

A Few FY18 Accomplishments



Netted \$2.6 billion in investment earnings for the ERS Retirement Trust Fund.



Developed ERS' first Funding Priorities and Guidelines for retirement programs, to improve communication on funding needs and parameters to key stakeholders.



Achieved an average increase of only 0.48% in PY18 health plan premiums, without reducing the benefits.



Increased the HealthSelect provider network and offered new benefits, such as \$0 copay medical virtual visits.



In the TexaSaverSM 401(k) / 457 Program:

- Retained 72.8% of participants who had been automatically enrolled in TexaSaver 401(k) plan.
- Conducted education campaigns resulting in more than 6.5% of TexaSaver accountholders increasing their contributions.



Updated the GBP annual report to a reader-friendly format, for effective communication and presentation.



Established the Group Benefits Advisory Committee to provide member and expert input to the Board of Trustees, and held two meetings.



After an external review, began improving member publications to meet user needs.



Completed 17 of 19 Sunset Commission-required implementation projects.



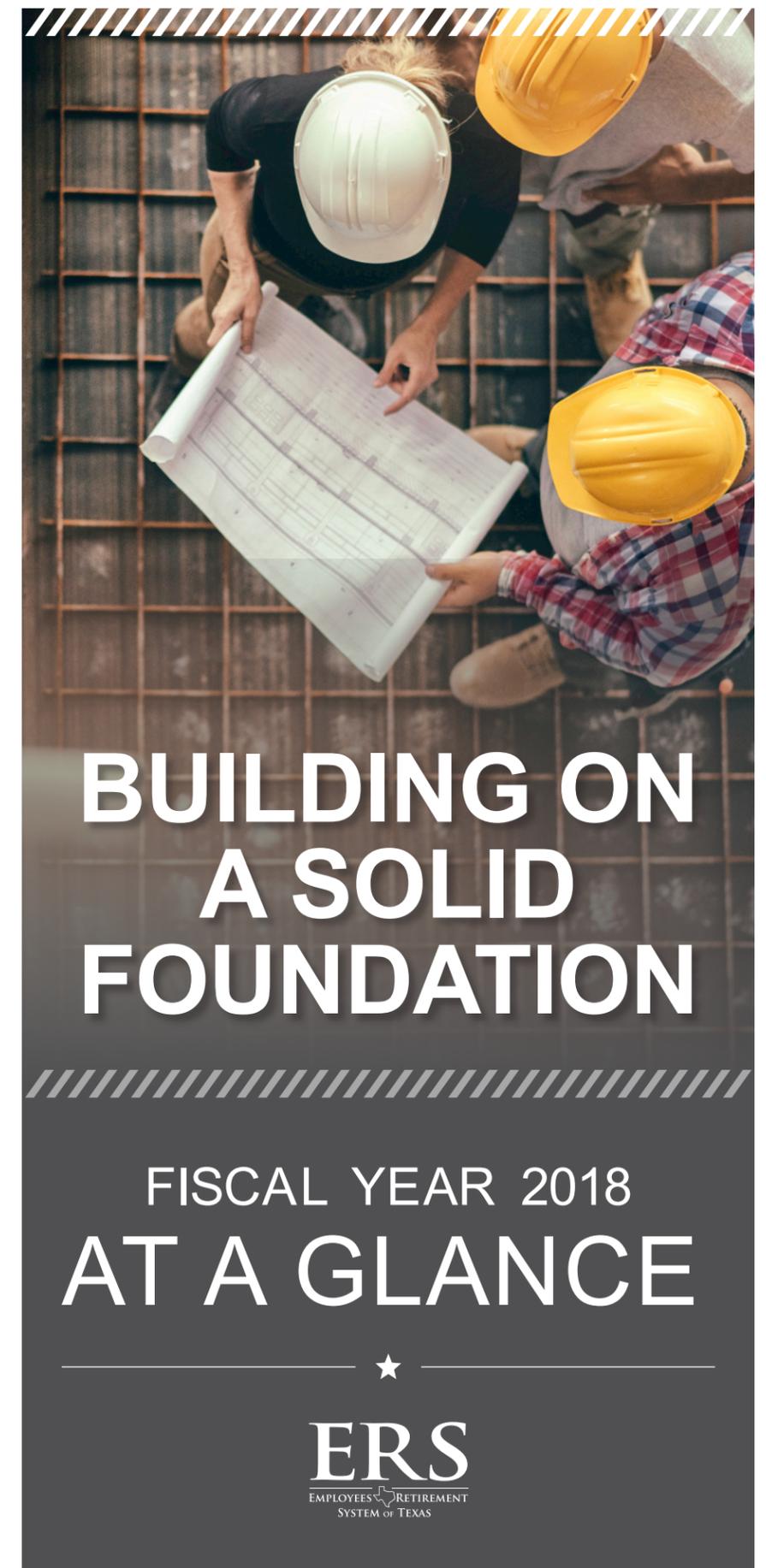
Introduced self-service capability for members to access 1099-R forms.

In May 2018, the ERS Board of Trustees approved the Pension Funding Priorities and Guidelines policy. As identified in the policy, the main objective of ERS' retirement programs is to fully fund the long-term cost of retirement benefits provided by statute, through disciplined and timely accumulation of contributions and prudent investment of assets to deliver earned benefits on a continuing basis. The funding policy priorities and guidelines seek to balance five main objectives:

- 100% payment of vested benefits,
- contribution stability and sound financing of benefits,
- intergenerational equity and responsibility,
- workforce parity and
- quality of benefit.



Executive Director – Porter Wilson
Phone: (877) 275-4377 (TTY: 711)
www.ers.texas.gov



Retirement

ERS provides retirement benefits for state employees and elected officials (ERS Retirement Trust Fund), law enforcement and custodial officers (LECOSRF), and judges (JRS 1 and JRS 2). They are designed to provide a stable retirement benefit at a low cost to the state, with the majority paid from investment earnings.

State contributions to the Fund maintained at 9.5% of payroll (less than 1% of the state's budget). Employees continued to pay 9.5% of their salaries, and state agencies remained at their 0.5% contribution.

- **\$29 billion ERS Trust Fund** (all funds)
- **9.54%** net of fees one-year rate of return on investments
- **142,103 contributing members**
(ERS – 141,535; LECOSRF – 37,167*; JRS 1 – 7; JRS 2 – 561)
- **119,889 non-contributing members**
(ERS – 119,736; LECOSRF – 19,842*; JRS 1 – 0; JRS 2 – 153)
- **112,091 retirees and beneficiaries**
(ERS – 111,361; LECOSRF – 13,080*; JRS 1 – 337; JRS 2 – 393)
- **\$2.5 billion in retirement payments annually** (for all plans)
- **70.2% ERS Trust funded ratio**
- **\$11.6 billion ERS Trust unfunded liability**
- **ERS Trust Fund is projected to deplete in 2096, without additional contributions or benefit reductions**

*LECOSRF members are included in the ERS total.

Retirement Contribution Rates

	Fiscal Year 2018	Fiscal Year 2019
ERS		
State	9.5%	9.5%
Agency	0.5%	0.5%
Employee	9.5%	9.5%
Total	19.5%	19.5%
LECOSRF*		
State	0.5%	0.5%
Employee	0.5%	0.5%
Total	1.0%	1.0%
Dedicated Revenue (Court Cost)**	\$18.8 million	\$18.1 million
JRS 2		
State	15.663%	15.663%
Employee***	7.43%	7.46%
Total	23.093%	23.123%

*LECOSRF-eligible employees also contribute to the ERS Fund because LECOSRF is a supplement. These employees receive about 80% of their retirement benefit from the ERS Fund.

**LECOSRF also receives a dedicated portion of criminal court cost revenue. In the past, this amount has been expressed as a percent of payroll contribution rate, but going forward it is expected to decline as a percent of payroll and is excluded from these numbers.

***For JRS 2, this amount reflects the employee contribution of those members actively contributing. After 20 years of service (or reaching Rule of 70 and serving 12 years as an appellate court judge), JRS 2-eligible members can either stop contributing or they can continue to contribute and earn additional service. Because not all members choose to do so, the effective contribution rate for FY18 is 7.43% and for FY17 was 7.44%

Investments

The ERS Retirement Trust Fund netted \$2.6 billion in investment earnings. The investment portfolio of the Fund had a total value of \$29 billion as of August 31, 2018. The annual gross rate of return was 9.58% (9.54% net).

ERS Investment Performance – Period ending August 31, 2018						
Period	30-Year	20-Year	10-Year	5-Year	3-Year	1-Year
Net Return*	Unknown**	6.48%	7.02%	8.27%	8.94%	9.54%
Gross Return	8.26%	6.56%	7.14%	8.33%	8.98%	9.58%

*The actuarial assumed rate of return of 7.5% is based on net return.

**Not available due to custodian data transfer issue. 30-year net will first be available beginning FY27.



ERS is moving forward with construction plans for the ERS office building at 200 E. 18th Street in Austin. A small portion of the estimated 145,000 square feet of office space will be utilized by ERS, while the rest will be available for lease to tenants, offsetting the cost of the building and maintenance, and earning an excess return for the Trust. In addition, market studies show that a new building will add value to the ERS Retirement Trust Fund and be a source of revenue for the Fund. Construction is expected to begin in March 2019 and be completed in 2020. Having additional office space will enable ERS to continue to serve the state and our members and to recruit and retain quality staff.



ERS produced eight short videos to help members and stakeholders better understand our long-range approach to investing and the importance of having a diverse investment portfolio to protect and grow the ERS Retirement Trust Fund. You can find the videos in the Investments section of the ERS website, www.ers.texas.gov/About-ERS.

Insurance

The Texas Employees Group Benefits Program (GBP) provides coverage for health, life, dental, vision, accidental death & dismemberment (AD&D), and short-term and long-term disability.

- There are 535,388 participants in all GBP health plans (211,644 employees, 118,675 retirees and survivors, 204,284 dependents and 785 COBRA).
- GBP health insurance plans cover about one of every 53 Texans.
- The self-funded ERS health plans – HealthSelectSM of Texas, Consumer Directed HealthSelect, HealthSelect Prescription Drug and HealthSelect Medicare Rx – paid \$2.82 billion in claims.
 - Participants in those plans paid \$454 million in out-of-pocket expenses, including copays, coinsurance and deductibles.
- 78,879 participants (members and dependents) are enrolled in ERS' Medicare Advantage health plans. This represents approximately 75% of the eligible Medicare population.

ERS strives to keep administrative expenses low. In HealthSelect of Texas, the largest GBP health plan, less than 3% of overall expenditures go toward administration – far less than the 11% average for large, private health plans.

TEXFLEX

The TexFlex flexible spending accounts are authorized and regulated by the Internal Revenue Service under Section 125, for health and dependent care expenses. The program saves money for state and participants.

- \$75.9 million contributed to TexFlex accounts by state employees
- 50,412 health, dependent care, limited and commuter accounts
- \$505.8 million in insurance premiums paid pre-tax
- \$131.7 million estimated in Federal Insurance Contributions Act (FICA) tax and Federal Income Tax savings for participants
- \$44.5 million estimated in tax savings for the state (FICA)

TEXA\$AVERSM

401(k) / 457 Program

Deferred supplemental 401(k) / 457 retirement program

\$3.31 Billion in Total Assets			
401(k)*	401(k) Roth	457*	457 Roth
\$2.44 billion	\$34.3 million	\$868.7 million	\$27.8 million
206,617 accounts	5,069 accounts	34,023 accounts	4,212 accounts
95,392 accounts contributing	3,402 accounts contributing	18,591 accounts contributing	2,707 accounts contributing

*Includes 401(k) Roth and 457 Roth amounts shown.