

Strategic Plan FISCAL YEARS 2017–2021

June 2016



Strategic Plan

EMPLOYEES RETIREMENT SYSTEM OF TEXAS

FISCAL YEARS 2017-2021

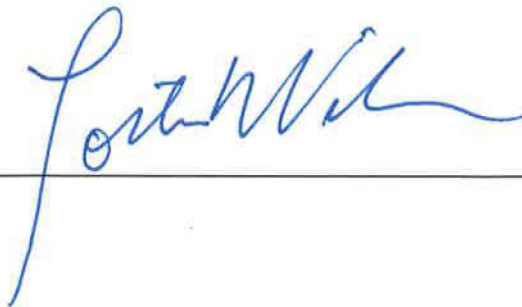
BY

PORTER WILSON
EXECUTIVE DIRECTOR

Board Member	Dates of Term	Hometown
I. Craig Hester, Chair Appointed by the Chief Justice of the Supreme Court of Texas	November 1, 2005 - August 31, 2016	Austin
Doug Danzeiser, Vice-Chair Elected	October 30, 2014 - August 31, 2019	Austin
Ilesa Daniels Elected	September 1, 2015 - August 31, 2021	Houston
Cydney Donnell Appointed by the Governor	June 20, 2011 - August 31, 2018	Bryan
Brian D. Ragland Elected	September 1, 2011 - August 31, 2017	Austin
Frederick E. Rowe, Jr. Appointed by the Speaker of the House	November 28, 2011 - August 31, 2020	Dallas

June 24, 2016

Signed: _____



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Mission

ERS offers competitive benefits to enhance the lives of its members.



Philosophy

ERS prudently and professionally manages the trust funds and programs on behalf of its members. The benefits are an important part of the compensation of State of Texas employees, contributing to their financial security and well-being throughout their lives. We operate in an ethical, cost-effective manner, providing valuable and reliable service delivered by highly qualified staff.



Fiduciary Duty

ERS is a constitutional trust fund administered by the ERS Board of Trustees. Article XVI, Section 67 of the Texas Constitution and Section 815.103 of the Texas Government Code provide that the ERS Board of Trustees is the trustee of all ERS assets. ERS' operations are held to a fiduciary duty standard to ensure that the actions and activities of the Board of Trustees, the agency and its employees are conducted in a manner consistent with the protections, preservation, and best interest of the trust and trust's beneficiaries.



Goals and Action Plans

Goal: Support Our Members' Retirement Income Security

As public servants, state employees provide critical services to Texans. ERS works to support the current and future workforce by attaining and maintaining actuarially sound retirement plans, providing tools and assistance to enhance retirement readiness, and administering and managing trust assets innovatively to achieve target returns within risk tolerance

Measures as of August 31, 2015	How Does ERS Plan to Support Members' Retirement Income Security?
<p>Years to amortize the ERS unfunded actuarial accrued liability: 33</p> <p>Years to amortize the LECOS unfunded actuarial accrued liability: Infinite</p> <p>Years to amortize the JRS 2 unfunded actuarial accrued liability: Infinite</p> <p>Active contributing members: Regular class: 142,409 LECO: 38,526 JRS 2: 563 JRS 1: 10</p> <p>Retirees and beneficiaries: Regular class: 100,003 LECO: 10,845 JRS 2: 322 JRS 1: 391</p> <p>Average annual annuity: Regular class: \$19,402 LECO: \$5,291 JRS 2: \$63,599</p>	<ul style="list-style-type: none"> • Attain funding required to achieve actuarial soundness by maintaining and increasing state contributions. • Develop and attain a sound, statewide funding policy for ERS retirement plans by December 2016. • Conduct asset allocation and pension experience studies by February 2018. Assumptions that will be reviewed fall into three categories: <ol style="list-style-type: none"> 1. demographic (e.g., mortality, service credit), 2. economic (e.g., inflation, payroll growth) and 3. other (e.g., withdrawal upon termination). <p>In addition, the studies provide an opportunity to review current methodologies, such as asset smoothing.</p> • Expand programs to enhance members' and stakeholders' investment and financial literacy through June 2021. • Expand existing core competencies for innovative investment management by exploring new investment alternatives through June 2021. • Explore and conduct Texa\$aver custom fund evaluation by December 2017. • Educate stakeholders on the higher cost of LECOS members to the main fund by May 2017. • Explore one-time funding to improve actuarial soundness by May 2017.

Supporting Member's Retirement Income Security Supports the Statewide Objectives

Annuity payments benefit Texas. Approximately 96% of ERS retirees live and spend in Texas. Retirement benefits are funded over the employee's working career, allowing investment earnings to compound and grow. Of the \$2 billion in annual annuity payments, approximately two-thirds of the revenue is generated from investment earnings. About 30% of ERS investments are in companies with Texas headquarters or who employ more than 200 Texas workers.

Defined benefit plans serve a key role in recruiting and retaining employees critical to the safety, health and well-being of Texans. Texas relies on a diverse and comprehensive workforce. Because state salaries are generally lower than in the private sector, quality benefits help to bridge the gap and attract qualified individuals to serve as law enforcement officers, caseworkers and other governmental roles.

Key measurements of the retirement system are the normal cost, funded ratio, actuarial cost and years to pay off the unfunded liability. The normal cost is the amount of contributions required to cover the cost of future benefits earned for the current year. The actuarially sound contribution (ASC) rate is the rate needed to pay the normal cost and pay off the unfunded liabilities within 31 years (Texas Government Code 811.006). When a plan has unfunded liabilities, the funding period (the number of years to payoff unfunded liabilities) is the most important metric as this shows where a plan is headed. The funded ratio shows where a plan has been. A plan can have a high funded ratio but still be on a path to deplete. As of August 31, 2015:

- The normal cost rate for ERS is 12.27%; for LECOS, 1.77%; and for JRS 2, 21.40%.
- The ASC rate for ERS is 19.62%; for LECOS, 3.02%; and for JRS 2, 23.79%.
- The funded ratio for ERS is 76.3%; for LECOS, 72.0%; and for JRS 2 92.2%.
- The funding period for ERS is 33 years and infinite for LECOS and JRS 2.

Other Considerations

The ERS pension fund is established by the Texas Constitution which provides for minimum and maximum contribution rates by the employer. The specific rates for the employer are established each biennium in the General Appropriations Act. Many factors impact employer contributions, including the Biennial Revenue Estimate and the Constitutional Spending Limit.

Employee contribution amounts for ERS are established in Government Code 815.402. During the 84th legislative session, the employee contribution was increased to 9.5%. Employees new to state government experience surprise upon receiving their first paycheck, as not only is the 9.5% contribution deducted, but also deductions for the deferred compensation plan (Texa\$aver) and 6.2% for Social Security. The ability to sustain the employee contribution at 9.5% is impacted by economic challenges, including higher healthcare costs.

Defined benefit plans as an employee benefit have continued to decline in the private sector. Some states are evaluating options and implementing defined benefit options for small businesses, as these plans reduce reliance on federal and state income assistance.

Goal: Sustain Competitive Group Benefits Programs

ERS strives to offer competitive benefits at a reasonable cost to the members, retirees and their dependents. To accomplish this, ERS will administer programs that offer value to participants and employers, encourage participants to actively engage in healthy behaviors, and use data analytics to better manage the programs and improve outcomes.

Measures as of August 31, 2015	How Does ERS Plan to Sustain Competitive Group Benefits Programs (GBP)?
<p>Percentage of HealthSelect spend on health care claims: 97%</p> <p>Percentage of health claims processed in-network: 91%</p> <p>Increase in enrollment in Medicare Advantage plans since FY12: 35%</p> <p>Percentage of HealthSelect participants enrolled in condition management program(s): 17%</p> <p>Percentage of HealthSelect participants satisfied with network services: 86.2%</p>	<ul style="list-style-type: none"> • Evaluate new offerings to existing programs and incorporate those that are determined to be cost-effective and to add value to the GBP by September 2020. • Regularly bid GBP administration to ensure competitiveness and value to members. • Target wellness programs that address cost drivers by January 2020. • Increase participation in wellness and condition management programs by 50% by August 2020. • Enhance data analysis capabilities to provide information about the GBP by August 2021. • Amend Chapter 1552 to allow use of individual policies under long-term care coverage. • Establish benefits advisory committee by December 2017.

Sustaining Competitive Group Benefits Programs Supports the Statewide Objectives

Our group benefits programs play an important role in attracting and retaining a qualified workforce to support the well-being of Texans. For many state employees, a competitive, comprehensive benefits package is one of the leading factors in their recruitment and retention. The benefits help ensure that skilled individuals are serving the people of Texas.

The GBP is a cost-efficient program that provides benefits to more than half a million employees, retirees and their dependents. ERS works diligently to implement best-practice solutions and manage program costs through innovative risk-sharing arrangements with providers, collecting subsidies for the Medicare prescription drug plan and negotiating fees for third-party administrative services.

ERS manages the GBP through prudent plan design and professional oversight. The plan design determines what is covered and how much participants pay in deductibles, copays and coinsurance. Professional oversight includes fraud control programs, contracting arrangements with providers, and wellness and disease management offerings. ERS and its contracted third-party administrators work together to manage the network of providers; process claims in an efficient, participant-focused manner; and provide customer service to our members.

Other Considerations

The rate at which health care costs increase continues to rise. ERS works to manage costs within the plan; however, state agencies and institutions of higher education, as the employers, must support wellness initiatives to reduce long-term health costs.

Access to care is driven by the market. As a result, rural areas of the state have fewer options to access care locally. While ERS works with third-party administrators (TPAs) to provide coverage throughout the state, some specialized services are only available in large urban areas due to the limited number of specialists. For specialized services, members and their dependents may have to travel to other parts of the state to receive care.

Texas Insurance Code Chapter 1552 authorizes ERS to establish a group long-term care insurance program, but not individual plans. The market limits the ability to establish a group long-term care health insurance program.

ERS is committed to protecting the privacy of program participants' protected health information in accordance with federal and state regulations consistent with the delivery of a quality health plan, effective management of health care operations and payment of covered health care services. This commitment to protecting identifiable member data creates potential issues with providing some requested data to other state agencies, institutions of higher education and other stakeholders.

Goal: Engage Stakeholders for Informed Decision Making

ERS recognizes the important role that its members, the Texas Legislature, the member groups and countless others play in shaping group benefit program offerings. As new plans or programs are considered or introduced, it is critical that ERS engage its stakeholders to support positive outcomes. Thus, ERS will educate stakeholders on programs and their value, increase its own understanding of stakeholder needs and appropriately apply input into agency activities.

Measures as of August 31, 2015	How Will ERS Engage Stakeholders for Informed Decision Making?
<p>Reached out to more than 6,500 members and retirees at 213 events across the state</p> <p>Responded to more than 400,000 phone calls and 26,000 emails from members and retirees</p> <p>Achieved 99% satisfaction rate from ERS visitors</p> <p>Noncontributing members: ERS: 101,122 LECOS: 12,962 JRS2: 148</p>	<ul style="list-style-type: none"> • Conduct comprehensive enrollment campaigns, which include benefits fairs around the state, through June 2021. • Conduct retirement education seminars online and around the state through June 2021. • Inform policy makers of the importance of benefits in recruiting and maintaining the state workforce. • Evaluate additional channels to engage members more effectively through June 2021. • Improve self-service options and functionality for our members by June 2021. • Increase mobile capabilities for stakeholders by August 2017. • Assess communications for relevance and comprehension, and improve as necessary. • Target communications with non-contributing members by August 2017. • Update design of public website for better usability by August 2017. • Conduct surveys to seek pros and cons of existing programs by August 2017. • Increase transparency in investment reporting by December 2017. • Provide updated benefits and wellness toolkits and training to benefit coordinators annually. • Establish benefits advisory committee by December 2017. • Increase transparency in the grievance process.

Engaging Stakeholders Supports the Statewide Objectives

As the administrator of state employee benefit programs, ERS provides benefits that its members rely upon every single day. It is ERS' responsibility to not only administer these programs, but to also educate our members and other stakeholders on our programs and encourage participation whenever possible. ERS uses a number of channels to engage its stakeholders, including print publications, the public website, face-to-face presentations, webinars and benefits fairs.

ERS makes every effort to update our members, legislators and legislative staff, and other stakeholders on the impact of proposed benefit changes, retirement funding, insurance funding and the implementation of legislation. We communicate with key legislative audiences through presentations, handouts, testimony and briefing documents. ERS also spends a significant amount of time updating content on its public website to ensure that information is relevant and easily accessible.

ERS takes pride in meeting the expectations of its members, and thus we have developed a comprehensive quality improvement program that includes satisfaction surveys to assess our performance. Providing our members with the highest level of service, and factoring their input into our decisions and actions, is our way to honor the service of state employees and retirees.

Other Considerations

ERS offers a vast array of complex benefit programs that usually require extensive communications. We do our best to convey information on a level that can be easily understood by any member or retiree, but it is challenging to present this information in a simple manner while delivering the core content to the audience. The balance between providing the necessary information and providing information that is easy to understand is something we try to address in all of our communications.

ERS is eager to obtain information on how well the current benefit programs serve our members and what improvements would assist our employers in attracting and retaining staff. One of the avenues for obtaining that information is through surveys, that depend on stakeholder engagement. ERS continues to evaluate communication channels that will engage stakeholders across multiple generations.

The human resources departments of state agencies and institutions of higher education serve as the primary source of information on state employee benefits program to the state workforce. As a result of turnover, individual coordinators may not have an in-depth knowledge of the benefit programs and, therefore, may provide inaccurate or incomplete information.

Similar to other state agencies, ERS must prioritize competing needs with resources in determining which projects move forward and when. Annual summer and fall enrollments are resource-intensive. Every effort is made to ensure our members have the information they require to make informed decisions that will impact their benefits and net paycheck over the course of the next year.

Goal: Enhance Agency Performance and Accountability

As benefit plans and products evolve and more state employees look toward retirement, it is important that the agency be nimble to adapt to changes and seize opportunities to increase efficiency and effectiveness. At the same time, we must ensure our policies, processes and procedures are transparent to maintain the trust of our members and the public. We recognize that our employees are our greatest assets. We value the contribution that each individual makes to our success and seek to leverage their input, skills and talents to achieve the agency’s mission.

Measures as of August 31, 2015	How will ERS Enhance Its Performance and Accountability?
<p>ERS annual operating expense per member: \$63.57</p> <p>Investment expense as basis points of net position: 13.58</p> <p>Percentage of time the ERS online system is available to customers: 95.81%</p>	<ul style="list-style-type: none"> • Continue to enhance contract oversight and management through transparent and updated processes and procedures by December 2016. • Identify alternatives for improving group benefits administration services by August 2017. • Enhance data quality and data analysis capabilities of the agency to increase efficiency, inform communication, decision making and enhance programs for members through June 2021. • Continue to improve data and member information security. • Improve visibility of human resources programs and processes to managers and staff by August 2018. • Improve revenue collection/cash flow processes by August 2017. • Establish internal communications strategy by February 2018. • Develop and implement plan to address physical space needs by December 2016 and implement the plan by June 2021. • Apply appropriate stakeholder input to design employee programs and leadership training strategies by December 2016.

Enhancing ERS Performance and Accountability Supports the Statewide Objectives

ERS created the Office of Purchasing and Contracting Oversight (OPCO) in Fiscal Year 2016 and consolidated contracting resources in that division. The OPCO is currently updating processes and procedures to reflect organizational changes. Through this effort and improving the ERS contract technology, the agency’s contracting process will be more transparent to stakeholders, as well as more efficient.

Other improvements in technology or the acquisition of technology services will eliminate outdated and inefficient processes and procedures, and will improve the availability of information to our members and employers.

Inclusion of our employees in agency-wide initiatives will ensure effective communication, avoid duplication of services/efforts, ensure the highest quality of service and provide opportunities for growth.

Describe Any Other Considerations Relevant to Your Goal or Action Plan

Our effort to continually improve the security of member data is sometimes challenged by the types of requests for information received from other agencies and stakeholders. Our commitment to protecting member data is one of our priorities. This has the potential to create issues with our ability to provide certain pieces of requested data to other state agencies, institutions of higher education and other stakeholders.

Redundancies and Impediments

Service, Statute, Rule or Regulation (Provide Specific Citation if Applicable)	Describe Why the Service, Statute, Rule or Regulation Is Resulting in Inefficient or Ineffective Agency Operations	Provide Agency Recommendation for Modification or Elimination	Describe the Estimated Cost Savings or Other Benefit Associated with Recommended Change
Texas Constitution, Article XVI, Sections 67 (a (1) and 67 (b)(3)	Interpretation of the 10% contribution as maximum within any one year limits options to reduce the state's debt. Interpretation that one time funding is included in the 10% contribution limits options to reduce the state's debt.	Re-evaluate one-time contributions as a source of reducing the state's debt.	The trust fund investment performance over a 30-year period as of August 31, 2015 was 8.29%.
Benefits Coordinator Training	The human resources departments of state agencies and institutions of higher education serve as the primary source of information on state employee benefits programs to the state workforce. Due to turnover, individual coordinators may not have an in-depth knowledge of benefit programs and as a result provide inaccurate or incomplete information.	Require benefits coordinators to participate in specific training offered by ERS for benefits coordinators.	Increase benefits coordinators' knowledge of employee benefit programs. Reduce the frequency with which inaccurate or incomplete information is provided to employees.
Texas Insurance Code Chapter 1552	Chapter 1552 allows ERS to establish a group long-term care insurance program, but not individual plans.	Amend Chapter 1552 to allow the Board to establish a long-term care insurance program for individuals.	Allow employees to purchase individual long-term care policies at a discount versus what they would pay on their own in the market.
Government Code §2101.0115 Non-Financial Annual Report	The Non-Financial Annual Report includes various schedules that are either duplicative of other reports or not utilized.	Amend the statute to have the specific schedules/information to be provided in the report designated by rule.	Allow the oversight agencies to determine specific content that is needed and not available from other sources.



Principles

Trust

Earn and maintain the confidence of our stakeholders.

Integrity

Make ethical and prudent decisions.

Service

Deliver quality and respectful service to all participants.

Adaptability

Able to adjust to different conditions.

Communication

Exchange information in a consistent, concise and clear manner.

Stewardship

Prudently manage resources.

Innovation

Embrace new ideas and concepts.

Collaboration

Exhibit teamwork in accomplishing the task at hand.





Appendices



Appendix A - Budget Structure ABEST

OBJECTIVES AND OUTCOME MEASURES

Goal 1

To administer comprehensive and actuarially sound retirement programs

Objective 1

Ensure actuarially sound retirement programs such that ERS, JRS 2 and LECOS retirement funds do not exceed the 30-year amortization period limit, that each retirement program receives sufficient funding from contributions and investment income to maintain actuarial soundness, and that the retirement programs maintain a five-year rolling, time-weighted rate of return equal to the actuarially assumed rate of return.

Outcome Measures

1. Percentage of ERS Retirees Expressing Satisfaction with Benefit Services
2. Number of Years to Amortize the ERS Unfunded Actuarial Accrued Liability
3. Number of Years to Amortize the LECOS Unfunded Actuarial Accrued Liability
4. Number of Years to Amortize the JRS 2 Unfunded Actuarial Accrued Liability
5. ERS Time-Weighted Rate of Return (Five Year Rolling Basis)
6. ERS Annual Operating Expense Per Member
7. Investment Expenses as Basis Points of Net Position
8. Percentage of Time the ERS Online System Is Available to Customers

Goal 2

Provide Employees and Retirees with a Quality Health Program

Objective 1

Manage the group benefits program for general state and higher education employees so that the annual change in monthly premiums is reasonable, and the average time to process group insurance claims is reasonable while allowing sufficient time for fraud detection.

Outcome Measure

1. Percentage of HealthSelect Participants Satisfied with TPA Services

STRATEGIES AND OUTPUT, EFFICIENCY AND EXPLANATORY MEASURES

Strategy A.1.1 Retirement Contributions

Output Measures:

1. Number of ERS Annuitants Added to Annuity Payroll
2. Number of ERS Accounts Maintained

Explanatory/Input Measures:

1. Number of ERS Annuitants

Strategy A.1.2 Law Enforcement and Custodial Officer Supplemental Retirement Fund (LECOS)

Output Measures:

1. Number of LECOS Annuitants Added to Annuity Payroll
2. Number of LECOS Accounts Maintained

Explanatory/Input Measures:

1. Number of LECOS Annuitants

Strategy A.1.3 Judicial Retirement System – Plan 2 (JRS 2)

Output Measures:

1. Number of JRS 2 Annuitants Added to Annuity Payroll
2. Number of JRS 2 Accounts Maintained

Explanatory/Input Measures:

1. Number of JRS 2 Annuitants

Strategy A.1.4 Judicial Retirement System – Plan 1 (JRS 1)

Output Measures:

1. Number of JRS 1 Annuitants Added to Annuity Payroll
2. Number of JRS 1 Accounts Maintained

Explanatory/Input Measures:

1. Number of JRS 1 Annuitants

Strategy A.1.5 Public Safety Benefits

Output Measures:

1. Number of Death Benefit Claims Processed
2. Number of Beneficiaries Receiving Benefits

Strategy A.1.6 Retiree Death Benefits

Output Measures:

1. Number of Retiree Death Benefits Paid

Efficiency Measures:

1. Average Number of Days to Process Retiree Death Benefits

Strategy B.1.1 Group Insurance

Output Measures:

1. In-Network Services as a Percentage of Total Services
2. Mental Health/Substance Abuse Costs as a Percentage of Total HealthSelect Costs
3. Prescription Drug Program Costs as a Percentage of Total HealthSelect Costs

Efficiency Measures:

1. Percentage of Claims Processed within 22 Business Days
2. Percentage of All Electronic Retail Pharmacy Claims Paid Within 15 Business Days
3. HealthSelect Administration Fee as Percentage of Total HealthSelect Costs

Explanatory/Input Measures:

1. Number of Employees, Retirees and Dependents Covered by GBP Health Care Plans
2. Percentage of Participants in HMOs

Appendix B - List of Measure Definitions

This appendix includes the Objective Outcome Definitions and the Strategy-Related Measures Definitions from the Automated Budget and Evaluation System of Texas (ABEST).

Objective: Ensure Actuarially Sound Retirement Programs.

Outcome Measures: Percentage of ERS Retirees Expressing Satisfaction with Member Benefit Services

Definition: The number of retirees in the ERS satisfied with benefit services offered by the agency.

Purpose: This measure is intended to reflect the success of the agency's effort to administer comprehensive and actuarially sound retirement programs.

Methodology: The ERS Annuity Survey is mailed to all new retirees 75 days after their first annuity check. Surveys are received throughout the year with Satisfied/Extremely Satisfied, When Expected/Sooner, and Amount Expected/More ranked as satisfied. All other responses rank as unsatisfied. The total number of retirees expressing satisfaction is divided by the total number of retirees responding to the survey to arrive at a percentage.

Data Limitations: The measure depends on adequate numbers of responses from survey participants.

Outcome Measures: Number of Years to Amortize the ERS Unfunded Actuarial Accrued Liability

Definition: Number of years required to amortize any unfunded liability of the Employees Retirement System (ERS)

Purpose: This measure reports the success of the agency's effort to administer comprehensive and actuarially sound retirement programs such that the ERS retirement fund does not exceed the 30-year amortization period limit.

Methodology: The System's actuarial valuation reports the actuarial value of assets and the actuarial accrued liability. If liabilities exceed assets, the valuation will report an amortization period in years. If assets exceed liabilities, the amortization period will be zero years.

Data Limitations: The state contribution and the number of years required to meet actuarial soundness are set by the Texas Legislature.

Outcome Measures: Number of Years to Amortize the LECOS Unfunded Actuarial Accrued Liability

Definition: The number years required to amortize any unfunded liability of the LECOS

Purpose: This measure reports the success of the agency's effort to administer comprehensive and actuarially sound retirement programs such that the LECOS retirement fund does not exceed the 30-year amortization period limit.

Methodology: The System's actuarial valuation reports the actuarial value of assets and the actuarial accrued liability. If liabilities exceed assets, the valuation will report an amortization period in years. If assets exceed liabilities, the amortization period will be zero years.

Data Limitations: The state contribution and the number of years required to meet actuarial soundness are set by the Texas Legislature.

Outcome Measures: Number of Years to Amortize the JRS 2 Unfunded Actuarial Accrued Liability

Definition: The number years required to amortize any unfunded liability of the Judicial Retirement System Plan 2 (JRS 2).

Purpose: This measure reports the success of the agency's effort to administer comprehensive and actuarially sound retirement programs such that the JRS 2 retirement fund does not exceed the 30-year amortization period limit.

Methodology: The System's actuarial valuation reports the actuarial value of assets and the actuarial accrued liability. If liabilities exceed assets, the valuation will report an amortization period in years. If assets exceed liabilities, the amortization period will be zero years.

Outcome Measures: ERS Time-Weighted Rate of Return (Five-Year Rolling Basis)

Definition: The rate of investment return achieved by the Pension Investment Pool (ERS, LECOS, JRS 2), adjusted to a five-year rolling basis.

Purpose: This measure is intended to reflect the success of the agency's effort to administer comprehensive and actuarially sound retirement programs such that the Employees Retirement Fund maintains a five-year rolling, time-weighted rate of return equal to the actuarially assumed investment rate of 8% each year of the five-year planning period. The rate of return measures the performance of the total investment portfolio, considering income and market impact, eliminating the effect of the timing of cash flows. The five-year rolling return is used to smooth market swings and to maintain consistency with the long-term nature of the fund.

Methodology: The Trust's custodian calculates the rate of return (ROR) daily on the Investment Pool using the Modified Dietz Method. The calculation for the ROR is $(EMV - BMV - CF) / (BMV + CF)$. Cashflows (CF) include contributions to and withdrawals from the investment pool. Daily rates are then linked to derive monthly and annual rates of return. Annualized rates of return are derived using the following calculation (assumes 60 months to arrive at the five year annualized ROR above):
$$\{(ROR_1 + 1)(ROR_2 + 1)(ROR_3 + 1) \dots (ROR_{60} + 1)^{1/60}\} - 1$$

Beginning Market Value (BMV)
Ending Market Value (EMV)

Outcome Measures: ERS Annual Operating Expense Per Member

Definition: The cost per active, non-contributing and retired member and beneficiaries to administer ERS.

Purpose: This measure is intended to reflect the efficiency of the agency's efforts to administer comprehensive and actuarially sound retirement programs.

Methodology: Total Administrative Expense for Fund 0955 from the Combining Statement of Changes in Fiduciary Net Position is divided by the total of the sum of active, non-contributing, and retired members and beneficiaries to arrive at cost per member. This measure does not include investment expenses, which are measured as basis points of net position.

Outcome Measures: Investment Expense as Basis Points of Net Position

Definition: The ratio of investment expenses to the total position of the Employees Retirement Fund (0955)

Purpose: This measure is intended to report the efficiency of the agency's efforts to administer comprehensive and actuarially sound retirement programs.

Methodology: Investment Expenses minus Alternative Investment Expenses for Fund 0955 is divided by the total assets for Fund 0955. The ratio is expressed in basis points – 100 basis point equals 1%.

Outcome Measures: Percentage of Time the ERS Online System Is Available to Customers

Definition: The percentage of time that the Employees' Retirement System (ERS) Online system is available to customers

Purpose: The measure addresses the extent to which ERS services are available and accessible to customers. ERS has made significant efforts to modernize systems and to make services to customers, including self- service components, readily available and easily accessible through the ERS website.

Methodology: A percentage is obtained by dividing the number of minutes the system was available by the number of minutes for the period.

Objective: Manage GBP for State and Higher Education Employees.

Outcome Measures: Percentage of HealthSelect Participants Satisfied with TPA Services

Definition:	The percentage of all members reporting satisfaction with HealthSelect's third party administrator (TPA).
Purpose:	This measure shows member satisfaction with their ability to access and receive medical services in a timely and professional manner.
Methodology:	The TPA's contracted vendor mails 2,500 surveys to participants who filed a claim within the quarter. Members have the option of responding online. Additionally, the TPA conducts post-call satisfaction surveys each time a member calls. If the TPA receives a response rate of 15% or less on the mailed surveys, the results are combined with the average satisfaction of those responding to the call center survey. The data are accumulated for the plan year and reported to ERS. Member satisfaction is determined by totaling Excellent, Very Good or Good responses and dividing by the number of members who answered that question. Upon the end of the fiscal year, the TPA provides ERS an annualized member satisfaction number.
Data Limitations:	Member satisfaction level calculations are prepared by the TPA. Benefit plan changes may result in unfavorable member responses. Provider terminations may be perceived as lack of access.

Strategy: Provide an Actuarially Sound Level of Funding as Defined by State Law.

Explanatory Measure: Number of ERS Annuitants

Definition:	The number of retirees and their beneficiaries from the ERS Fund 0955.
Purpose:	This measure shows the demand for the agency's services to administer comprehensive and actuarially sound retirement programs and to provide an actuarially sound level of retirement funding as defined by state law.
Methodology:	An automated monthly report from annuity payroll determines the total number of warrants issued from the ERS Fund 0955. The report for the month of August is used for this measure.

Output Measures: Number of ERS Annuitants Added to Annuity Payroll

Definition:	The number of ERS retirees and beneficiaries added to annuity payroll from the ERS Fund 0955
Purpose:	This measure shows the demand for the agency's services to administer comprehensive and actuarially sound retirement programs and to provide an actuarially sound level of retirement funding for ERS annuitants as defined by state law.
Methodology:	An automated monthly report from the annuity payroll system totals the number of annuitants added to the payroll from the ERS Fund 0955.

Output Measures: Number of ERS Accounts Maintained

Definition:	The number of ERS accounts, which includes both employee and elected class, maintained by agency staff from the ERS Fund 0955
Purpose:	This measure shows the demand for the agency's services to administer comprehensive and actuarially sound retirement programs and to provide an actuarially sound level of retirement funding as defined by state law.
Methodology:	The automated reports total the number of contributing and non-contributing accounts from the ERS Fund 0955.

Strategy: Maintain a Retirement Program for Law Enforcement and Certain Texas Department of Criminal Justice Employees (LECOS).

Explanatory Measure: Number of LECOS Annuitants

Definition: The number of retirees and their beneficiaries receiving benefits from the LECOS Supplemental Fund 0977

Purpose: This measure shows the demand for the agency's services to administer a comprehensive and actuarially sound retirement program and to provide an actuarially sound level of retirement funding as defined by state law for commissioned law enforcement officers and certified peace officers/ custodial officers (LECOS).

Methodology: An automated monthly report from annuity payroll determines the total number of payments issued from the LECOS Fund 0977. The report for the month of August is used for this measure.

Output Measures: Number of LECOS Annuitants Added to Annuity Payroll

Definition: The number of LECOS retirees and beneficiaries added to annuity payroll from the LECOS Supplemental Fund 0977

Purpose: This measure shows the demand for the agency's services to administer comprehensive and actuarially sound retirement programs and to provide an actuarially sound level of retirement funding for LECOS annuitants as defined by state law.

Methodology: An automated monthly report from the annuity payroll system totals the number of LECOS annuitants added to the payroll from the LECOS Supplemental Fund 0977.

Output Measure: Number of LECOS Accounts Maintained

Definition: The number of accounts maintained by agency staff from the LECOS Supplemental Fund 0977

Purpose: This measure shows the demand for the agency's services to maintain a retirement program for commissioned law enforcement officers and certified peace officers/custodial officers (LECOS).

Methodology: Automated reports total the number of CPO-certified and previously CPO-certified inactive accounts from the LECOS Supplemental Fund 0977.

Data Limitations: The change in the number of commissioned law enforcement officers and certified peace officers/ custodial officers, the turnover rate and the number of members leaving their accounts with ERS are beyond agency control.

Strategy: Maintain an Actuarially Sound Retirement Program for State Judicial Officers (JRS 2 Fund).

Explanatory Measure: Number of JRS 2 Annuitants

Definition: The number of retirees and their beneficiaries from the Judicial Retirement System Plan 2 Fund 0993

Purpose: This measure shows the demand for the agency's services to administer comprehensive and actuarially sound retirement programs and to provide an actuarially sound level of retirement funding as defined by state law for JRS 2 annuitants.

Methodology: An automated monthly report from annuity payroll determines the total number of warrants issued from the JRS 2 Fund 0993. The report for the month of August is used for this measure.

Output Measure: Number of JRS 2 Annuitants Added to Annuity Payroll

Definition: The number of Judicial Retirement System Plan 2 retirees and beneficiaries added to annuity payroll from the JRS 2 Fund 0993

Purpose: This measure shows the demand for the agency's services to administer comprehensive and actuarially sound retirement programs and to provide an actuarially sound level of retirement funding for JRS 2 annuitants as defined by state law.

Methodology: The number is calculated from payroll records from the JRS 2 Fund 0993.

Output Measure: Number of JRS 2 Accounts Maintained

Definition: The number of Judicial Retirement System Plan 2 accounts maintained from the JRS 2 Fund 0993

Purpose: This measure shows the demand for the agency's services to provide for the payment of JRS 2 benefits as required by law by totaling the number of accounts belonging to contributing and non-contributing members.

Methodology: The automated reports total the number of contributing and non-contributing accounts from the JRS 2 Fund 0993.

Data Limitations: The growth in state employees, the turnover rate, and the number of members leaving their account with ERS are beyond agency control.

Strategy: Provide for the Payment of JRS 1 Benefits as Required by Law.

Explanatory Measure: Number of JRS 1 Annuitants

Definition: The number of retirees and their beneficiaries from the Judicial Retirement System Plan 1 Fund 0001.

Purpose: This measure shows the demand for the agency's services to administer comprehensive and actuarially sound retirement programs and to provide an actuarially sound level of retirement funding for JRS 1 annuitants as defined by state law.

Methodology: An automated monthly report from annuity payroll determines the total number of warrants issued from the JRS 1 Fund. The report for the month of August is used for this measure.

Output Measure: Number of JRS 1 Annuitants Added to Annuity Payroll

Definition: The number of Judicial Retirement System Plan 1 retirees and beneficiaries added to annuity payroll from the JRS 1 Fund 0001

Purpose: This measure shows the demand for the agency's services to administer comprehensive and actuarially sound retirement programs and to provide an actuarially sound level of retirement funding for JRS 1 annuitants as defined by state law.

Methodology: An automated report from the annuity payroll system totals the number of annuitants added to the payroll from the JRS 1 Fund.

Output Measure: Number of JRS 1 Accounts Maintained

Definition: The number of Judicial Retirement System Plan 1 accounts maintained from the JRS 1 Fund

Purpose: This measure shows the demand for the agency's services to provide for the payment of JRS 1 benefits as required by law by totaling the number of member accounts belonging to contributing and non-contributing members.

Methodology: The automated reports total the number of contributing and non-contributing accounts from the JRS 1 Fund.

Data Limitations: JRS 1 is a pay-as-you-go plan. State judicial officers who first held office before September 1, 1985 are eligible for membership in JRS 1. This is a closed plan that has not had any new covered members since 1985. Judges who took office for the first time on or after September 1, 1985 are in the JRS 2 plan.

Strategy: Provide the Payment of Death Benefits to Beneficiaries of Public Safety Workers.**Output Measure: Number of Death Benefit Claims Processed**

Definition: The number of death benefit claims processed by agency staff to beneficiaries of certain law enforcement officers, firefighters and emergency technicians killed in the line of duty as required by Chapter 615, Government Code

Purpose: This measure shows the demand for the agency's services to determine eligibility and provide for the payment of benefits to beneficiaries of certain law enforcement officers, firefighters and emergency technicians killed in the line of duty as required by Chapter 615, Government Code.

Methodology: Pull report AN143 for each month in the fiscal year. Use page 6 for 615 to total the number of beneficiaries who received a lump-sum payment. Go to the Number Payees column and add the numbers in the following categories: Lump-Sum Surviving Spouse, Beneficiaries and Violent Crimes Lump-Sum, Beneficiaries. Repeat the process for each month in the fiscal year. Add the totals for all 12 months to get the number of Death Benefit Claims processed for the entire fiscal year.

Output Measure: Number of Beneficiaries Receiving Benefits

Definition: The number of beneficiaries receiving payments as a result of a qualifying death of certain law enforcement officers, firefighters and emergency technicians killed in the line of duty as required by Chapter 615, Government Code

Purpose: This measure shows the demand for the agency's services to determine eligibility and provide for the payment of benefits to beneficiaries of certain law enforcement officers, firefighters and emergency technicians killed in the line of duty as required by Chapter 615, Government Code.

Methodology: Pull report AN143 for August. Page 6 for 615 will be used to total the number of beneficiaries who received a payment. In the first column, Number Payees, add the numbers in the following categories: Surviving Child Payments-Beneficiaries and Surviving Spouse Annuity-Beneficiaries.

Strategy: Provide Lump-Sum Retiree Death Benefits.

Efficiency Measure: Average Number of Days to Process Retiree Death Benefits

Definition: The average number of days elapsed from the date a claim for retiree death benefits under Section 814.501, Government Code is filed, to the date the request for death benefits is sent to the Comptroller

Purpose: This measure shows the efficiency of the agency's efforts to provide ERS retiree death benefits under Section 814 Subchapter F, Government Code.

Methodology: Average Number of Days is calculated by the Total Number of Days divided by Total Number of Payments.

Output Measure: Number of Retiree Death Benefits Paid

Definition: The number of retiree death benefits paid under Section 814.501, Government Code

Purpose: This measure shows the demand for the agency's services to determine eligibility and provide lump-sum retiree death benefits under Section 814.501, Government Code.

Methodology: Pull report AN143 for each month in the fiscal year. In the second column, Number Payees, add the number of 5K Death-Beneficiary on each page. Repeat for each month in the fiscal year, then total all 12 months.

Strategy: Provide General Benefits Program to State Employees, Retirees and Their Dependents.

Efficiency Measure: Percentage of Medical Claims Paid within 22 Business Days

Definition: The percentage of all medical claims received by the claims administrator that are paid within 22 business days.

Purpose: This measure shows the efficiency of the agency's efforts to manage a comprehensive, quality health program for general state and higher education employees.

Methodology: The number of claims paid within 22 business days is divided by the total of all claims received to arrive at a percentage.

Efficiency Measure: Percentage of All Electronic Retail Pharmacy Claims Paid within 15 Business Days

Definition: The percentage of all electronic retail pharmacy claims received by the claims administrator that are paid within 15 business days.

Purpose: This measure shows the efficiency of the pharmacy benefit manager (PBM) in processing pharmacy claims for members in a timely manner.

Methodology: The number of claims paid within 15 business days is divided by the total of all electronic retail claims received to arrive at a percentage.

Efficiency Measure: HealthSelect Administration Fees as Percentage of Total HealthSelect Costs

Definition: HealthSelect administrative costs as a percentage of total HealthSelect costs

Purpose: This measure depicts the agency's efforts to assure the efficient management of a comprehensive, quality health care program for general state and higher education employees.

Methodology: The total dollar amount of administrative fees paid to the HealthSelect PBM and TPA is divided by the dollar amount of total HealthSelect costs. Total HealthSelect costs include administrative fees, medical claims and prescription drug claims net of rebates, subsidies and discount guarantees.

Explanatory Measures: Number of Employees, Retirees, and Dependents Covered by GBP Health Care Plans

Definition: The number of participants in the Texas Employees Group Benefits Program (GBP) who are enrolled in HealthSelect, the health maintenance organizations (HMOs) and Medicare Advantage plans.

Purpose: This measure shows the demand for the agency's services to provide employees, retirees and dependents with a comprehensive, quality health program.

Methodology: The number of state and higher education employees, retirees and dependents covered by HealthSelect, the HMOs and Medicare Advantage plans, including nominees and COBRA and other direct-pay participants, in each of 12 months is totaled, then divided by 12 as of the end of the fiscal year.

Explanatory Measure: Percentage of Participants in HMOs

Definition: The percentage of all participants in the GBP who are members of HMOs

Purpose: This measure shows the demand for the agency's services to provide employees, retirees and dependents with a comprehensive, quality health program.

Methodology: A percentage is computed by dividing the number of GBP participants enrolled in HMOs by the total of all GBP participants as of the end of the fiscal year.

Output Measure: In-Network Services as a Percentage of Total Services

Definition: The percentage of paid claims for use of facilities or providers in the HealthSelect network

Purpose: This measure shows the impact of the agency's efforts to provide a basic health care program for general state and higher education employees. A high percentage of network utilization shows that the HealthSelect provider network generally meets the needs of participants.

Methodology: The total number of paid in-network claims (facility and provider) is divided by the total number of all paid claims (facility and provider) to arrive at a percentage.

Output Measure: Mental Health/Substance Abuse Costs as Percentage of Total HealthSelect Costs

Definition: The percentage of all HealthSelect costs that are attributable to treatment for mental health or substance abuse

Purpose: This measure shows the efficiency of the agency's efforts to manage a comprehensive, quality health program for general state and higher education employees and enables the agency to monitor health care cost trends.

Methodology: The total dollar amount of medical claims paid by the HealthSelect claims administrator for mental health care and substance abuse treatment is divided by the total dollar amount of medical claims paid by the HealthSelect claims administrator to arrive at a percentage.

Output Measure: Prescription Drug Program Costs as Percentage of Total HealthSelect Costs

Definition: The percentage of all HealthSelect costs which are attributable to prescription drugs

Purpose: This measure shows the efficiency of the agency's efforts to manage a comprehensive, quality health program for general state and higher education employees and enables the agency to monitor health care cost trends.

Methodology: The total dollar amount of prescription drug claims paid by the HealthSelect PBM net of rebates, subsidies and discount guarantees is divided by the total dollar amount of medical and prescription drug claims net of rebates, subsidies and discount guarantees paid by the HealthSelect TPA and PBM, respectively, to arrive at a percentage.

Historically Underutilized Business Plan

Reports Required Under General Appropriation Act (GAA), Sections 7.06 and 7.07 Relating to Historically Underutilized Businesses (HUBs) Employees Retirement System of Texas (Agency 327)

The Employees Retirement System of Texas (ERS) is actively committed to promoting contract opportunities to certified HUBs. Below is a brief summary of ERS' good faith efforts in the State of Texas HUB program during the last two fiscal years.

Historically Underutilized Businesses Strategic Plan Progress Report

	Goal* FY14 - FY16 %	Actual FY14 %	Actual FY15 %
Heavy Construction Other than Building Contracts	0.00	0.00	0.00
Building Construction, Including General Contractors and Operative Builders Contracts	2.00	0.00	0.00
Special Trade Construction Contracts	17.00	25.76	16.97
Professional Services Contracts	8.00	0.00	0.00
Other Services Contracts	5.00	18.72	27.71
Commodities Contracts	24.00	26.32	28.21

*Represents agency goals based on the 2009 Disparity Study and input from Comptroller staff

Participation in HUB-Related Meetings and Forums:

- Managed an exhibitor booth at the 13th Annual Texas Association of African-American Chambers of Commerce Conference September 26-28, 2013 in Austin.
- Managed an exhibitor booth at the Texas Association of Mexican American Chambers of Commerce's 38th Annual Convention and Business Expo October 2-4, 2013 in Houston.
- Participated in the 18th Annual HUB/Vendor Show on March 12, 2014 in Huntsville, TX, sponsored by Texas Department of Criminal Justice, Sam Houston University, City of Huntsville and Walker County.
- Managed an exhibitor booth at the 2nd Annual HUB Vendor Fair on April 10, 2014 at the State Capitol. The event was sponsored by the Texas Department of Motor Vehicles, Department of Public Safety, Texas Historical Commission, Texas Facilities Commission and the General Land Office.
- Participated in the 21st Annual HUB Vendor Fair on April 22, 2014 in Austin, sponsored by the University of Texas System.
- Managed an exhibitor booth at the 2014 Doing Business Texas Style Spot Bid Fair May 12-13, 2014 in Irving, TX.
- Participated in the DIR Connect Technology Expo on May 29, 2014 in Austin, sponsored by the Department of Information Resources.
- Managed an exhibitor booth at the Spark New Connections at the HUB Forum on July 8, 2014 in Austin, sponsored by the General Land Office, the Department of Agriculture, Historical Commission, Water Development Board and Real Estate Commission.
- Managed an exhibitor booth as a Tier 1 Sponsor at the 2014 Procurement Connection Seminar & Expo on August 12, 2014 in Austin. This event was sponsored by the Texas Comptroller of Public Accounts and the Statewide HUB Program.
- Sponsored an exhibitor booth at the Bexar Contracting Conference December 9-10, 2014.
- Attended the 19th Annual HUB/Vendor Show, sponsored by the Texas Department of Criminal Justice, Sam Houston State University et al. on March 24, 2015.
- Sponsored an exhibitor booth at the Taking Care of Business 2015 HUB Expo on April 2, 2015.

- Participated in the Travis County How to Do Business with the County workshop on April 23, 2015.
- Sponsored an exhibitor booth at the 2015 Procurement Connection Seminar and ACCESS Expo Spot Bid Fair May 11-12, 2015.
- ERS' Purchasing staff continued to participate in regular HUB Discussion Workgroup meetings.

Regular HUB Outreach Activities:

- ERS regularly communicates with vendors about becoming certified as HUB vendors with the State of Texas. ERS directs potential HUB vendors to resources available from TPASS to help them if they are eligible to become certified HUB vendors.
- When requested, ERS meets with certified HUB vendors to discuss the products and/or services that vendors provide and the potential opportunities available at ERS. In addition, ERS provides assistance to HUB vendors by directing them to other state agencies that may also be interested in the vendors' products and/or services.
- ERS routinely contacts eligible HUB vendors to make them aware of contract opportunities available to them.
- On purchases utilizing the informal bidding process, ERS regularly contacts more than the minimum of two (2) HUB vendors to request pricing.

For Fiscal Year 2015, the following information details expenditures by the HUB group:

Prime Contract: Total expenditure for Fiscal Year 2015

Procurement Category	African American	Asian American	Hispanic American	Native American	Non-minority Woman	Disabled Veteran		Non-HUB	HUB Total	Total Expenditures
						Included in HUB Groups	Not Included in HUB Groups			
Heavy Construction	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Building Construction	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 43,986.59	\$ -	\$ 43,986.59
Special Trade Construction	\$ -	\$ -	\$ 58,696.25	\$ -	\$ 13,591.27	\$ -	\$ -	\$ 377,787.73	\$ 72,287.52	\$ 450,075.25
Professional Services	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,961,579.67	\$ -	\$ 1,961,579.67
Other Services	\$ 308,713.02	\$ 2,959,034.14	\$ 124,589.15	\$ -	\$ 1,086,942.29	\$ -	\$ -	\$ 12,082,036.60	\$ 4,479,278.60	\$ 16,561,315.20
Commodities	\$ 61,018.93	\$ 323,677.43	\$ 80,529.17	\$ 49.60	\$ 85,041.02	\$ -	\$ -	\$ 1,571,386.47	\$ 550,316.15	\$ 2,121,702.62
Total	\$ 369,731.95	\$ 3,282,711.57	\$ 263,814.57	\$ 49.60	\$ 1,185,574.58	\$ -	\$ -	\$ 16,036,777.06	\$ 5,101,882.27	\$ 21,138,659.33

Prime Contract: Number of HUB/non-HUB vendors (ongoing and new) utilized during Fiscal Year 2015

Procurement Category	African American	Asian American	Hispanic American	Native American	Non-minority Woman	Disabled Veteran		Non-HUB	HUB Total
						Included in HUB Groups	Not Included in HUB Groups		
Heavy Construction									0
Building Construction			0					3	0
Special Trade Construction			1		4			15	5
Professional Services								12	0
Other Services	2	7	3		15			151	27
Commodities	7	3	1	1	14			59	26
Total	9	10	5	1	33	0	0	240	58

New Vendors: Number of vendors utilized in FY 2015 which were not used during the last 2 Years.

Procurement Category	African American	Asian American	Hispanic American	Native American	Non-minority Woman	Disabled Veteran		Non-HUB	HUB Total
						Included in HUB Groups	Not Included in HUB Groups		
Heavy Construction									0
Building Construction									0
Special Trade Construction	1							1	1
Professional Services									0
Other Services								6	0
Commodities	1	2	1		3			1	7
Total	2	2	1	0	3	0	0	8	8

HUB program staffing:

HUB Staffing	Allocated	Current
Staff size *		1

* While one individual is identified as the agency's HUB Coordinator, all purchasing staff participate in various HUB outreach events. In addition, division staff as well as purchasing staff solicit informal bids from HUB vendors

Compliance and Outreach Plan for FY 2016

ERS will continue efforts to increase HUB participation through:

- regular communication with vendors about becoming certified as HUB vendors with the State of Texas;
- directing potential HUB vendors to resources available from TPASS, to help them if they are eligible to become certified HUB vendors;
- meeting with certified HUB vendors to discuss the products and/or services that vendors provide and the potential opportunities available at ERS;
- directing HUB Vendors to other state agencies that may also be interested in the vendors' products and/or services;
- routinely contacting eligible HUB vendors to make them aware of contract opportunities available to them;
- regularly contacting more than the minimum of two (2) HUB vendors to request pricing on purchases which utilize the informal bidding process;
- review of its Mentor/ Protégé program procedures and evaluation of opportunities to utilize this program;
- identification of subcontracting opportunities within ERS contracts; and
- assessment and re-evaluation of agency goals based on actual performance and updated Disparity Studies as conducted by the Comptroller of Public Accounts to address GAA Section 7.07 (a)3 (A-D).

Agency Workforce Plan

I. AGENCY OVERVIEW

ERS administers retirement; health and other insurance benefits; TexFlex, a tax-savings flexible benefit program; and 401(k) and 457 investment accounts as part of the TexaSaver Program. We also manage and invest the ERS Trust for the sole benefit of retirement system members.

A. Mission

ERS offers competitive benefits to enhance the lives of its members.

B. Philosophy

ERS prudently and professionally manages the trust funds and programs on behalf of its members. Benefits are an important part of the compensation of State of Texas employees, contributing to their financial security and well-being throughout their lives. We operate in an ethical, cost-effective manner, providing valuable and reliable service delivered by highly qualified staff.

C. Principles

TRUST - Earn and maintain the confidence of our stakeholders

INTEGRITY - Make ethical and prudent decisions

SERVICE - Deliver quality and respectful service to all participants

ADAPTABILITY - Ably adjust to different conditions

COMMUNICATION - Exchange information in a consistent, concise and clear manner

STEWARDSHIP - Prudently manage resources

INNOVATION – Embrace new ideas and concepts

COLLABORATION – Exhibit teamwork in accomplishing the task at hand

D. Strategic Directions and Strategies

STRATEGIC DIRECTION - SUPPORTING OUR MEMBERS' RETIREMENT INCOME SECURITY

Strategies:

- Attain Defined Benefit Plan Sustainability
- Assist Members in Preparing for Retirement Readiness
- Maintain a Professional and Diversified Investment Program

STRATEGIC DIRECTION - SUSTAINING COMPETITIVE GROUP BENEFITS PROGRAMS

Strategies:

- Manage Healthcare Program
- Align Incentives with Health Risks
- Enhance Data Analysis

STRATEGIC DIRECTION - ENGAGING STAKEHOLDERS FOR INFORMED DECISION MAKING

Strategies:

- Enhance Communications and Measure the Effectiveness
- Educate Stakeholders on Programs and Their Value
- Increase Understanding of Stakeholder Needs

STRATEGIC DIRECTION - ENHANCING AGENCY PERFORMANCE AND ACCOUNTABILITY

Strategies:

- Leverage Input, Skills and Talents of ERS Staff
- Increase Process Efficiency and Effectiveness to Meet Changing Needs
- Improve Transparency to Maintain Trust

II. CURRENT WORKFORCE PROFILE

A. CRITICAL WORKFORCE SKILLS

There are several skills that are critical to ERS' ability to operate. Without these skills, ERS could not provide basic benefit and retirement services. These skills are:

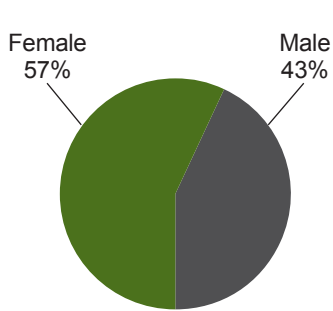
- ability to interpret legislation;
- ability to communicate detailed information;
- ability to write guidelines and procedures for a targeted audience;
- ability to use automated benefit systems;
- ability to transition business processes from manual systems to web-based investment systems;
- ability to develop long-term and short-term goals for the investment program;
- ability to manage alternative asset classes;
- risk management skills;
- quality assurance skills;
- ability to effectively and efficiently manage projects;
- ability to identify and implement strategic technology and business responses to address issues and opportunities;
- ability to develop and monitor complex contract plans; and
- ability to think critically.

In addition, ERS needs highly skilled and knowledgeable Investments staff to administer comprehensive and actuarially sound retirement programs.

B. Workforce Demographics

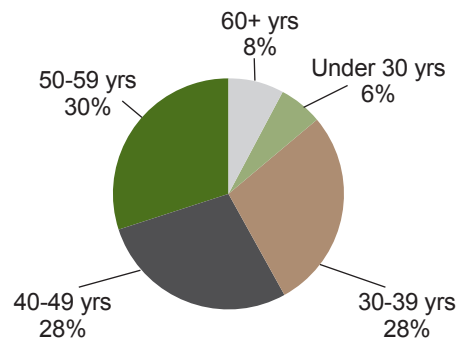
As of May 31, 2016, the Employees Retirement System had 351 employees, including part-time and full-time staff, to carry out its mission of offering competitive benefits to enhance the lives of its members. The following charts illustrate the demographic make-up of ERS' workforce.

Workforce Breakdown



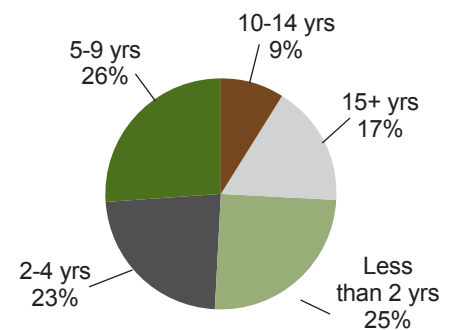
Gender

ERS' workforce is composed of 57% females and 43% males.



Age

More than 66% of the agency's employees are over the age of 40.



Agency Tenure

More than 52% of ERS' workforce has five years or more of state service, and 48% of the workforce has less than four years of state service.

Agency Minority Workforce

The following table compares the percentage of minority workers at ERS as of May 31, 2016 to the statewide civilian workforce.

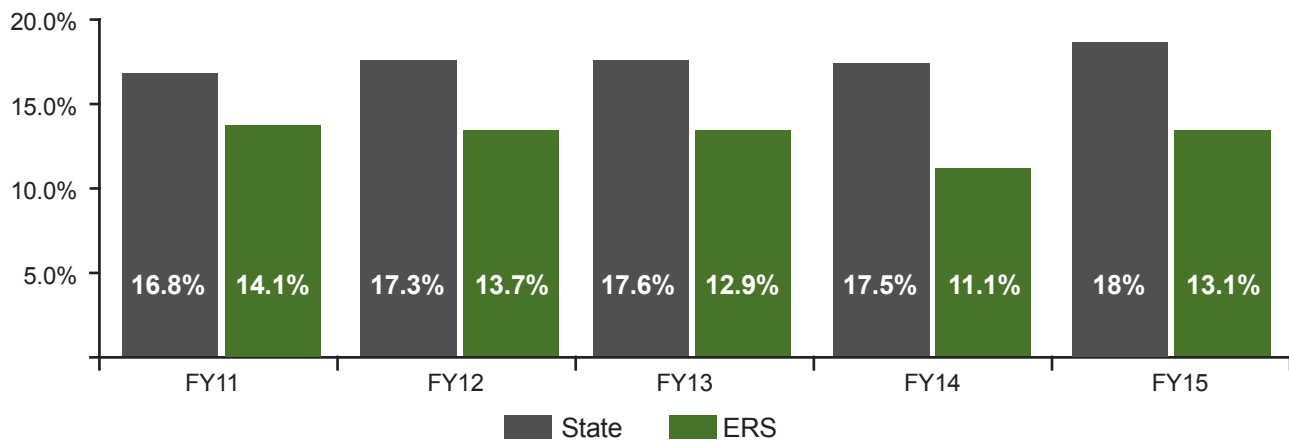
Job Category	African-American		Hispanic-American		Females	
	ERS %	State %	ERS %	State %	ERS %	State %
Officials, Administration	8%	7%	8%	21%	54%	37%
Professional ¹	9%	11%	17%	19%	63%	55%
Technical	9%	14%	13%	29%	32%	51%
Administrative Support	8%	14%	54%	33%	62%	73%
Skilled Craft	0%	10%	100%	49%	0%	11%
Service and Maintenance	0%	12%	50%	54%	0%	51%

Source document for state percentage: Equal Employment Opportunity and Minority Hiring Practices Report Fiscal Years 2013-2014, published by the Texas Workforce Commission

There are four categories of zero-represented classes within ERS. These are African-American: Skilled Craft, and Service and Maintenance; and Female: Skilled Craft, Service and Maintenance. ERS employs only nine staff in Operation and Maintenance Services, which explains the under-representation in the Skilled Craft and Service and Maintenance categories.

Employee Turnover

The following graph compares the average ERS turnover to that of the state for Fiscal Years 2011 through 2015. During this time, ERS' turnover rate was below the statewide turnover rate.



As of May 31, 2016, the agency turnover rate is 7.4%.

¹The State category "paraprofessional" is not listed in the Census data. ERS is reporting agency staff identified in internal systems as paraprofessionals in the "professional" category for the purposes of this report.

Turnover by Length of Service

Length of State Service	ERS Turnover % by Service FY15	State Turnover % by Service FY15
Less than 2 years	26%	37.3%
2 to 4.99 years	15.2%	19.3%
5 to 9.99 years	10.8%	11%
10 to 14.99 years	13%	9.6%
15 years and over	34.7%	12.6%
Overall Turnover	13.1%	18%

The highest percentage of turnover for state employees continues to be for those who have fewer than two years of service. The turnover rate for ERS employees who leave with fewer than two years of service is significantly lower than the state's percentage. ERS makes every effort to minimize turnover in this category by offering opportunities to cross-train employees for career development opportunities and by using competitive salaries. ERS' highest percentage rate was for the 15 years and over category. The high turnover in this group can be attributed to the number of retirements ERS experienced in FY15.

Turnover by Age

The chart below shows the percentage of turnover by age.

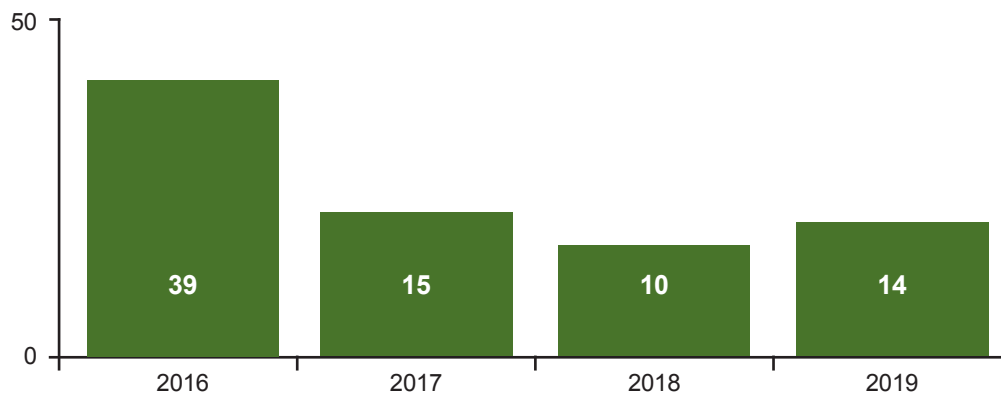
Length of State Service	ERS Turnover % by Age FY15	State Turnover % by Age FY15
Under 30 years	2.1%	35.2%
30 to 39 years	21.7%	17.3%
40 to 49 years	30.4%	10.8%
50 to 59 years	30.4%	13.6%
60 years and over	15.2%	21.5%
Overall Turnover	13.1%	18%

During Fiscal Year 2015, employees in the under-30 and 60-years-and-over groups experienced the lowest level of turnover at ERS. The agency experienced the greatest turnover in the 40-to-49-years and the 50-to-59-years age groups.

Turnover from Projected Retirements

Based on limited data available, ERS projects that during the next three fiscal years, approximately 13% of ERS' workforce will be eligible to retire, taking with them institutional knowledge and expertise. ERS continues to prepare for the retirement of employees in key positions through succession planning, cross-training and employee development.

Number of Potential Retirees



III. Future Workforce Profile

ERS is in the middle of a three-year period of designing and implementing systems to meet the challenges of the five following vision elements:

- engaging members;
- having dynamic internal and external collaboration;
- providing competitive sustainable benefits;
- developing innovative solutions; and
- demonstrating a model work environment.

A. CRITICAL FUNCTIONS

ERS needs a workforce who can accomplish the following strategic directions:

- supporting our members' retirement income security;
- sustaining competitive group benefits programs;
- engaging stakeholders for informed decision making; and
- enhancing agency performance and accountability.

B. WORKFORCE OPPORTUNITIES

Supervisors at ERS must have an ability to examine and improve business processes, and to lead their team through transitions of new and very complex systems, as well as effectively communicate the new processes to agency staff. Staff in the Investments Division must be experienced in various investment asset classes.

C. CRITICAL FUNCTIONS REQUIRED IN ACHIEVING THE STRATEGIC PLAN

The strategic directions identified under the critical functions subheading will continue to be necessary and important over the next several years. ERS customers demand more, faster and easier access to their benefit information; more innovative products; and reasonable costs for services and products. ERS will continue to offer and deliver services that are very complex. As a result, the agency workforce will have to acquire or develop the skills to deliver the complex services.

Leveraging skills and talents of ERS staff through employee and organization development is critical to the success of the agency. ERS must have a well-trained, highly skilled and flexible workforce to respond both to the needs of our customers and to program changes resulting from federal and state legislation. Employees must continue to receive cross-training, formal training and re-training to maintain their employment with ERS.

D. Future Workforce Skills Needed

ERS relies on a competent and knowledgeable workforce. The following skills and abilities are essential for ERS' workforce to attain the six elements of our vision:

- leadership, management and supervision skills;
- ability to effectively communication with internal and external customers;
- investment skills;
- ability to develop long-term and short-term goals for the investment program;
- ability to manage alternative asset classes, private real estate, private equity and hedge funds;
- project management skills;
- web-based technology skills;
- contract management skills;
- change management skills;
- process analysis;
- strategic planning; and
- risk management skills.

IV. Survey of Employee Engagement Results and Utilization Plans

ERS has participated in the Survey of Employee Engagement (SEE) since the 1994 survey. The survey is used to assess employee attitudes toward the agency, identify employee perceptions of the strengths and weaknesses of the agency, and identify areas that can be improved.

A. Response Rate

The employee response to the 2016 survey was exceptional. As a general rule, rates higher than 50% suggest soundness. High response rates suggest employees have an investment in the organization, want to see the organization improve, have a sense of responsibility to the organization and have a high expectation from the leadership to act on the survey results.

2016 = 89%

2014 = 81%

2012 = 91%

2010 = 91%

2008 = 68%

2006 = 84%

2004 = 79%

2002 = 61%

B. Overall Survey Score

This score is a broad indicator for overall comparison with other entities. It is composed of the average of all survey items and represents the overall score for the organization. Scores typically range from 325 to 375.

The overall survey score for ERS was 391.

C. Construct Scores

The survey is organized into 12 categories, or concepts most utilized by leadership and those which drive organizational performance and engagement. Scores are measured as follows:

- Above 375 = areas of substantial strength (nine ERS scores)
- Between 350–375 = perceived more positively than negatively (two ERS scores)
- Between 325–349 = viewed less positively by employees (No ERS score)
- Below 325 = significant source of concern and requires immediate attention (one ERS score)

D. The constructs and score results were:

1. Workgroup – the degree to which employees view their workgroup as effective, cohesive and open to the opinions of all members **Score 404** (new construct for 2016)
2. Strategic – the degree to which employees understand their role in the organization and consider the organization's reputation to be positive **Score: 425** (2014 Score: 419)
3. Supervision – the degree to which employees view their supervisors as fair, helpful and critical to the workflow **Score: 403** (2014 Score: 420)
4. Workplace – captures employees' perceptions of the total work atmosphere, workplace safety, and the overall feel **Score: 419** (new construct for 2016)
5. Community – the degree to which employees feel respected and cared for, and have established trust with their colleagues **Score: 395** (new construct for 2016)
6. Information Systems – whether computer and communication systems enhance the ability to get the job done by providing accessible, accurate and clear information **Score: 365** (2014 Score: 386)
7. Internal Communication – the degree to which employees view communication with peers, supervisors and other parts of the organization as functional and effective **Score: 372** (2014 Score: 379)

8. Pay – evaluation from the employees’ viewpoint of the competitiveness of the compensation package, how well the package “holds up” when employees compare it to similar jobs in other organizations **Score: 297** (2014 Score: 294)
9. Benefits – employee perceptions of how the benefits package compares to packages at similar organizations and how flexible it is **Score: 394** (2014 Score: 403)
10. Employee Development – the degree to which employees feel the organization provides opportunities for growth in organizational responsibilities and personal needs in the employee’s career **Score: 402** (2014 Score: 415)
11. Job Satisfaction – satisfaction with overall work situation; weighs heavily on work-life balance, sense of pride and offering meaningful contributions to the workplace **Score: 392** (2014 Score: 401)
12. Employee Engagement – sense of trust, level of employees’ participation in carrying out their work responsibilities toward delivering high quality work **Score: 409** (2014 Score: 409)

E. Climate Analysis

Another way to view and analyze the survey data is the climate analysis. The climate in which employees work does, to a large extent, determine the efficiency and effectiveness of an organization.

The appropriate climate is a combination of a safe, non-harassing environment with ethics abiding employees who treat each other with fairness and respect. It is an organization with proactive management that communicates and has the capability to make thoughtful decisions.

- Atmosphere – a safe, non-harassing environment **Score: 420** – substantial strength (2014 Score: 413)
- Ethics – the foundation of building trust within an organization where not only the employees are ethical in their behavior, but where ethical violations are appropriately handled **Score: 424** – substantial strength (2014 Score: 422)
- Fairness – extent to which employees believe that equal and fair opportunity exists for all members of the organization **Score: 396** – strength (2014 Score: 383)
- Feedback – opportunity to provide information through which improvement can occur **Score: 352** – (2014 Score: 384)
- Management – being accessible, visible and an effective communicator of information. **Score: 382** – (2014 Score: 407)

Plans for Continued Improvement

The agency is committed to researching and/or improving any areas that employees perceive as areas of concern.

Conclusion

ERS management considers the agency’s participation in the survey as a valuable tool for improving agency operations. ERS will participate in future surveys with a goal to increase participation and improve key indicators related to employee morale. Comparison of future results with these goals, as well as with the benchmarks, will enable ERS to further define methods for addressing the needs of the agency and its employees.

Report on Customer Service

The ERS Report on Customer Services for FY 2015-2016 is available at www.ers.state.tx.us/About_ERS/Reports/Overview.

Out of more than 9,000 survey respondents, 94% rated the ERS telephone/email representative as courteous and professional. Those who visited ERS for in-person counseling gave their experience a 99% satisfaction rate. One of the most critical services we provide is issuing retirement annuity checks, and 97% of respondents were satisfied with performance in that area.

We will use the information gathered through the surveys for our training program so that our staff has a better understanding of the needs of our members. We will also examine the survey results to identify areas for improvement.

Assessment of Advisory Committees

April, 2016 - #327 Employees Retirement System of Texas

To assist in the process required by Chapter 2110, Texas Government Code, state agencies should submit an assessment of advisory committees using the format provided. Please submit your assessment for each advisory committee under your agency's purview. Include responses for committees created through statute, administrative code or ad-hoc by your agency. Include responses for all committees, whether ongoing or inactive and regardless of whether you receive appropriations to support the committee. Committees already scheduled for abolishment within the 2016-17 biennium are omitted from the scope of this survey. When submitting information for multiple advisory committees, right-click the sheet "Cmte1", select Move or Copy, select Create a copy and move to end.

NOTE: Only the items in blue are required for inactive committees.

SECTION A: INFORMATION SUBMITTED THROUGH ADVISORY COMMITTEE SUPPORTING SCHEDULE IN LEGISLATIVE APPROPRIATIONS REQUEST			
Committee Name:	Investment Advisory Committee		
Number of Members:	8		
"Committee Status (Ongoing or Inactive):"	Ongoing	Note: An Inactive committee is a committee that was created prior to the 2014-15 biennium but did not meet or supply advice to an agency during that time period.	
Date Created:	8/5/1966	Date to Be Abolished:	As determined by the Board
"Budget Strategy (Strategies) (e.g. 1-2-4)"	1-1-1 & 1-1-2	Strategy Title (e.g. Occupational Licensing)	Provide actuarially sound levels of retirement funding as defined by state law for ERS & LECOS retirees.
"Budget Strategy (Strategies)"	1-1-3	Strategy Title	Provide actuarially sound level of retirement funding as defined by state law for JRS-2 retirees.

Advisory Committee Costs: This section includes reimbursements for committee member costs and costs attributable to agency staff support.

Committee Members' Direct Expenses	"Expended Exp 2015"	"Estimated Est 2016"	"Budgeted Bud 2017"
Travel	\$6,942	\$9,602	\$10,563
Personnel	\$2,668	\$2,668	\$2,935
Number of FTEs	0.0	0.0	0.0
Other Operating Costs	\$8,000	\$12,000	\$13,200
Total, Committee Expenditures	\$17,610	\$24,270	\$26,697

Committee Members' Indirect Expenses	"Expended Exp 2015"	"Estimated Est 2016"	"Budgeted Bud 2017"
Travel	\$0	\$0	\$0
Personnel	\$0	\$0	\$0
Number of FTEs	0.0	0.0	0.0
Other Operating Costs	\$0	\$0	\$0
Total, Committee Expenditures	\$0	\$0	\$0

Method of Financing	"Expended Exp 2015"	"Estimated Est 2016"	"Budgeted Bud 2017"
Method of Finance			
955 - S.E.R.S. Trust Account	\$17,610	\$24,270	\$26,697
	\$0	\$0	\$0
	\$0	\$0	\$0
	\$0	\$0	\$0
	\$0	\$0	\$0
Expenses / MOFs Difference:	\$0	\$0	\$0

Meetings Per Fiscal Year	4	4	4
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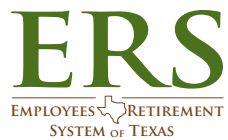
Committee Description:	The Investment Advisory Committee (IAC) was established at the discretion of the Board of Trustees as authorized in the Texas Administrative Code §63.17(b). It is composed of at least five and not more than nine members. The members are selected by the Board of Trustees on the basis of experience in the management of a financial institution or other business in which investment decisions are made or as a prominent educator in the fields of economics, finance or other investment-related area.	
State / Federal Authority	Select Type	Identify Specific Citation
State Authority	Admin Code	Title 34, Part IV, Chapter 63, Section 63.17 (b)
State Authority	Statute	Texas Government Code, Title 8, Subtitle B, Subchapter A, Section 815.509
State Authority		
Federal Authority		
Federal Authority		
Federal Authority		

SECTION B: ADDITIONAL COMMITTEE INFORMATION

Committee Bylaws: Please provide a copy of the committee's current bylaws and most recent meeting minutes as part of your submission.

1. When and where does this committee typically meet and is there any requirement as to the frequency of committee meetings?	The committee meets at the discretion of the Board of Trustees. These are usually quarterly and coincide with the Board of Trustees meetings (February, May, August and December) at ERS.	
2. What kinds of deliverables or tangible output does the committee produce? If there are documents the committee is required to produce for your agency or the general public, please supply the most recent iterations of those.	The committees provides the ERS Board of Trustees with advice regarding the ERS Investment Policy. The committee provides academic and practical investment background on investment issues at hand; and assistance to ERS staff with practical updates on investment asset classes, risk management, best practices and asset allocation.	
3. What recommendations or advice has the committee most recently supplied to your agency? Of these, which were adopted by your agency and what was the rationale behind not adopting certain recommendations, if this occurred?	The IAC reviews investment strategies and related policies of ERS to provide comments and recommendations to assist the Board of Trustees in adopting prudent and appropriate investment policies. Also, the IAC recommends asset mix, portfolio strategy, investment policies and eligible securities. The IAC recommended adoption of the most recent asset allocation study for recommendation to the Board of Trustees at the February 26, 2013 Joint Meeting of the IAC and Board of Trustees. The IAC serves as a good source for staff on industry trends and as a resource independent of consultants who also are aligned with staff because of their same fiduciary duty to ERS. The IAC members erve on the Texa\$aver Product Review Committee and on internal Investment Committees for certain asset classes.	
4a. Does your agency believe that the actions and scope of committee work is consistent with their authority as defined in its enabling statute and relevant to the ongoing mission of your agency?	Yes	
4b. Is committee scope and work conducted redundant with other functions of other state agencies or advisory committees?	No	
5a. Approximately how much staff time (in hours) was used to support the committee in fiscal year 2015?	65.0	
5b. Please supply a general overview of the tasks entailed in agency staff assistance provided to the committee.	Transmission of documentation needed for IAC preparation for each Board meeting. Phone updates by the CIO and Deputy CIO and occasional meetings with staff. Preparation of joint meeting minutes. Review of travel reimbursement requests.	
6. Have there been instances where the committee was unable to meet because a quorum was not present?	No	Please provide committee member attendance records for their last three meetings, if not already captured in meeting minutes. See attached.

7a. What opportunities does the committee provide for public attendance, participation, and how is this information conveyed to the public (e.g. online calendar of events, notices posted in Texas Register, etc.)?	Information is posted for the record with Board notices in accordance with the Open Meetings Act. The IAC meets publicly with the Board of Trustees in the Joint Meetings of the Board of Trustees and the IAC. The IAC does not meet independently of the Board although individual committee members may meet with staff.
7b. Do members of the public attend at least 50 percent of all committee meetings?	Yes
7c. Are there instances where no members of the public attended meetings?	No
8. Please list any external stakeholders you recommend we contact regarding this committee.	
9a. In the opinion of your agency, has the committee met its mission and made substantive progress in its mission and goals?	Yes
9b. Please describe the rationale for this opinion.	The IAC has met its mission by utilizing the members' skills and experience in different areas of the investment world to consistently provide expertise to the Board in the areas of asset allocation, new asset classes, new markets, and prudent diversification in order to assist the Board in carrying out their fiduciary responsibility. The IAC was pivotal in moving to international investments and the private asset classes, which in turn has helped with strong returns over the years.
10. Given that state agencies are allowed the ability to create advisory committees at will, either on an ad-hoc basis or through amending agency rule in Texas Administrative Code:	
10a. Is there any functional benefit for having this committee codified in statute?	No
10b. Does the scope and language found in statute for this committee prevent your agency from responding to evolving needs related to this policy area?	No
10c. If "Yes" for Question 10b, please describe the rationale for this opinion.	
11a. Does your agency recommend this committee be retained, abolished or consolidated with another committee elsewhere (either at your agency or another in state government)?	Retain
11b. Please describe the rationale for this opinion.	The IAC assists the Board of Trustees in carrying out its fiduciary duties with regard to the investment of the assets of the system and related duties. The IAC reviews investment strategies and related policies of ERS to provide comments and recommendations to assist the Board of Trustees in adopting prudent and appropriate investment policies. In addition, together with the ERS staff, they utilize their investment expertise to recommend to the Board of Trustees asset mix, portfolio strategy, investment policies and eligible securities. The Board benefits from their investment expertise and independent opinion.
12a. Were this committee abolished, would this impede your agency's ability to fulfill its mission?	Yes
12b. If "Yes" for Question 12a, please describe the rationale for this opinion.	In the event this committee was abolished, the Board would lose a valuable resource in terms of information flow, investment perspective, pros and cons for decision making with different investments, asset allocation and portfolio strategy.
13. Please describe any other suggested modifications to the committee that would help the committee or agency better fulfill its mission.	No other changes other than the recommendation to keep the committee are suggested.



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