

## A Few FY16 Accomplishments



Earned \$1.3 billion for the ERS Retirement Trust Fund.



Reorganized agency structure to create the Office of Procurement and Contracting Oversight (OPCO), centralizing functions and improving processes.



Helped 464 HealthSelect of Texas members skip the medical office with Virtual Visits on their mobile devices and computers.



Enrolled 14,999 members—with a total of more than 56,000 pounds lost—in Real Appeal, an online weight loss and nutrition support group to help prevent diabetes.



Awarded pharmacy contract that is projected to save \$1 billion over its six-year term.



Enrolled more than 62,400 employees and retirees in the new State of Texas Vision plan, with more retirees signing up during Fall Enrollment FY17.



Doubled the amount of Medicare Part D subsidies collected, from \$145 million in FY13 to \$298 million in FY16, since implementing the HealthSelect Medicare Rx program.



Created a new health insurance option: Consumer Directed HealthSelect, a high-deductible health plan with a health savings account that allows participants greater choice and responsibility in their health care decisions.



Implemented a new health savings account for Consumer Directed HealthSelect members, helping members save money on income taxes and budget for health costs.

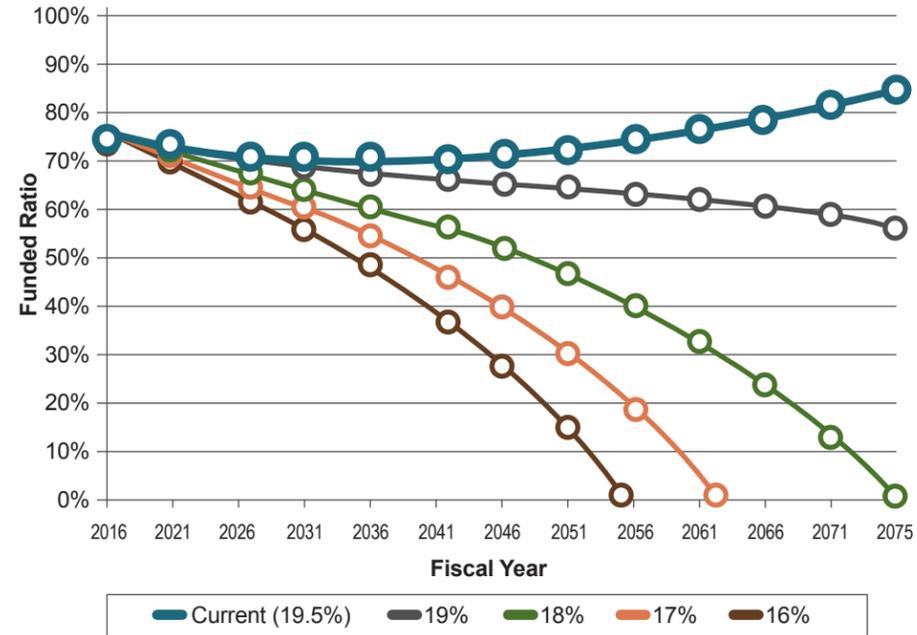


Aggressively negotiated private market fees, resulting in \$28 million in realized savings.



Completed the evaluation and reporting stages of the Sunset Advisory Commission review process and began implementing the Commission's initial recommendations.

## ERS Funded Ratio Projection at Various Total Contributions Based on Market Value of Assets



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The retirement contribution increases enacted by the 84th Texas Legislature have helped to ensure that the State of Texas can honor its commitment to existing retirees and active employees who participate in the retirement plan.

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FISCAL YEAR 2016

# AT A GLANCE



## Retirement

Employees Retirement System of Texas (ERS) plans provide 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 reasonable and stable source of income for state employees during retirement, at a low cost to the state.

At the beginning of Fiscal Year 2016 (FY16), the state increased its contributions to the ERS Trust Fund from 7.5% to 9.5% of payroll, while employees increased their contributions from 6.9% to 9.5%. (State agencies maintained their 0.5% contribution.) These changes – along with elimination of the 90-day waiting period to participate in the retirement system – have set the Fund on the path to actuarial soundness, helping to ensure that the State of Texas can honor its commitment to current retirees and to active employees who participate in the retirement plan.

- **\$25.5 billion ERS Trust Fund**
- **5.32% gross** (5.28% net of fees) one-year rate-of-return on investments
- **146,948 contributing members** (ERS – 146,390; LECOSRF – 39,066\*; JRS 1 – 10; JRS 2 – 548)
- **109,041 non-contributing members** (ERS – 108,873; LECOSRF – 15,203\*; JRS 1 – 2; JRS 2 – 166)
- **104,463 retirees and beneficiaries** (ERS – 103,758; LECOSRF – 11,515\*; JRS 1 – 374; JRS 2 – 331)
- **\$2.2 billion in retirement payments annually (for all plans)**
- **75.2% ERS Trust funded ratio**
- **\$8.7 billion ERS Trust unfunded liability**
- **35-year funding period for ERS Trust Fund**

\*LECOSRF members are included in the ERS total.

## Retirement Contribution Rates

	Fiscal Year 2016	Fiscal Year 2017
<b>ERS</b>		
State	9.5%	9.5%
Agency	0.5%	0.5%
Employee	9.5%	9.5%
Total Contribution	19.5%	19.5%
<b>LECOSRF*</b>		
State	0.5%	0.5%
Dedicated Revenue (Court Cost)**	1.2%	1.1%
Employee	0.5%	0.5%
Total Contribution	2.2%	2.1%
<b>JRS 2</b>		
State	15.663%	15.663%
Employee***	7.2%	7.5%
Total Contribution	22.863%	23.163%

\*LECOSRF-eligible employees also contribute to the ERS Trust Fund, because LECOSRF is a supplemental benefit. LECOSRF annuitants receive about 80% of their benefit from the ERS Trust Fund.

\*\*Court fee revenues are anticipated to decline as a percent of payroll going forward.

\*\*\*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 on an appellate court), JRS 2-eligible employees 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 FY17 is 7.44% and for FY16 was 7.16%

## Investments

ERS' patient, long-term investment philosophy was again helpful in FY16, which was another volatile year in the financial markets. Due to ERS investors' oversight and discipline, we added \$1.3 billion in investment earnings to the ERS Retirement Trust Fund. The fund had a total value of \$25.5 billion as of August 31, 2016.

The annual gross rate-of-return was 5.32% (5.28% net), below the fiscal year benchmark. ERS continues to exceed its long-term investment goal of 8%, with a 30-year gross rate-of-return of 8.32% at the end of the fiscal year.

Investment returns continue to make up the majority – currently about two-thirds – of the Trust Fund's value. With investment earnings playing such an important role in the Fund, ERS pays close attention to how investments are managed.

- Staff aggressively negotiated private market fees, resulting in \$28 million in realized savings.
- Staff maintained disciplined investing throughout major market events, such as Brexit and a turbulent U.S. political environment.
- ERS continued its efforts to educate stakeholders regarding investments and the investment program.
- The ERS Board of Trustees and staff began the process for the regular asset allocation study to determine how investments should be diversified across asset classes in the coming years. The study, which is conducted about every five years, will continue through FY17.

## TEXAS\$AVER<sup>SM</sup>

Tax-deferred supplemental 401(k) / 457 retirement program

\$2.65 Billion in Total Assets			
401(k)	401(k) Roth	457	457 Roth
\$1.98 billion	\$15.2 million	\$670.0 million	\$13.3 million
181,249 accounts	3,501 accounts	31,515 accounts	2,920 accounts
92,527 accounts contributing	2,610 accounts contributing	17,052 accounts contributing	2,179 accounts contributing

## TEXFLEX

TexFlex is a flexible spending accounts (FSA) program, authorized and regulated by the Internal Revenue Service (IRS) under section 125, for health and dependent care expenses.

- \$79.6 million contributed to TexFlex accounts by state employees
- 51,977 health, dependent care and commuter accounts
- \$548.3 million in insurance premiums redirected
- \$124.2 million\* in Federal Insurance Contributions Act (FICA) tax and Federal Income Tax savings for participants
- \$1.9 million\* in tax savings for the state (FICA)

\*estimated

## Insurance

The Texas Employees Group Benefits Program (GBP) provides coverage for health, life, dental, vision, Voluntary Accidental Death & Dismemberment (AD&D) and, through the Texas Income Protection Plan<sup>SM</sup> (TIPP), short-term and long-term disability.

- There are 556,593 participants in all GBP plans (235,108 employees, 113,430 retirees, 207,071 dependents and 984 COBRA).
- GBP health insurance plans cover about one of every 52 Texans.
- The self-funded ERS health plans – HealthSelect<sup>SM</sup> of Texas, HealthSelect Prescription Drug and HealthSelect Medicare Rx – paid \$3.03 billion in claims.
  - Participants in those plans paid \$462 million in out-of-pocket expenses, including copays, coinsurance and deductibles.
- 67,769 participants (members and dependents) are enrolled in ERS' Medicare Advantage health plans. This represents approximately 71% of the eligible Medicare population.

### In FY16, ERS expanded insurance options for GBP participants.

- In response to member requests, ERS offered State of Texas Vision, a self-funded vision insurance plan administered by Superior Vision Services, Inc. During Summer Enrollment 2016, more than 62,400 employees and retirees enrolled in the plan, with coverage starting September 1, 2016.
- Complying with state legislation passed in 2015, ERS created Consumer Directed HealthSelect, a high-deductible health plan with a health savings account. The plan, administered by UnitedHealthcare and Optum Bank, was offered to members not enrolled in Medicare during Summer Enrollment 2016, with coverage starting September 1, 2016.

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 12% average for large, private health plans.

In FY16, ERS began examining the grievances and appeals processes for the insurance plans it manages. Continuing into FY17, the agency is looking at ways to ensure reviews and decisions are handled consistently using all available information in compliance with plan guidelines.

## Benefits to Survivors of Those Killed in the Line of Duty (Chapter 615 Benefits)

In FY16, the State of Texas continued to support families of certain law enforcement officers, fire fighters and others killed in the line of duty, with a program administered by ERS.

Under Chapter 615 of the Texas Government Code, the State of Texas provides a lump sum payment of \$500,000 to the surviving spouse or children, as well as possible monthly financial assistance and health benefits.

In FY16, ERS administered the following Chapter 615 payments:

- \$8.5 million in lump-sum payments to 17 survivors
- \$782,195 in monthly payments to 23 surviving spouses and 114 guardians of minor children