Audit

Jonathan Puckett, Internal Audit

Investment Compliance Procedures

Personal Trades



Two Exceptions

- One Investment employee – spouse trade
- One Information System contractor

Investments and Internal Audit jointly provided refresher training to non-investment Designated Covered Persons on April 17, 2017. Refresher training will be provided annually going forward.

Investment Compliance Procedures

Securities Lending



- Counterparties are above the 20% diversification limit for non-Eurozone borrowers.

Questions?

Public Agenda Item #4.1

*Adjournment of the ERS Board of Trustees Audit Committee and
Recess of the Board of Trustees*

May 17, 2017

Joint Meeting of the ERS Board of Trustees
and
Investment Advisory Committee

May 17, 2017



Public Agenda Item #1.1

Call Meeting to Order

May 17, 2017

Public Agenda Item #2.1

Consideration of Appointment to the Investment Advisory Committee

May 17, 2017

Tom Tull, CFA, Chief Investment Officer

IAC Appointment



Gene L. Needles, Jr.
CHAIRMAN, PRESIDENT AND CEO

American Beacon[®]
ADVISORS

IAC Skills Assessment



	Investment Experience	Global Equity	Fixed Income	Private Equity	Real Estate	Hedge Funds	Infrastructure	Derivatives
IAC Chair James Hille, CFA, CAIA CIO Texas Christian University Endowment	26 years	X	X	X	X	X		
IAC Vice-Chair Caroline Cooley CIO - Diversified Funds Crestline Investors, Inc.	33 years					X		X
Bob Alley, CFA Retired from AIM Advisors, Inc. as Chief Fixed Income Officer	42 years	X	X	X				
Ken Mindell Sr. VP, Treasurer & Director of Investments Rosewood Management Corporation	37 years	X	X	X	X	X		X
Dr. Laura Starks Charles E. & Sarah M. Seay Regents Chair in Business Administration Director, AIM Investment Center The University of Texas Austin	29 years	X	X	X	X	X		
Lenore Sullivan Managing Director (Volunteer) TMV Capital Management Formerly, Partner at Perella Weinberg Partners	37 years			X	X		X	
Gene L. Needles, Jr. Chairman, President and CEO American Beacon Advisors	24 years	X	X	X	X	X		X

Questions?

Public Agenda Item #3.1

Approval of the Minutes to the February 22, 2017 Joint Meeting of
the Board of Trustees and Investment Advisory Committee

May 17, 2017

Public Agenda Item #4.1

Review of Investment Performance
for First Calendar Quarter of 2017

May 17, 2017

Sharmila Kassam, Deputy Chief Investment Officer
Mike McCormick, Aon Hewitt

ERS Trust Fund Dashboard

Performance

Fund	<u>CYTD</u>	<u>FYTD</u>
Performance:	3.9%	5.4%
Benchmark:	4.5%	5.7%
Excess Return:	-0.6%	-0.3%
3-Yr Tracking error		1.44

Largest Contributors (quarter):

- Outperformance of the absolute return component

- Largest Detractors (quarter):

- Underperformance of the private equity portfolio

- Manager performance within the international equity component

Profile

Market Value at 3/31/17:
\$26.3 Billion

Actuarial Accrued Liability 8/31/16:
\$35.3 Billion

Retirees and Beneficiaries 8/31/16:
103,758

Retirement Payments Annually 8/31/16:
\$2.1 Billion

ERS Trust Funding Ratio 8/31/16:
75.2%

Compliance

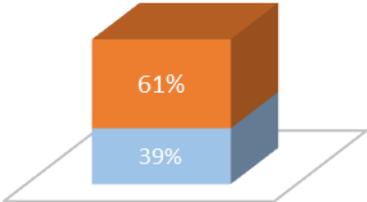
Asset Allocation Compliance: Yes

Tracking Error Compliance: Yes

Investment Policy Compliance: Yes

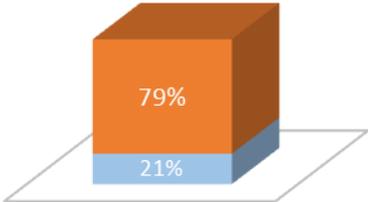
MANAGEMENT

■ External ■ Internal



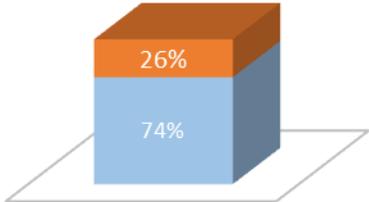
ALLOCATION

■ Risk Reducing ■ Return Seeking



LIQUIDITY

■ Liquid ■ Illiquid

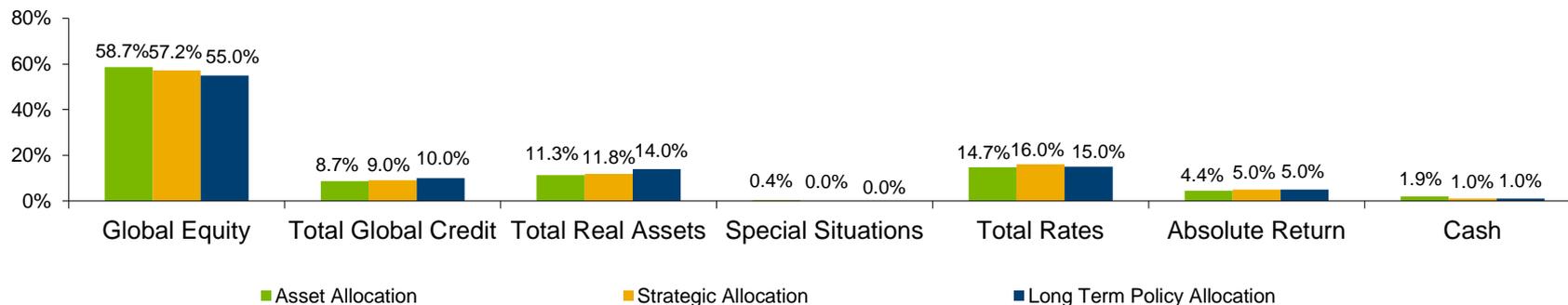


Total Fund: Asset Allocation

Summary of Cash Flow

	1 Quarter	Fiscal YTD	1 Year
Total Fund			
Beginning Market Value	25,590,573,174	25,499,105,144	24,770,637,779
+ Additions / Withdrawals	-243,289,413	-575,361,286	-926,083,447
+ Investment Earnings	934,920,309	1,358,460,212	2,437,649,738
= Ending Market Value	26,282,204,070	26,282,204,070	26,282,204,070

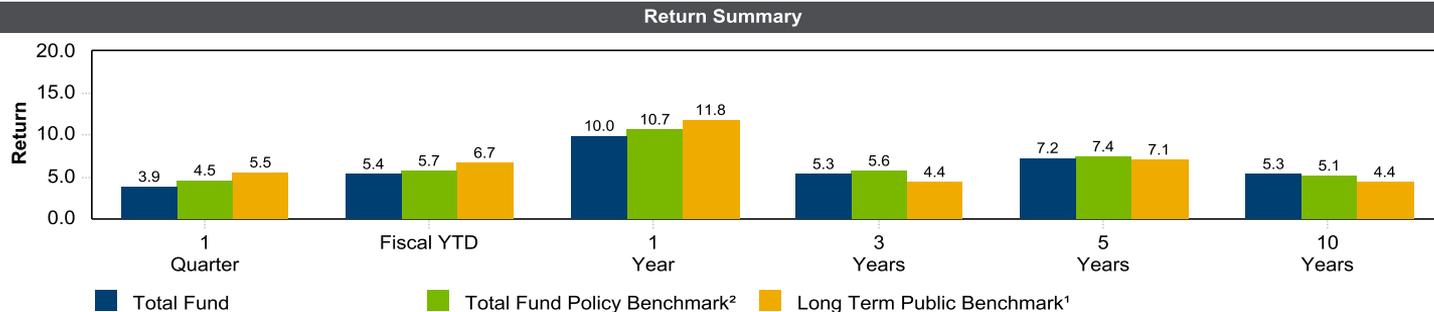
Employees Retirement System of Texas - Quarterly Asset Allocation Including Risk Management vs. Policy Target as of 3/31/2017



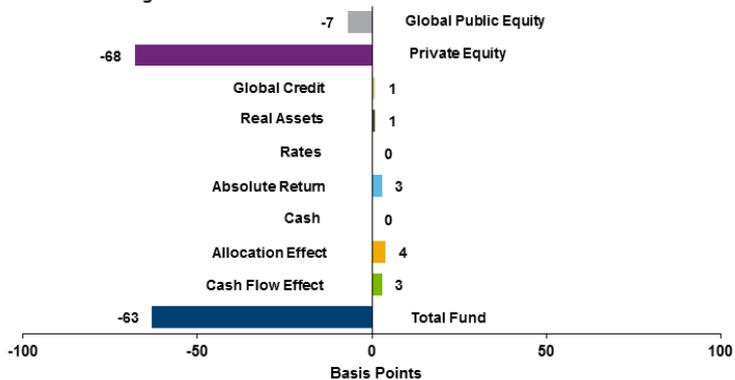
¹ All returns contained in this report are shown net of investment management fees. All returns longer than 1-year are annualized.

² Source data can be found on pages 31 and 40 of full report.

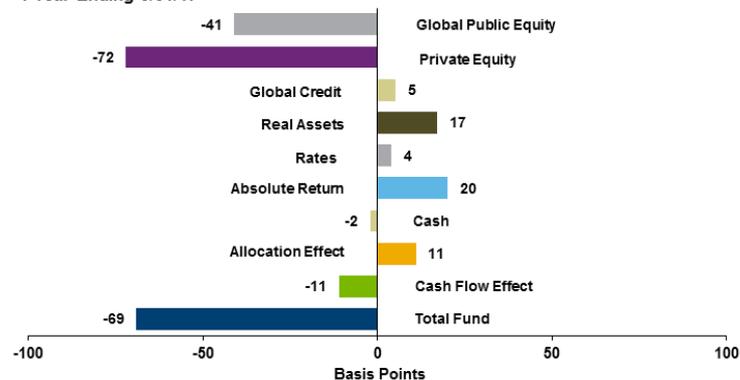
Total Fund: Performance



**Total Fund Attribution Analysis
3 Months Ending 3/31/17**



**Total Fund Attribution Analysis
1 Year Ending 3/31/17**



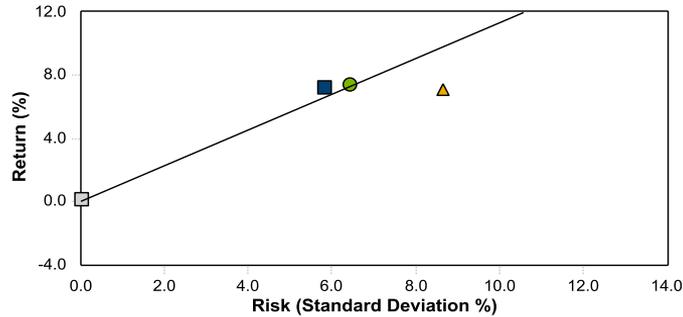
¹The Long Term Public Benchmark is a combination of 79% MSCI ACW IMI and 21% Barclays Intermediate Treasury Index.

²A detailed description of the Policy Index as of 3/31/2017 is provided in the appendix of the full report.

³Source data can be found on pages 30 and 32 of full report.

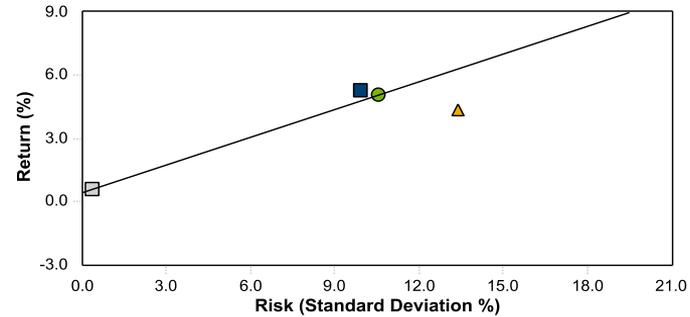
Total Fund: Risk

Annualized Return vs. Annualized Standard Deviation 5 Years



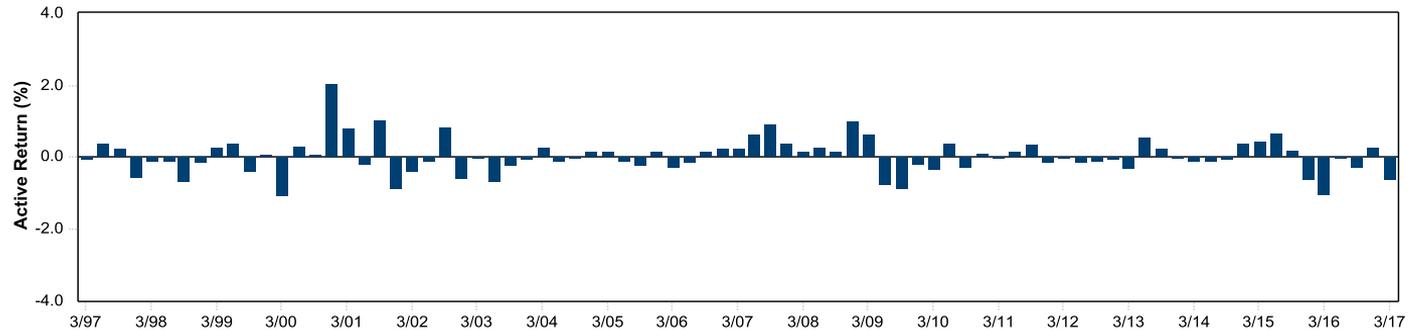
■ Total Fund ▲ Long Term Public Benchmark
● Total Fund Policy Benchmark Citigroup 3 Month T-Bill

Annualized Return vs. Annualized Standard Deviation 10 Years



■ Total Fund ▲ Long Term Public Benchmark
● Total Fund Policy Benchmark Citigroup 3 Month T-Bill

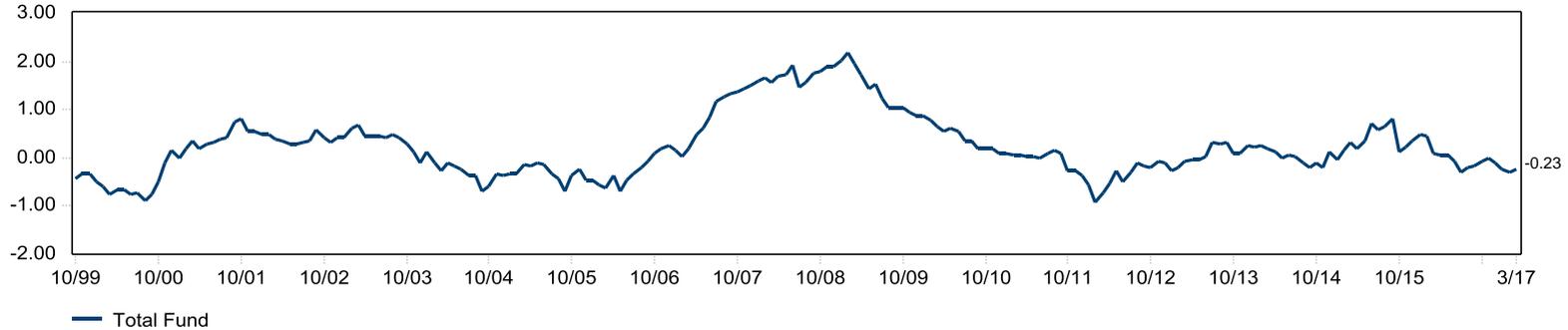
Quarterly Excess Performance



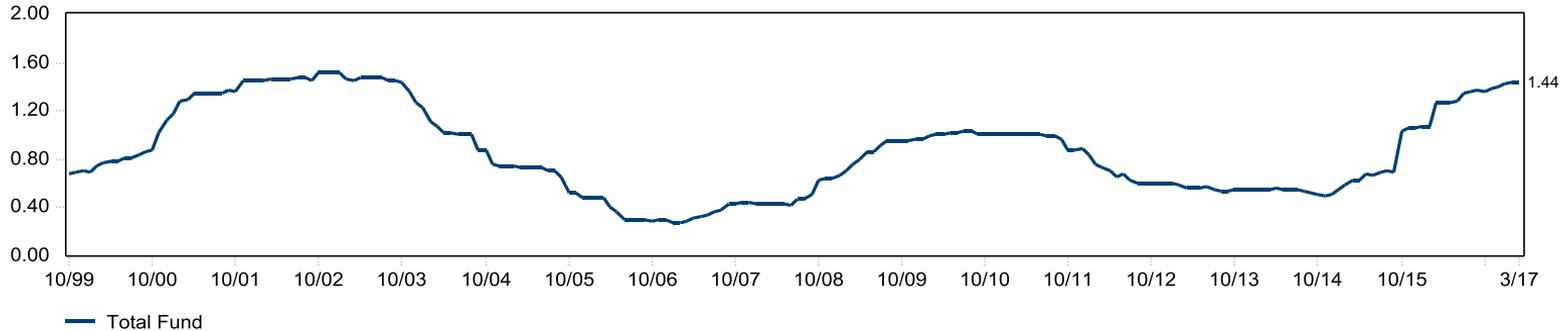
¹ Source data can be found on page 32 and 39 of full report.

Total Fund: Rolling Information Ratio and Tracking Error (36 months)

Information Ratio (Excess Return Ratio)¹



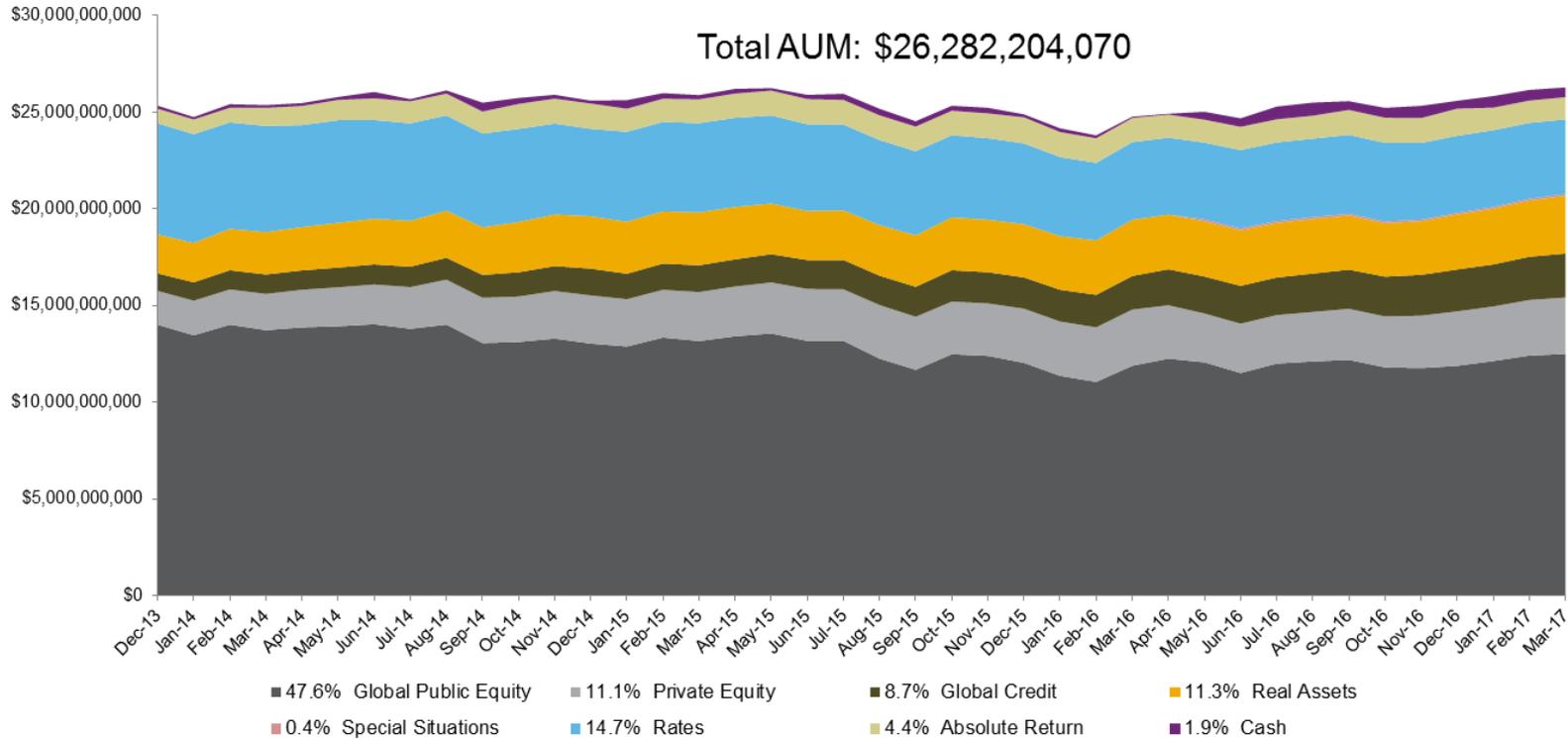
Tracking Error²



¹ Measured by dividing the active rate of return by the tracking error. The higher the Information Ratio, the more value-added contribution by the manager.

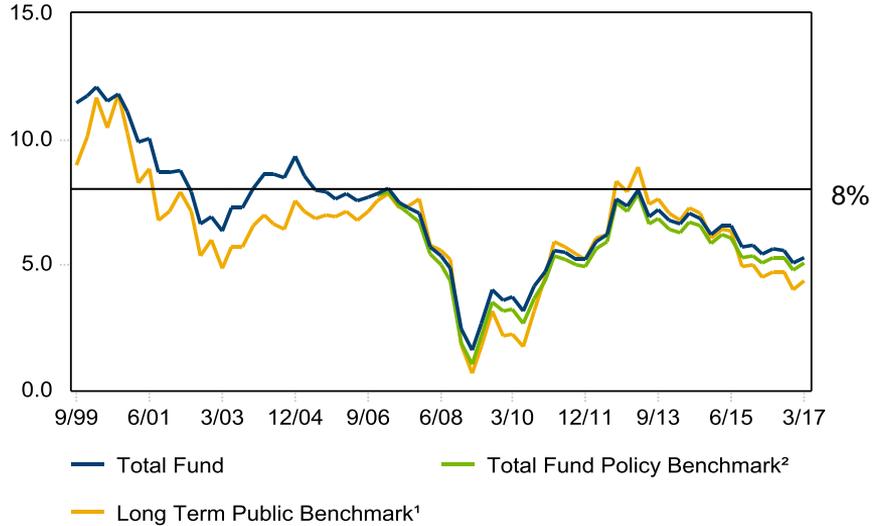
² A measure of the standard deviation of a portfolio's performance relative to the performance of an appropriate market benchmark.

ERS Asset Allocation Evolution

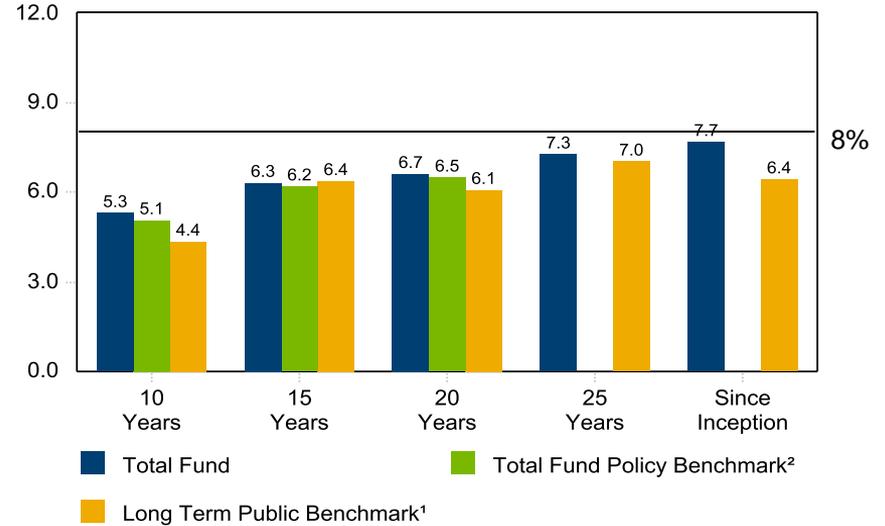


Long Term Investment Results

Rolling 10 Year Return



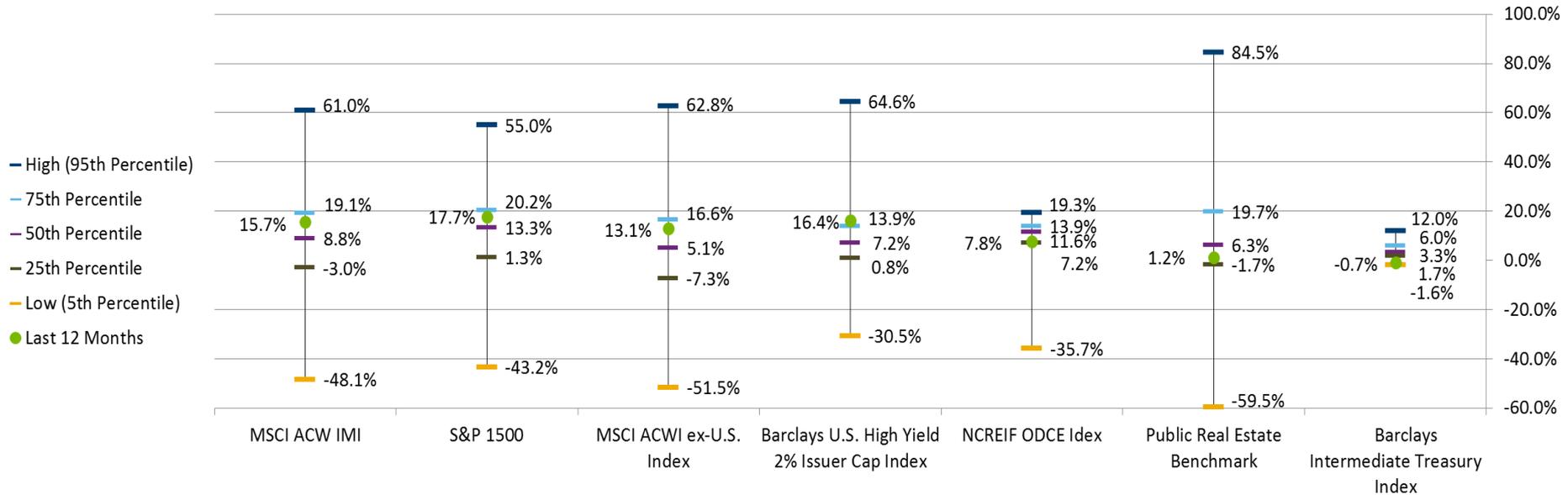
Return Summary



¹The Long Term Public Benchmark is a combination of 79% MSCI ACW IMI and 21% Barclays Intermediate Treasury Index.

²The Total Fund Policy Benchmark has an inception date of 11/30/1996.

Rolling 12-Month Capital Market Returns (10 Years ending 3/31/17)

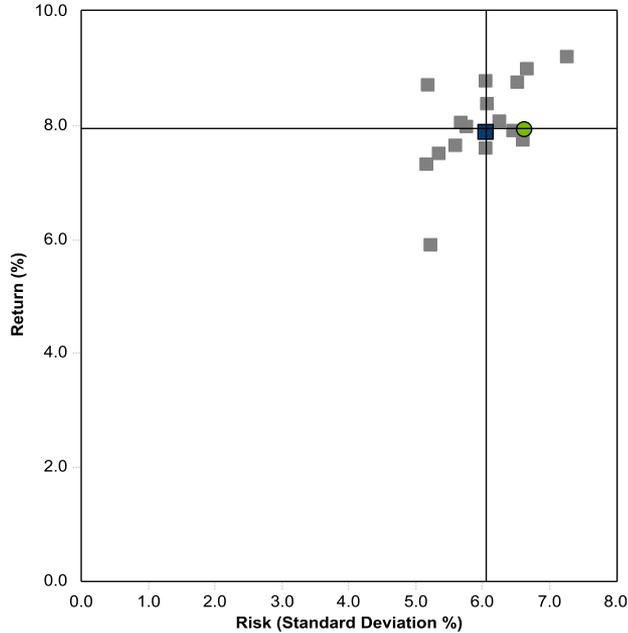


- The chart above depicts the dispersion of rolling 12 month returns of various capital markets over the last 10 years.

Risk Adjusted Performance Relative to Peers

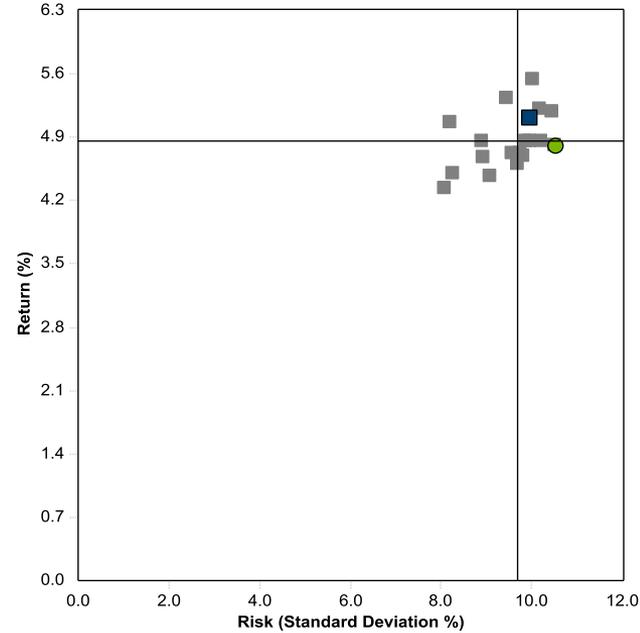
All Public Plans > \$10B - Total Fund

Annualized Returns vs. Annualized Standard Deviation
5 Years Ending December 31, 2016



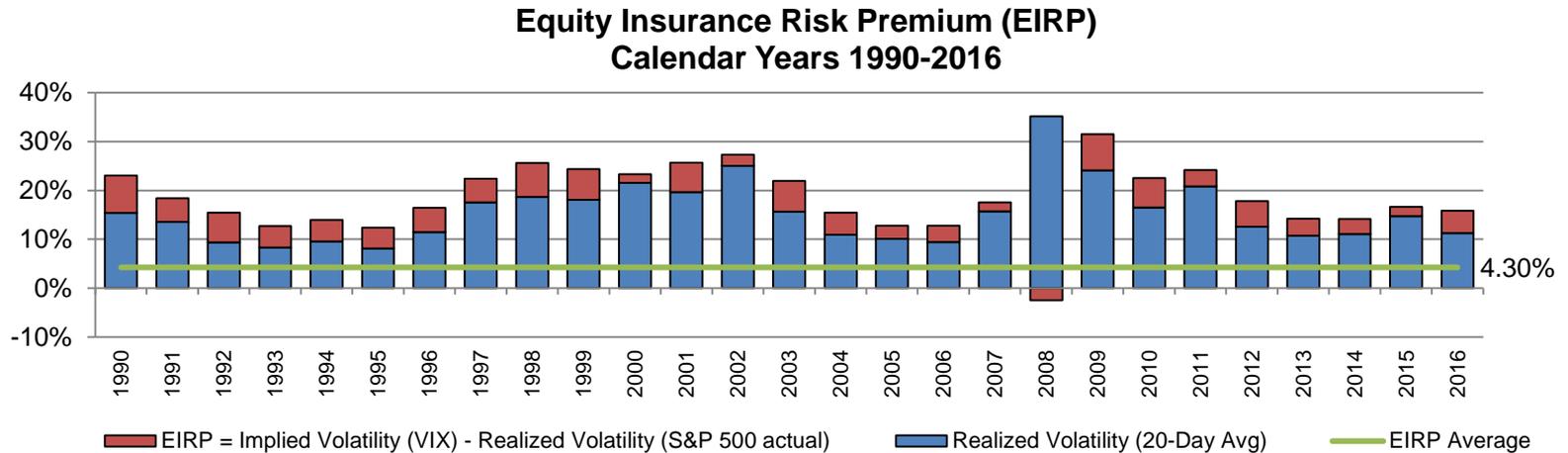
	Return	Standard Deviation
Total Fund	7.87	6.07
Total Fund Policy Benchmark	7.92	6.64
Median	7.96	6.06

Annualized Returns vs. Annualized Standard Deviation
10 Years Ending December 31, 2016



	Return	Standard Deviation
Total Fund	5.11	9.95
Total Fund Policy Benchmark	4.80	10.54
Median	4.85	9.68

Current Investment Ideas – The Equity Insurance Risk Premium



- There is a persistent equity insurance risk premium (“EIRP”) inherent in the price of equity options.
 - Options are a form of insurance; similar to conventional insurance underwriters, sellers of options require excess premiums to compensate for risk, and investors are willing to overpay.
 - The concept of an EIRP is evidenced by the above chart which shows how Implied Volatility for the S&P 500 Index (as measured by the VIX) is consistently higher than subsequent Realized Volatility.
 - Over time, if Realized Volatility is lower than Implied Volatility (which occurs 80% of the time), sellers of options keep more premium income than is paid out for loss events, making it a profitable long-term investment.

Summary Analysis

- The Total Fund underperformed its benchmark by 69 bps during the trailing 12 month period.
 - Private equity detracted 72 bps of relative performance while international public equity detracted 34 bps of relative performance.
 - The real asset component contributed 17 bps of relative performance while the absolute return portfolio contributed 20 bps.
- At the end of the period global equity and cash were overweight while all other asset classes were slightly underweight relative to the policy.
- Longer term investment results have been generally positive, the Total Fund has produced risk adjusted returns superior to the benchmark and the Long Term Public Benchmark over the five and ten year period.
 - The Total Fund underperformed the benchmark in nominal terms by 0.2% over the trailing five year period.
- The Total Fund has meaningfully outperformed the Long Term Public Benchmark over most longer-term periods.
- Diversification has been effective, the Total Fund Policy Benchmark has produced a return superior to the Long Term Public Benchmark at a meaningfully lower level of risk (volatility) over the trailing five and ten year period.

Questions?

Public Agenda Item #5.1

Review of Pension Experience Study Background and Process

May 17, 2017

Jen Jones, Senior Program Specialist
Ryan Falls, Actuary, Gabriel Roeder Smith
Joe Newton, Actuary, Gabriel Roeder Smith



ERS of Texas Intro to Experience Studies

May 17, 2017

Ryan Falls, FSA, EA, MAAA

Joseph Newton, FSA, EA, MAAA

GRS

Gabriel Roeder Smith & Company
Consultants & Actuaries
www.gabrielroeder.com



Agenda

- ◆ Introduction to the Actuarial Process
- ◆ Overview of the Experience Study
- ◆ Actuarial Assumptions
- ◆ Actuarial Methods
- ◆ Next Steps



Hypothetical Analogy

- ◆ John, a recent graduate from college at age 25, just got his first real job making \$40,000 per year
- ◆ John wants to be proactive about saving for a secure retirement, so he is taking his parents' advice and starting early
- ◆ He finds a retirement savings calculator online and begins the process of determining his savings strategy



First Decisions

- ◆ John must set his expectations or goals for several parameters:
 - ▶ What return can he get on his savings?
 - Before and after retirement
 - ▶ What replacement income is he targeting?
 - ▶ Does he want his replacement income to have purchasing power protection?
 - ▶ How fast will his salary increase over time?
 - ▶ When does he want to retire?
 - ▶ How long will he live?
 - ▶ What pattern of savings does he want?
 - ▶ What ability will he have in the future to change his strategy based on changing circumstances?
 - ▶ What level of certainty does he want that his actual experience will meet or exceed his expectations?
- ◆ What sources can he use to help with these decisions?
- ◆ Based on John's initial scenario, he must save 14.3% of his salary into his retirement program



Hypothetical Analogy (cont.)

- ◆ He then decides he will re-examine his strategy at age 35. What could have changed by age 35?
- ◆ Possible changes to John's circumstances
 - ▶ Actual investment returns outpace or underperform
 - ▶ Changes to future return expectations
 - Before and after retirement
 - ▶ Changes to replacement needs: health care, children...
 - ▶ Changes in future inflation expectations
 - ▶ Actual salary increases (faster growth not necessarily a positive)
 - ▶ Changes to future salary growth expectations
 - ▶ Changes to future retirement age expectation or goal?
 - ▶ Was cancer cured? Has life expectancy changed?
 - ▶ Is 14.3% of salary still affordable? Have living expenses grown more rapidly or perhaps not as fast? What about timing of expenses (children)
 - ▶ What ability will he have in the future to change his strategy based on changing circumstances? Has to be less now, less time.
 - ▶ What level of certainty does he want that his actual experience will meet or exceed his expectations? Has to be more now, less time.
- ◆ Notice there are still more decisions about the future (unknown) than the past (known)



Age 35 Scenario 1

- ◆ If all goes as planned, John should have \$89,123 in his account on his 35th birthday
- ◆ His first measurement will be to compare his actual balance to this target balance
- ◆ In a scenario where all goes as planned except his investments returned 5% per year, John would have an actual balance of \$81,504
 - ▶ He has a shortfall of \$7,619
- ◆ What are John's options?



Age 35 Scenario 1 (cont.)

- ◆ John could:
 - ▶ Increase his savings
 - By 0.8% to 15.1%
 - ▶ Attempt to earn more in future earnings
 - Need 7.2% per year
 - ▶ Delay retirement
 - 1 year to age 66
 - ▶ Decrease his expected income at retirement
 - 72% replacement income
 - ▶ Wait and see?



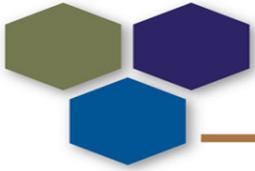
Application of John's Scenario to the Actuarial Process

- ◆ John was basically performing an actuarial valuation on his own personal situation
- ◆ At age 25, he was setting future expectations and his contribution strategy
- ◆ At age 35, he was
 - ▶ comparing the actual experience against his past expectations
 - ▶ reassessing his future expectations
 - ▶ *and making changes to future contributions or benefits if necessary*



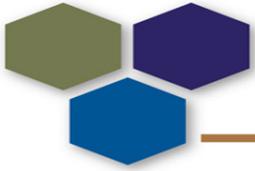
Application of John's Scenario to the Actuarial Process

- ◆ The annual valuation of ERS is doing this exact exercise for every individual member of the plan
- ◆ However, there is a material difference in that while John was alone, the individuals in ERS are not
 - ▶ There are other members in their own generation
 - ▶ There are other generations of members
 - ▶ There is a Plan Sponsor
- ◆ Using a defined benefit approach, most of the risks borne by John can be shared across the population of members and the employer, making a more stable and predictable outcome



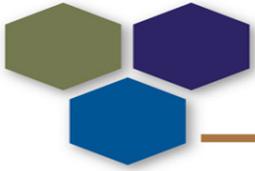
Valuation Methods and Policies

- ◆ Similar to John, the following decisions have to be made:
 - ▶ What benefit is being targeted?
 - ▶ What assumptions can be made about future expectations?
 - ▶ What policy will be utilized to determine contribution amounts?
 - ▶ How will these policies react to actual experience if it deviates materially from the initial expectations?



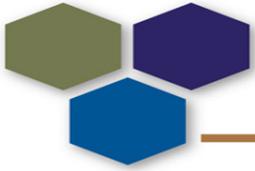
Funding Policy

- ◆ The *primary* purpose of the annual actuarial valuation is to either (1) set or (2) assess the adequacy of the contribution policy
 - ▶ “Funding” or “contribution allocation procedure”
- ◆ The “Funding Policy” of a pension plan is a systematic set of procedures used to determine the contributions which will be made in a specific year and series of years



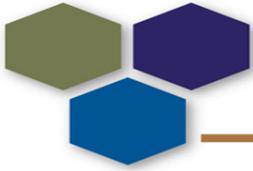
Purpose of Experience Study

- ◆ Actuarial Assumptions and Methods are utilized to develop each of the outputs of actuarial valuation process
- ◆ Experience Study is a regularly scheduled review of the Assumptions and Methods
 - ▶ GFOA recommends at least once every five years
- ◆ General process for setting assumptions and methods
 - ▶ Actuary makes recommendations
 - ▶ Board considers actuary's recommendation and makes the final decision for the system



Process

- ◆ Assumptions are not static; they should occasionally change to reflect
 - ▶ New information
 - ▶ Mortality improvement
 - ▶ Changing patterns of retirements, terminations, etc.
 - ▶ Changing knowledge
- ◆ Recent experience provides strong guidance for some assumptions (for example, termination) and weak guidance for others (for example, the investment return rate)
- ◆ Actuarial Methods can evolve and best practices can change



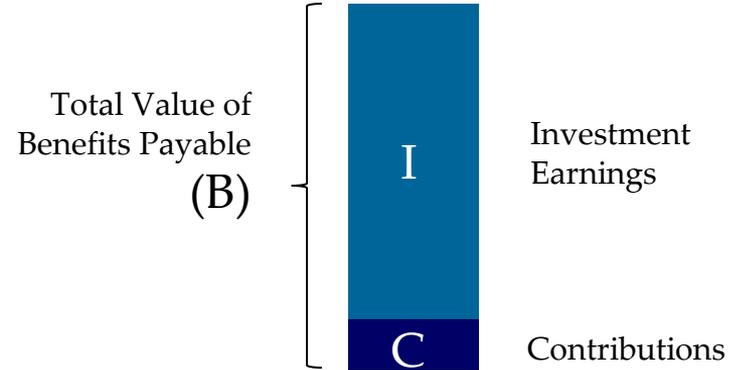
Funding Equation

- Over time, there are three pieces of the actuarial funding equation:

$$C + I = B$$

► Where:

- C = Contributions
- I = Investment Earnings
- B = Benefits





How assumptions and methods factor in...

- ◆ Over time, the true cost of benefits will be borne out in actual experience
 - ▶ Ultimate benefits paid NOT affected by actuarial assumptions or methods
 - ▶ Determined by actual participant behavior (termination, retirement), plan provisions, and actual investment returns
- ◆ Assumptions and methods help us anticipate and manage each component of the equation
 - ▶ Assumptions and methods dictate the timing of the contributions
 - ▶ Develop expectations for future contributions, investment returns and benefit payments
 - ▶ Important for decision making



Assumptions versus Methods

◆ Assumptions

- ▶ The **assumptions** are behaviors, occurrences, or performances expected to occur in the future
- ▶ The **assumptions** will primarily help us to calculate present value of benefits (PVB) for all current members

◆ Methods

- ▶ The **methods** are how the benefit provisions, assumptions, and specific attributes of the financing arrangement will be modeled
- ▶ The **methods** will take the PVB and allow us to calculate other important valuation results
 - Actuarial Accrued Liability (AAL), Normal Cost, Funded Ratio, Actuarially Sound Contribution (ASC), Funding Period, Funding Policy Contribution, etc.



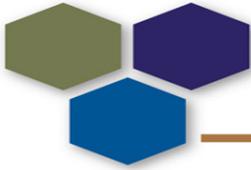
2017 Experience Study

- ◆ Experience study will be conducted for five-year period ending August 31, 2016
 - ▶ Board last adopted new assumptions in February 2013
- ◆ Going forward, ERS anticipates performing experience studies every four years
- ◆ Timeline for this Experience Study
 - ▶ Present draft results of experience study to Board at July working session
 - ▶ Board adopts new assumptions and methods at August Board meeting
 - ▶ New assumptions and methods incorporated into August 31, 2017 actuarial valuation



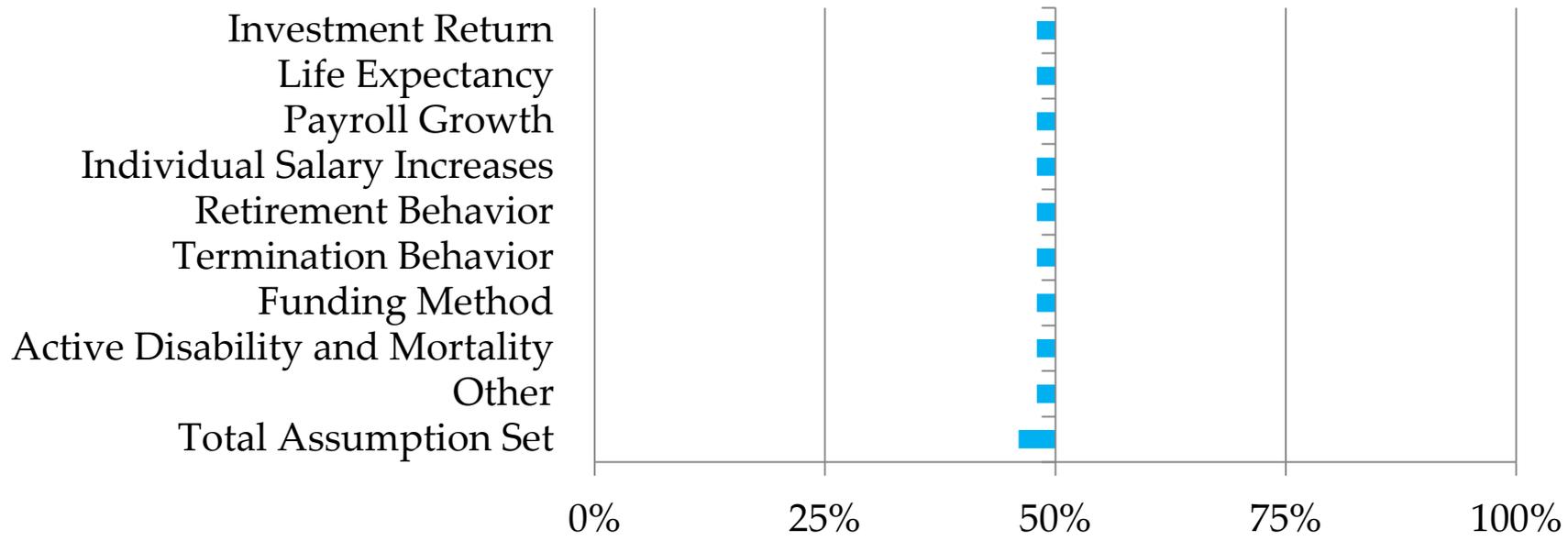
Assumptions for Review

- ◆ Demographic
 - ▶ Mortality (pre/post retirement, healthy/disabled)
 - ▶ Disability
 - ▶ Termination
 - ▶ Retirement
 - ▶ Other
- ◆ Economic (generally 20+ year outlook)
 - ▶ Inflation
 - ▶ Real Rate of Return
 - ▶ Individual Salary Increases
 - ▶ Total Payroll Growth



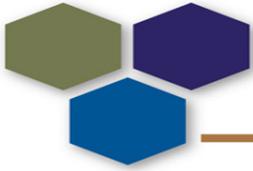
The “Perfect” Assumption Set

Level of Conservatism



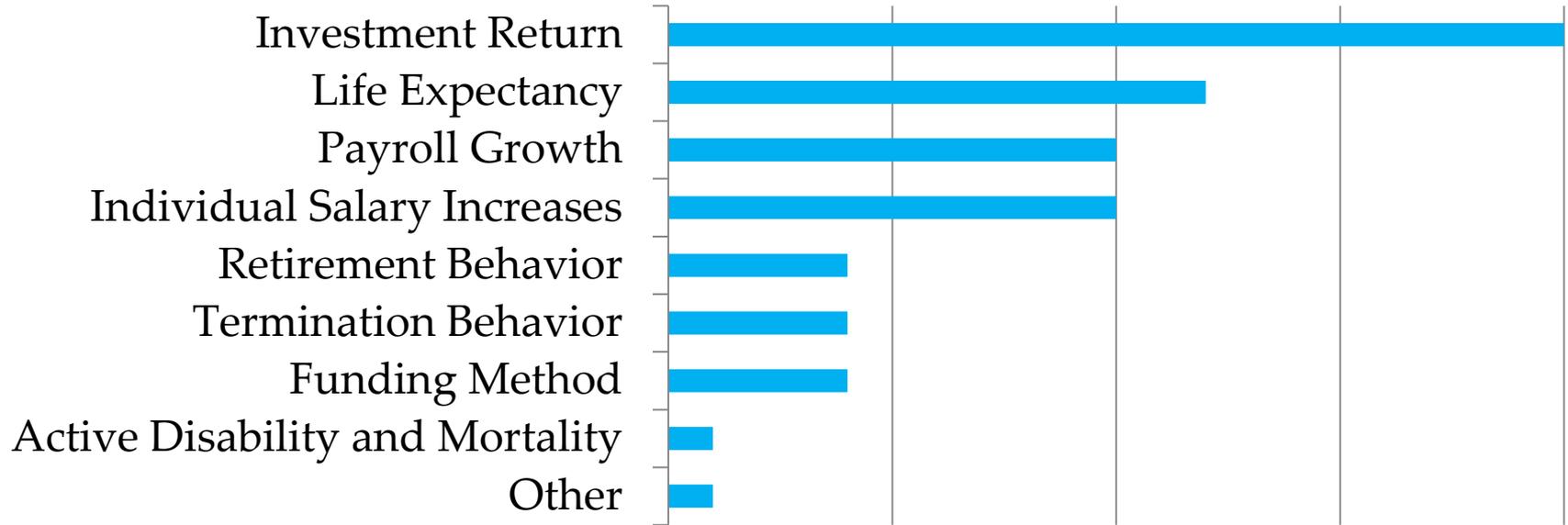
0% equals fully conservative, 100% equals fully aggressive

50% equals a perfect fit (crystal ball)



Magnitude of Individual Assumptions

Impact on Determination of Funding Period

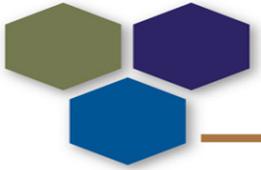


- Each individual assumption must satisfy the Actuarial Standards
- Assumption set should be internally consistent

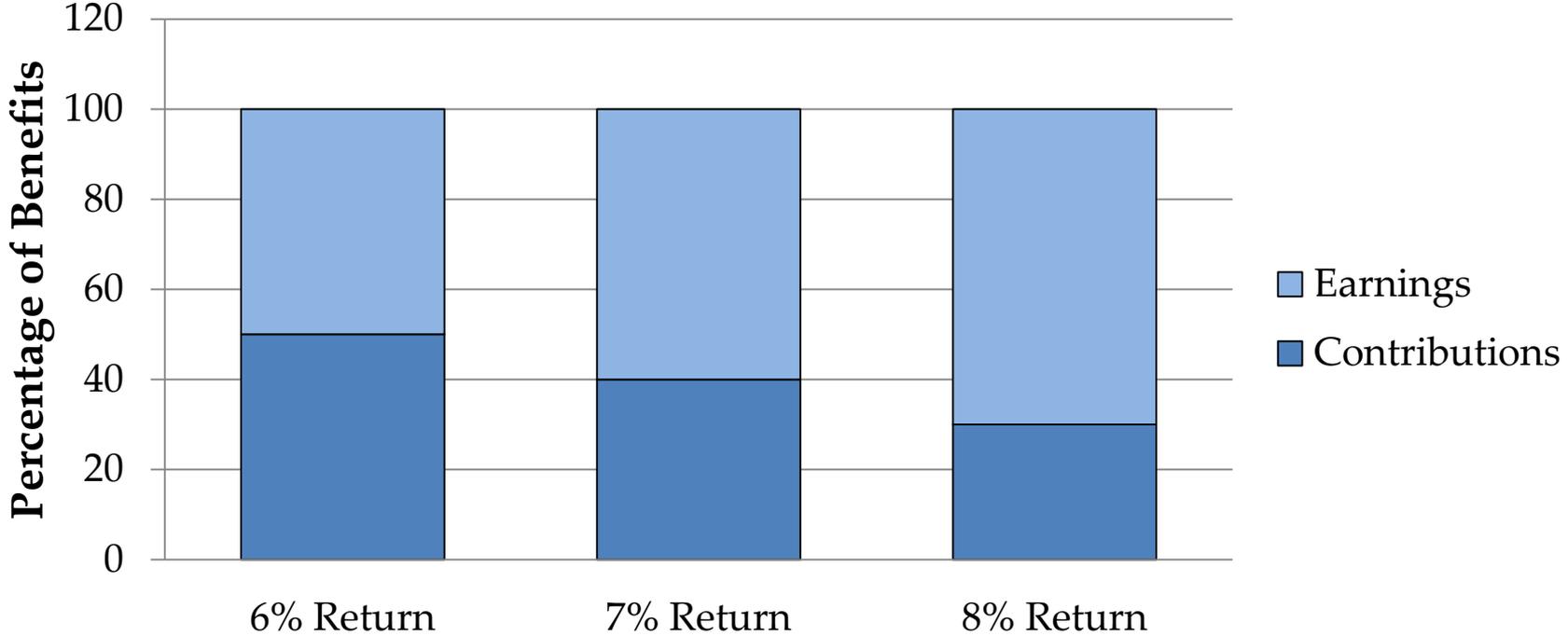


Inflation

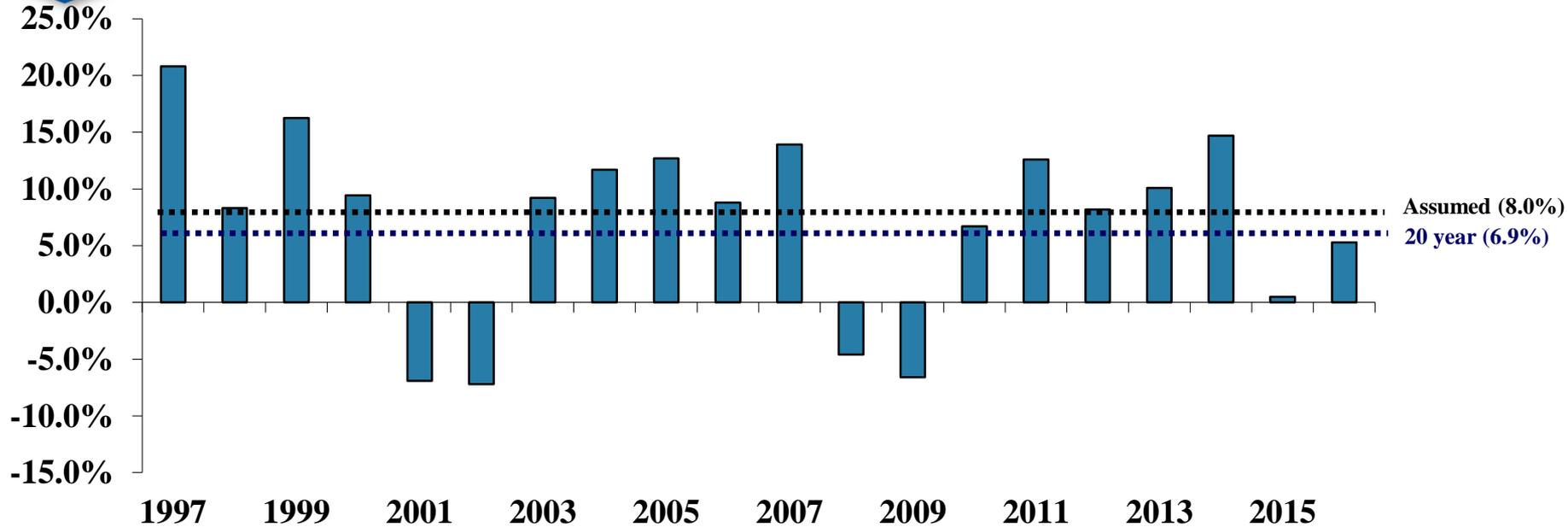
- ◆ The assumed inflation rate (currently 3.50% per year) is not used directly in the actuarial valuation, but it impacts the development of:
 - ▶ Investment return assumption
 - ▶ Salary increase assumptions
 - ▶ Payroll growth rate
 - ▶ Inflation assumption has a different impact on a plan like ERS compared to one that has a regular CPI based COLA
- ◆ We look at several indicators
 - ▶ Investment firms: 1.56% - 2.50%, 2.15% average
 - ▶ Social Security Trustee's Report: 2.60% (intermediate)
 - ▶ TIPs vs. Nominal US Treasuries: 2.00% - 2.20%
 - ▶ Professional forecasters: 2.15%
 - ▶ Horizon Survey: 2.16% to 2.31%



How does this impact pension funding?



Estimated Yields Based on Market Value of Assets

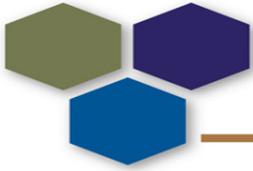


7.7% average compound return (on market value) over last 5 years.

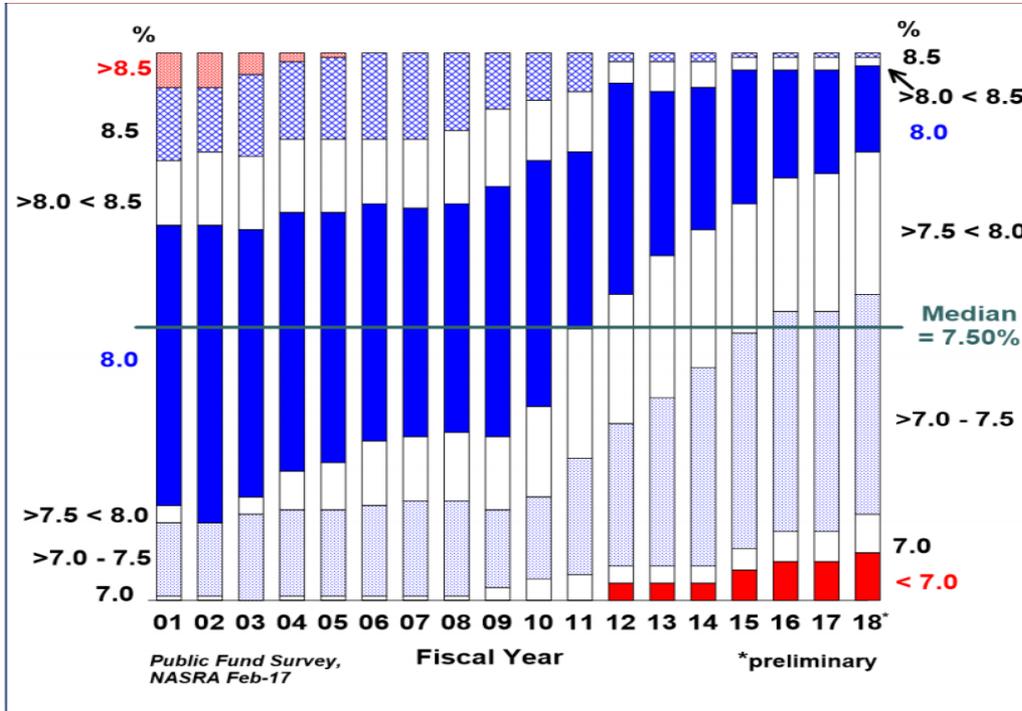
5.8% average compound return (on market value) over last 10 years.

6.9% average compound return (on market value) over last 20 years.

7.4% average compound return (on market value) over last 25 years.

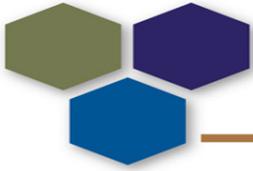


Investment Return Assumption

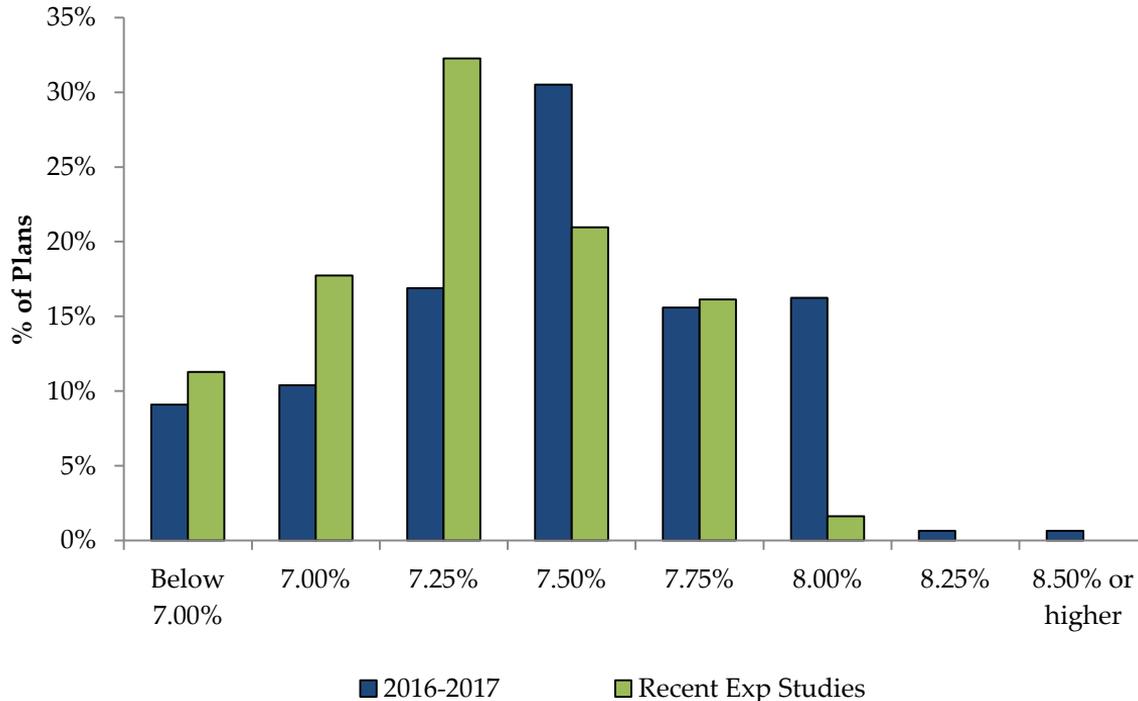


Historical Change in the Investment Return Assumption Used by Large Public Retirement Systems

FY2018 amounts based on assumptions in use or adopted for future use as of February 2017
(127 plans in this dataset)



Investment Return Assumption



Aggregate survey data compared to those that considered the investment return assumption over the last 18 months.

Blue bars are based on the same current NARSA survey data from previous slide. Green bars isolate the respondents that considered their assumption over the past 18 months.



Investment Return

- ◆ The assumption selected should be reasonable
 - ▶ Not necessarily a single “correct” answer
- ◆ Assumption is selected using a process that considers:
 - ▶ ERS target asset allocation
 - ▶ Economic capital market expectations
 - Utilize a building block approach that reflects expected inflation, real rates of return, and plan related expenses
 - Take into account the volatility of the expected returns produced by the investment portfolio
- ◆ Other factors to consider
 - ▶ Historical investment performance
 - ▶ Comparison with peers



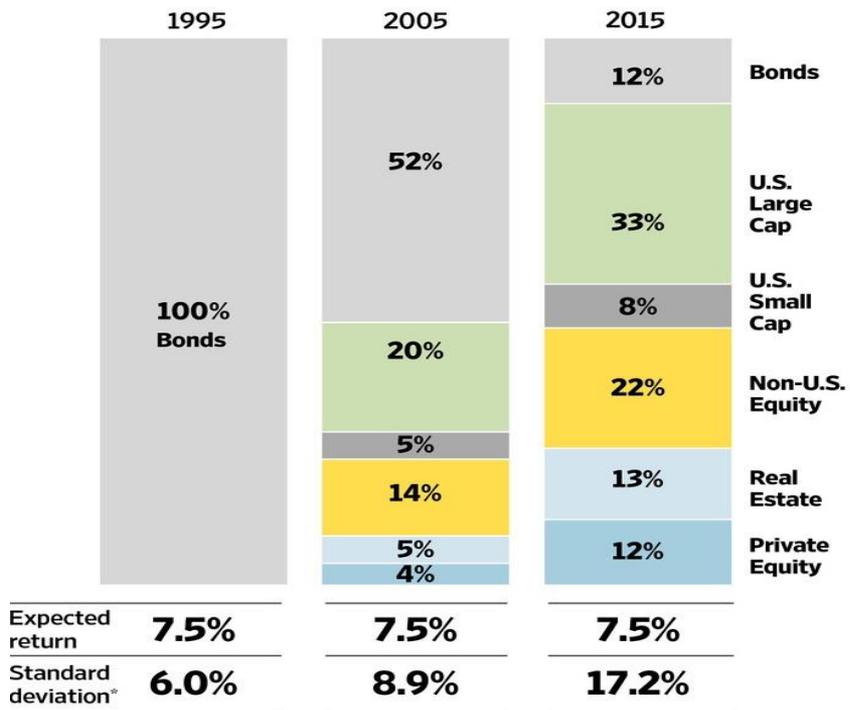
Capital Market Assumptions – Investment Consultants

- ◆ Projected real returns will be developed using ERS' target investment allocation and 2017 capital market return assumptions from multiple large investment consulting firms, including Aon
- ◆ All asset allocations under serious consideration will be evaluated during the experience study for an appropriate return assumption



Illustration of Return Expectations

Estimates of what investors needed to earn 7.5%



*Likely amount by which returns could vary
Source: Callan Associates

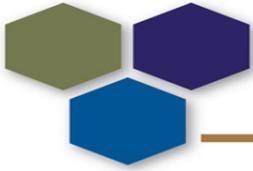
THE WALL STREET JOURNAL.



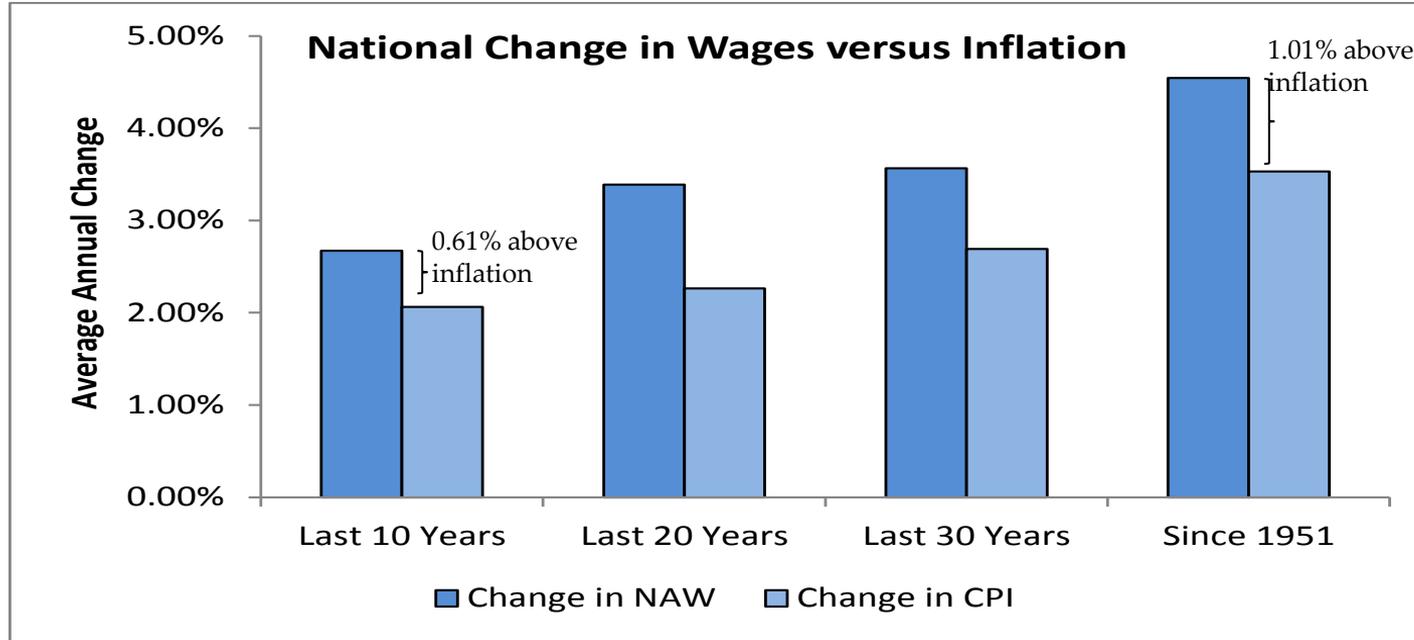


Wage Assumptions

- ◆ Building block approach to assumptions for projecting wages
 - ▶ Should be consistent and tied to inflation
 - ▶ Wage Inflation: General Inflation plus General Productivity
 - Currently 3.50% Wage Inflation
 - General Productivity currently assumed to be zero
 - ▶ Salary Scale: Wage Inflation plus Individual Merit and Promotion
 - $3.50\% + 1.30\%$ (Regular EEs) = 4.80% Ultimate Salary Increase Assumption
 - ▶ Overall Payroll Growth: Wage Inflation, adjusted for demographics and amortization period
 - 3.50% +/- based on projected actual payroll growth, which can be impacted by the projected change in the population, age of population, salary schedules, rates of termination and retirement, retirement eligibilities, and applicable time period

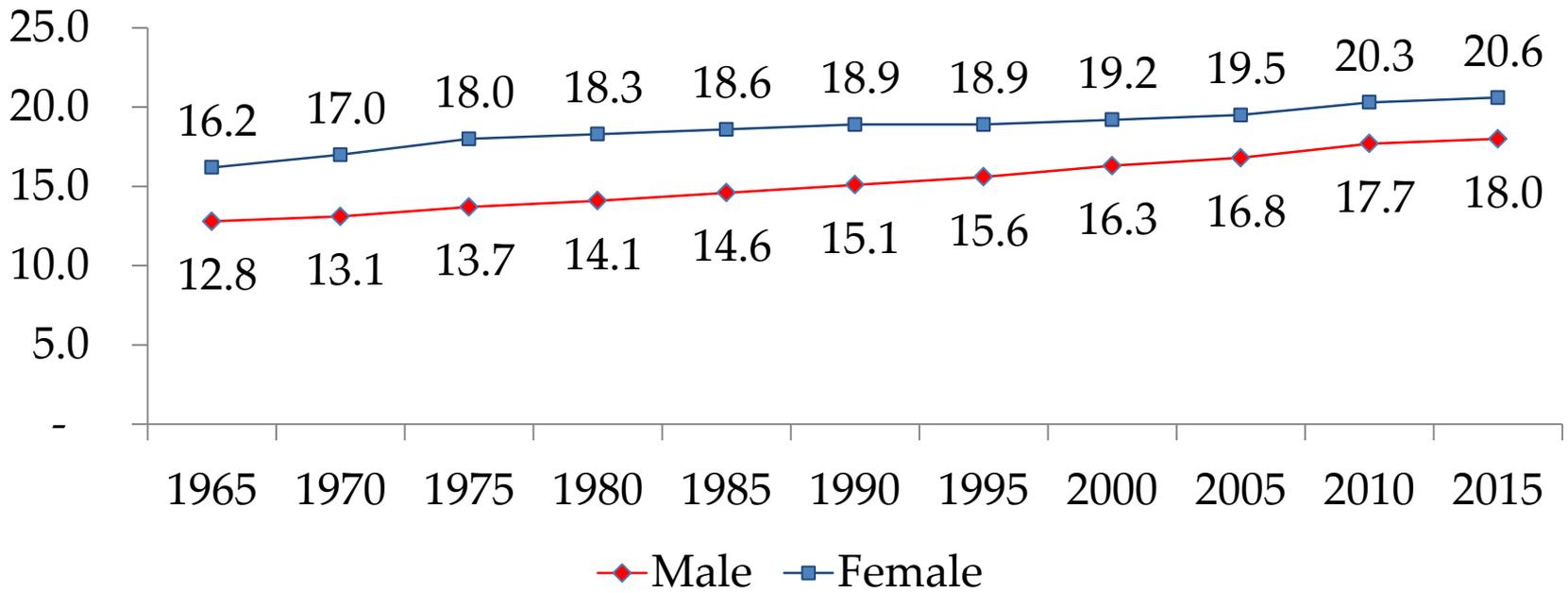


National Statistics





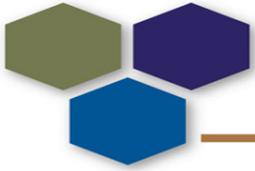
Life Expectancy for the General US Population - from Age 65





Post-retirement mortality

- ◆ Nationally, life expectancies continue to improve
- ◆ This assumption was materially changed in the 2008 experience study, with built-in continuous improvement
 - ▶ Generational mortality based on Scale AA
 - ▶ ERS was a very early adopter of this approach
- ◆ The assumption was only slightly modified in the 2013 experience study
- ◆ There has been a significant amount of activity on this assumption in the industry with new tables published as of 2014 (RP-2014), along with four sets of improvement scales
 - ▶ Improvement Scale BB, MP-14, MP-15, and MP-16

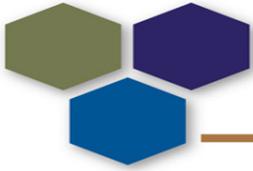


Actuarial Methods



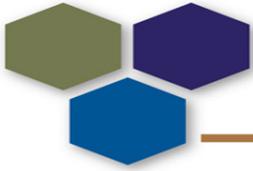
Factors that impact what methods ERS should use

- ◆ Fixed employer and member contributions received as a percentage of payroll received monthly throughout each year
- ◆ Funding goals mostly centered around calculated funding period
- ◆ Potentially tight turnaround time during legislative session
- ◆ Different groups of benefits based on hire dates



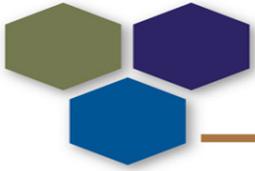
Purpose of Asset Smoothing

- ◆ Reduce volatility in actuarial valuation results for purposes of long-term decision making and funding
 - ▶ Focused on long-term outlook
 - ▶ No “knee jerk reactions”
- ◆ Periods of poor returns are often followed by some amount of recovery and vice versa
 - ▶ Expect to get 8% on the actuarial value over the long term



Common Methods

	Adjustment Method	Fixed Base Method
Description	Recognizes 20 percent of the total outstanding gain/loss each year. Under this method, 20 percent of the remaining gain or loss will be recognized in each subsequent year.	Establishes an explicit gain/loss base at the end of each fiscal year and then recognizes one-fifth of each individual base over a fixed five-year period.
Advantages	<ol style="list-style-type: none">1.) Offsetting gains/losses are recognized immediately2.) Low volatility from year-to-year	Gain/loss associated with a specific plan year will be fully reflected in the actuarial value of assets by the end of the fifth year
Disadvantages	Can take an extended amount of time to fully recognize a specific gain or loss if offsetting gains or losses are not realized	Artificial volatility from year-to-year as historical bases are recognized



Hybrid Method

- ◆ Fixed Base w/ Direct Offset

- ▶ Allow for immediate offsetting of gains and losses in Fixed Base method

- Quote from recent actuarial audit of GRS:

- “Five year asset smoothing is common in the public sector. However, the offsetting of unrecognized gains and losses is not typical. Our analysis shows that this method resulted in a superior smoothed asset value in the wake of market volatility and thus is a reasonable approach.”*

- ◆ Essentially produces a more efficient “smoothing” while mitigating the disadvantages of the other methods



Actuarial Cost Methods

- ◆ Total Present Value of Benefits (TPV)
 - ▶ Present value of all benefits expected to be paid to current plan members
 - ▶ Based on benefit provisions in effect for each member
 - ▶ Includes future benefit accruals



Actuarial Cost Methods

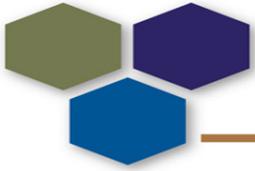
- ▶ Method for allocating the TPV between past service and future service
 - **Actuarial Accrued Liability (AAL)** – portion of the TPV allocated to past service
 - **Future Normal Costs (FNC)** – portion of the TPV that will be recognized across future service
- ▶ Many reasonable Actuarial Cost Methods
 - Provide different methods for allocating AAL/FNC
 - In all cases, $AAL + FNC = TPV$ (*Past plus Future = Total*)





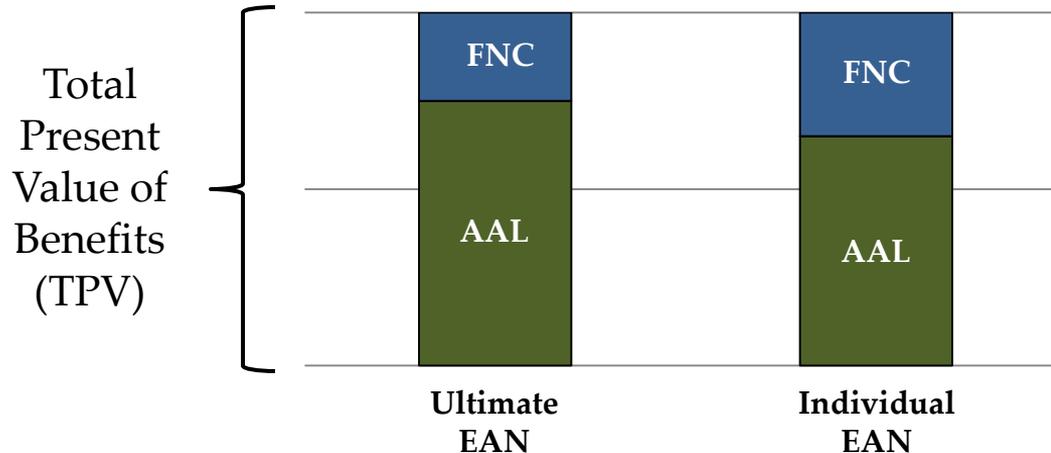
Actuarial Cost Methods

- ◆ Individual Entry Age Cost Method
 - ▶ Normal cost based on benefit provisions in effect for each member
 - ▶ Normal cost rate for the plan will change over time as a greater proportion of membership is covered by new benefit tier
 - ▶ Required method for GASB (accounting) purposes
- ◆ Ultimate Entry Age Cost Method
 - ▶ Normal cost based on benefit provisions in effect for new members
 - ▶ Normal cost rate should remain stable
 - ▶ Currently used by ERS for funding purposes
 - First incorporated with the new benefit group adopted in 2009



Actuarial Cost Methods

- ◆ **Entry Age Normal Cost (EAN): Individual versus Ultimate**
 - ▶ Both methods are funding to the same TPV
 - Only difference is how cost methods allocate between the Actuarial Accrued Liability (AAL) and Future Normal Costs (FNC)



- With fixed contribution rate, both methods will produce almost the same ASC and funding period



Actuarial Cost Methods

◆ Ultimate Entry Age Cost Method

▶ Advantages

- Normal cost rate expected to stay constant
- Provides for more efficient calculation of actuarially determined contributions and funding period

▶ Disadvantages

- Can provide counter-intuitive results when assessing plan changes
- Disconnect between liability measures for funding and GASB (accounting)



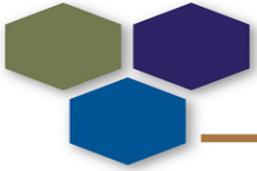
Next Steps

◆ Ultimate Goal

- ▶ Board will consider the adoption of a package of new assumptions and methods, including:
 - Economic Assumptions-inflation, investment return
 - Demographic Assumptions-mortality, rates of retirement
 - Methods-asset smoothing, actuarial cost method
- ▶ New assumptions and methods set for use in August 31, 2017 actuarial valuation
 - And decision making in preparing for 2019 Legislative Session

◆ Timing for this summer

- ▶ June – Draft Experience Study report provided to Board
- ▶ July – Presentation of Findings and Initial Recommendations
- ▶ August – Adoption of final assumptions and methods



Appendix



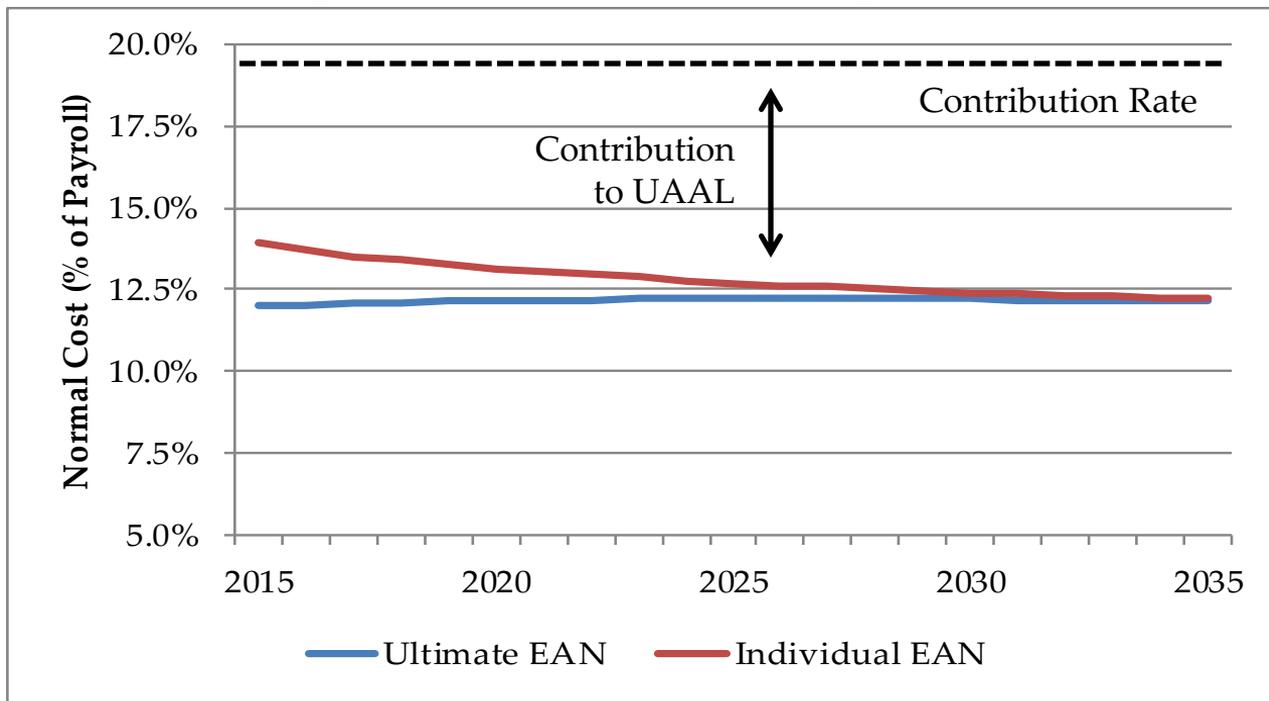
Actuarial Standards

- ◆ Guidelines for the assumption setting process are set by the Actuarial Standards of Practice
 - ▶ ASOP #4 Measuring Pension Obligations
 - ▶ ASOP #27 Selection of Economic Assumptions
 - ▶ ASOP #35 Selection of Demographic and Other Noneconomic Assumptions
 - ▶ ASOP #44 Selection and Use of Asset Valuation Methods

Actuarial Cost Methods

◆ Projected normal cost rate

- ▶ Individual EAN converges to Ultimate EAN after about 20 years



Questions?

Public Agenda Item #6.1

Review of ERS' Asset Allocation Study

May 17, 2017

Tom Tull, CFA, Chief Investment Officer

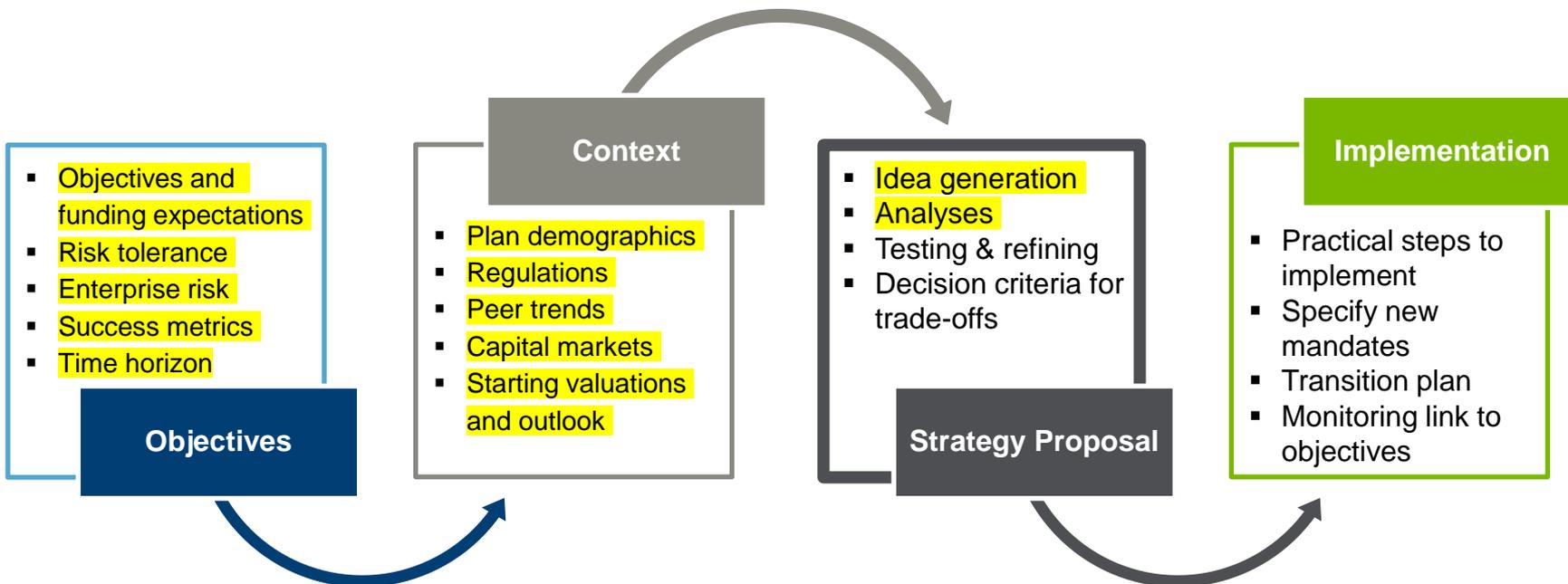
Sharmila Kassam, CPA, Deputy Chief Investment Officer

Mike McCormick, CFA, Aon Hewitt

Agenda

- Review of Asset Liability Process
- Review of Updated Capital Market Assumptions
- Review of Current Asset Allocation
- Proposed Asset Allocation Alternatives
- Stress Testing, Scenario Analysis, and Factor Risk Analysis
- Review of Asset Liability Process Timeline

Asset Liability Process Overview



Review of Updated Capital Market Assumptions

10-Year Capital Market Assumptions – Current Policy

	Policy	12/31/2016 Assumptions	
	Weight	Return	Risk
Return Seeking Assets:	79%		
Global Equity	55%		
Public Equity	45%	7.3%	18.5%
Private Equity*	10%	9.3%	24.5%
Global Credit	10%		
High Yield	10%	5.2%	12.0%
Opportunistic Credit	0%	6.5%	9.0%
Real Assets	14%		
Real Estate*	10%	7.5%	15.0%
Infrastructure*	4%	7.0%	12.0%
Risk Reduction Assets:	21%		
Absolute Return	5%		
Absolute Return Portfolio*	5%	6.2%	4.4%
Rates	15%		
Intermediate Treasuries	15%	2.6%	3.0%
Cash	1%		
Cash	1%	2.4%	1.0%
Inflation*		2.5%	
Estimated Return (Nominal)		7.0%	
Estimated Risk		12.0%	
Sharpe Ratio**		0.383	

*Custom assumption of ERS Staff and AHIC

**The Sharpe Ratio is a measure of risk-adjusted performance. It measures the projected excess return (or risk premium) per unit of deviation of the portfolio returns. The greater a portfolio's Sharpe Ratio, the better its forecasted risk-adjusted performance

- The High Yield assumption increased due to a decrease in the expected level of defaults and a reduced impact from downgrades
- The Absolute Return Portfolio return and risk assumptions were amended
 - The return assumption of 6.2% reflects the central expectation of return scenarios
 - The previous assumption of 5.0% reflected a mix of a conservative and central assumption
- The expected return of the portfolio increased slightly to 7.0%

Proposed Asset Allocation Alternatives

Overview

- At the February meeting there was robust discussion surrounding investment alternatives and the range of risk to be evaluated
 - Today's presentation includes analysis on the four allocations below, as well as the full investment frontier associated with the current policy and an alternative policy with a larger allocation to illiquid investments (Max Return Scenario)
 - The investment frontier analysis is intended to allow the group to better understand the risk/return and liquidity spectrum available to the Fund

- The following slides detail the risk profile of four asset allocations;
 - **Current Target**
 - **Diversified** – Modest decrease of equity and rates exposure; increase private asset exposure
 - **Enhanced Return** – More meaningful decrease of equity and rates exposure; larger increase of private asset exposure
 - **Max Return** – Significant reduction of public equity, global credit, and rates exposure; significant increase to private equity and moderate increases to real estate, infrastructure, and opportunistic credit exposure

Comparison of Proposed Allocation Mixes – 10 Year Forecast

Asset Class	Current	Diversified	Enhanced Return	Max Return
Global Equity	45.0%	40.0%	37.0%	30.0%
Private Equity	10.0%	12.0%	13.0%	24.0%
Global Credit*	10.0%	11.0%	11.0%	7.0%
Real Estate	10.0%	11.0%	12.0%	13.0%
Infrastructure	4.0%	6.0%	7.0%	6.0%
Opportunistic Credit**	--	2.0%	3.0%	3.0%
Total Return-Seeking Assets	79.0%	82.0%	83.0%	83.0%
Rates	15.0%	12.0%	11.0%	11.0%
Absolute Return	5.0%	5.0%	5.0%	5.0%
Cash	1.0%	1.0%	1.0%	1.0%
Total Risk-Reducing Assets	21.0%	18.0%	17.0%	17.0%
Expected Return	7.0%	7.1%	7.2%	7.6%
Expected Risk	12.0%	11.7%	11.6%	12.4%
Sharpe Ratio	0.383	0.403	0.413	0.420
Liquid Assets ***	71%	64%	60%	49%

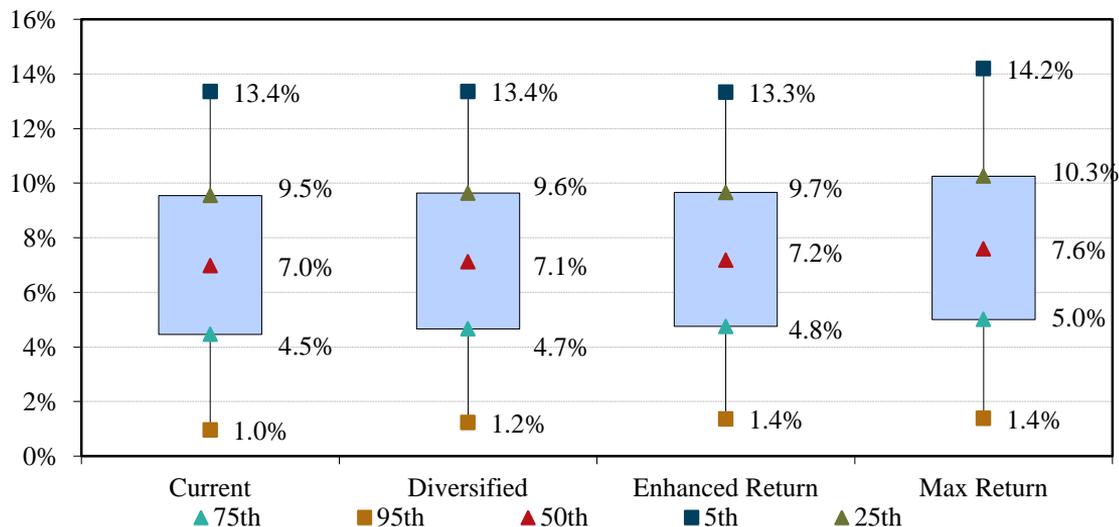
- Increased allocations to illiquid asset classes can increase expected returns
- Each investment alternative represents a reduction in expected liquidity relative to Current
- Deeper analysis on liquidity will be performed in conjunction with the asset liability study

* **Diversified** (7% high yield and 4% EMD); **Enhanced Return** (7% high yield and 4% EMD); **Max Return** (5% high yield and 2% EMD)

** **Diversified** (1% private credit and 1% real estate debt); **Enhanced Return** (1.5% private credit and 1.5% real estate debt); **Max Return** (1.5% private credit and 1.5% real estate debt)

*** **Liquid Assets** - Global Equity, Global Credit, Rates, and Cash

Return Distribution – 10 Year Annualized Forecast

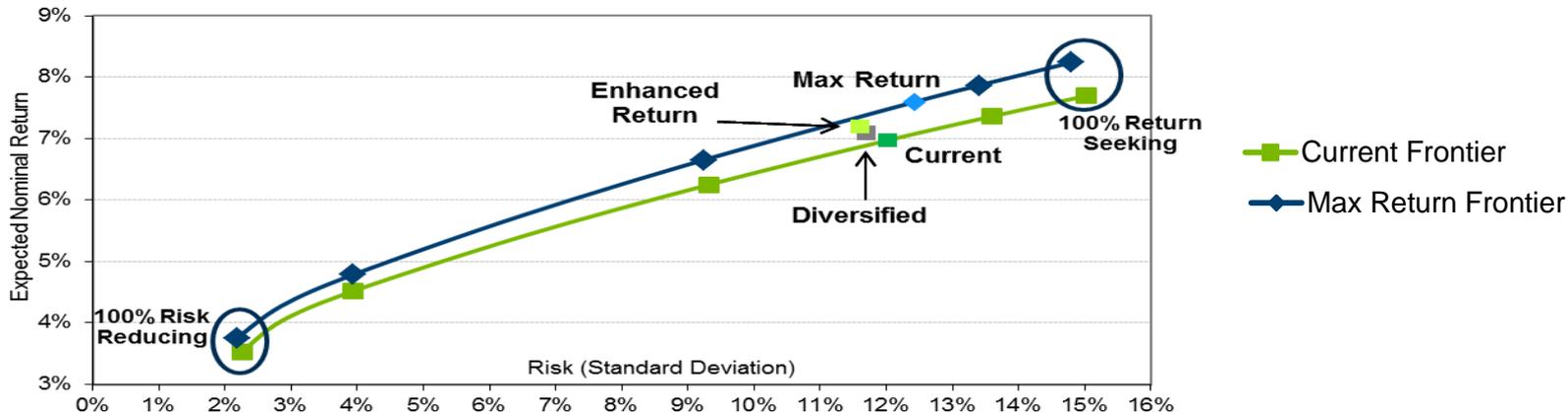


- The chart to the left represents the range of expected outcomes of each allocation over 10 years
- The top point represents the 5th percentile (best case) and the bottom represents the 95th percentile (worst case)
- The top and bottom of the shaded area represent the 25th and 75th percentile
- The center value represents the expected return or median outcome

Asset Class	Current	Diversified	Enhanced Return	Max Return
Expected Return	7.0%	7.1%	7.2%	7.6%
Expected Risk	12.0%	11.7%	11.6%	12.4%
Sharpe Ratio	0.383	0.403	0.413	0.420
Liquid Assets *	71%	64%	60%	49%

* Liquid Assets - Global Equity, Global Credit, Rates, and Cash

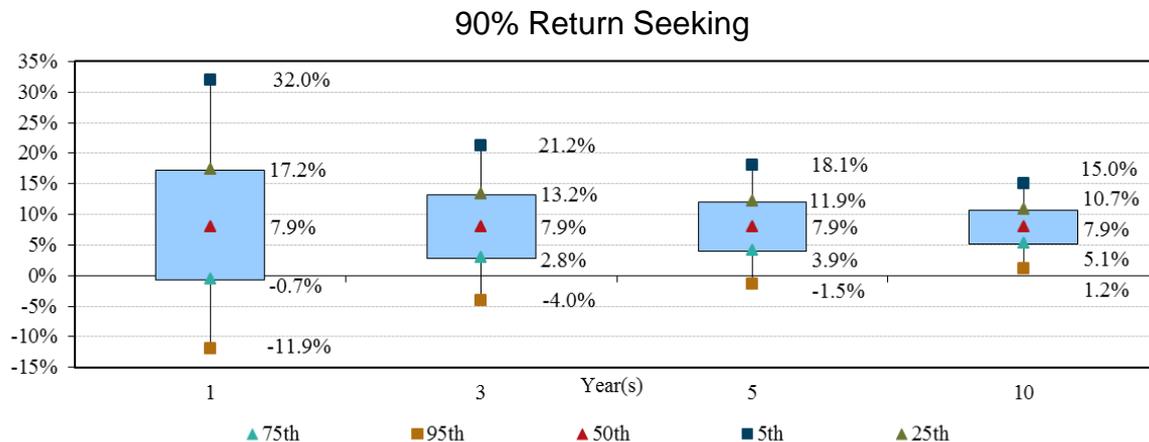
Asset Allocation Frontier



	Current (Return Seeking Assets)						Max Return (Return Seeking Assets)					
	100%	90%	79%	60%	20%	0%	100%	90%	83%	60%	20%	0%
Return-Seeking												
Global Equity	57%	51%	45%	34%	11%	0%	36%	33%	30%	22%	7%	0%
Private Equity	13%	11%	10%	8%	3%	0%	29%	26%	24%	17%	6%	0%
Global Credit	13%	11%	10%	8%	3%	0%	8%	8%	7%	5%	2%	0%
Real Estate	13%	11%	10%	8%	3%	0%	16%	14%	13%	9%	3%	0%
Infra	5%	5%	4%	3%	1%	0%	7%	7%	6%	4%	1%	0%
Opp Credit	0%	0%	0%	0%	0%	0%	4%	3%	3%	2%	1%	0%
Reisk Reducing												
Rates	0%	7%	15%	29%	57%	71%	0%	6%	11%	26%	52%	65%
Abs Return	0%	2%	5%	10%	19%	24%	0%	3%	5%	12%	24%	29%
Cash	0%	0%	1%	2%	4%	5%	0%	1%	1%	2%	5%	6%
Profile												
Exp Return	7.7%	7.4%	7.0%	6.3%	4.5%	3.5%	8.2%	7.9%	7.6%	6.7%	4.8%	3.7%
Volatility	15.0%	13.6%	12.0%	9.3%	3.9%	2.3%	14.8%	13.4%	12.4%	9.2%	3.9%	2.2%
Liquidity	70%	73%	76%	82%	94%	100%	45%	50%	54%	67%	89%	100%

Asset Allocation Frontier – 8% Return

		Max Return (Return Seeking Assets)	
		90%	83%
Return-Seeking	Global Equity	33%	30%
	Private Equity	26%	24%
	Global Credit	8%	7%
	Real Estate	14%	13%
	Infra	7%	6%
	Opp Credit	3%	3%
Risk Reducing	Rates	6%	11%
	Abs Return	3%	5%
	Cash	1%	1%
Profile	Exp Return	7.9%	7.6%
	Volatility	13.4%	12.4%
	Liquidity	50%	54%



- An expected return of 8% is achievable with significant illiquidity and nearly no assets allocated to risk reducing assets

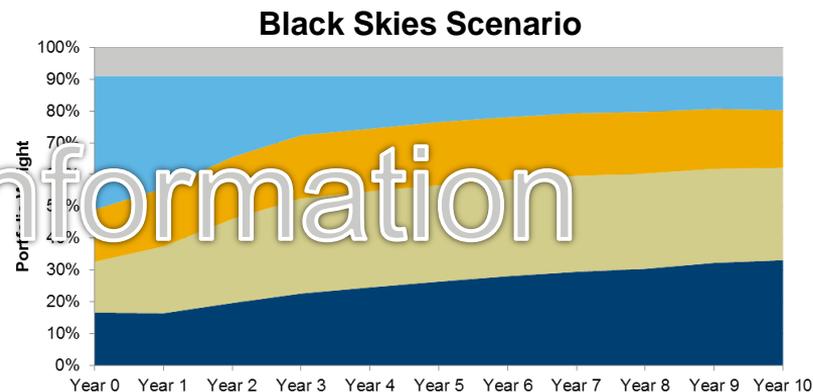
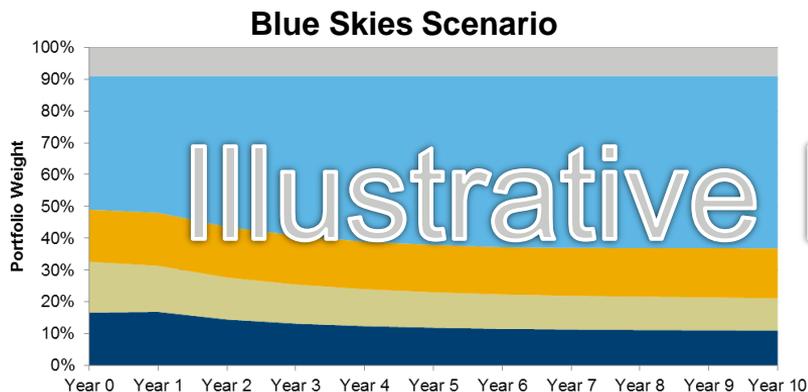
AHIC Approach to Analyzing Liquidity Risk from Non Public Markets

- Intended as a stress-testing model, and will be provided at the July meeting as part of the asset/liability output
- Develops multi-year projections of assets and spending needs
- Uses different scenarios for economic environments and other relevant events
- Incorporates the profile of the liabilities as well as expected future contributions
- Liquidity is categorized into four buckets
 - **Liquid:** less than 3 months needed for return of capital (e.g. publicly traded securities)
 - **Quasi-Liquid:** Typical lock-up of 3-12 months. Conservatively, we assumed a 1-year lock-up in most economic environments, 2 years in a Recession scenario, and 3 years in a Black Skies scenario (e.g. many hedge funds, core real estate)
 - **Illiquid: Potential lock-up of 5-10 years**, depending on economic environment (e.g. closed-ended real estate)
 - **Extremely Illiquid: Potential lock-up of 10+ years** (e.g. private equity)
- This is intended to be a conservative approximation of actual liquidity
- Begins with the current allocations, evaluate how allocations change in different economic scenarios

Sample Liquidity Analysis – Illustrative Information

- The exhibits below show the liquidity lock-up of an asset allocation in various market scenarios

■ Extremely Illiquid: 10+ Years ■ Illiquid: 5-10 Years ■ Quasi-Liquid ■ Liquid ■ Risk-Reducing Assets



- As part of the asset liability study the analysis above will be performed for each evaluated asset allocation
- “Blue Skies Scenario” represents the ~10th percentile outcome from our Monte Carlo simulation while the “Black Skies Scenario” represents the ~99th percentile outcome

Asset Allocation Scenarios: Key Statistics

Probability of 8.0% Return	Current	Diversified	Enhanced Return	Max Return
5 Years	42.4%	43.3%	43.7%	47.1%
10 Years	39.3%	40.6%	41.1%	45.9%
30 Years	31.9%	34.0%	34.8%	42.9%
Probability of Negative Annualized Return	Current	Diversified	Enhanced Return	Max Return
1 Year	27.2%	26.4%	25.9%	26.1%
3 Years	14.7%	13.7%	13.2%	13.4%
5 Years	8.8%	7.9%	7.4%	7.6%
10 Years	2.8%	2.3%	2.1%	2.1%
95th Percentile Annual Returns	-10.9%	-10.4%	-10.2%	-10.8%

- The likelihood of achieving a 8.0% return can be modestly increased through asset allocation changes
- These changes can also dampen losses in a negative market environment

Asset Allocation Alternatives Findings

- The Plan is currently well diversified and asset allocation changes can only have marginal benefits
- Adding diversifying exposures or increasing illiquid exposure can help reduce expected volatility or increase the expected return
- Reviewing the impacts of volatility and illiquidity on the funded status of the investment program is critical, and a key component of the asset liability study to be presented at the July meeting

Review of Asset Liability Process Timeline

Asset Liability Process Overview

Asset Allocation Study	Dates	Completion Status
Orientation with staff and distribution of risk survey to Board and IAC	August - October 2016	Presented
Presentation of risk survey results; Presentation on macroeconomic view and capital market assumptions	December 2016 Board Meeting	Presented
Conduct Asset Allocation Working Session #1 - General Discussion	February 2017 Board Meeting	Presented
Conduct Asset Allocation Working Session #2	May 2017 Board Meeting	Presented
Conduct Asset Allocation Working Session #3	July 10, 2017 Special Working Session	
Present Asset Allocation and Investment Policy Changes for Board Consideration	August 2017 Board Meeting	

Questions?

Public Agenda Item #7.1

Market Update Overview of the Fixed Income Program

May 17, 2017

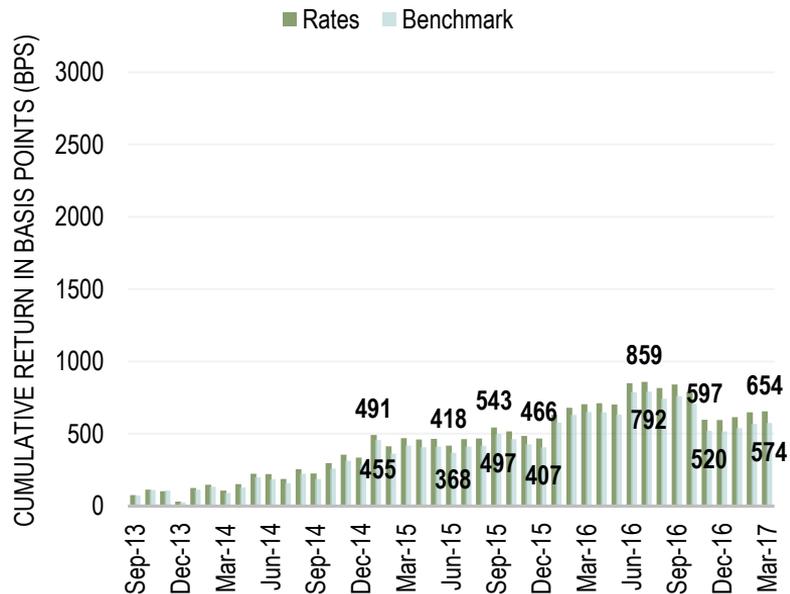
Leighton Shantz, CFA, Director of Fixed Income
Peter Ehret, CFA, Fixed Income Portfolio Manager

Market Update and Program Overview

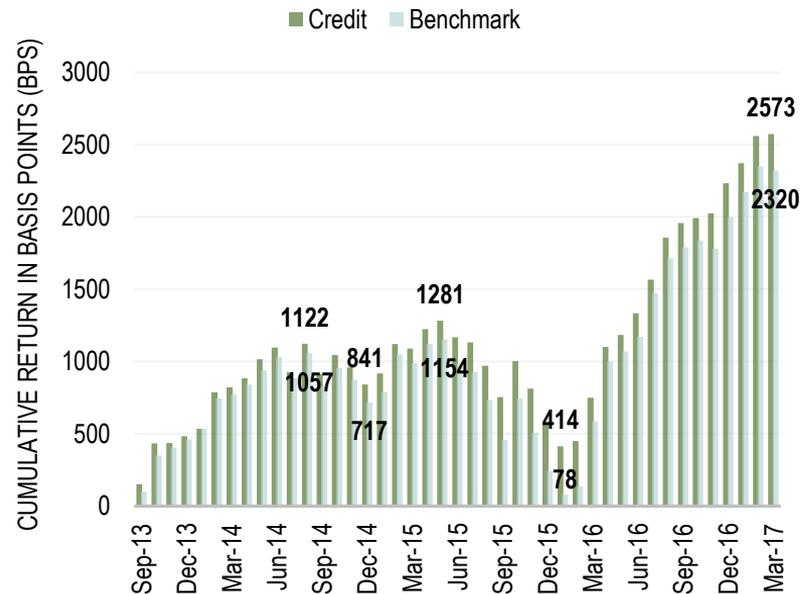
Cumulative Performance



Rates Cumulative Performance Comparison



Credit Cumulative Performance Comparison

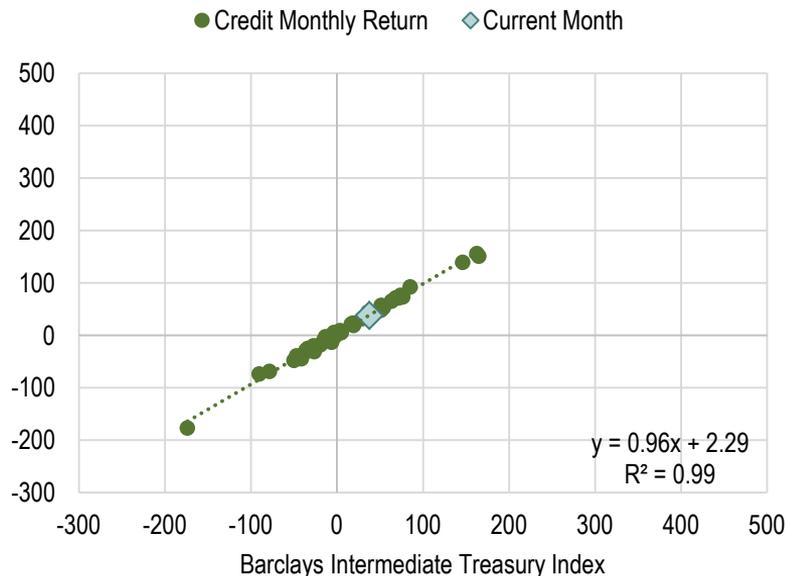


Market Update and Program Overview

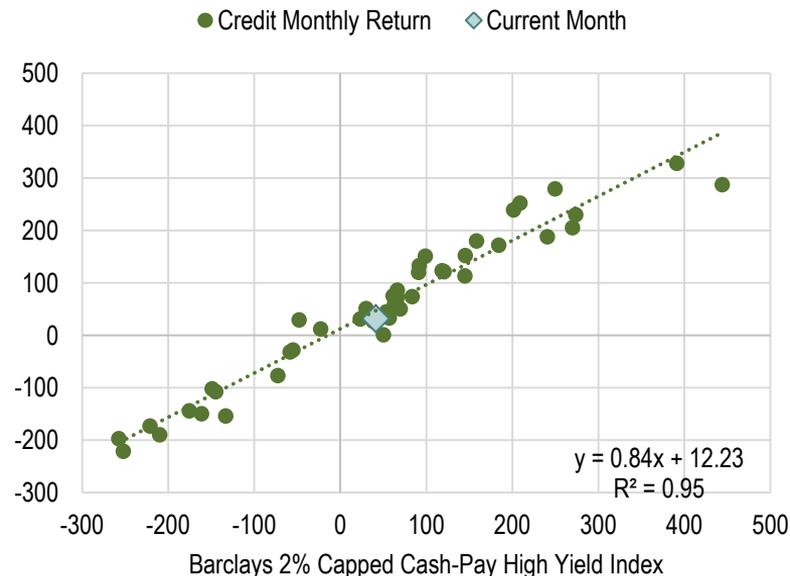
Monthly Return Tracking Comparison (Since Inception)



Rates Monthly Performance vs. Benchmark

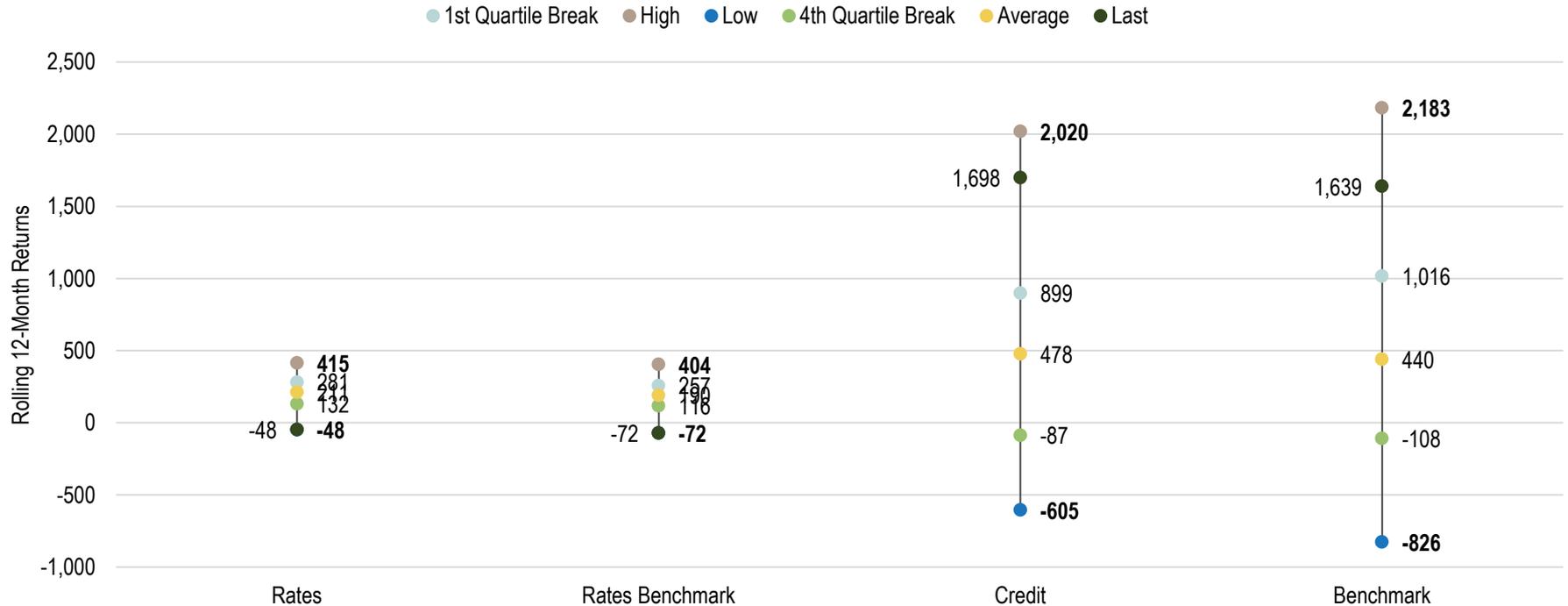


Credit Monthly Performance vs. Benchmark



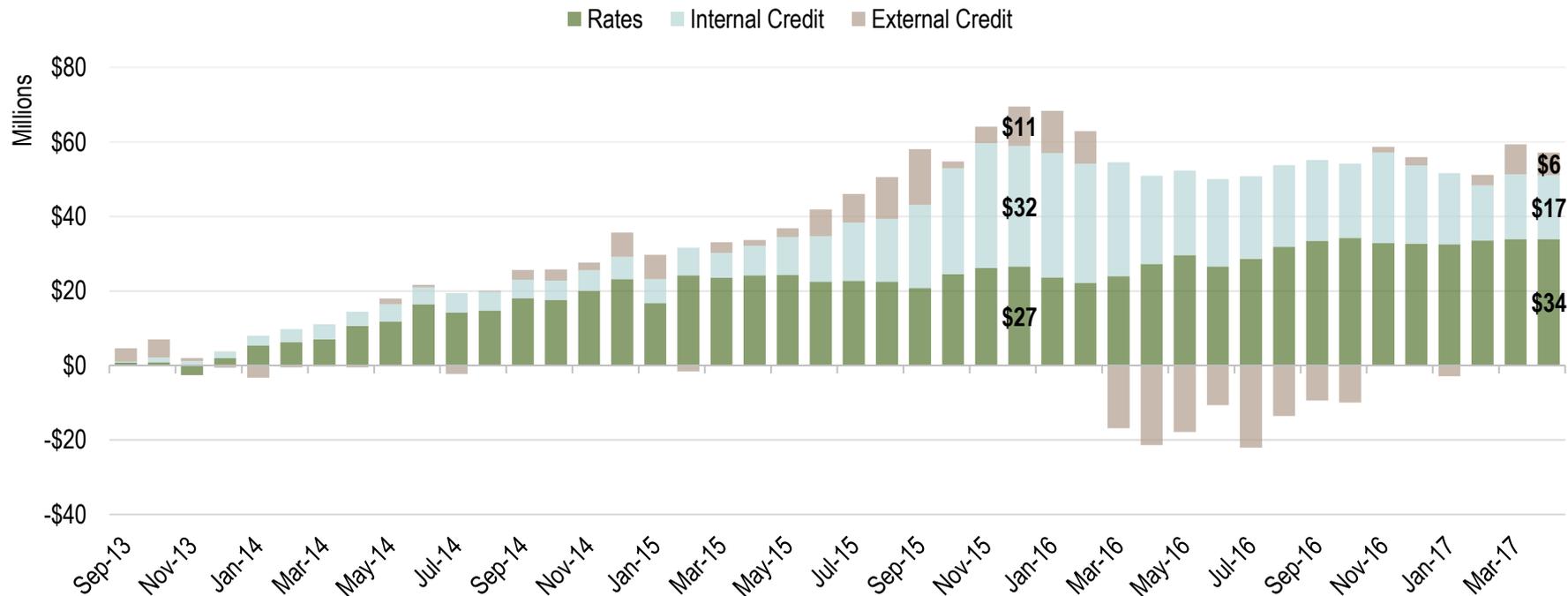
Market Update and Program Overview

Historical Monthly Return Dispersion



Market Update and Program Overview

Excess Return in Dollars



Market Update and Program Overview

Investment Policy Summary



ERS Fixed Income Program Policies and Procedures

Credit Portfolio	Objective is to earn as high an overall yield as is prudent for the risk incurred	Credit's allocation is to remain +/- 10% of Policy once adequate resources to manage it are established. ¹	The Core allocation to credit is expected to range from 70%-90% of the mandate after it is fully invested with the Satellite allocation expected to range from 10%-30% of the mandate after it is fully invested. Satellite allocation is expected to shift with the opportunity set.
Rates Portfolio	Objective is to ensure the Trust has adequate liquidity to meet its operational and investment cash flow needs	May invest in U.S. Government backed Agencies ("Agencies"), Agency Mortgage Backed Securities ("MBS"), Agency Asset Backed Securities ("ABS"), as well as potentially highly rated and extremely liquid foreign government bonds ("Sovereigns").	

¹ERS Investment Policy, Addendum XII

The Fixed Income Program has only the policy requirements aforementioned due to the nature of the asset class and securities.

The Fixed Income Program is in compliance with *ERS' Investment Policy* and staff has no recommended changes at this time.

Questions?

Public Agenda Item #7.2

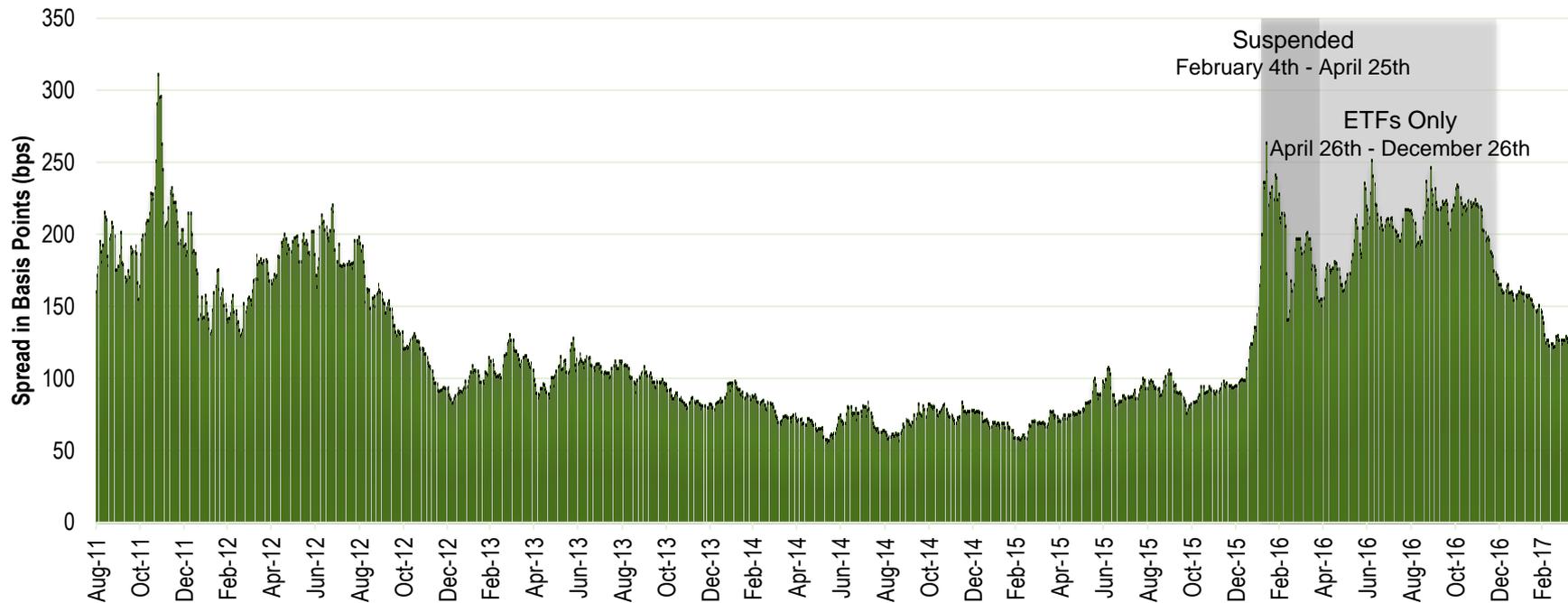
Review of Securities Lending Program of the Fixed Income Program

May 17, 2017

Leighton Shantz, CFA, Director of Fixed Income
Peter Ehret, CFA, Fixed Income Portfolio Manager

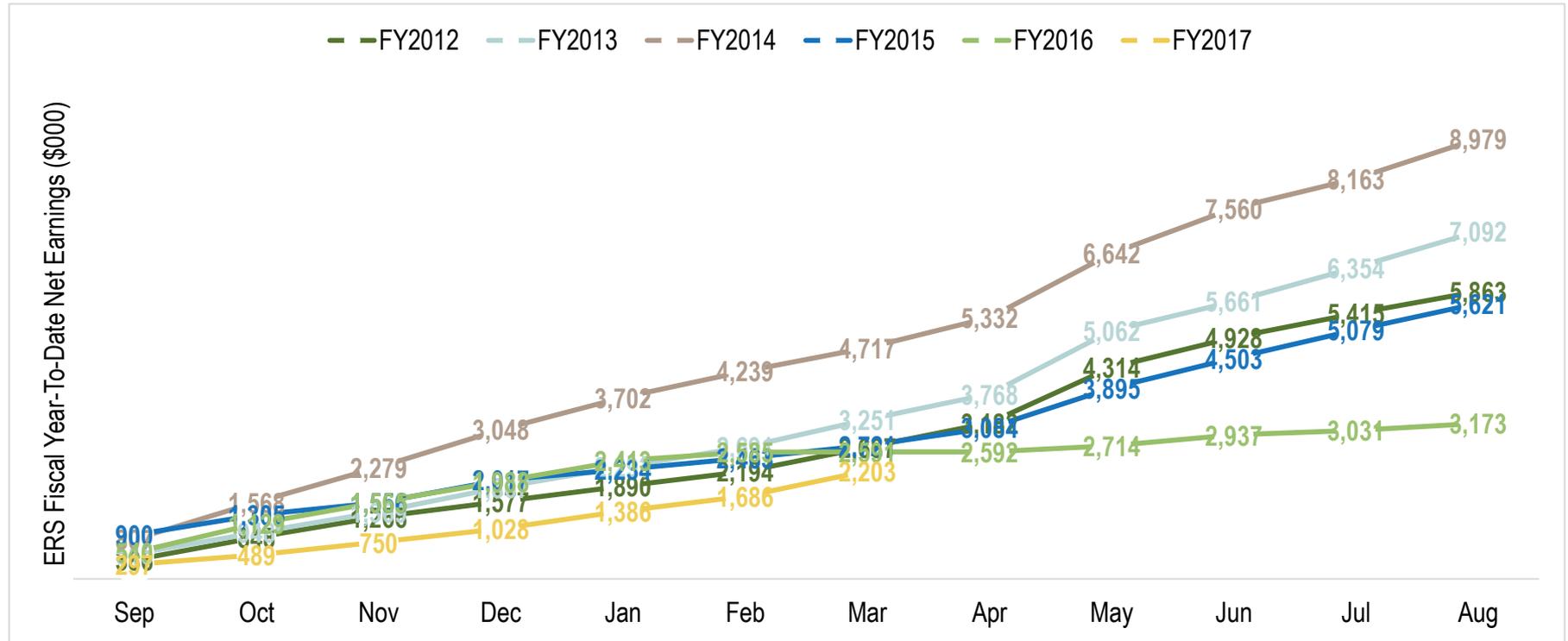
Securities Lending Program

Lending Agent Credit Default Swap Spread



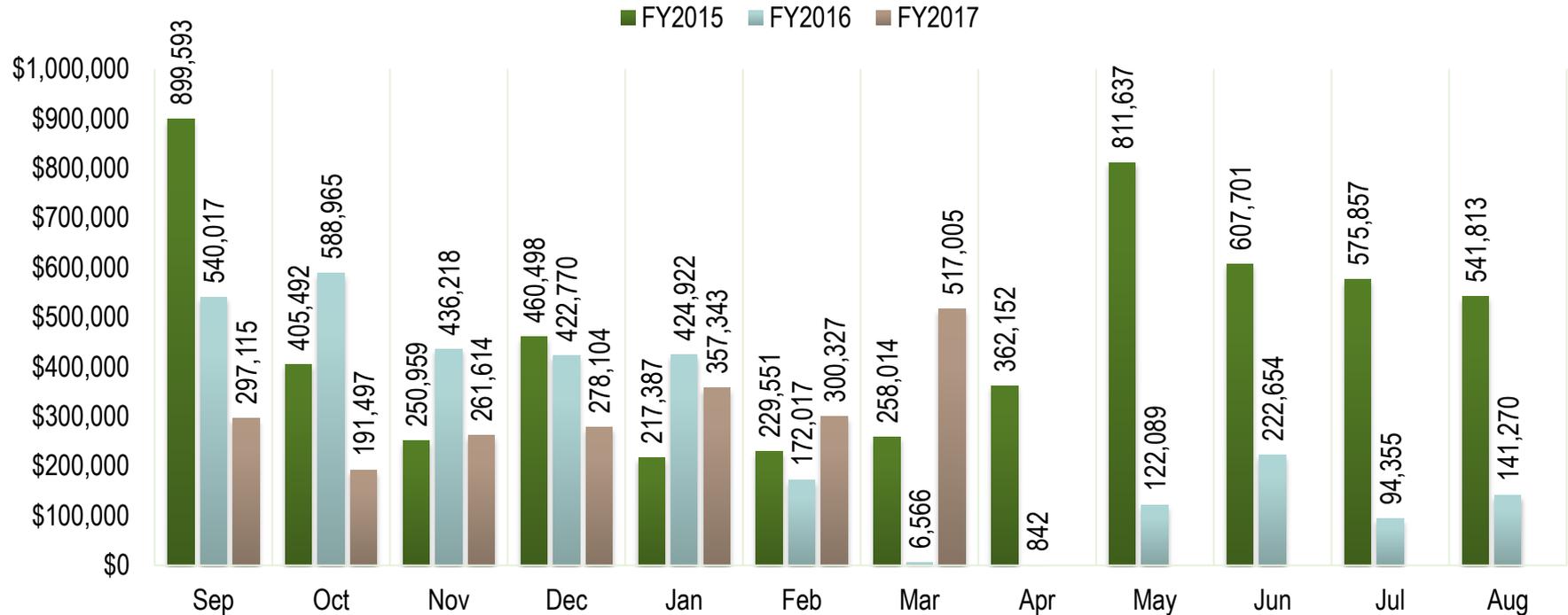
Securities Lending Program

FYTD Revenue Comparison



Securities Lending Program

Revenue Comparison by Year



Questions?

Public Agenda Item #8.1

Market Update Overview of the Real Estate Program

May 17, 2017

Robert Sessa, CFA, Director of Real Estate

Tony Cardona, Real Estate Analyst

Amy Cureton, Real Estate Portfolio Manager

Rich Kleinman and Suzanne Martinez, LaSalle Investment Management

Market Update & Program Overview

Agenda



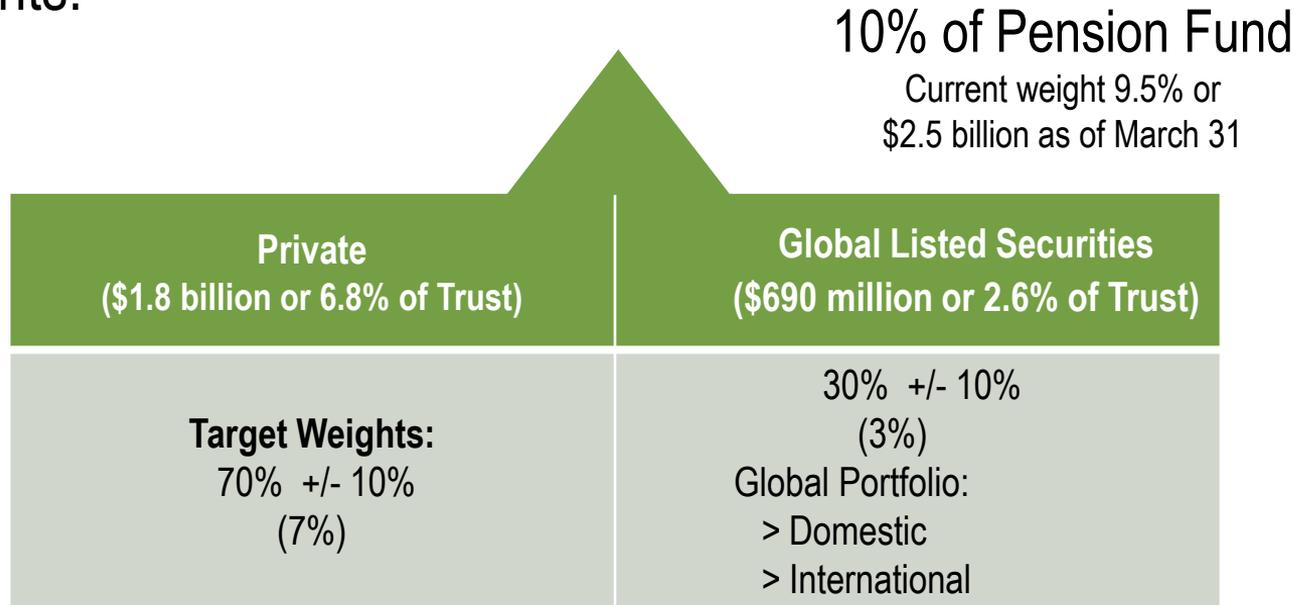
- Real Estate Overview
- Staffing
- Listed Securities as of March 31, 2017
- Private Real Estate
- Accomplishments
- Initiatives

Market Update & Program Overview



Overview

Target Weights:



Market Update & Program Overview

Staffing



Bob Sessa, CFA
Director of Real Estate

- 23 years work experience, 16 real estate
- BS from Fordham University and MBA from UT Austin

Annie Xiao, CFA
Portfolio Manager

- Covers Int'l Listed Securities
- 16 years work experience, 11 real estate
- BS from Zhengzhou University and MBA from Duke

Ken McDowell, CPA
Portfolio Manager

- Private Real Estate Focused
- 26 years work experience, 26 real estate
- BA and BS from Ohio State University

Amy Cureton
Portfolio Manager

- Private Real Estate, 14 years work experience, 9 real estate
- BA and MBA from UT Austin

Adam Cibik
Portfolio Manager

- Private Real Estate Focused
- 16 years work experience, 16 real estate
- BS and MBA from the University of Wisconsin

Tony Cardona
Analyst

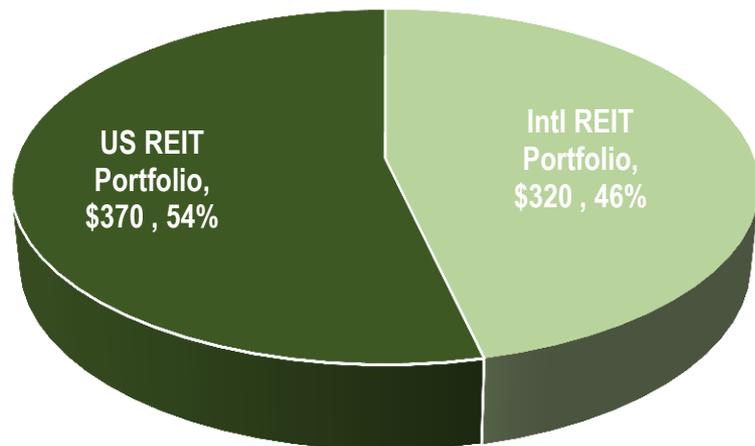
- Public Real Estate Focused
- 8 years work experience, 3 real estate
- BS from Cornell University

Market Update & Program Overview

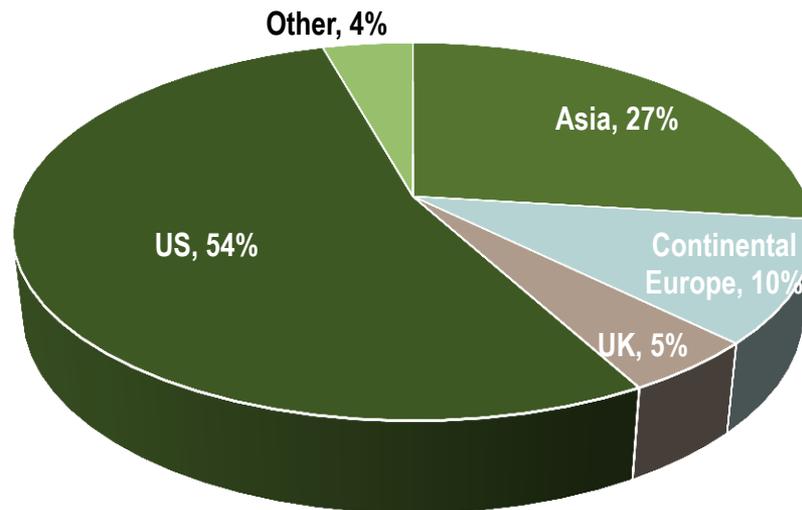
Listed Securities as of March 31, 2017



Total Portfolio: \$690 million



Total Portfolio - Geography

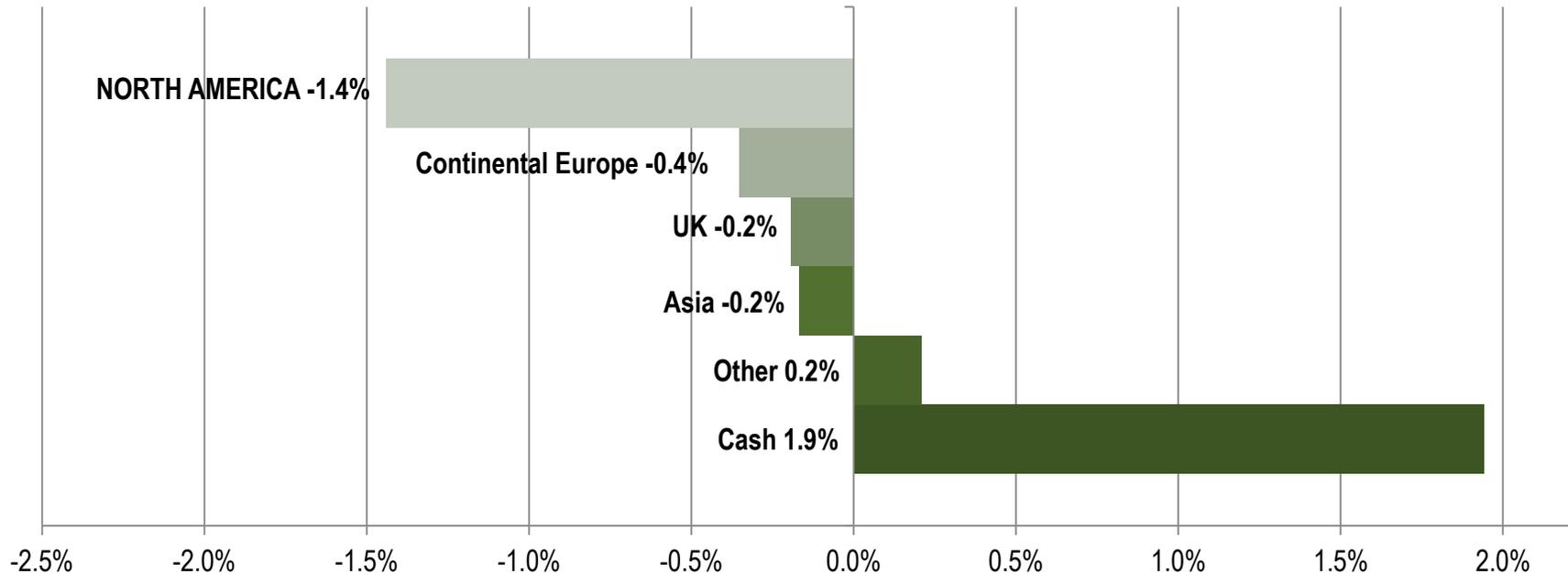


Market Update & Program Overview

Listed Securities as of March 31, 2017



Portfolio Over/Underweight

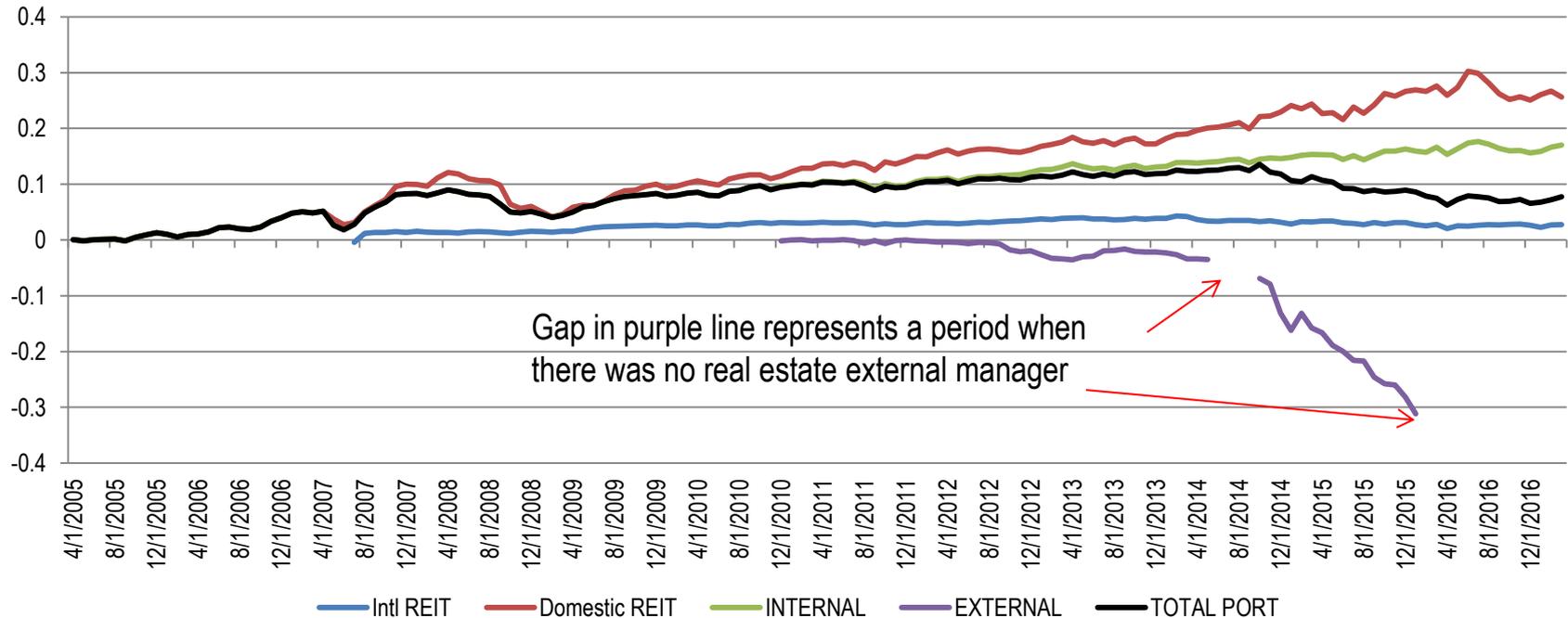


Market Update & Program Overview

Excess Total Return as of March 31, 2017



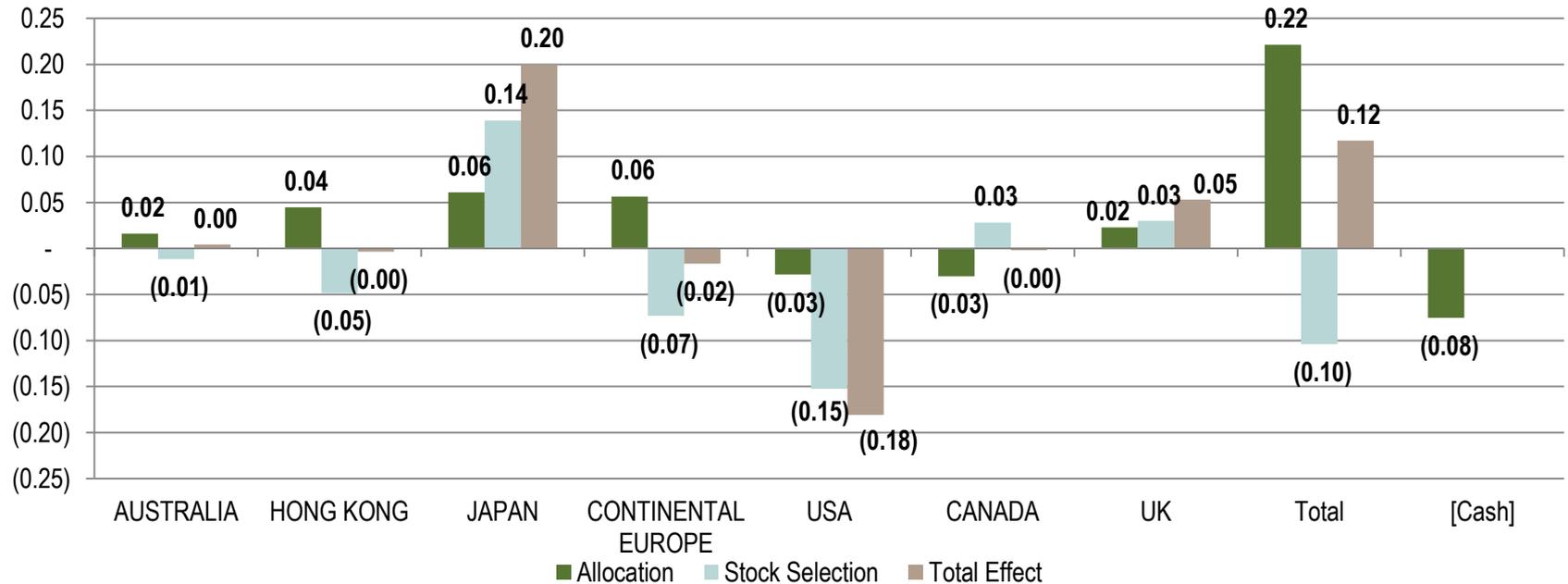
Since Inception Cumulative Excess Total Return



Gap in purple line represents a period when there was no real estate external manager

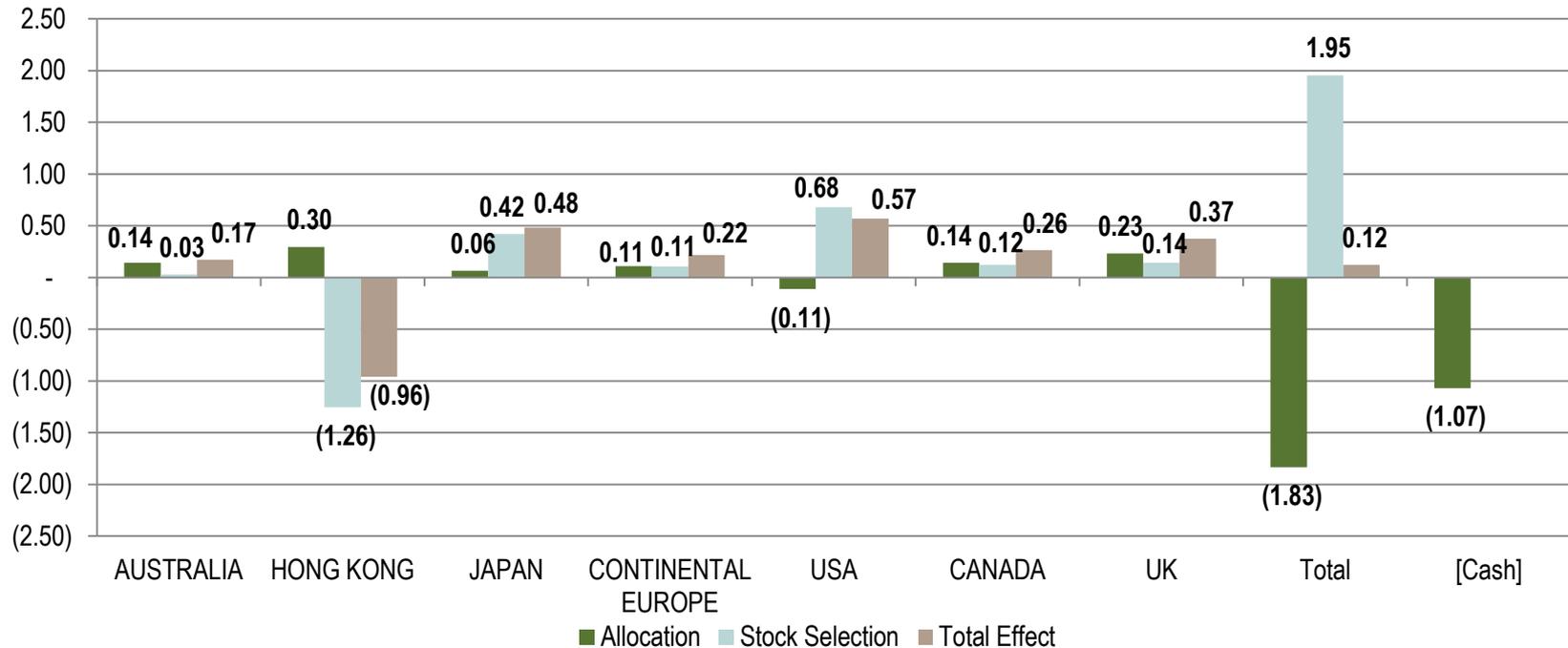
Market Update & Program Overview

Attribution as of March 31, 2017 – One Year



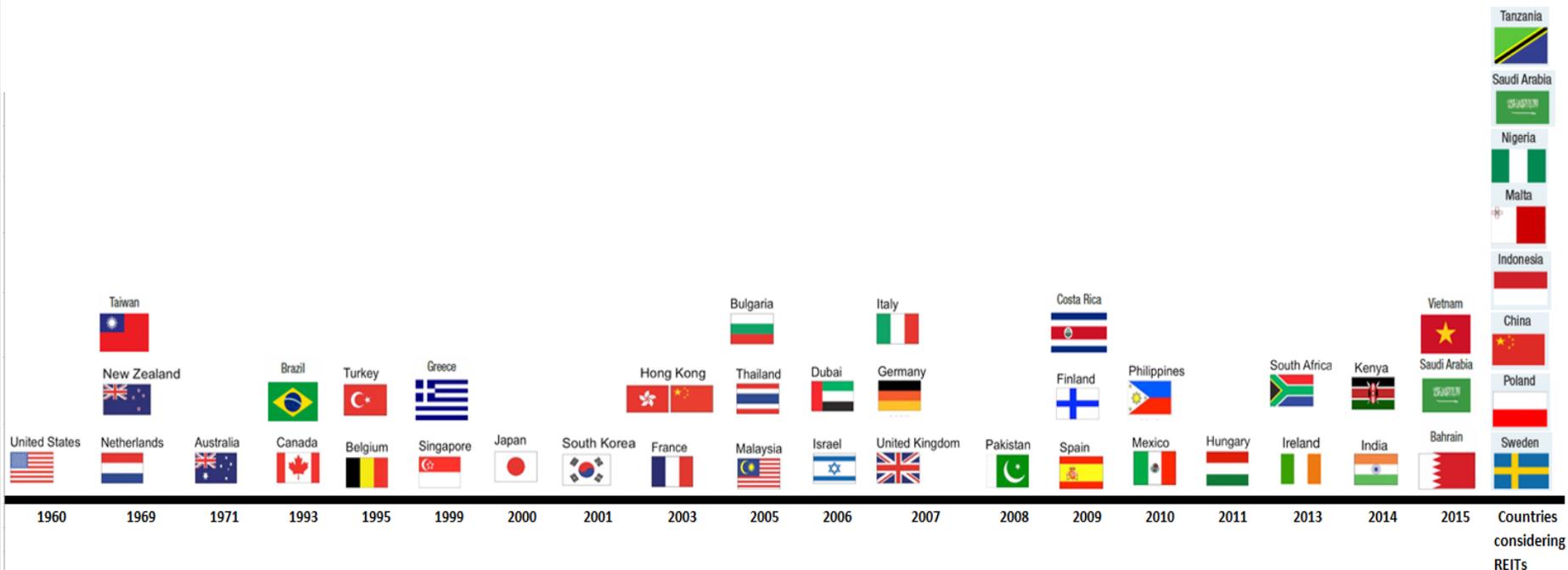
Market Update & Program Overview

Attribution as of March 31, 2017 – Five Years



Market Update & Program Overview

Global Adoption of REIT Structure



Market Update & Program Overview

Private Real Estate, as of March 31, 2017



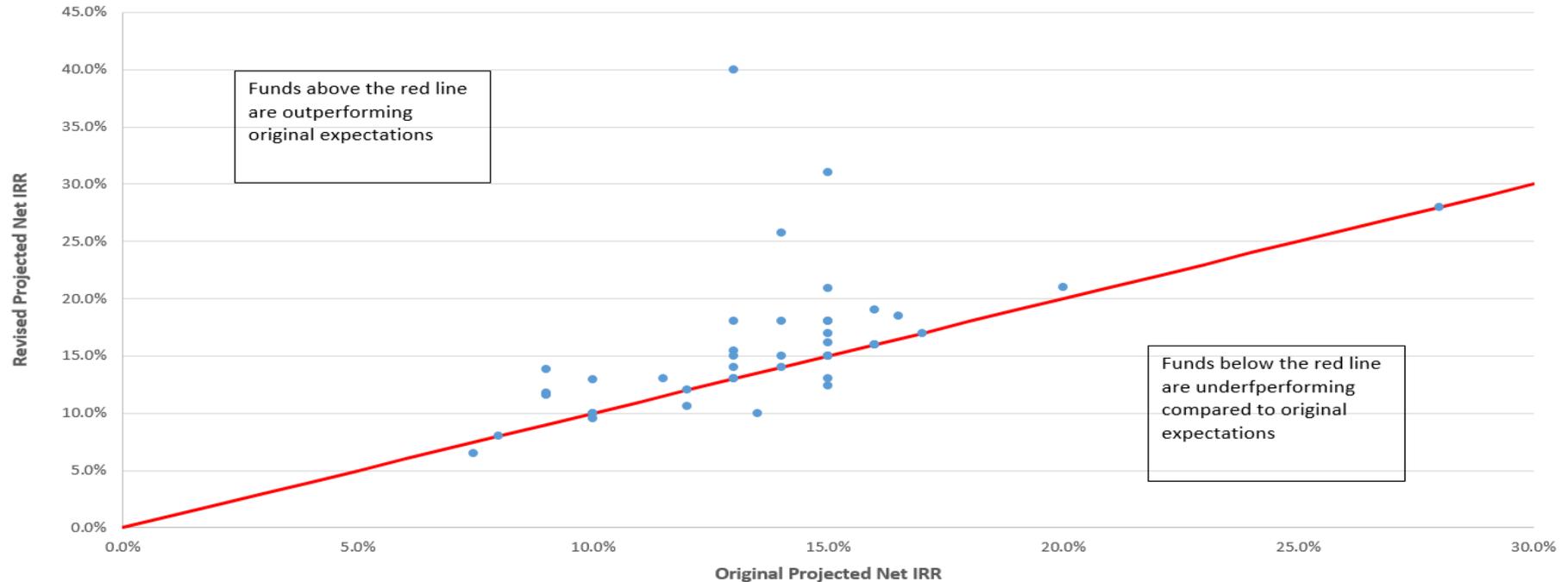
- **PORTFOLIO NAV:** \$1.8 billion
- **INVESTMENT TYPE:** Equity 88%; Debt 12%
- **OVERALL LTV:** 45%
- **COMMITMENTS:**
 - Total Portfolio (since inception) \$3.0 billion with 48 Investments and 32 managers
 - FY 2017 Committed \$115 million to 3 funds
- **PROGRAM AVERAGE ECONOMICS:**
 - Management Fee: 114 bps
 - Carry: 16.55%
- **CAPITAL CALLED:**
 - Since Inception \approx \$2.4 billion
 - FY 2017 \$233 million
- **DISTRIBUTIONS:**
 - Since Inception \approx \$1.5 billion
 - FY 2017 \$275 Million

Market Update & Program Overview

Private Real Estate Portfolio Original and Current Return Projections



Revised Projected IRR vs. Original Projected Fund Net IRR

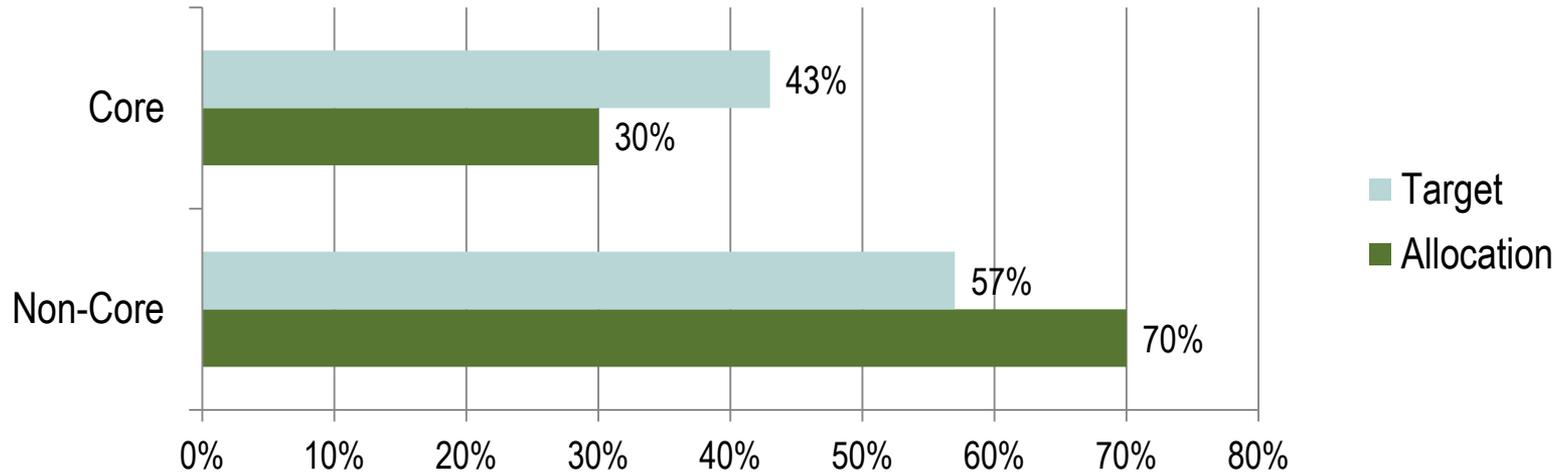


Market Update & Program Overview

Asset Allocation vs. Target as of March 31, 2017



Current Allocation vs. Target Allocation



Note: Current allocation based on current NAV + unfunded commitments (economic exposure)

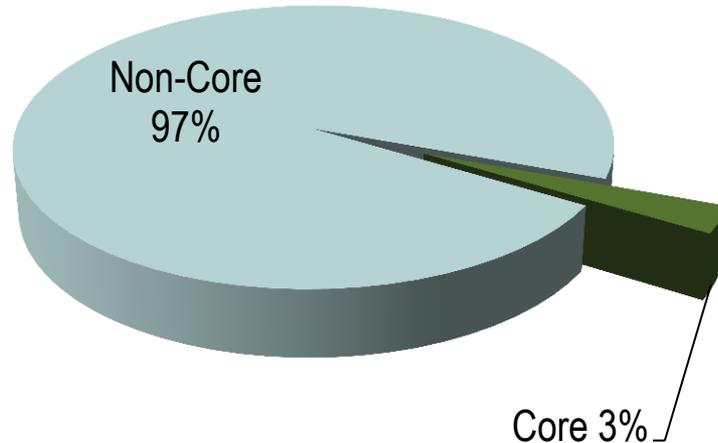
Agenda item 8.1 - Meeting book dated May 17, 2017

Market Update & Program Overview

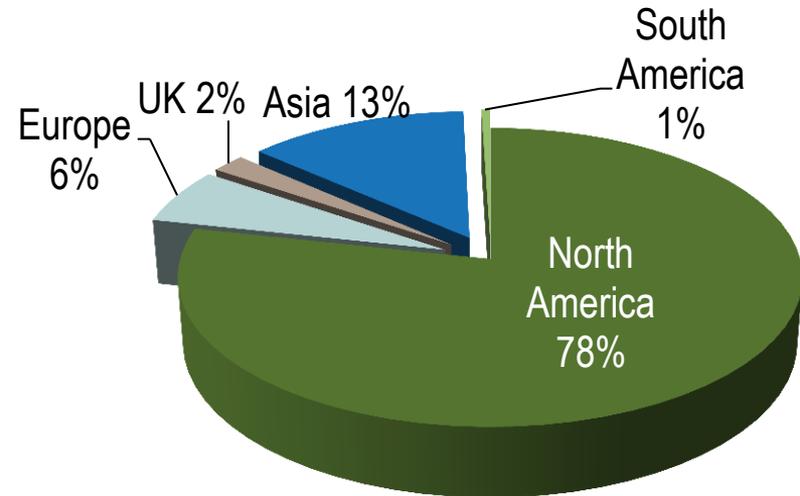
Private Real Estate Portfolio as of March 31, 2017



Unfunded Commitments by Strategy
≈ \$560million



Unfunded Commitments by Geographic Region

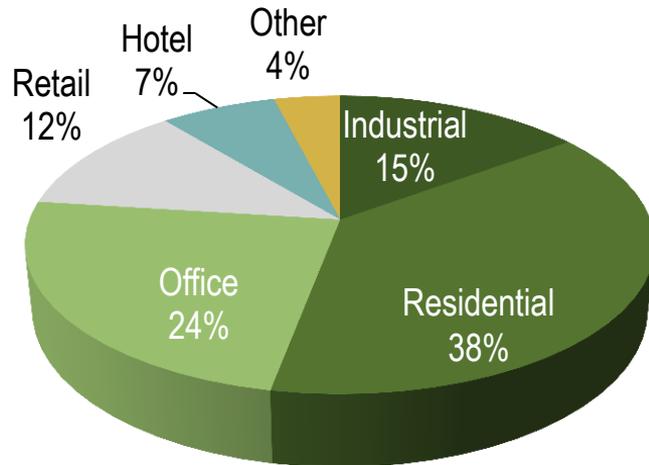


Market Update & Program Overview

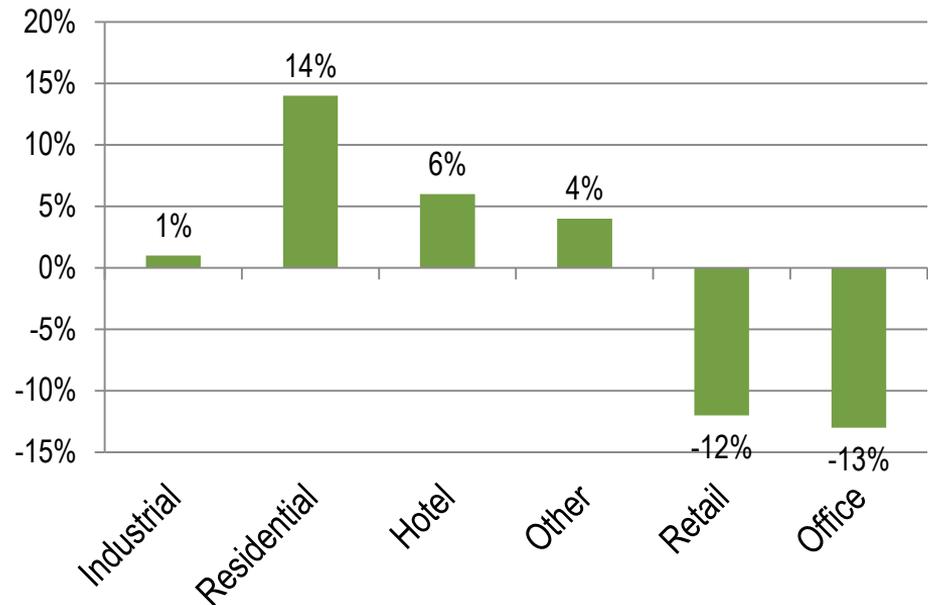
Property Type Weights as of December 31, 2016



ERS Portfolio by Property Type
Based on ERS' NAV, US only

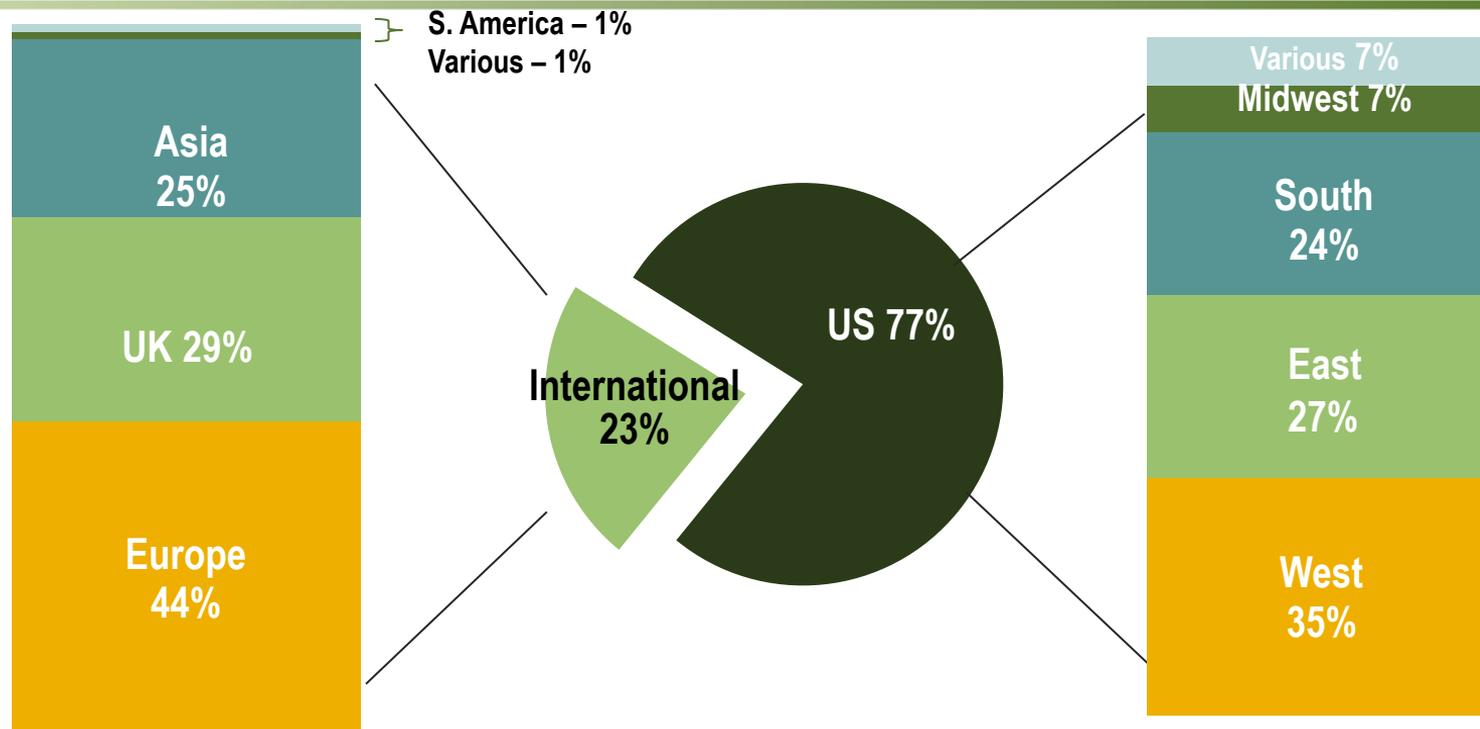


ERS Portfolio Compared to NPI Benchmark, US Only



Market Update & Program Overview

Geographic Weights Based on ERS' NAV as of December 31, 2016



Private Real Estate Portfolio “Amenity” Metric

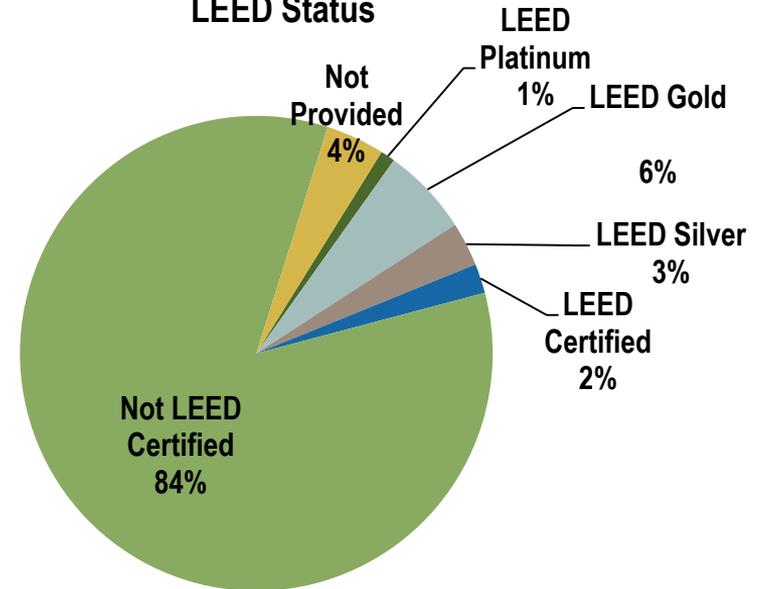
Tracking LEED Certification



Leadership in Energy and Environmental Design (LEED) is an indication of various sustainability features incorporated into a building which can improve its operating costs.

ERS Staff tracks LEED certification and Walk Score, which are both indicators of amenities that are becoming increasingly desirable by tenants and investors.

ERS Private Real Estate Select Portfolio*:
LEED Status



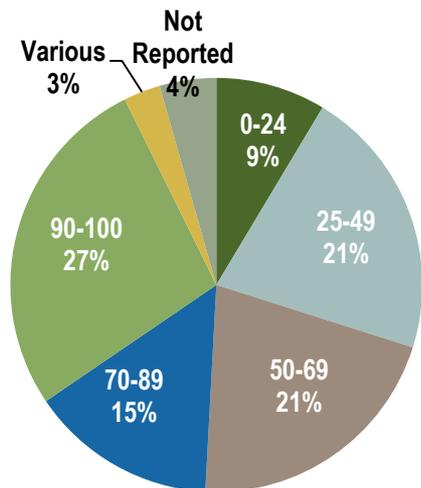
*The chart above is based on a select portfolio of ERS assets: US only and excluding industrial, self storage, manufactured housing and land. LEED is less relevant for these sectors. %'s are based on ERS' NAV as of Q4 '16.

Private Real Estate Portfolio “Amenity” Metric

Tracking Walk Score



ERS PRE Select Portfolio* Walk Scores



Walk Score®	Description
90 – 100	Walker's Paradise – Daily errands do not require a car
70 – 89	Very Walkable – Most errands can be accomplished on foot
50 – 69	Somewhat Walkable – Some amenities within walking distance
25 – 49	Car-Dependent – A few amenities within walking distance
0 – 24	Car-Dependent – Almost all errands require a car

Source: Walk Score



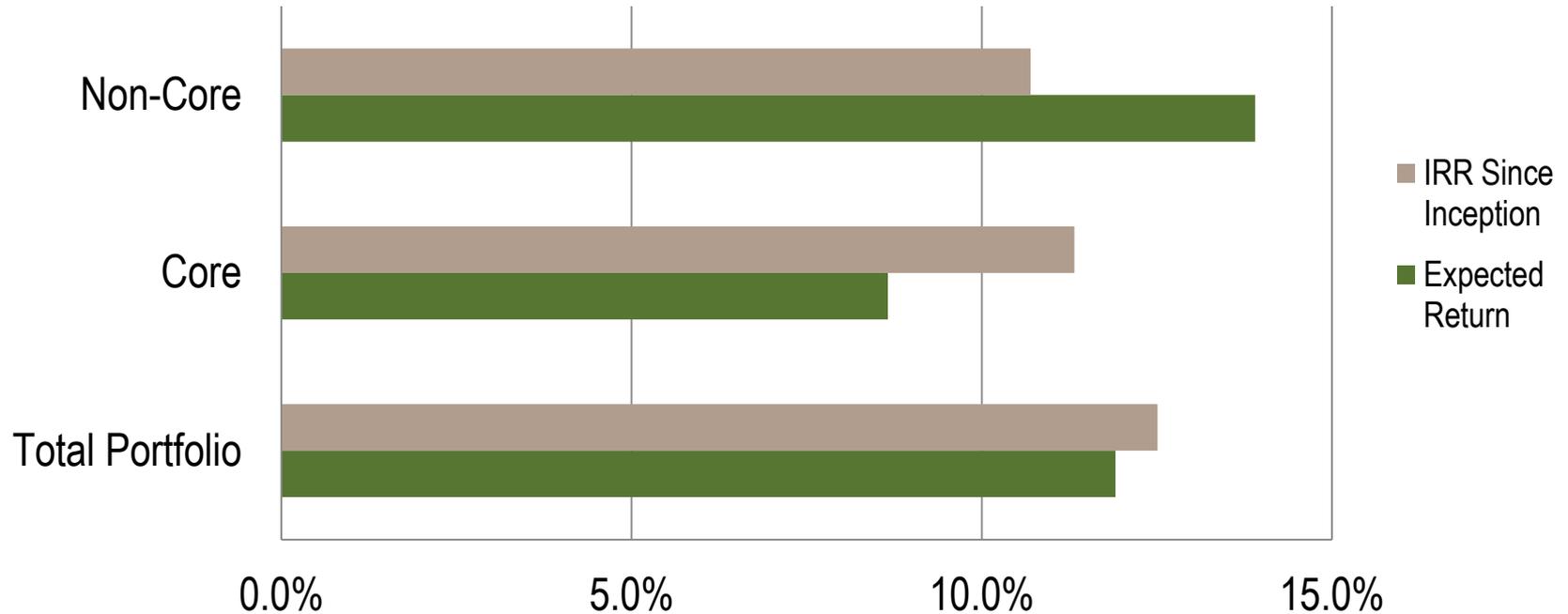
42% of the select portfolio scored above 70 (very walkable or better)

*The chart above is based on a select portfolio of ERS assets: US only and excluding industrial, self storage and land. Walk Score is less relevant for these sectors. %'s are based on ERS' NAV as of Q4 '16.

Agenda item 8.1 - Meeting book dated May 17, 2017

Market Update & Program Overview

Private Real Estate Return – Net IRR as of March 31, 2017



Market Update & Program Overview

FY 2017 Accomplishments



- Committed \$115 million to Private Real Estate through March 31 and closed on 3 successor fund investments of existing ERS invested in managers
- Negotiated an estimated \$65 million in savings for the private real estate portfolio since inception plus non-economic terms to improve corporate governance
- Incorporated option strategies into listed real estate portfolios
- Internal REIT portfolio has outperformed the benchmark for the 1,3,5 years and since inception period
- Real Estate Program is in compliance with *ERS' Investment Policy and Procedures* and no changes are recommended at this time.

Market Update & Program Overview

Policy and Compliance



Risk / Return Strategy Allocation			
Strategy Description	% of Asset Class NAV	\$ Range (mm)	In Compliance
Core	30% +/- 15%	370 - 1110	Yes
Non-core	40% +/- 15%	620 - 1600	Yes
Global Publicly Traded Real Estate Securities	30% +/- 10%	490 - 990	Yes
Infrastructure	0% - 10%	0 - 250	Yes

Private Real Estate Geographic Strategy Allocation			
Geographic Target Description	% of Asset Class NAV	\$ Range (mm)	In Compliance
Domestic	70% +/- 15%	1,470 - 1,980	Yes
International (see further allocations below)	30% +/- 15%	630 - 850	Yes
Asia	20% - 50%	150 - 370	No*
Europe	20% - 50%	150 - 370	Yes
Americas	0% - 30%	0 - 220	Yes
Other International	0% - 20%	0 - 150	Yes

*The Asia portfolio is in the buildout phase and is, therefore, slightly out of compliance as of the end of December 2016.

Market Update & Program Overview

Policy and Compliance



Asset Class Diversification and Investment Limits			
Description	Limit	Limit in \$ (mm)	In Compliance
Single investment	Lesser of 0.75% of Trust or \$200 mm	190	Yes
Single Co-Investment (fund of funds)	\$100 mm	100	Yes
Single Co-Investment (existing relationships)	\$50 mm	50	Yes
Single Co-Investment (new relationships)	\$20 mm	20	Yes
Domestic - Office, multi-family, retail, industrial, and hotel	+/- 20% weight to the NPI for each property type	N/A	Yes
Domestic - Other (Healthcare, self-storage, etc)	30% of NAV	740	Yes
Domestic - Infrastructure	10% of Domestic	200	Yes
Commingled closed-end funds	100% of NAV	2,470	Yes
Commingled open-end funds	75% of NAV	1,850	Yes
Separate accounts (Ranging from liquid to illiquid)	50% of NAV	1,230	Yes
Global publicly traded real estate securities	40% of NAV	990	Yes
Leverage - portfolio-wide	65% on loan to value basis	N/A	Yes
Leverage - Core	50% on loan to value basis	N/A	Yes
Leverage - Non-Core	70% on loan to value basis	N/A	Yes
Leverage - Separate accounts (ranging from liquid to illiquid)	70% on loan to value basis	N/A	Yes
Single investment manager organization	15% of NAV	370	Yes
Fund of fund vehicles that invest in real estate partnerships, not properties	100% of vehicle	N/A	Yes

- **The Real Estate Program is in compliance with ERS' Investment Policy and recommends no changes at this time.**

Market Update & Program Overview

FY 2018 Initiatives



- Continue committing capital to Private Real Estate on a selective basis
- Focus on non-core fund commitments to existing managers, niche strategies and co-investments
- Targeting \$525 million in commitments with a range of \$250 to \$787 million and 3 to 12 new commitments
- Co-host the 5th Bi-Annual REEM Conference for Emerging Managers

Questions?

Real Estate Market Update

May 2017 – Confidential



2016 US Presidential Election

Economic and Financial Impacts

Next 100 Days

- Reading the tea leaves on policy priorities and impacts
- Optimism on fiscal stimulus; concern on deficits.

STOCK MARKET RALLY SHOWS OPTIMISM WINNING

2017 Outlook

- Expect many stop-start-reversals ✓
- De-regulatory environment impacting financial services ✓
- Roll-back of Affordable Care Act and Trade Treaties will take longer ✓
- Infrastructure spending a positive for real estate and economy; but longer-term ✓
- US economic scenarios for 2017 range from 0.5% to 2%. LaSalle base case: 1.5% to 2%

FORECASTS REVISED HIGHER TO 2-2.5%

- Upside/downside in 2018 depends on consumers and corporate reactions **PENDING**

Biggest Changes:
Increasing risk of higher interest rates
Potential global uncertainty increasing risk premiums

PENDING ?

U.S. Property Market: Vacancy Nearing Bottom

Vacancy Rises and Moderation in Rent Growth Expected

	Most Recent Qtr.	Change Past Qtr.	Change Past Year	Change Fore-cast to 4Q 2019	Long Term Avg. Vacancy
Vacancy Rates					
Apartment	5.0%	+50 bps	+20 bps	+90 bps	5.5%
Warehouse ¹	8.2%	+20 bps	-70 bps	+130 bps	10.6%
CBD Office	10.7%	+10 bps	+30 bps	+90 bps	11.4%
Sub. Office	14.2%	+10 bps	-40 bps	+170 bps	14.8%
Retail ^{1,2}	10.1%	0 bps	-40 bps	0 bps	9.8%
Rental Rates³				Annual	
Apartment (per unit)	\$1,584	1.2%	3.2%	1 - 3 %	
Warehouse (net psf)	\$6.11	1.6%	6.8%	2 - 4 %	
CBD Office (class A gross)	\$52.21	1.6%	2.6%	1 - 3 %	
Sub. Office (class A gross)	\$28.98	1.6%	2.9%	0 - 2 %	
Retail ² (net psf)	\$15.94	0.7%	2.9%	1 - 3 %	

¹ Availability used for warehouse and retail.

² Retail consists of community and neighborhood centers and is sourced from CBRE-EA (Sum of Markets)

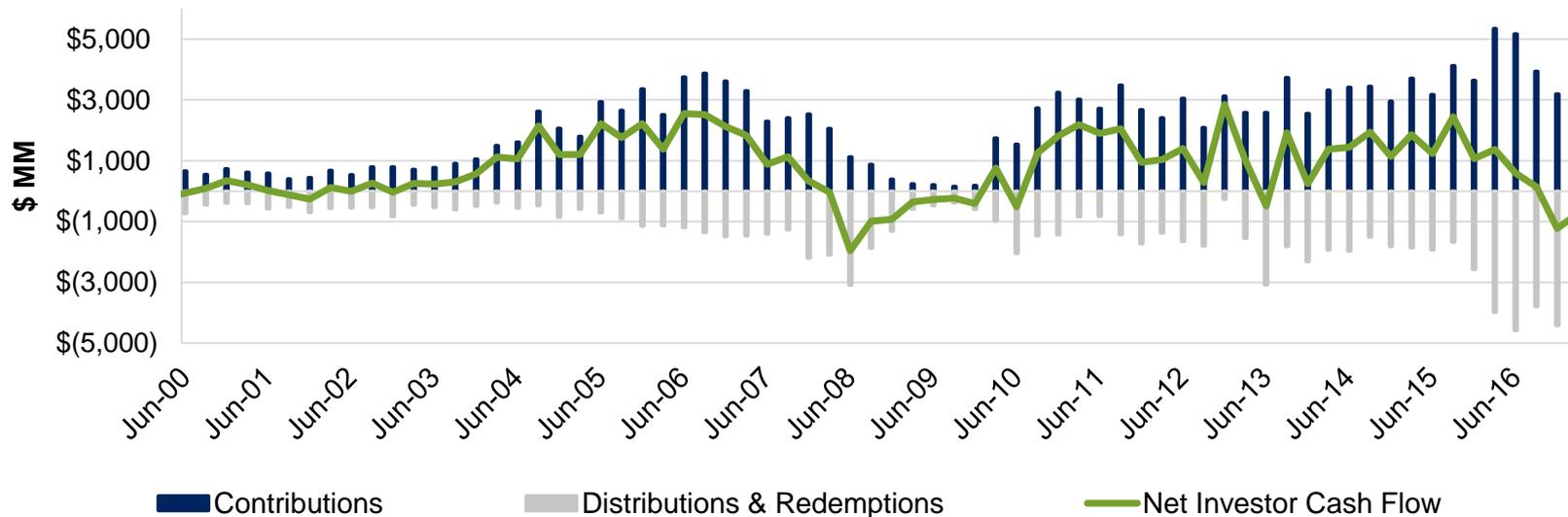
³ Rental rates are asking rents for warehouse, office, and retail and effective rents for apartments.

Source: CBRE-EA (Sum of Markets), MPF Research, LaSalle, JLL. Data through 1Q 2017. Forecast most recent as of May 2017.

ODCE Fund Flows

Decline in Fund Flows Expected to Reverse Later in 2017

Quarterly Capital Flows to ODCE Funds

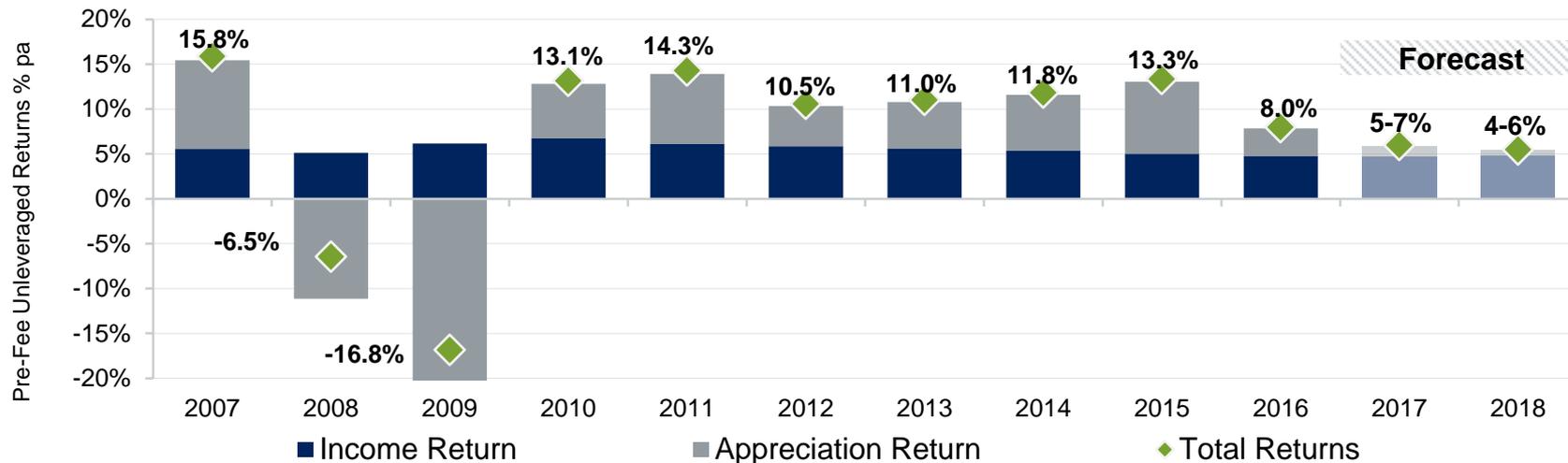


- Early 2016 stock market declines led to redemption requests fulfilled throughout 2016.
- The late 2016 and early 2017 stock market rally should have opposite effect and lead to positive fund flows later in 2017.

Source: NCREIF. As of 1Q 2017

NPI Trailing Year Returns Declines to 7.3% in the 1st Quarter

Appreciation Slows Further; Forecast for 2017 based on NOI Growth



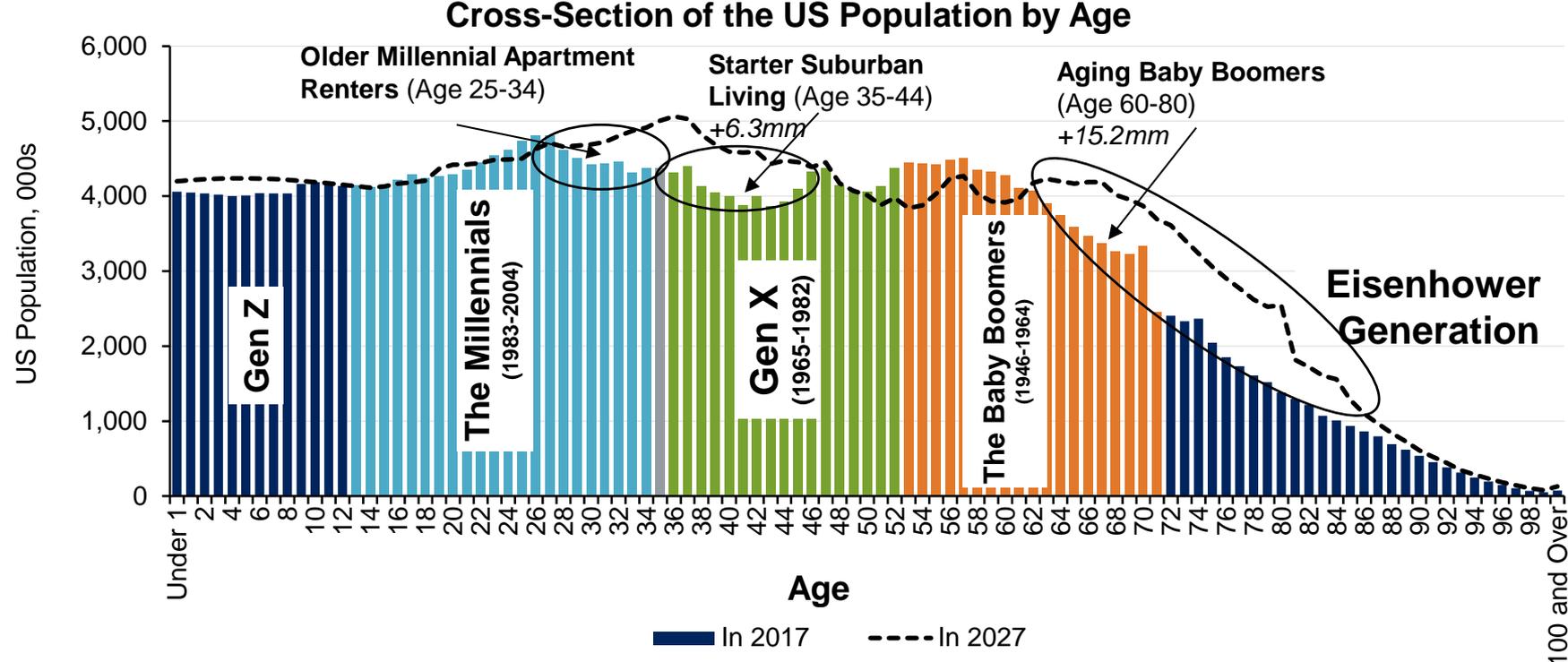
- The trailing four quarter total return for the NPI was 7.3% in the 1st quarter of 2017.
- Combination of slowing rental growth and rising interest rates to slow future appreciation.



Income and appreciation returns do not sum to total return due to compounding.
Source: NCREIF, LaSalle Investment Management. Data and forecast most recent as of April 2017.

Demographics: Where We Will Be in Ten Years

More Demand for Medical Office, Starter Suburbs, and for Class A Apartments

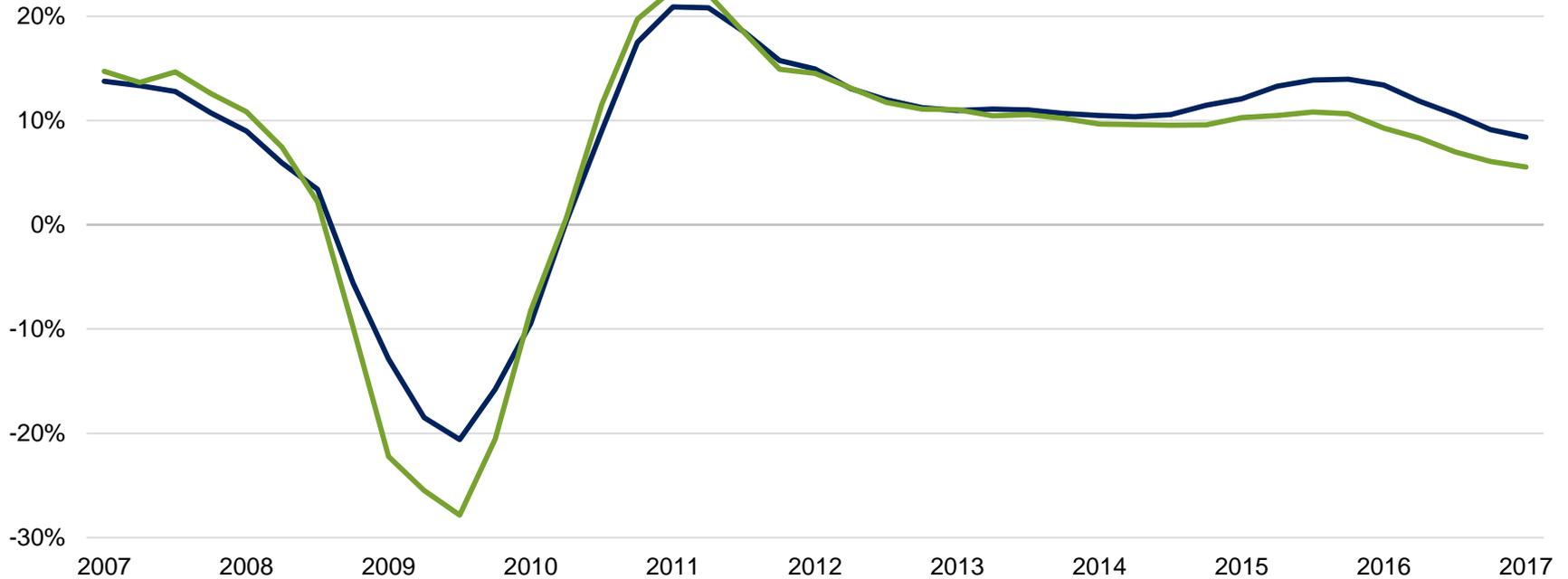


Source: Moody's Economy.com, LaSalle Investment Management Research and Strategy

Suburbs Leading Multi-Family Performance

Urban / High Rise Properties Experiencing More New Supply

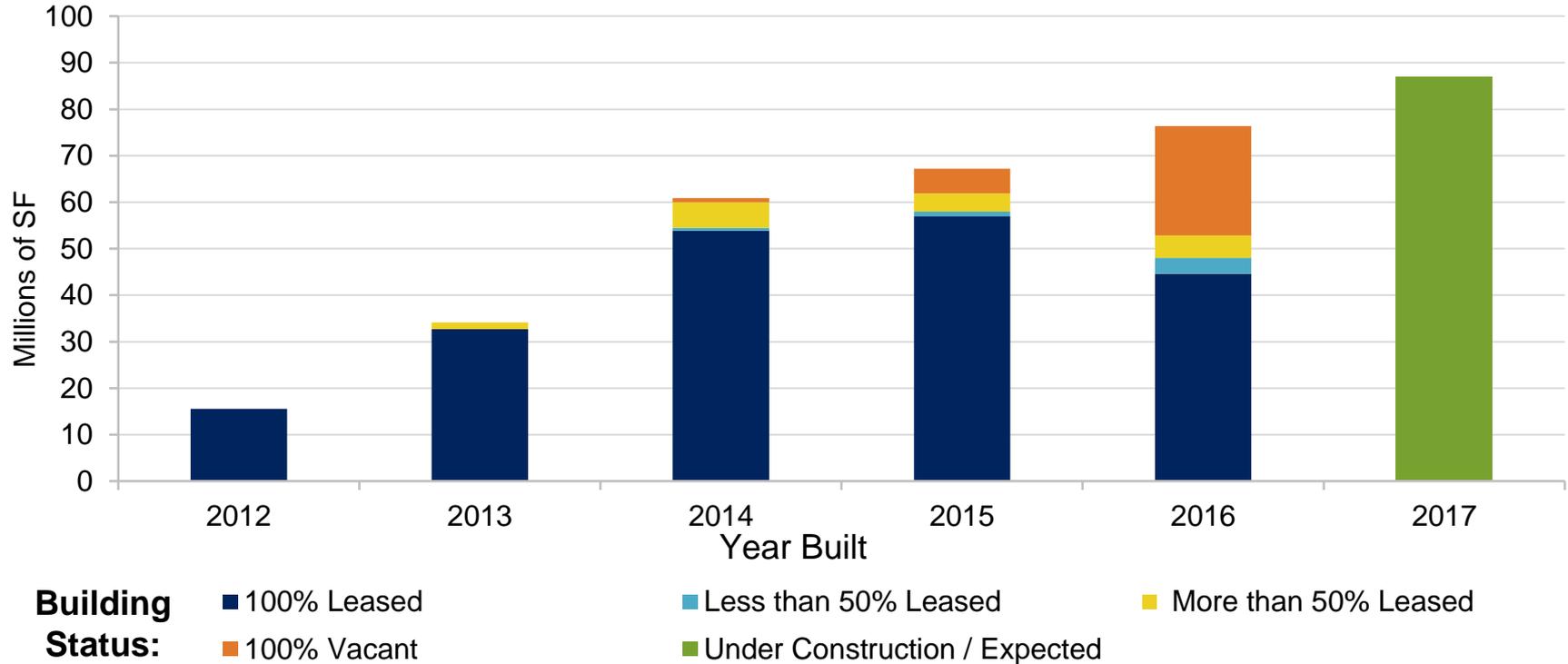
Apartment Trailing Year Returns



Source: LaSalle, NCREIF. NCREIF data through Q1 2017

Rapid Lease-Up of Newly Built Warehouses

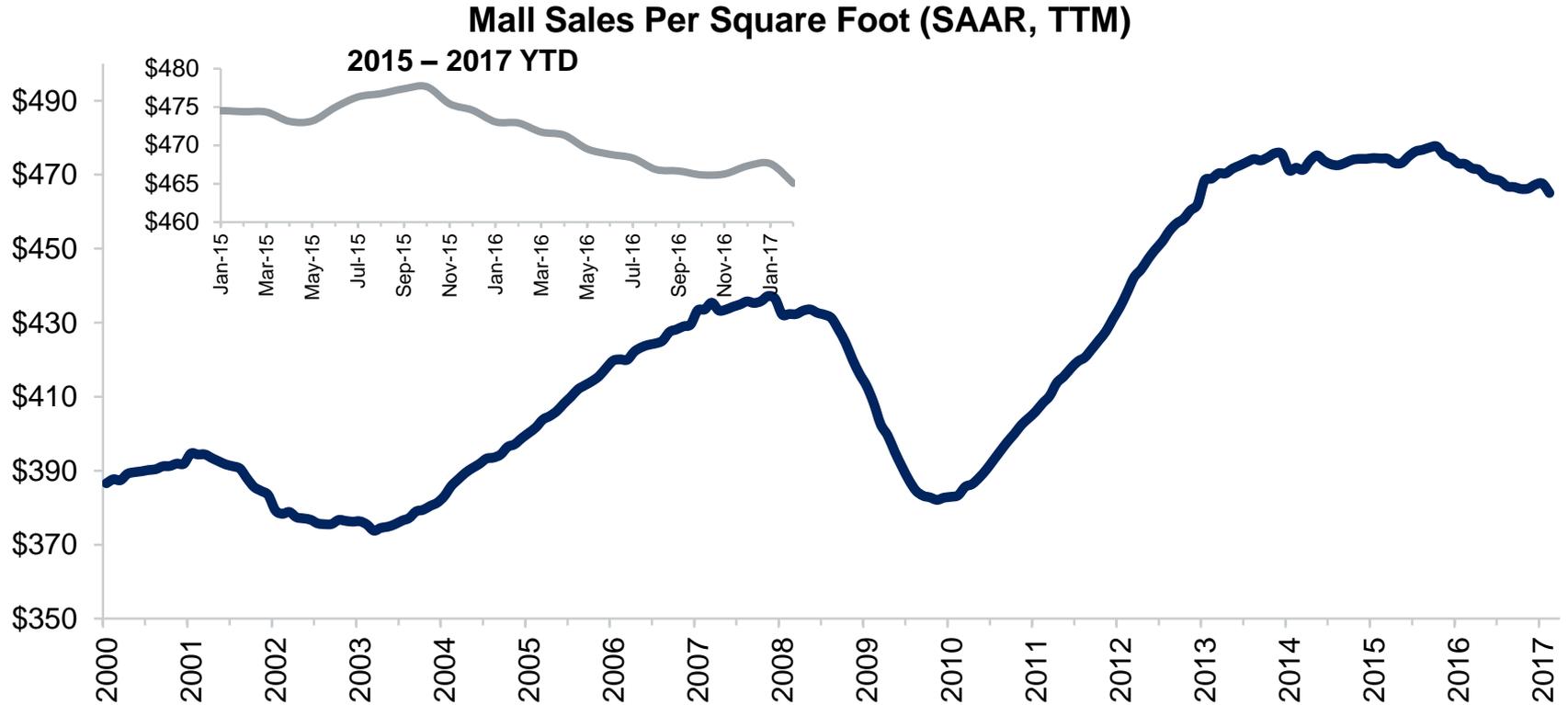
Leased Status of Industrial Buildings in Major Markets by Year Built



Major Markets Include: Atlanta, Chicago, Dallas, Bay Area, Southern California, New York/New Jersey, Seattle, and South Florida
Source: CoStar, LaSalle. Data as of Q4 2016

US: Mall Sales Productivity in Decline Since October 2015

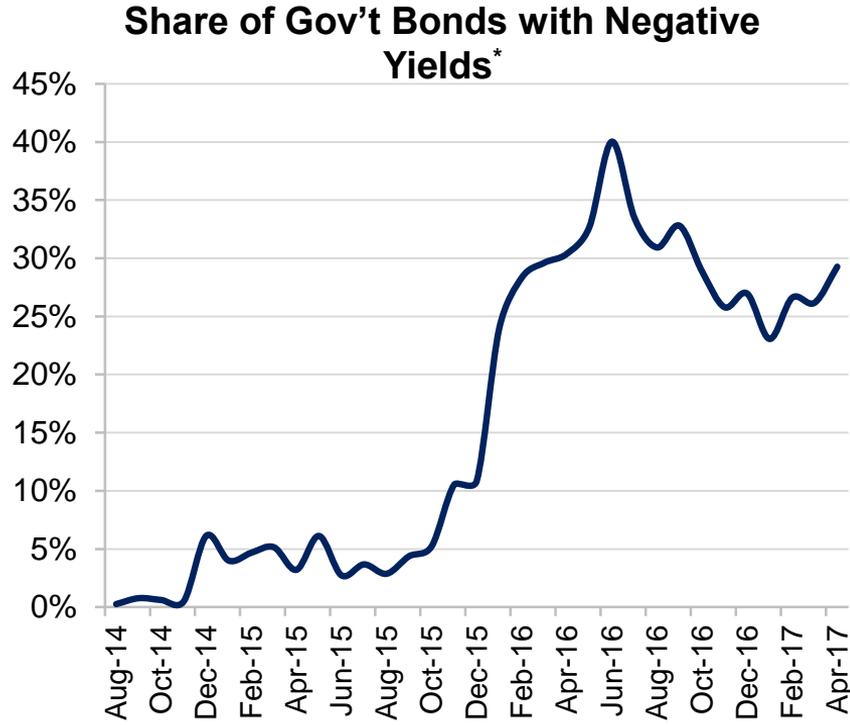
Slow Growth Since 2013



Source: ICSC. Data through February 2017. Latest available as of 28 April 2017.

Share of Global Bonds with Negative Yields is Up

Reflects Pessimism Among Bond Investors; Property Yields Attractive Relatively



Bond Yields	1 Yr	2 Yr	5 Yr	10 Yr	20 Yr	30 Yr
Switzerland	-0.84%	-0.85%	-0.55%	-0.11%	0.24%	0.33%
Germany	-0.73%	-0.73%	-0.39%	0.32%	0.82%	1.10%
Japan	-0.21%	-0.21%	-0.15%	0.02%	0.57%	0.78%
France	-0.54%	-0.46%	-0.10%	0.84%	1.51%	1.80%
UK	0.05%	0.08%	0.50%	1.09%	1.64%	1.72%
Canada	0.64%	0.72%	1.00%	1.54%	2.10%	2.16%
US	1.06%	1.26%	1.81%	2.28%	2.62%	2.95%

*Based on Bloomberg Global Developed Sovereign Bond Index (maturities over 1 year in developed markets). Weighted based on current market value.
Source: Bloomberg. Negative yield chart updated 27 April 2017, bond yields through 28 April 2017.

Pricing Imbalance Risks Persist Across Regions

LaSalle's Global Capital Market Dashboards (CMDs)



POSITIVE



CAUTION



DANGER

	Supply/Demand Imbalance	Debt/Equity Imbalance	Pricing Imbalance
US	Yield curve recession indicator	Real estate transaction volumes	Property vs BAA Bonds
	Leading indicators: recession	CMBS issuance levels	REIT price index vs. 6mo average
	Oversupply risk	CMBS spreads (AAA)	Public REIT vs Private values
Canada	Yield curve recession indicator	Real estate transaction volume	Property vs BAA Bonds
	Leading indicators: recession	Mortgage debt outstanding	REIT prices
	Oversupply risk	Cost of debt to real estate	IPD capital growth
Australia	Oversupply risk	Cost of real estate debt	Property vs Gov't Bonds
	Recession risk	Bank exposure to CRE loans	REITS vs Equities
	Corporate bond spreads	Banks equity price index	Real capital growth
Japan	Oversupply risk	Cost of real estate debt	Property vs Gov't Bonds
	Recession risk	Bank exposure to CRE loans	REITS vs Equities
	Corporate bond spreads	Banks equity price index	IPD Capital Growth
Germany	Oversupply risk	LTVs	Property vs Gov't Bonds
	Recession risk	Banking sector health check	REITS vs Equities
	Corporate bond spreads	Bank CDS spreads	Yield impact
France	Oversupply risk	LTVs	Property vs Gov't Bonds
	Recession risk	Banking sector health check	REITS vs Equities
	Corporate bond spreads	Bank CDS spreads	IPD Capital Growth
UK	Oversupply risk	Retail funds capital flows	Property vs Gov't Bonds
	Recession risk	Bank exposure to CRE loans	REITS vs Equities
	Corporate bond spreads	Bank CDS spreads	IPD capital growth

Each country as 9 indicators; 3 in each group. The indicators are particular to each country, although some overlap and common themes are present

Source: LaSalle. As of April 2017.

LaSalle Investment Management

Americas Research & Strategy

For more information please contact Richard Kleinman +1 312 897 4025

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Public Agenda Item #8.2

Consideration of Proposed Private Real Estate Annual Tactical Plan for Fiscal Year 2018

May 17, 2017

Robert Sessa, CFA, Director of Real Estate
Ken McDowell, Real Estate Portfolio Manager

Proposed Tactical Plan for FY2018

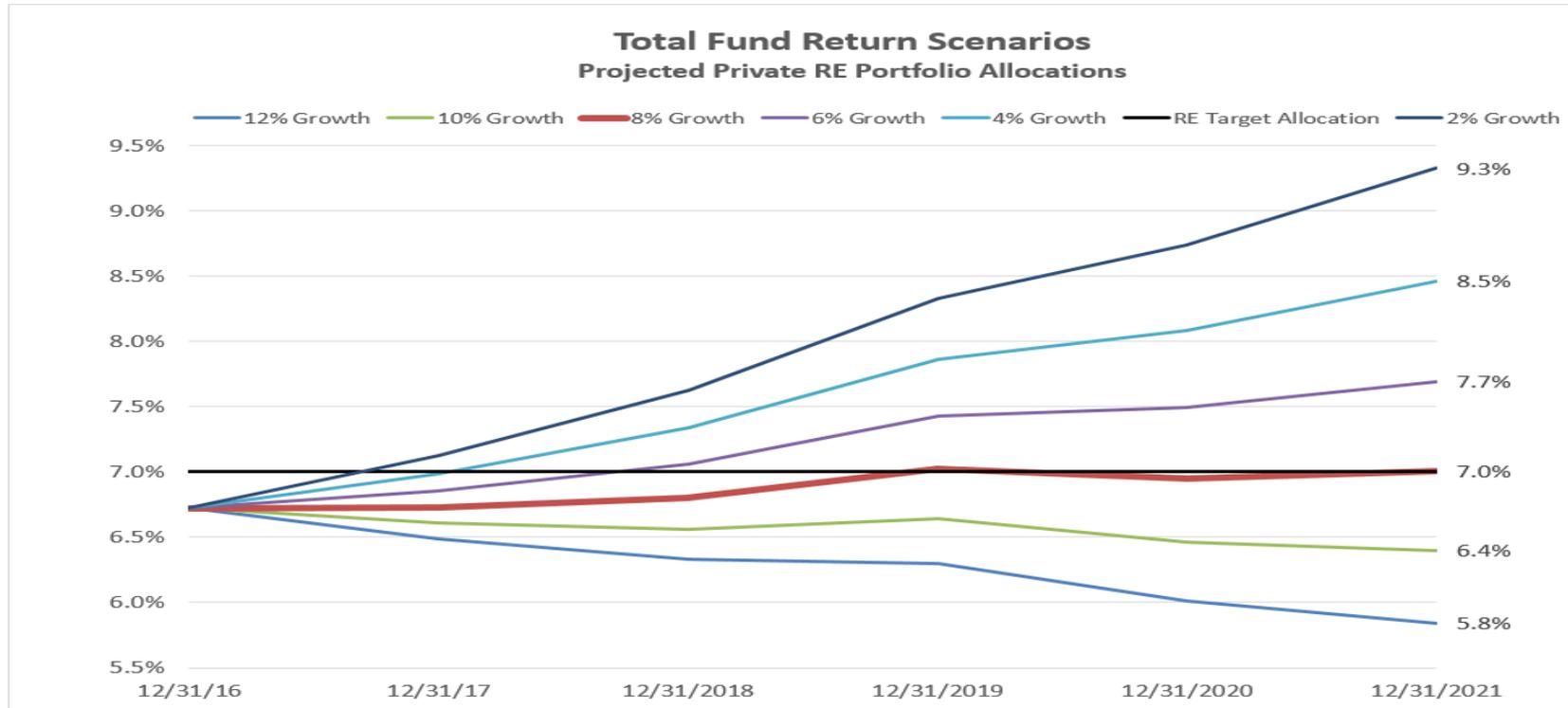


Overview

- Private Real Estate Annual Tactical Plan is a guideline for investing
- Current value of Private Real Estate is \$1.8 billion
- Currently at 6.8% of the total ERS portfolio (target allocation is 7%)
- Commitments will be higher than previous years; targeting \$525 million for FY2018, with a range of \$250 million to \$787 million
- \$50 million - \$100 million commitment sizes, but may be smaller or larger for niche or special situations

Proposed Tactical Plan for FY2018

Pacing Model



Proposed Tactical Plan for FY2018

Fiscal Year 2017 in Review



FY 2017 Tactical Plan			FY 2017 Actual (as of March 31, 2017)	
Category	Number of new Investments	New Commitment in millions (range)	Number of New Commitments	Commitment Amount
Core	0 – 3	\$0 (\$0 - \$250)	0	\$0
Non-Core	0 – 5	\$0 (\$0 - \$250)	3	\$115
Total	0 – 8	\$0 (\$0 - \$250)	3	\$115

Proposed Tactical Plan for FY2018

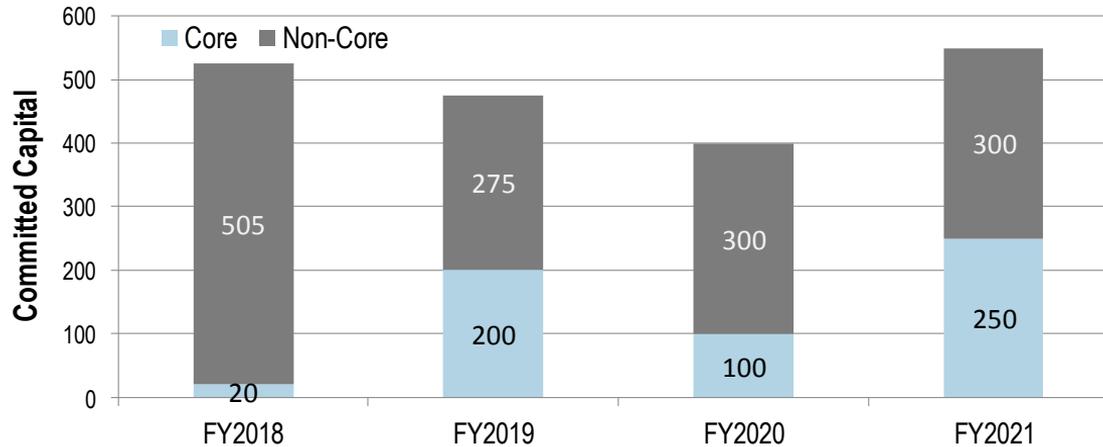
Fiscal Year 2018 Tactical Plan



FY 2018 Tactical Plan		
Category	Number of new Investments	New Commitment in millions (range)
Core	0 – 3	\$20 (\$0 - \$150)
Non-Core	3 – 11	\$505 (\$250 - \$757)
Total	3 – 11	\$525 (\$250 - \$787)

Proposed Tactical Plan for FY2018

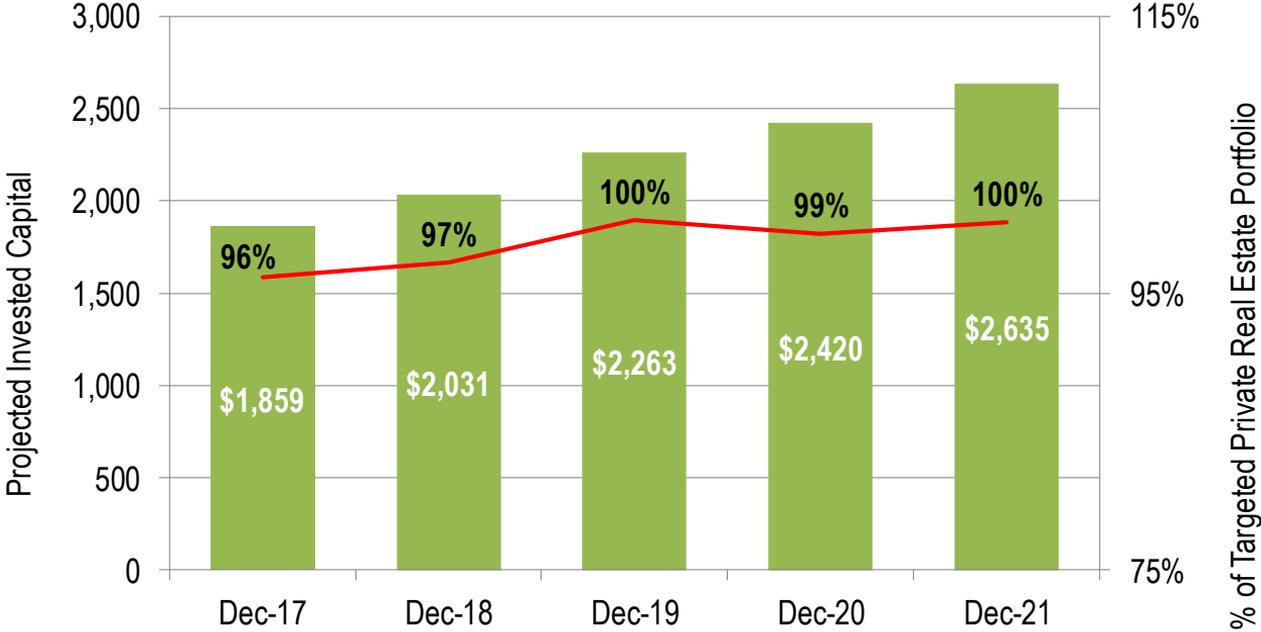
Targeted Commitments Through Fiscal Year 2021



Targeted Annual Commitments (millions)	\$525	\$475	\$400	\$550
# of Investments	3-12	2-8	2-8	3-10

Proposed Tactical Plan for FY2018

Projected Invested Capital Through Calendar Year 2021



Proposed Tactical Plan for FY2018

Near Term Strategy



- Commingled funds or deals with small groups of investors with significant potential to drive terms and conditions
- Niche type funds such as medical office, self-storage, manufactured housing
- Co-Investments and separate accounts
- Explore long term holds for select investments
- Selective international investments – Asia and Latin America, possibly Europe

Proposed Tactical Plan for FY2018

Recommendation



Staff recommends adoption of the proposed ERS Private Real Estate Annual Tactical Plan for Fiscal Year 2018

Questions?

Public Agenda Item #9.1

Adjournment of the Joint Meeting of the Board of Trustees and Investment Advisory Committee and Recess of the Board of Trustees

May 17, 2017

Meeting of the ERS Board of Trustees

May 17, 2017



Public Agenda Item #1.1

Call Meeting to Order

*The Board of Trustees will Reconvene to take up the remaining
Board of Trustees Agenda Items*

May 17, 2017

Public Agenda Item #2.1

*Approval of the Minutes to the February 22, 2017
Meeting of the Board of Trustees*

May 17, 2017

Questions?

Public Agenda Item #3.1

*Consideration of Contract Award Recommendation for
Health Savings Account Administrator of the
Texas Employees Group Benefits Program*

May 17, 2017

Georgina Bouton, Interim Director of Benefit Contracts

Blaise Duran, ASA, MAAA and Manager of Underwriting, Data Analysis and Reporting

Gabrielle Stokes, Director of Procurement and Contract Oversight

GBP Health Savings Account (HSA)



Background

- HealthSelect of TexasSM expanded to include Consumer Directed HealthSelect effective September 1, 2016



High Deductible
Health Plan



Health Savings
Account



- Enrollment includes 504 members, 416 dependents

Health Savings Accounts (HSA)

Contribution limits



- Maximum annual contribution limit for HSAs are set by the Internal Revenue Service as part of IRS Code, Section 223

Year	Individual Contribution Limit	Family Contribution Limit
2015	\$3,350	\$6,650
2016	\$3,350	\$6,750
2017	\$3,400	\$6,750

GBP Health Savings Account (HSA)



Background

- On February 23, 2016, the Board approved the selection of United HealthCare Services, Inc. (UHC) as the HSA Administrator
- Current contract for HSA administration:
 - Effective: September 1, 2016
 - Terminates: December 31, 2017

GBP Health Savings Account (HSA)

Request for Proposal (RFP)



- RFP issued November 30, 2016 for a contract covering a four year period from January 1, 2018 through December 31, 2021
- Requested services include, but are not limited to:
 - Enrollment system and administration
 - Banking and debit card services
 - Investment options
 - Communication services
 - Call center management
 - Account management
- Responses were due on or before January 4, 2017

GBP Health Savings Account (HSA)

Request for Proposal (RFP)



- ERS received three RFP responses
 - OptumHealth Financial Services, Inc. (Optum)
 - PayFlex Systems USA, Inc. (PayFlex)
 - MII Life, Inc. d.b.a SelectAccount (SelectAccount)

GBP Health Savings Account (HSA)

Preliminary Review Evaluation



- Compliance with the RFP
- Minimum requirements:
 - Principal place of business in the United States
 - Professional licensure and certifications
 - Experienced HSA administrator
 - Electronic debit card services
 - FDIC insured accounts
 - ERS is not required to act as an Agent
 - HSA administrator serves trustee
 - Sufficient net worth

ERS' Office of Procurement and Contract Oversight (OPCO) determined all three responses met minimum requirements

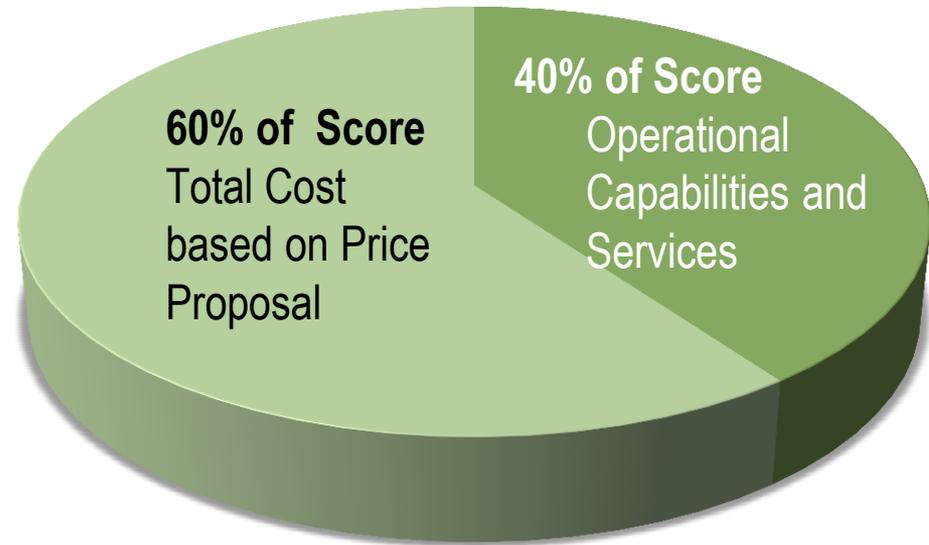
GBP Health Savings Account (HSA)

Proposal Review Evaluation



- Evaluation team was comprised of subject matter experts (SMEs) throughout ERS
- Proposal Review Evaluation Criteria weightings disclosed under RFP Section III.C.1

Proposal Evaluation Criteria



GBP Health Savings Account (HSA)

Operational Capabilities and Services



- HSA Structure and Administration
- Communication Requirements
- Information Systems Requirements
- Operational Specifications and Requirements
- Accounting and Funding Requirements

GBP Health Savings Account (HSA)

Operational Capabilities and Services



Respondents demonstrated full capability of providing:

- Core programs and services
- Communication services
- Operational services
- Information system services

GBP Health Savings Account (HSA)

Evaluation of Total Cost



Review of Respondents' Total Cost to provide HSA Administration Services

- Financial requirements and specifications
- Price Proposal to include but may not be limited to the following:
 - Platform operations costs
 - Bank and/or card fees
 - Transaction processing
 - Call center operational costs
 - Program administration fees

GBP Health Savings Account (HSA)

Finalist Evaluation



Optum and SelectAccount were selected as finalists

- Finalist evaluation phase included:
 - Submission and review of best and final offer (BAFO)
 - Review of past performance
 - Contractibility
 - Other legal requirements and regulatory compliance
 - Further clarifications

GBP Health Savings Account (HSA)

Staff Recommendation



The Staff Recommendation is based on the following:

- SMEs scoring of the proposals,
- clarifications,
- past performance,
- BAFOs,
- contractibility and
- other legal requirements and regulatory compliance.

GBP Health Savings Account (HSA)

Staff Recommendation



Staff recommends that the Board of Trustees of the Employees Retirement System of Texas award the contract to _____ to act as the GBP Health Savings Account Administrator pursuant to a contract which will cover a four year term beginning January 1, 2018 through December 31, 2021.

Questions?

Public Agenda Item #3.2

Consideration of Contract Award Recommendation for the Texas Income Protection Plan of the Texas Employees Group Benefits Program

May 17, 2017

Georgina Bouton, Acting Director of Benefit Contracts
Blaise Duran, ASA, MAAA and Manager of Underwriting, Data Analysis and Reporting
Gabrielle Stokes, Director of Procurement and Contract Oversight
Philip S. Dial, Rudd and Wisdom, Inc.

Texas Income Protection Plan (TIPP)



Background

Texas Employees Group Benefits Program provides optional short-term and long-term disability coverage to active employees under a self-funded arrangement

	Short-term Disability	Long-term Disability
Maximum Benefit	66% of monthly salary or \$6,600, whichever is less	60% of monthly salary or \$6,000, whichever is less
Maximum Benefit Period	5 months or less	Ranging from 12 months to individual Social Security normal retirement age depending on age at time of disability
Current Enrollment	116,631	89,739
Covered Monthly Payroll	\$464,063,505	\$379,884,259

Texas Income Protection Plan (TIPP)



Background

- On February 26, 2013, the Board approved the selection of Aon Hewitt Absence Management, LLC (Aon) as the TIPP Administrator.
- Current contract for TIPP administration:
 - Effective: September 1, 2013
 - Terminates: December 31, 2017
- On December 31, 2015, Reed Group, Ltd. (ReedGroup) acquired Aon's absence management administration business.

Texas Income Protection Plan (TIPP)

Request for Proposal (RFP)



- RFP issued January 4, 2017 for a contract covering a four year period from January 1, 2018 through December 31, 2021.
- Requested services include, but are not limited to:
 - administrative services,
 - customer services,
 - evidence of insurability evaluations, and
 - claims processing.
- Responses were due on or before February 2, 2017.

Texas Income Protection Plan (TIPP)

Request for Proposal (RFP)



ERS received two RFP responses

- Broadspire Services Inc. (Broadspire)
- Reed Group Management LLC (ReedGroup)

Texas Income Protection Plan (TIPP)

Preliminary Review Evaluation



- Compliance with the RFP
- Minimum Requirements:
 - Principal place of business in the United States
 - Professional licensure and certifications
 - Demonstrated experience as third-party administrator
 - Sufficient net worth

ERS' Office of Procurement and Contract Oversight (OPCO) determined

- ReedGroup's Proposal passed the preliminary review
- Broadspire's Proposal did not comply with the requirements of the RFP

Texas Income Protection Plan (TIPP)

Proposal Review Evaluation



- Evaluation team was comprised of subject matter experts (SMEs) throughout ERS and Rudd and Wisdom, ERS' consulting actuaries
- Proposal Review Evaluation Criteria weightings specified under RFP Section III.C.1

Proposal Evaluation Criteria



Texas Income Protection Plan (TIPP)

Operational Capabilities and Services



- Disability services
- Communication requirements
- Information systems requirements
- Operational specifications and requirements
 - Optional services (retirement disability)
- Implementation and project management requirements
- Accounting and funding requirements

Texas Income Protection Plan (TIPP)

Operational Capabilities and Services



ReedGroup demonstrated full capability of providing:

- core programs and services,
- communication services,
- operational services including LeavePro migration, and
- information system services.

Texas Income Protection Plan (TIPP)

Evaluation of Price Proposal



Review of ReedGroup's Full Cost of Administration by ERS and Rudd and Wisdom, Inc.

- Price proposal includes:
 - standard services and transition claims,
 - waiver of run out fees,
 - a stipulated number of medical reviews, per year,
 - evidence of insurability (EOI) services, and
 - optional services.

Texas Income Protection Plan (TIPP)

Finalist Evaluation



ReedGroup was selected as the sole finalist

- Finalist evaluation phase included:
 - site visits to call center, data center, and claim service center,
 - submission and evaluation of Best and Final Offer (BAFO),
 - review of past performance,
 - contractibility,
 - other legal requirements and regulatory compliance, and
 - further clarifications.

Texas Income Protection Plan (TIPP)

Staff Recommendation



The Staff Recommendation is based on the following:

- SMEs scoring of the response,
- clarifications,
- site visits,
- Best and Final Offer (BAFO),
- past performance,
- contractibility, and
- other legal requirements and regulatory compliance.

Texas Income Protection Plan (TIPP)

Staff Recommendation



Staff recommends that the Board of Trustees of the Employees Retirement System of Texas award the contract to _____ to act as the Third Party Administrator for the Texas Employees Group Benefits Program's Texas Income Protection Plan pursuant to a contract which will cover a four year term beginning January 1, 2018 through December 31, 2021.

Questions?

Public Agenda Item #3.3

Consideration of TexFlex Program Proposed Fees and Rates of the Texas Employees Group Benefits Program for Fiscal Year 2018

May 17, 2017

Blaise Duran, ASA, MAAA and Manager of Underwriting, Data Analysis and Reporting

TexFlex Program

Background



- Funded by pre-tax salary contributions from active employees
- Reimburses participants for qualified expenses
- Offers four benefit options:
 - Flexible Spending: Health Care Reimbursement
 - Flexible Spending: Limited Reimbursement
 - Flexible Spending: Dependent Care Reimbursement
 - Commuter Spending Account Plan (CSA)

TexFlex Program

Health Care and Dependent Care Reimbursement Plans



Enrollment and Contribution Elections

Fiscal Years Beginning 2016 and 2017

Account Type	Enrollment (#)			Contribution Elections (\$)		
	FY16 Enrollment	FY17 Enrollment	Change in Enrollment (%)	FY16 Contribution Elections**	FY16 Contribution Elections**	Change in Elections** (%)
Health Care Reimbursement	49,372	49,860	0.98%	\$65,531,978	\$64,925,862	-1.1%
Dependent Care Reimbursement	3,902	3,845	-1.4%	\$14,504,241	\$14,485,697	-2.1%
Participation in Both Plans	-2,618	-2,516	-3.9%			
TOTAL* (Participants)	50,656	51,189	-1.0%	\$80,037,219	\$79,411,559	-1.3%

*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 to the program and are reported commitments for the applicable fiscal year.

TexFlex Program

Healthcare, Limited & Dependent Care Reimbursement Plans



- Plan Forfeitures
 - Declining and anticipate a continuing decline due to \$500 carryover
- Plan Rates and Fees
 - ERS enacted an administrative fee holiday
 - TexFlex branded debit cards available at no additional cost
- Premium conversion generated approximately \$42 million in FICA tax savings in FY16
- Flexible Spending: Limited Reimbursement has four participants enrolled for FY17

TexFlex Program

Commuter Spending Account



Enrollment and Contributions:

- Month-to-month benefit, allowing participants to enroll, change election or disenroll on a monthly basis
- No mandatory “use it or lose it” rule, therefore unused balances are rolled to the next month
- TexFlex debit card used to pay for parking and transit expenses; paper claims allowed for qualified parking expense
- As of March 2017, there were 20 participants enrolled in the parking benefit and 144 participants in the transit benefit.

TexFlex Program

Staff Recommendation



- ERS maintains a balance of funds that is more than adequate to cover the TexFlex program administrative costs. Therefore, staff recommends the Board approve an administrative fee holiday for TexFlex participants for FY18.
- As a new offering, CSA does not have any fund balances to offset the administrative cost of the CSA program. Participants will continue to pay a monthly administrative fee of \$3.00.

Questions?

Public Agenda Item #3.4

*Consideration of Basic and Optional Term Life,
Accidental Death and Dismemberment Proposed Rates of the
Texas Employees Group Benefits Program for Fiscal Year 2018*

May 17, 2017

Blaise Duran, ASA, MAAA and Manager of Underwriting, Data Analysis and Reporting
Philip S. Dial, Rudd & Wisdom, Inc.

GBP Life and AD&D Contribution Rates

Funding and Enrollment



- Benefits funded through member contributions
- Contribution rates set by the Board
- Employee and retiree basic term life and AD&D benefits are paid for by the State of Texas through the biennial insurance appropriation

GBP Life and AD&D Coverage

As of March 31, 2017

Plan	Funding	Enrolled Members	Volume of Insurance
Basic Life	Fully Insured	325,714	\$ 1,359,817,500
Optional Life & AD&D	Fully Insured	315,590	20,825,274,900
Voluntary AD&D	Fully Insured	133,706	18,646,846,250
Dependent Life & AD&D	Fully Insured	110,980	481,787,500

GBP Life and AD&D Contribution Rates

Fiscal Year 2018 Rate Analysis



- Life rates were developed based on:
 - reasonable expectations of future claims,
 - anticipated claim patterns,
 - expected investment income, and
 - maximum claim rates and administrative fees included in the Securian contract.
- Based on this analysis, member contribution rates currently in effect for FY17 for all Life coverages are appropriate for continued use for FY18.
- AD&D member contribution rates, which are based on the guaranteed premium rates and have been stable since September 1, 2007, will remain at the current levels under the contract.

GBP Life Coverages

Financial Experience



Experience Summary Through March 31, 2017

Coverages	Average Volume (000)	Total Premium	Incurred Claims	Loss Ratio
Basic Life	\$1,359,817	\$37,486,339	\$35,374,068	94.2%
Optional Life	\$20,825,275	\$286,338,545	\$276,230,934	96.5%
Dependent Life	\$481,787	\$10,274,973	\$10,323,216	100.5%
Total Life	\$22,666,879	\$334,099,857	\$321,928,218	97.1%

Staff Recommendation

Proposed FY 2018 Life and AD&D Contribution Rates



Plan	Proposed FY18	Change from Current Rate
Active and Retiree Basic Term Life and AD&D	\$2.22	No Change
Active and Retiree Optional Life and AD&D Range based on age from <25 to ≥90	\$0.05 to \$10.57	No Change
Active Dependent Life and AD&D	\$1.38	No Change
Retiree Minimum Optional Life	\$2.34	No Change
Retiree Dependent Life	\$3.05	No Change
Voluntary AD&D		
Employee Only	\$0.02	No Change
Employee & Family	\$0.04	No Change

Questions?

Public Agenda Item #3.5

*Consideration of Proposed Rates for the Texas Income Protection Plan
of the Texas Employees Group Benefits Program
for Fiscal Year 2018*

May 17, 2017

Blaise Duran, ASA, MAAA and Manager of Underwriting, Data Analysis and Reporting
Philip S. Dial, Rudd & Wisdom, Inc.

Texas Income Protection Plan (TIPP)



Funding and Plans

- Benefits funded through member contributions
- Contribution rates set by the Board
- GBP retains risk for the self-funded plans

GBP Disability Plans As of March 31, 2017				
Coverage	Plan Type	Funding	Enrolled Members	Covered Monthly Payroll
Disability	Short Term	Self Funded	116,631	\$464,063,505
Disability	Long Term	Self Funded	89,739	\$379,884,259

Texas Income Protection Plan (TIPP)

Contract Administrator



On January 5, 2016, Reed Group, Ltd. announced its acquisition of the absence management administration business of Aon Hewitt and has served as the TIPP administrator through the duration of the contract period.

- The Reed Group, Ltd. is a wholly owned subsidiary of The Guardian Life Insurance Company of America.
- The initial four-year term began September 1, 2013 and has been extended through December 31, 2017.

Texas Income Protection Plan (TIPP)

Fiscal Year 2018 Rate Analysis



- Member contribution rates for disability plans were developed based on:
 - reasonable expectations of future claims,
 - anticipated claim payment patterns,
 - expected investment income, and
 - administrative fees associated with the TIPP benefit administration.
- Based on this analysis, contribution rates for short-term disability can decrease and long-term disability rates are adequate for FY18.

Texas Income Protection Plan (TIPP)

Financial Experience – Short-term Disability Plan



Short-term Disability Experience		
	FY16	FY17 YTD as of March 2017
Member Contributions	\$16,487,534	\$9,737,885
Incurred Claims	\$10,160,671	\$6,554,493
Administrative Fees	\$3,378,709	\$1,973,209
Total Expense	\$13,539,380	\$8,527,702
Contribution Gain/(Loss)	\$2,948,154	\$1,210,183

Texas Income Protection Plan (TIPP)

Financial Experience – Long-term Disability Plan



Long-term Disability Experience FY06 – FY15 Cumulative

	Actual	Adjusted*
Actual Member Contributions	\$268,008,025	\$257,319,434
Incurred Claims with Discounted Reserves	\$215,590,141	\$215,590,141
Administrative Fees	\$16,858,459	\$30,919,361
Total Expense	\$232,448,601	\$246,509,503
Contribution Gain/(Loss)	\$35,559,425	\$10,809,931

*Previous years adjusted when necessary to reflect current contribution rates and administrative fees.

Staff Recommendation

Proposed Fiscal Year 2018 Contribution Rates



GBP Disability Plans

Proposed Monthly Member Contribution Rates for FY 2018
(effective September 1, 2017)

Plan Description	FY18	Change from current rate
Short Term Disability	\$0.26/per \$100 of covered payroll	Decreases by \$0.04
Long Term Disability	\$0.63/per \$100 of covered payroll	No Change

Questions?

Public Agenda Item #3.6

Consideration of State of Texas Dental Choice, Dental Health Maintenance Organization and Dental Discount Plan Proposed Rates of the Texas Employees Group Benefits Program for Fiscal Year 2018

May 17, 2017

Blaise Duran, ASA, MAAA and Manager of Underwriting, Data Analysis and Reporting
Philip S. Dial, Rudd & Wisdom, Inc.

Dental Care Plans

Background and Options



State of Texas Dental Choice PlanSM (Dental Choice)	Self-funded dental preferred provider organization (PPO) plan	HumanaDental Insurance Company (HumanaDental) serves as the Third Party Administrator (TPA) for the Dental Choice plan
Dental Health Maintenance Organization (DHMO) plan	Fully-insured DHMO plan	DentiCare, Inc., a wholly owned subsidiary of Humana, Inc., underwrites the DHMO plan
State of Texas Dental Discount PlanSM	Non-insurance discount plan	Careington International (Careington) is the administrator for the dental discount plan

State of Texas Dental Choice PlanSM

Enrollment



State of Texas Dental Choice Member Enrollment As of March 31, 2017

	Employees	Retirees	Survivors	COBRA	Total	Year Over Year Change FY16– FY17
Member Only	68,506	25,128	1,913	503	96,050	5.8%
Member & Spouse	15,568	15,771	0	118	31,457	3.6%
Member & Children	22,117	1,318	49	31	23,515	3.5%
Member & Family	19,174	1,697	0	46	20,917	2.1%
Total	125,365	43,914	1,963	698	171,939	2.7%

State of Texas Dental Choice Plan

Fiscal Year 2018 Rate Analysis



Dental Choice Plan proposed rates are based on:

- claims experience through March 31, 2017,
- estimated trends in per capita benefit costs,
- projected provider reimbursement,
- historical enrollment patterns, and
- contractually guaranteed administrative fees.

State of Texas Dental Choice Plan

Financial Projections



State of Texas Dental Choice PlanSM Financial Projections

	FY16	FY17	FY18
Average Number of Members	163,660	171,789	180,378
Contributions	\$ 80,027,515	\$ 91,432,455	\$ 95,428,053
Estimated Incurred Claims	83,349,821	87,512,146	94,644,386
Administrative Cost (Internal and External)	3,436,867	3,607,569	3,787,947
Net Gain/(Loss)	(\$ 6,759,173)	\$ 312,740	(\$ 3,004,280)

State of Texas Dental Choice PlanSM

Staff Recommendation



Based on the analysis, the current member contribution rates represent a 3% increase for Fiscal Year 2018.

State of Texas Dental Choice Plan SM			
Coverage Category	Proposed Member Contribution Rates		
	Current FY17	Proposed FY18	Change from Current
Member Only	\$ 26.61	\$ 27.41	\$ 0.80
Member and Spouse	53.22	54.82	1.60
Member and Children	63.86	65.78	1.92
Member and Family	90.47	93.19	2.72

Dental Health Maintenance Organization (DHMO)

Enrollment



Dental Health Maintenance Organization Member Enrollment As of March 31, 2017

	Employees	Retirees	Survivors	COBRA	Total	Year Over Year Change FY16 – FY17
Member Only	31,466	10,803	545	175	42,989	-5.8%
Member & Spouse	5,749	6,263	0	36	12,048	-1.1%
Member & Children	8,647	745	4	16	9,412	-4.6%
Member & Family	7,271	940	0	13	8,224	-4.8%
Total	53,133	18,751	549	240	72,673	-4.8%

Dental Health Maintenance Organization (DHMO)

Fiscal Year 2018 Rate Analysis



- The staff negotiated a 3.8% reduction in the DHMO rates effective September 1, 2015. The revised rates are guaranteed through the end of the contract period, August 31, 2018.
- The DHMO premiums are paid in full by member contributions. Therefore, the member contribution rates for FY18 should be set equal to the contractual premium rates.

Dental Health Maintenance Organization (DHMO)

Staff Recommendation



Staff and Rudd and Wisdom recommend that DHMO member contribution rates for FY18 remain the same as rates in FY17.

Dental Health Maintenance Organization

Coverage Category	Proposed Member Contribution Rates		
	Current FY17	Proposed FY18	Change from current
Member Only	\$ 9.59	\$ 9.59	No Change
Member and Spouse	19.17	19.17	No Change
Member and Children	23.01	23.01	No Change
Member and Family	32.59	32.59	No Change
Spouse Only	9.59	9.59	No Change
Spouse and Child(ren)	23.01	23.01	No Change
Child(ren)	13.42	13.42	No Change

State of Texas Dental Discount Plan

Funding



- Not an insurance program
- Participating dentists agree to accept a discounted rate for payment-in-full
- No dental claims to file
- Participants do not receive Explanation of Benefits
- Administrative fees are paid entirely by the participants
- Rate is dependent upon the number of participants enrolled at the close of Annual Enrollment

State of Texas Dental Discount Plan

Enrollment



State of Texas Dental Discount PlanSM Member Enrollment As of March 31, 2017

	Employees	Retirees	Survivors	COBRA	Total	Year Over Year Change FY15 – FY16
Member Only	3,250	471	14	11	3,746	11.5%
Member & Spouse	587	370	0	7	964	-0.2%
Member & Children	698	27	1	2	728	4.3%
Member & Family	689	47	0	1	737	-5.16%
Total	5,224	915	15	21	6,175	6.5%

State of Texas Dental Discount Plan

Staff Recommendation



The program is not expected to exceed the necessary 25,000 enrolled participant size to allow a decrease in rates, therefore the rates for FY18 are expected to remain the same as FY17.

State of Texas Dental Discount Plan SM			
Coverage Category	Proposed Member Contribution Rates		
	Current FY17	Proposed FY18	Change from current
Member Only	\$ 2.25	\$ 2.25	No Change
Member and Spouse	4.50	4.50	No Change
Member and Children	5.40	5.40	No Change
Member and Family	7.65	7.65	No Change

Questions?

Public Agenda Item #3.7

Consideration of Proposed Rates for the State of Texas Vision Plan of the Texas Employees Group Benefits Program for Fiscal Year 2018

May 17, 2017

Blaise Duran, ASA, MAAA and Manager of Underwriting, Data Analysis and Reporting
Philip S. Dial, Rudd & Wisdom, Inc.

State of Texas Vision Plan

Background



- On September 1, 2016, the GBP began offering members and their dependents a vision plan.
 - Extensive services beyond what is provided in the GBP medical plans
 - Nationwide network provides access in all 50 states with access to major retail stores, internet-based providers, and Lasik services.
- Contract awarded in May 2016 to Superior Vision Services Inc. and continues through August 31, 2020.



State of Texas Vision Plan

Enrollment



Approximately 22% of eligible GBP members enrolled in the first year.

State of Texas Vision Plan	Participant Count
Actives	65,558
Dependents	55,647
Retirees	7,577
Dependents	3,887
TOTAL	132,669

State of Texas Vision Plan

Rate Analysis for Fiscal Year 2018



- Vision Plan is self-funded which means the GBP assumes all risk.
- Contributions are determined based on the following:
 - claims experience through March 31, 2017,
 - estimated trends in benefit costs,
 - projected provider reimbursement rates, and
 - contractually guaranteed administrative fees.
- Rates to remain the same in FY18.

State of Texas Vision Plan

Recommended Rates for Fiscal Year 2018



Coverage Level	FY17	FY18	Change from Current rate
Member Only	\$ 6.69	\$ 6.69	No Change
Member + Spouse	13.38	13.38	No Change
Member + Child(ren)	14.38	14.38	No Change
Member + Family	21.07	21.07	No Change

Questions?

Public Agenda Item #3.8

Consideration of GBP Financial Status Update and Rate Proposals for HealthSelect of TexasSM and Consumer Directed HealthSelect of the Texas Employees Group Benefits Program for Fiscal Year 2018

May 17, 2017

Blaise Duran, ASA, MAAA and Manager of Underwriting, Data Analysis and Reporting
Philip S. Dial, Rudd & Wisdom, Inc.

HealthSelect Background

Funding and Enrollment



HealthSelect is funded by member and employer contributions.

- Employer pays 100% of employee/retiree contributions.
- Employer pays 50% of the contributions for dependent coverage.
- Members share costs through copayments, deductibles, and coinsurance.

78% of GBP members are enrolled in HealthSelect.

HealthSelect Background

Participant Enrollment



Coverage	Actives	Retirees	Beneficiaries	COBRA	Total Members	Total Dependents
Member Only	128,111	36,777	961	514	166,363	0
Member + Spouse	16,904	9,124	0	42	26,070	26,069
Member + Child(ren)	39,873	2,955	58	32	42,918	79,280
Member + Family	21,711	2,015	0	27	23,753	71,286
TOTAL	206,599	50,871	1,019	615	259,104	176,635

HealthSelect Plan

Changes for Fiscal Year 2018



Beginning September 1, 2017, the following changes will occur:

- Third-party administrator will change from UnitedHealthcare to Blue Cross and Blue Shield of Texas (BCBSTX).
 - This change is estimated to save the GBP \$100 million in FY18.
- The establishment of HealthSelect Out-of-State Plan where benefits remain the same, but no PCP selection is required.
- Virtual visits will be covered at 100% by the plan with no participant out-of-pocket expenses for using this service.

HealthSelect Cost Reduction Strategies

Patient-Centered Medical Homes (PCMH)



- ERS currently has seven clinically-integrated, multi-specialty practice groups that participate as a PCMH.
- GBP savings:
 - \$12 million in FY16
- \$3.4 million was shared with the FY16 participating clinics

PCMH Clinic	Area	No. of GBP Participants
Austin Regional Clinic	Austin	23,860
Kelsey-Seybold Clinic	Houston	9,694
Covenant Health	Lubbock	7,828
Austin Diagnostic Clinic	Austin	5,394
Trinity Mother Francis	Tyler	3,928
Amarillo Legacy	Amarillo	5,913
Texas Tech University & Physicians Ntwk Svcs.	Lubbock	6,227

Consumer Directed HealthSelect

Plan Design



As a result of HB 966 passed by the 84th Texas Legislature, the GBP began offering a high deductible health plan on September 1, 2016.

- \$2,100 in-network individual / \$4,200 in-network family deductible
 - Includes medical and pharmacy benefits
- Plan pays 80% of in-network services after deductible is met
- Preventive services not subject to deductible and covered at 100% when received in-network
- Referrals to specialist providers not required

Consumer Directed HealthSelect

Enrollment



Coverage	Actives	Retirees	Survivors	COBRA	Total Members	Total Dependents
Member Only	301	4	0	1	306	0
Member + Spouse	32	7	0	0	39	39
Member + Child(ren)	79	1	0	0	80	144
Member + Family	78	1	0	0	79	233
TOTAL	490	13	0	1	504	416

HealthSelect Contribution Rate Analysis

Fiscal Year 2018



- The following factors are used by the ERS staff and consulting actuaries when determining the recommended contribution rates for HealthSelect:

Revenue requirements	Projected contingency fund balance
Expected state funding	Cost containment practices
Historical enrollment	Claims experience
Anticipated increases in plan costs due to the ACA	HMO impacts and funding of basic life and AD&D coverages

- Medical benefit cost trend continues at a rate of 4.4% through FY18.
- Prescription drug trend is projected to be 12.3%.
- Total health plan benefit cost trend is projected to be 6.3%.

HealthSelect Contribution Rate Analysis

Fiscal Year 2018



- Senate Bill 1 provides sufficient appropriations for the next biennium to continue at the current operating level for HealthSelect programs.
- 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 “not to exceed” (NTE) member contribution rate for FY18.

Staff Recommendation

HealthSelect Proposed Contribution Rates Fiscal Year 2018



HealthSelect of Texas Monthly Contribution Rates for Fiscal Year 2018 (Effective September 1, 2017)

Coverage Category	Total Contribution	State Contribution	Member Contribution	Change in Member Contribution
Member Only	\$627.40	\$627.40	\$0.00	No Change
Member + Spouse	\$1,348.92	\$988.16	\$360.76	\$7.08
Member + Child(ren)	\$1,110.48	\$868.94	\$241.54	\$4.74
Member + Family	\$1,832.00	\$1,229.70	\$602.30	\$11.82

Staff Recommendation

Consumer Directed HealthSelect Proposed Contribution Rates FY18



Consumer Directed HealthSelect Monthly Contribution Rates for Fiscal Year 2018 (Effective September 1, 2017)

Coverage Category	Total Contribution	State Contribution	Member Contribution	Savings vs. HealthSelect Difference
Member Only	\$627.40	\$627.40	\$0.00	\$0.00
Member + Spouse	\$1,312.84	\$988.16	\$324.68	\$36.08
Member + Child(ren)	\$1,086.34	\$868.94	\$217.40	\$24.14
Member + Family	\$1,771.78	\$1,229.70	\$542.08	\$60.22

Questions?

Public Agenda Item #3.9

Consideration of Health Maintenance Organization Proposed Rates of the Texas Employees Group Benefits Program for Fiscal Year 2018

May 17, 2017

Blaise Duran, ASA, MAAA and Manager of Underwriting, Data Analysis and Reporting
Philip S. Dial, Rudd & Wisdom, Inc.

Health Maintenance Organizations (HMOs)

Background



- HMO coverage is funded in the same manner as HealthSelect of TexasSM.
- Contribution rates that are approved by the Board.
- Eligibility, network, and plan design differ from HealthSelect.
 - Not available in all Texas counties
 - No out-of-network benefits except Emergency

Health Maintenance Organizations (HMOs)

Coverages and Enrollment



Participating HMOs Enrollment As of March 31, 2017

HMO	Areas of Coverage	Enrolled Members	Enrolled Dependents	Total
Community First	8-county service area: San Antonio region	2,564	2,242	4,806
Scott & White	45-county service area: Austin, San Angelo, Temple and Waco regions	11,373	6,885	18,258
KelseyCare powered by CHC	5-county service area: Houston region	1,738	1,835	3,573

Health Maintenance Organizations (HMOs)

Financial Evaluation



- For FY18, incumbent carriers were provided a renewal option.
- Renewal rates had to meet:
 - Theoretical Cost Index (TCI) requirement,
 - service area notifications for any changes,
 - evidence that disaster recovery and/or business resumption process has been successfully tested, and
 - updated liability insurance coverages.

Health Maintenance Organizations (HMOs)

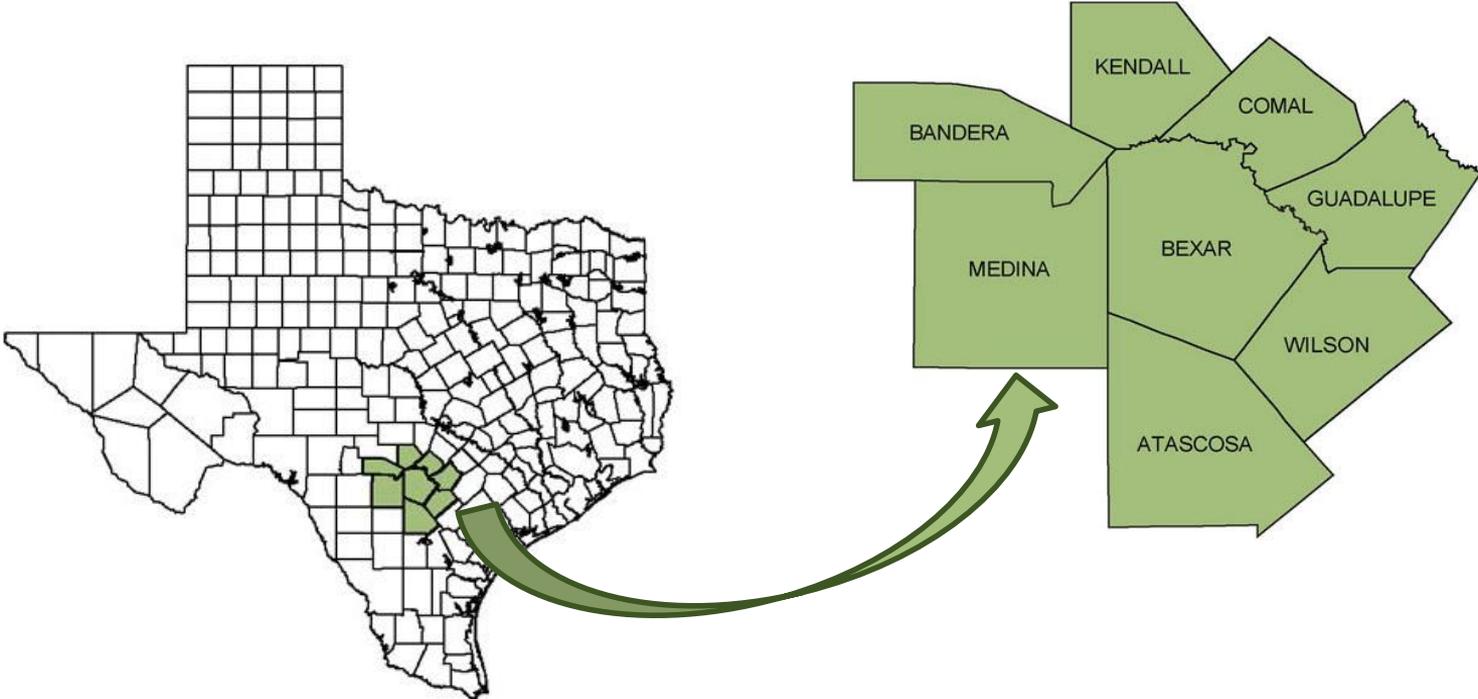
Staff Recommendation



- All of the incumbent HMO carriers are recommended for continued participation in the GBP for FY18:
 - **Community First:** San Antonio Region (8 Counties)
 - **Scott & White:** Austin/San Angelo/Temple/Waco/Region (30 Counties)
 - **KelseyCare powered by CHC:** Houston Region (5 Counties)

Health Maintenance Organizations (HMOs)

Community First Health Plans Service Area



Health Maintenance Organizations (HMOs)

Community First Health Plans - Proposed Rates



Community First Health Plans, Inc. Proposed Monthly HMO Rates Fiscal Year 2018

Coverage Category	Total Contribution Rate (Monthly)	State Contribution Amount (Monthly)	Member Contribution Amount (Monthly)	Change in Member Contribution
Member Only	\$ 509.28	\$ 509.28	\$ 0.00	No Change
Member & Spouse	1,094.96	802.12	292.84	No Change
Member & Child(ren)	901.44	705.36	196.08	No Change
Member & Family	1,487.12	998.20	488.92	No Change

Health Maintenance Organizations (HMOs)

Scott & White Health Plan New Service Area



SWHP has removed 15 counties in their service area for FY18.

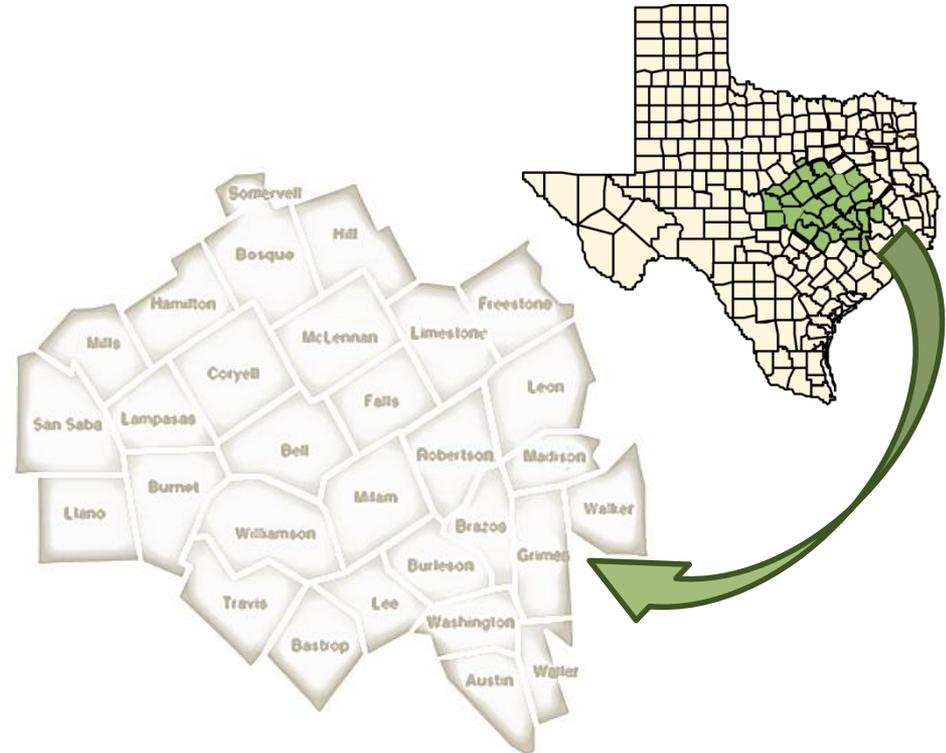
The remaining 30 counties include:

Austin, Bastrop, Bell, Bosque, Brazos, Burleson, Burnet, Coryell, Falls, Freestone, Grimes, Hamilton, Hill, Lampasas, Lee, Leon, Limestone, Llano, Madison, McLennan, Milam, Mills, Robertson, San Saba, Somervell, Travis, Walker, Waller, Washington, and Williamson

Participant impact in the 15 removed counties:

Members: 103

Dependents: 67



Health Maintenance Organizations (HMOs)

Scott and White Health Plan - Proposed Rates

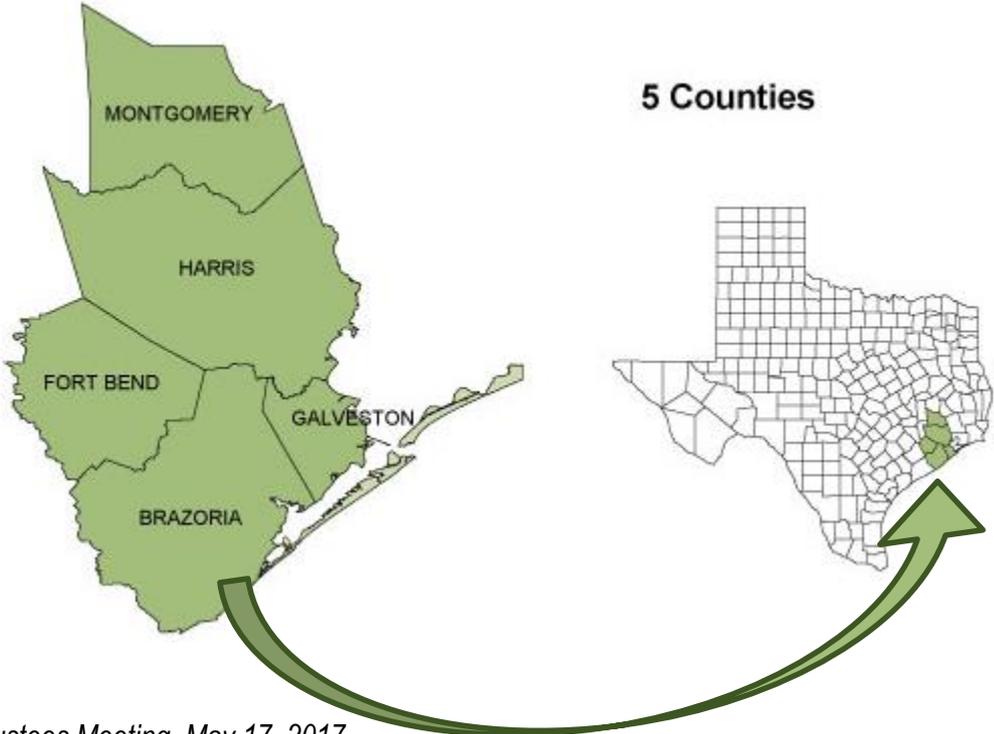


Scott and White Health Plan Proposed Monthly HMO Rates Fiscal Year 2018

Coverage Category	Total Contribution Rate (Monthly)	State Contribution Amount (Monthly)	Member Contribution Amount (Monthly)	Change in Member Contribution
Member Only	\$ 607.96	\$ 607.96	\$ 0.00	No Change
Member & Spouse	1,307.12	957.54	349.58	No Change
Member & Child(ren)	1,076.08	842.02	234.06	No Change
Member & Family	1,775.24	1,191.60	583.64	No Change

Health Maintenance Organizations (HMOs)

KelseyCare powered by CHC Service Area



Health Maintenance Organizations (HMOs)

KelseyCare powered by CHC - Proposed Rates



KelseyCare powered by CHC Proposed Monthly HMO Rates Fiscal Year 2018

Coverage Category	Total Contribution Rate (Monthly)	State Contribution Amount (Monthly)	Member Contribution Amount (Monthly)	Change in Member Contribution
Member Only	\$ 481.76	\$ 481.76	\$ 0.00	No Change
Member & Spouse	1,035.80	758.78	277.02	No Change
Member & Child(ren)	852.72	667.24	185.48	No Change
Member & Family	1,406.76	944.26	462.50	No Change

Questions?

Public Agenda Item #4.1

Review of Incentive Compensation Plan

May 17, 2017

Chineque “DeeDee” Sterns, Director of Human Resources

Review of the Incentive Compensation Plan (ICP)



Incentive Compensation Plan

- The Board of Trustees considers the Incentive Compensation Plan on an annual basis
- ERS Staff annually reviews the plan to make recommendations to the Board
- A draft plan document is submitted to the Board for review during the May Board Meeting
- ERS Staff will present the final proposed Plan document during the August Board Meeting for review and consideration

Review of the Incentive Compensation Plan (ICP)



Proposed ICP changes for Fiscal Year 2018

Staff did not identify any necessary changes for the upcoming plan year.

Incentive Compensation Plan structure:

- Communicates strategic performance priorities
- Encourages sustained levels of high investment performance, without undue risk
- Promotes teamwork among employees
- Attract and retain key employees in a cost-effective manner

Review of the Incentive Compensation Plan (ICP)



Incentive Compensation Plan Highlights:

- Eligibility for the Plan requires complying with ERS policies/procedures and ERS Investment Policy
- Measures performance based on one, three and five year performance periods
- Metrics and calculations tied to the Active Risk Budget approved by the Board
- Participants have individual and total trust performance benchmarks
- No payments in any year where the total fund does not have positive performance
- Payments shall be deferred during non positive years
- Any awarded incentive compensation is based net of fees
- Incentive awards are calculated based on weighted salary
- Incentive compensation is paid out over a three year period
- Claw back provision

Questions?

Public Agenda Item #5.1

Discussion of Sunset Update, Legislative Update and Group Benefits Program Advisory Structure

May 17, 2017

Keith Yawn, Director of Strategic Initiatives

Machelle Pharr, Chief Financial Officer

William “Shack” Nail, Director of Governmental Relations

Michael Ewing, Office of the General Counsel

Sunset Update – SB 301 (Watson)



1. Across the Board Recommendations
 - a. Board member training
 - b. Alternative Rulemaking / Dispute Resolution
2. Adopt experience study and actuarial tables every 4 years (currently 5 years)
3. Expands financial reporting of alternative investments to include profit sharing, carried interest, and performance fees
4. Limits staff approval of alternative investments to 1% of total trust value
5. GBP Annual Report Requirements
 - a. Amends due date to Feb 1 (from Jan 1)
 - b. Expands contents of report to include more demographic and operational data on health programs.
6. Requires ERS to more directly involve members in appeals processes
7. Requires expanded documentation of enrollment and claims determination processes and precedents to assist with member education

Sunset Update – GBP Advisory Committee



- Management directive adopted by the Sunset Commission which does not require further legislative action
- Requires ERS to “***establish an advisory committee to obtain regular stakeholder and expert input on benefits.***”
- Does not require legislative action, but instead relies on the board’s existing statutory authority to appoint advisory committees.

Sunset Update – GBP Advisory Committee



Operations

- Meet twice per year in October and March
- Meetings prepared and staffed by ERS employees
- Agenda topics solicited from the board, committee, and staff
- Minutes provided to board quarterly; summary presentation of committee activities provided to board annually

Membership

- Up to 11 members
- Diverse representation GBP population
- Must have 1 year of GBP enrollment
- Nominations vetted by ERS staff, recommendation approved by Board
- Serve 3-year terms, with max of 2 consecutive terms

Legislative Update – Senate Bill 1

Pension Funds



- **Maintains funding at current levels**

ERS Fund – 9.5% state and member and 0.5% agency

LECOS – 0.5% member and state; approximately \$19.2 million court fees

JRS II – 7.5% member, 15.663% state

- **Exceptional items needed to achieve Actuarial Soundness, not funded**

ERS Fund Exceptional Request \$92 million

LECOS Exceptional Request \$52 million

JRS 2 Exceptional Request \$1.0 million

Legislative Update – Senate Bill 1

Group Benefit Program Funding



- Senate: Reduced introduced bill by \$142.9 million (1.57% cost trend 2018, 3.87% 2019)
Achieved through 8 riders throughout the budget including:
 - Implementation of measures to reduce use of freestanding emergency medical care facilities (\$42.2 M)
 - Maximizing Medicare coordination of benefits for participants in Social Security Disability (\$15.6 M)
 - Expand Value-Based Payment Strategies (\$5.1 M)
 - Discounted Reimbursement Rates for Health Related Institutions that receive formula funding (\$80 M)
- House: Reduced introduced bill by \$269.5 million (0.9% cost trend each year)
Flexibility given to the agency to achieve necessary cost savings

Legislative Update – Bill Tracking Update



**Overview of Specific Bills
Included in the
Bill Tracking Document
Provided as Exhibit B**



Questions?

Public Agenda Item #6.1

Executive Director Agency Update

May 17, 2017

Porter Wilson, Executive Director

Executive Director's Report

New trustee elected to Board



- Congratulations to Catherine Melvin, winner of the 2017 election
- Melvin received 35.1% of the votes
- Six-year term begins September 1, 2017

Voter Participation by Election			
	2017	2015	2013
Total Votes Cast	37,373	30,642	31,264
Voter Participation (%)	11.0	9.9	10.7
Electronic Ballots (%)	40.4	15.7	16.5

Executive Director's Report

Plan Year 2018 Summer Enrollment



For employees and non-Medicare retirees*

Four two-week phases for Efficient Service and Processing June 26, 2017 – July 28, 2017					
	Monday June 26	Sunday July 2	Sunday July 9	Sunday July 16	Sunday July 23
Phase 1 (June 26 – July 8)	[Blue bar]				
Phase 2 (July 2 – July 15)		[Red bar]			
Phase 3 (July 9 – July 22)			[Green bar]		
Phase 4 (July 16 – July 28)				[Yellow bar]	

*Retirees enrolled in Medicare make benefits changes during Fall Enrollment in November.

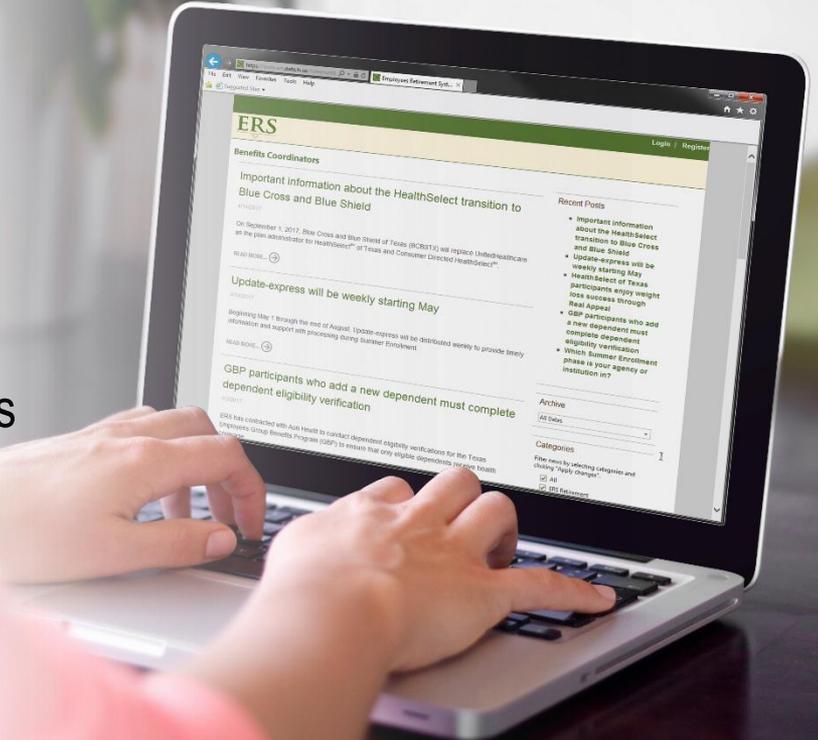
Executive Director's Report

Plan Year 2018 Summer Enrollment



Enrollment resources

- Personal Benefits Enrollment Statement packets, mailed to all eligible members
- Customer Benefits' support by phone, email and in-person appointments
- 37 enrollment fairs and 11 webinars for members
- Online guide, webinars and regular updates for HR professionals
- Support and information from program TPAs



Executive Director's Report

Plan Year 2018 Summer Enrollment



Hot topic – new HealthSelect TPA

- Blue Cross and Blue Shield of Texas resources:
 - Transition website, including provider finder
 - Customer service phone line
 - Staff at enrollment fairs and webinars
 - Webinar for HR professionals
 - Educational materials
 - Custom letters for participants needing transition of care, network providers, other assistance

HealthSelect of Texas

CONSUMER DIRECTED

HealthSelect SM



**BlueCross BlueShield
of Texas**

Executive Director's Report

2017 Everything's Fitter in Texas Challenge



The 2017 annual Challenge boasted a record-breaking 20,994 participants.

- 285 ERS employees logged an impressive 685,228 combined minutes of physical activity over 10 weeks, an average of 4 hours per person per week.
- ERS placed 2nd in our category (201 – 500 FTEs).
- ERS offered 8 hours of time off for 150+ minutes of activity per week for 8-10 weeks.
- Congratulations to the Texas Department of Licensing and Regulation for its 1st place finish in our category.



Executive Director's Report

State Employee Charitable Campaign (SECC)



Due to the generosity of ERS employees, who contributed \$56,100 during the 2016 SECC, ERS attained two awards for state agencies with 300 – 499 employees.

- Highest Participation – 314 donors
- Largest Per Capita Gift – \$145.77



Questions?

Public Agenda Item #7.1

EXECUTIVE SESSION

In accordance with Section 551.074 and 551.074, Texas Government Code, the Board of Trustees will meet in executive session to deliberate the purchase, exchange, lease, or value of the ERS building and to evaluate the duties and performance of the Executive Director of the Employees Retirement System of Texas. Thereafter, the Board may consider appropriate action in open session.

May 17, 2017

Public Agenda Item #8.1

Set Date of 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

May 17, 2017

Next Meeting Dates



2017 Meeting Dates

Wednesday, February 22, 2017

Wednesday, May 17, 2017

Monday, July 10, 2017

Wednesday, August 23, 2017

2 Day Workshop:

Tuesday - Wednesday, December 12 & 13, 2017

Public Agenda Item #9.1

Adjournment of the Board of Trustees

May 17, 2017