

Meeting of the ERS Board of Trustees

August 19, 2020



Public Agenda Item #22

Call Meeting of the ERS Board of Trustees to Order

August 19, 2020

Public Agenda Item #23

*Review and Approval of the Minutes to the May 20, 2020
ERS Board of Trustees Meeting - (Action)*

August 19, 2020

Questions?
Action Item

Public Agenda Item #24

Review, Discussion and Consideration of the Proposed Amendments and Proposed New Rules of the Board of Trustees, Texas Administrative Code, Title 34, Part IV, Chapters 75, 81 and 85; Statutory Rule Review for Chapters 75 and 85– (Action)

August 19, 2020

Robin Hardaway, Director of Customer Benefits

Keith Yawn, Director of Strategic Initiatives

Diana Kongevick, Director of Group Benefits

Proposed Amendments to Chapter 75

Hazardous Profession Death Benefits



House Bill 3635 (86th Session) amended Tex. Gov't Code §615.022. Beginning September 1, 2020, ERS shall annually adjust the lump sum benefit payable to eligible survivors of first responders killed in the line of duty by an amount equal to the percentage change in the Consumer Price Index for All Urban Consumers (CPI-U) for the previous calendar year.

- The current lump sum benefit payment for eligible surviving spouse, child, or parent of certain law enforcement officers, fire fighters, and other first responders killed in the line of duty is \$500,000.

Proposed Amendments to Chapter 75

Hazardous Profession Death Benefits



Proposed new rule to Chapter 75 (Benefits)

- **Section 75.3** is proposed to be added to comply with the requirements of H.B. 3635.
- Requires ERS, beginning on September 1, 2020, and on each September 1 thereafter, to adjust the lump sum benefit payable under §615.022 to eligible survivors by an amount recommended by the system's actuary that is equal to the percentage change in the CPI-U for the previous calendar year.

Proposed Amendments to Chapter 75

Hazardous Profession Death Benefits



Additional Proposed Amendments to Chapter 75 (Benefits)

- **Section 75.1** is proposed to be amended to require that certain workers' compensation claims information related to Chapter 615 claims filed with ERS be provided to the Executive Director or designee.
- **Section 75.2** is proposed to be amended to allow the Executive Director or designee to request additional information as needed in order to assist in accurately processing a claim.

Proposed Amendments to Chapter 75

Hazardous Profession Death Benefits



- Notice of the proposed amendments and new rule to Chapter 75 was published in the July 3, 2020, issue of the Texas Register (45 TexReg 4476).
- No comments were received.

Statutory Rule Review

Chapter 75 Hazardous Profession Death Benefits



- Texas Government Code §2001.039 requires state agencies to review their rules every four years to determine whether the reasons for adopting the rules continue to exist.
- Notice of the proposed rule review for Chapter 75 was published in the November 24, 2017, issue of the *Texas Register* (42 TexReg 6633).
- No comments were received concerning the proposed review.

Staff Recommendation



Adopt Proposed Amendments to Chapters 75

1. Adopt proposed amendments and new rule to Chapter 75, Hazardous Profession Death Benefits, as provided by Exhibit A;
2. Re-adopt Chapter 75, including the changes adopted by the Board as provided by Exhibit A, because the reasons for initially adopting the chapter continue to exist.

Proposed Amendments to Chapter 81

Insurance



Amendment 1:

Add definitions of “tobacco product” and “tobacco user” and explanation of the tobacco certification process to administrative code for transparency and clarity.

Reason:

This amendment will increase the transparency of the program to members and aligns with program policy changes adopted by the Board in March 2020. Specifically, the Board approved expanding the definition of “tobacco product” to include e-cigarettes and vaping products.

Proposed Amendments to Chapter 81

Insurance



Amendment 2:

New content added related to the creation and administration of the HealthSelect ShoppERS program.

Reason:

This amendment will support the establishment of the HealthSelectShoppERS program in accordance with Rider 16 in Article I of the General Appropriations Act (House Bill 1, 86th Legislature). HealthSelectShoppERS is designed to provide a shared savings incentive for eligible GBP health plan participants to select certain lower cost network facilities for specified, non-emergency covered medical services and procedures.

Proposed Amendments to Chapter 81

Insurance



Notice of the proposed rule amendments to Chapter 81 was published in the July 10, 2020 issue of the *Texas Register* (45 TexReg 4711). A correction of the Notice for Chapter 81 was published in the July 24, 2020 issue of the *Texas Register* (45 TexReg 5224), correcting some language that the Register inadvertently missed in the original publication.

ERS did not receive any comments on the proposed rule amendments.

Staff Recommendation

Adopt Proposed Amendments to Chapters 81



Adopt proposed amendments and additions to Chapter 81, concerning Insurance, as provided by Exhibit B.

Proposed Amendments to Chapter 85

Flexible Benefits



Amendment 1:

New content added related to the creation and administration of the HealthSelectShoppERS program as it applies to the TexFlex Program.

Reason:

This amendment will support the manner in which eligible GBP members may receive employer contributions to their health care reimbursement account or limited purpose health care reimbursement account from participation in the HealthSelectShoppERS program. GBP members meeting program requirements are eligible to receive an employer contribution into their health care reimbursement account or limited purpose health care reimbursement account.

Proposed Amendments to Chapter 85

Flexible Benefits



Amendment 2:

New content added to support the waiting period final rules released by federal regulators specific to health care reimbursement plans.

Reason:

This amendment will support the design of waiting periods prior to the effective date of a health care reimbursement plan elected by an employee. The proposed waiting period is equivalent to the waiting period for health insurance coverage for employees enrolling in a GBP health benefit plan.

Proposed Amendments to Chapter 85

Flexible Benefits



Notice of the proposed rule amendments to Chapter 85 was published in the July 10, 2020 issue of the *Texas Register* (45 TexReg 4723).

ERS did not receive any comments on the proposed rule amendments.

Statutory Rule Review

Flexible Benefits



- Texas Government Code §2001.039 requires state agencies to review their rules every four years to determine whether the reasons for adopting the rules continue to exist.
- Notice of the proposed rule review for Chapter 85 was published in the February 21, 2020, issue of the *Texas Register* (45 TexReg 1244).
- No comments were received concerning the proposed review.

Staff Recommendation



Adopt Proposed Amendments to Chapters 85

1. Adopt proposed amendments to Chapter 85, concerning Insurance, as provided by Exhibit C;
2. Re-adopt Chapter 85, including the changes adopted by the Board as provided by Exhibit C, because the reasons for initially adopting the chapter continue to exist.

Discussion and Consideration of Proposed Rule Amendments

Questions?
Action Item

Public Agenda Item #25

Review, Discussion and Consideration of the CPI-U Adjustment for the Lump Sum Payment Under Tex. Gov't Code § 615.022 for FY21 – (Action)

August 19, 2020

Robin Hardaway, Director of Customer Benefits

Chapter 615 Benefits

For eligible survivors of certain individuals killed in the line of duty



- What are Chapter 615 benefits?:
 - The Texas Legislature enacted Chapter 615 of the Texas Government Code during the 60th legislative session (1967) to provide death benefits for eligible survivors of certain law enforcement officers, fire fighters, and other first responders killed in the line of duty. The program is funded by the state of Texas and is administered by ERS. It is not part of the retirement program.
- Survivors of the following individuals can be covered:
 - Peace officers employed by the state of Texas and political subdivisions of the state (Counties and Cities)
 - Jailers and guards
 - Firefighters
 - Emergency Medical Technicians (EMT's)
 - And other first responders

Chapter 615 Benefits



For eligible survivors of certain individuals killed in the line of duty

- Available Chapter 615 benefits:
 - A lump sum payment of \$500,000 from the State of Texas for the eligible surviving spouse, child, or parent.
 - A monthly payment to the eligible surviving minor child(ren) until the surviving child(ren) reaches age 18:
 - \$400 per month, if there is one surviving child
 - \$600 per month, equally split, if there are two surviving children
 - \$800 per month, equally split, if there are three or more surviving children
- Survivors may be eligible for other benefits, but are subject to rules and eligibilities:
 - Spousal monthly payment
 - Funeral expenses
 - Health, Dental, and/or Vision Insurance
 - Educational Benefits
 - Federal Benefits
 - Surviving Spouse Residence Homestead Exemption



CPI-U Adjustment for Lump Sum Payment Under § 615.022 for FY21



- House Bill 3635 (86th Legislative Session) amended Tex. Gov't Code § 615.022 to require the ERS Board of Trustees, by rule, to adjust the lump sum benefit payable to eligible survivors by an amount equal to the percentage change in the Consumer Price Index for All Urban Consumers (CPI-U) for the previous calendar year.
- The first adjustment begins on September 1, 2020 and must be adjusted each September 1 thereafter.
- Under a previous agenda item, the Board was presented with a proposed new rule providing for adjustment of the \$500,000 lump sum benefit payable to eligible survivors of certain law enforcement officers, fire fighters, and other first responders killed in the line of duty.

CPI-U Adjustment for Lump Sum Payment Under § 615.022 for FY21



As provided by proposed new Trustee Rule § 75.3, the system's actuary, Gabrielle Roeder Smith (GRS), reported the percentage change to the CPI-U from December 2018 to December 2019:

CPI-U Change: 2.3%

CPI-U Adjustment for Lump Sum Payment Under § 615.022 for FY21



- The percentage change as recommended by the system's actuary would adjust the lump sum payment to survivors under § 615.022, Texas Government Code to **\$511,500**.
- The adjusted payment for survivors applies to deaths that occur September 1, 2020 through August 31, 2021.

Staff Recommendation



- Staff recommends approval of an adjustment to the lump sum payment to eligible survivors in accordance with Tex. Gov't Code § 615.022 effective September 1, 2020 through August 31, 2021 to **\$511,500**.
- This adjustment is reflective of the percentage change in the CPI-U as reported by the system's actuary in its letter to the Executive Director, attached to this agenda as Exhibit A, and applies to deaths occurring effective September 1, 2020 through August 31, 2021.

Questions?
Action Item

Public Agenda Item # 26

*Review, Discussion and Consideration of Proposed edits to
ERS Pension Funding Priorities and Guidelines –(Action)*

August 19, 2020

Ariana Whaley, Pension Policy Analyst

Background



- A Pension Funding Policy is a written statement of the board's guiding principles and strategy to inform the plan sponsor on a plan to fully fund the long-term costs of promised benefits.
- ERS Board of Trustees adopted the Pension Funding Priorities and Guidelines in May 2018.
- In 2019, the 86th Texas Legislature passed SB 2224 requiring public pensions to adopt a written funding policy that details a plan for achieving a 100% funded ratio.

Pension Funding Priorities and Guidelines



Approved May 2018 by ERS Board

- **Purpose:** Enhance communications and provide transparent, accurate information to the Legislature, plan members and retirees regarding Board positions on plan administration.
- **Goal:** Define the principles and methods needed to achieve and maintain actuarial soundness for the plan.
- **Content:** Define Board policies on four funding principles . . .
 1. Actuarial Cost Method
 2. Asset Smoothing Method
 3. Funding Period Goals
 4. Criteria for Approving Enhancements

Proposed Changes



- Adds language on the legislation requiring funding policies
- Adds definitions and made technical corrections
- Clarifies language related to roles and responsibilities of the board and plan sponsor
- Incorporates normal cost into funding period goals
- Defines a regular review cycle tied to Experience Study

Questions?
Action Item

Public Agenda Item #27

Review, Discussion and Consideration of Recommended Updates to the Group Benefits Advisory Committee Charter –(Action)

August 19, 2020

Bernie Hajovsky, Director of Enterprise Planning

GBAC Charter

Overview



- ❑ Originally adopted in 2017

- ❑ Sets the framework for the Committee's structure and activities
 - Membership representation, requirements and term structure
 - Application review and appointment process
 - Meeting schedule, agenda and governance
 - **Formal review, update and approval of Charter provisions**

GBAC Charter

Membership and Representation



- ❑ Committee members represent the following categories:
 - ***State agencies (large, mid-sized and small)***
 - Institutions of higher education (2-year and 4-year)
 - Retirees
 - Health-related institution academic, administrator or practitioner
 - Insurance or benefits design professional

GBAC Charter

Proposed Revisions



□ Section 2.2, *Membership and Representation*

	Current	Proposed
Category	Count of GBP enrollees	Count of FTEs in the GAA
State agency, large	$x \geq 800$	$x \geq 800$
State agency, mid-sized	100 – 799	100 – 799
State agency, small	$x < 100$	$x < 100$

- Clearer understanding of the category an applicant would represent (if appointed)
- Increases the number of small state agencies from which to draw committee members

Questions?
Action Item

Public Agenda Item #28

Review and Discussion of the Texas Employees Group Benefits and Texa\$aver Program Update

August 19, 2020

Diana Kongevick, Director of Group Benefits
Blaise Duran, FSA, Actuarial and Reporting Services, Group Benefits
Lauren Russell, CTCM Health Plan Operations, Group Benefits
Nora Alvarado, CTCM, Voluntary Income Plans, Group Benefits

GBP Update

FY20 projected trend

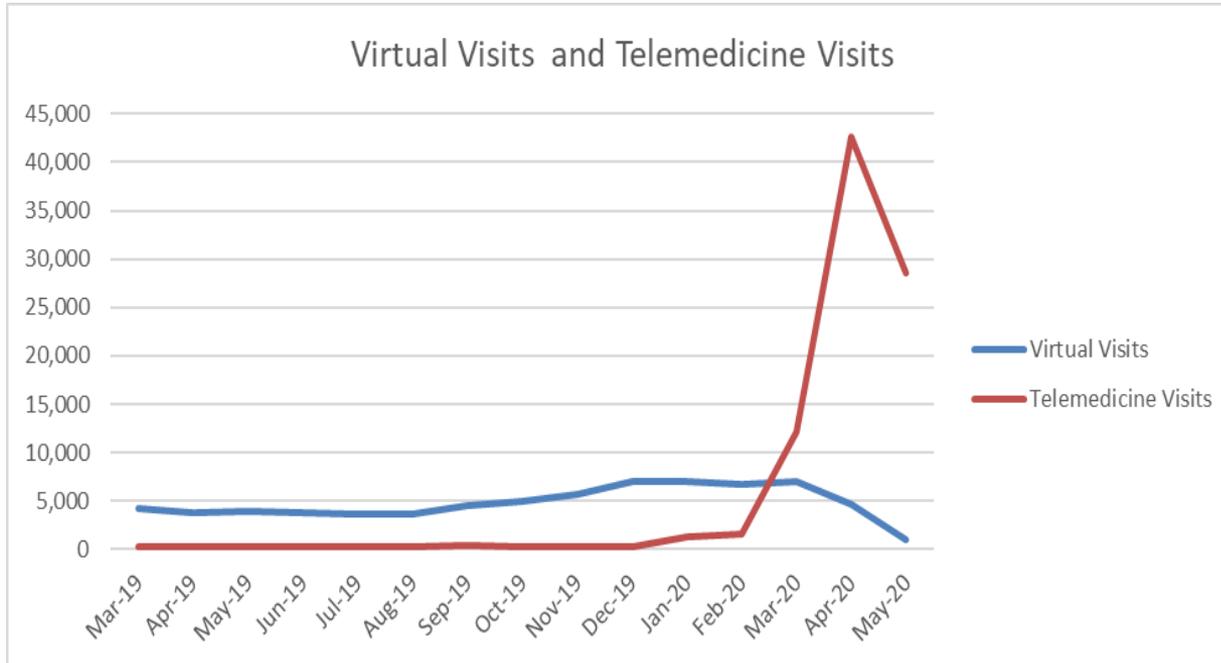


- Medical trend was higher than average through the first half of FY20.
- Medical trend is negative in the second half of FY20 as utilization reductions due to the pandemic exceed the cost increase due to COVID-19 related claims.
- Pharmacy trend was unusually low in the first of FY20 but has returned to normal in the second half.

	1 st Half FY 2020	Projected 2 nd Half FY 2020	Projected FY 20
Medical Trend	7.2%	-5.9%	0.5%
Pharmacy Trend	3.5%	9.8%	6.8%
Combined Medical And Pharmacy Trend	6.2%	-1.6%	2.2%

GBP Update

Virtual Visit and Telemedicine Utilization



Note: Virtual visits are delivered by Doctor On Demand or MD Live. Telemedicine visits are services delivered using a provider platform.

- COVID-19 cases are increasing in HealthSelect. There were 3,721 confirmed cases as of July 14 compared to 1,000 as of June 1.
- Due to the lag time in receipt and processing of medical claims, staff continues work to determine the ultimate impact to each plan based on the increase in cases.
- It is expected that utilization reductions due to the pandemic's impact will more than offset the potential claims cost increase due to COVID-19.

GBP Update

HealthSelectSM Plan Changes due to COVID-19



- At the May 20, 2020 ERS Board of Trustees meeting, Group Benefits staff presented an update related to the COVID-19 pandemic and associated benefits changes.
- In-network and out-of-network COVID-19 diagnostic testing and related services will continue to remain in place throughout the Declaration of Public Health Emergency and at no cost to participants.
- Additional benefit enhancements were implemented for the HealthSelect medical plans for non-COVID-19 services, and several of those enhancements were recently extended beyond their initial expiration dates.

GBP Update

HealthSelect Plan Changes due to COVID-19



- On March 27, 2020, ERS waived HealthSelect plans and HDHP copays, deductibles and coinsurance for non-COVID-19-related in-network medical and mental health Virtual Visits (Doctor on Demand and MD Live). These enhancements have recently been extended through August 31, 2020.
- ERS waived cost sharing for in-network provider-platform primary care physician and specialist telemedicine visits (medical and mental health). These enhancements have also been extended through August 31, 2020.
- Prior authorizations for interfacility transfers to lower levels of care have been waived through September 30, 2020.

- The CARES Act included several provisions to provide relief to retirement plan participants, including government-sponsored 457(b), 403(b), 401(a) and 401(k) plans. Section 2203 waives required minimum distributions (RMDs) for 2020
- To assist in providing financial relief to Texa\$aver program participants directly impacted by COVID-19, ERS implemented the three CARES Act provisions specific to the Special Rules for Retirement Funds:
 - Coronavirus-Related Distributions (CRDs),
 - increased loan limit and
 - extension of the loan repayment period.

- On June 19, 2020, the IRS issued Notice 2020-50 with additional guidance on CARES Act provisions including an expanded definition for CRD eligibility requirements. Notice 2020-50 eligibility requirements include a spouse or a member of the household who suffers adverse consequences as a result of COVID-19 and allow a CRD if pay was reduced but work hours remained the same.
- Plan sponsors rely on the employee's self-certification that the coronavirus-related conditions are satisfied for CRD eligibility.
- As of June 30, 2020, TexaSaver received 694 CRDs totaling approximately \$4 million dollars. This compares to the same period in 2019 with 408 hardship distributions totaling \$570,422 (pre-COVID).

GBP Update

Optional Benefits



- Dental – Utilization remains low. April incurred claims were only 13% compared to the previous year. While claims have increased each month since then, utilization is expected to remain low for the remainder of the year.
- Vision – April Vision utilization followed a similar pattern as Dental, with very low claims followed by increases in subsequent months.
- Life – An increase in claims is expected due to the large increase in the number of COVID-19 diagnoses. Current reserves are adequate to cover the expected cost increase.
- Disability – No direct impact to disability is expected due to the relatively short nature of the disease.

- The report is due to the legislature on September 1, 2020.
- The initial draft of the report is written by UT Health Science Center Houston (UTHSCH) and reviewed by ERS staff. It is currently going through the Texas Health and Human Services Commission review process.
- Draft data dashboard is created for each agency and under review. UTHSCH is working to collect FY19 and FY20 data in order to continue comparative data analysis.
- Workgroups continue to meet on a regular basis.

Questions?

Public Agenda Item #29

*Review and Consideration of Proposed Rates for HealthSelectSM Medicare Advantage PPO Plan for Calendar Year 2021- (**Action**)*

August 19, 2020

Diana Kongevick, Director of Group Benefits
Blaise Duran, FSA, Actuarial and Reporting Services, Group Benefits
Phil Dial, FSA, Rudd and Wisdom, Inc.

HealthSelect Medicare Advantage PPO



- The HealthSelect Medicare Advantage preferred provider organization (HealthSelect MA PPO) is a fully-insured PPO customized for the Employees Retirement System of Texas (ERS).
- The cost of the plan is subsidized by the federal government, resulting in lower cost to retirees and reduced cost to the program.
- Effective January 1, 2021 the insurer will be Sierra Health and Life Insurance Company (United), a UnitedHealthcare underwriting entity.

HealthSelect Medicare Advantage PPO



- The HealthSelect MA PPO continues to provide the most cost-effective medical benefits for Medicare-primary Texas Employees Group Benefits Program (GBP) participants for both the state and eligible members.
- The HealthSelect MA PPO is a fully insured program.
- The HealthSelect MA PPO is a customized group plan for ERS – *not an individual off-the-shelf product*

HealthSelect MA PPO	January 2018	January 2019	January 2020
Members	58,519	63,050	66,763
Dependents	15,504	16,747	17,634
Total Enrolled Participants	74,023	79,797	84,397

HealthSelect Medicare Advantage PPO



Requirements: Theoretical Cost Index

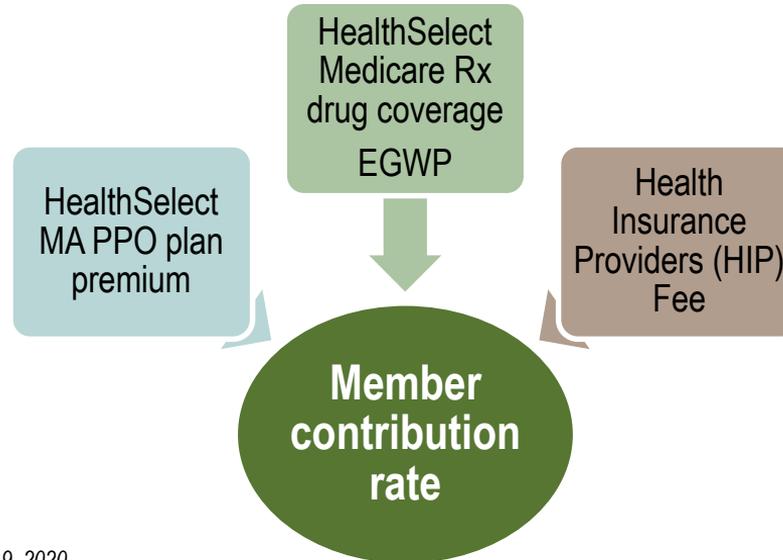
- To ensure the cost effectiveness of the MA PPO plan, the consulting actuary utilizes a theoretical cost index (TCI) model.
- TCI estimates the total cost that would be required to cover HealthSelect MA PPO participants if they were enrolled in HealthSelect of Texas®, the GBP's self-funded health insurance plan.

HealthSelect Medicare Advantage PPO



Member Contribution Rates

- Historically the HealthSelect MA PPO member contribution rate consisted of three elements.
- Effective January 1, 2021 there will no longer be a Health Insurance Providers Fee.



HealthSelect Medicare Advantage PPO



Participant Cost of Coverage

\$179.04 - the 2021 total cost of coverage for a participant in HealthSelect Medicare Advantage

\$ 40.00	Fully-insured premium for medical coverage
\$139.28	Projected cost of prescription drug coverage under HealthSelect Medicare Rx.
(\$ 0.24)	Medical Loss Ratio (MLR) credit due to rebate paid by two HMOs discussed at May 20, 2020 Board Meeting

\$179.04

HealthSelect Medicare Advantage PPO

Proposed CY21 Monthly Contribution Rate Comparison



	Medicare-Primary Spouse	Medicare-Primary Surviving Spouse
Current CY20 HealthSelect MA PPO Rates	\$ 151.70	\$ 303.40
Proposed CY21 HealthSelect MA PPO Rates	\$ 89.52	\$ 179.04
Change from CY20 Rates	(\$ 62.18)	(\$ 124.36)
HealthSelect of Texas FY21 Rates	\$ 357.54	\$ 715.08
Retiree Savings through HealthSelect MA PPO enrollment <i>(difference in HealthSelect of Texas and HealthSelect MA PPO rates)</i>	\$ 268.02	\$ 536.04

Questions?
Action Item

Public Agenda Item #30

Review and Discussion of the Future of the Medicare Advantage Health Maintenance Organization Plan

August 19, 2020

Diana Kongevick, Director of Group Benefits

Blaise Duran, FSA, Actuarial and Reporting Services, Group Benefits

Phil Dial, FSA, Rudd and Wisdom, Inc.

Medicare Advantage HMO Plan



Houston Service Area

- The Medicare Advantage health maintenance organization (MA HMO) is a fully-insured plan available to Medicare-primary participants in the eight county Houston service area.
- The plan is unique to ERS, offering zero or minimal out-of-pocket costs for Medicare-covered services and supplies, and provides benefits equal to or greater than HealthSelect of Texas® which coordinates benefits with Medicare.
- The cost of the plan is subsidized by the federal government, resulting in lower cost to retirees and reduced cost to the program.

Medicare Advantage HMO (MA HMO)



KelseyCare Advantage

- KelseyCare Advantage is the only MA HMO currently offered under the Texas Employees Group Benefits Program (GBP).
- The MA HMO participants receive medical coverage through KelseyCare Advantage, and prescription drug coverage through the self-funded HealthSelectSM Medicare Rx plan, administered by UnitedHealthcare.

KelseyCare Advantage*	January 2018	January 2019	January 2020
Members	1,206	1,302	1,378
Dependents	256	273	287
Total Participants Enrolled	1,462	1,575	1,665

KelseyCare Advantage MA HMO



Requirements by Statute

- The General Appropriations Act (GAA) includes a Rider applicable to the legislative appropriation to ERS for the GBP that specifies:

“In no event shall the total amount of state contributions allocated to fund coverage in an optional health plan exceed the actuarially determined total amount of state contributions required to fund basic health coverage for those active employees and retirees who have elected to participate in that optional health coverage.”
- Under ERS rules, HealthSelect MA PPO is considered the basic coverage for Medicare-primary participants.

Health Maintenance Organization Plans



Issuance of Solicitation

On October 31, 2019, ERS issued a RFP seeking a qualified Medicare Advantage HMO in the Houston area to underwrite and administer the medical-only MA HMO plan for a six-year term.

- One proposal was received, from KelseyCare.
- The rates were significantly higher than the MA PPO plan.
- Inclusion of KelseyCare in the GBP as an optional health plan for CY21 would prevent compliance with the GAA Rider.

Health Maintenance Organization Plans



Future of MA HMO

- Due to non-compliance with the GAA, the MA HMO plan will not be offered through the GBP, and the current agreement will end December 31, 2020.
- Participants will be able to enroll in an alternate GBP plan (MA PPO or HealthSelectSM Secondary) during fall enrollment with coverage effective January 1, 2021.
- Kelsey physicians do not participate in either plan, and participants will have to select new physicians.
- Activities are in process to ensure a smooth transition.

Questions?

Public Agenda Item #31

Review and Discussion of Recommended Updates to Texa\$aver Product Review Committee Charter

August 19, 2020

Diana Kongevick, Director of Group Benefits

Georgina Bouton, Assistant Director of Group Benefits

Texa\$averSM 401(k)/457 program

Product Review Committee (PRC) Charter



PRC Charter was developed to formally define the PRC's purpose, composition and membership, duties and responsibilities, meeting schedules, and document the processes to be employed for committee voting.

- Approved August 23, 2017
- Full review by the Board every three years, at a minimum
- Updates to the Charter were formulated in collaboration with PRC and Office of General Counsel
- Amendments are presented to Board consideration and input

Texa\$aver program

PRC Overview



- Texa\$aver program benefits from the expertise of a Product Review Committee (PRC)
- PRC advises on the investment options, fund managers, and investment advisory services provided to program participants

Texa\$aver program

PRC Membership



- **Porter Wilson** – ERS Executive Director
- **Catherine Terrell** – ERS Deputy Executive Director
- **Diana Kongevick** – ERS Director of Group Benefits
- **Tom Tull** – ERS Chief Investment Officer
- **Leighton Shantz** – ERS Director of Fixed Income
- **Carlos Chujoy** – ERS Investment Risk Officer
- **Gene L. Needles, Jr.** – Chairman and CEO Resolute Investment Managers and Vice-Chair of ERS' Investment Advisory Committee (IAC)
- **Margaret “Didi” Weinblatt, Ph.D., CFA** – IAC member
- **Laura T. Starks, Ph.D.** – Charles E. and Sarah M. Seay Regents Chair in Finance and Co-Executive Director, Social Innovation Initiative, McCombs School of Business, University of Texas at Austin

PRC Charter

Amendments



Additional language within the following sections

- **3.2 PRC Membership Requirements** - includes information on PRC member appointments
- **3.3 PRC sub-committee** - includes further details on the responsibilities and duties that may be undertaken by an appointed sub-committee

Reason:

Document the practices which have been in place regarding (1) membership appointments and (2) performance reviews which have been included in the scope of duties assigned to appointed PRC sub-committee

Next Steps

PRC Charter



- Redline of the proposed edits provided to the Board
 - August 19, 2020
- Open period for Board feedback and additional edits
 - August 20, 2020 - October 20, 2020
- Finalized PRC Charter presented for Board consideration and approval
 - December 8 - 9, 2020

Questions

Public Agenda Item #32

Review and Discussion of Recommended Updates to Texa\$aver Investment Policy

August 19, 2020

Diana Kongevick, Director of Group Benefits

Georgina Bouton, Assistant Director of Group Benefits

TexaSaverSM 401(k)/457 program

Investment Policy



- Approved August 23, 2017
- Updates to the Investment Policy have been formulated in collaboration with AAG Investment Advisory Committee, Product Review Committee (PRC), and Office of General Counsel
- Proposed amendments are presented to Board for consideration and input

Texa\$aver 401(k)/457 program

Texa\$aver Investment Policy



Texa\$aver Investment Policy

- Defines the investment philosophy and strategy of the Program and investment options available
- Outlines the performance-monitoring evaluation measures
- Establishes the fund selection process
- Serves as guide for the effective supervision, monitoring and management of the investment options available under the Program

Texa\$aver Investment Policy

Amendments



Remove language within the following sections

- **5.6 Watch List** – remove this from the Policy and include within operational procedures

Reason:

Keeping the processes well-documented but transitioning to an operational platform with documented risk controls and mitigations

Texa\$aver Investment Policy



Amendments

Additional language within the following sections

- **3.3 PRC sub-committee** - includes further details on the responsibilities and duties that may be undertaken by an appointed sub-committee
- **7.1 Review of Investment Policy** - includes information that the Investment Policy is to be presented to the Board no less than every three (3) years

Reason:

Document the practices which have been in place regarding (1) performance reviews which have been included in the scope of duties assigned to appointed PRC sub-committee and (2) presenting the Policy to the Board for approval

Texa\$aver Investment Policy



Amendments

Additional language within the following sections

- **5.4 Benchmark** – include US Large Cap Index (Value or Growth), CRSP US Mid Cap Index (Value or Growth); CRSP US Small Cap Index (Value or Growth);

Reason:

Document the inclusion of CRSP benchmarks for Domestic Equity Large Cap Fund, Domestic Equity Mid Cap Fund, Domestic Equity Small Cap Fund options as acceptable benchmarks

Next Steps

Texa\$aver Investment Policy



- Redline of the proposed edits provided to the Board
 - August 19, 2020
- Open period for Board feedback and additional edits
 - August 20, 2020 - October 20, 2020
- Finalized Investment Policy to be presented for Board consideration and approval
 - December 8 - 9, 2020

Questions

Public Agenda Item #33

*Review, Discussion and Consideration of the
ERS Incentive Compensation Plan for Fiscal Year 2021 – (Action)*

August 19, 2020

DeeDee Sterns, Director of Human Resources

Jamey Pauley, ICP Program Specialist

Review and Consideration of the ERS Incentive Compensation Plan (ICP)



ERS Incentive Compensation Plan

- The Board of Trustees reviews and considers the ICP on an annual basis in a public meeting.
- Staff annually reviews the Plan and related processes to make recommendations to the Board.
- A draft Plan document for FY21 was presented during the May Board meeting.
- Periodic updates have occurred to conform with the labor market and compensation plan standards, and to improve plan administration.
- The Plan was most recently amended and approved by the Board on August 21, 2019.

Review and Consideration of the ERS Incentive Compensation Plan



Incentive Compensation Plan Objectives

- Communicate strategic performance priorities to participating employees
- Encourage sustained levels of high investment performance, without undue risk
- Promote teamwork among employees
- Support ERS' strategic and operational goals
- Attract and retain key employees in a cost-effective manner

Review and Consideration of the ERS Incentive Compensation Plan

Fiscal Year 2021 – Material Change



Staff recommends a material change to the definition of “Global Composite Performance” (section 2.16).

This change will include discontinuing the practice of adjusting the total trust return for ***unallocated cash***.

Review and Consideration of the ERS Incentive Compensation Plan *Fiscal Year 2021 – Non-material Changes*



In addition to the material change, HR is proposing some non-material changes to the Plan document that will:

- Provide clarification.
- Better reflect current processes and practices.

These changes are marked in the proposed Plan document (Exhibit A).

Review and Consideration of the ERS Incentive Compensation Plan *Changes since May Board Meeting*



APPENDIX A

ELIGIBLE EMPLOYEE POSITIONS WITH
MAXIMUM INCENTIVE AWARD PERCENTAGES [AND PAYMENT SCHEDULES](#)

Plan Groups	Maximum Incentive Award Percentages	Payment Schedules (Year 1/2/3, see Section 6.2)
Executive Director	100%	50/25/25
Chief Investment Officer	100%	50/25/25
Deputy Chief Investment Officer (Performance Goal weightings based on Public Equity under Ex.B)	100%	50/25/25
Asset Class Portfolio Managers /Directors	100%	50/25/25
Director of Risk Management & Applied Research	100%	50/25/25
Director of Investment Services (Performance Goal weightings based on Iqy Ops under Ex.B)	90%	50/25/25
Risk Management and Applied Research Portfolio Manager	80%	
Supervising Portfolio Manager	80%	50/25/25
Portfolio Manager I, II, III, IV, V & VI	70%	50/25/25
Chief Trader I & II	70%	50/25/25

Review and Consideration of the ERS Incentive Compensation Plan *Fiscal Year 2021*



Staff Recommendation:

- Staff recommends that the Board consider and approve the ERS Incentive Compensation Plan for FY21.
- Staff also recommends that the Board approve, as part of its annual review of the Plan, the proposed Plan document, as presented in Exhibit A.

Questions?
Action Item

Public Agenda Item #34

*Review, Discussion and Approval of the ERS Fiscal Year 2021
Operating and Capital and Property Management Budgets – (Action)*

August 19, 2020

Porter Wilson, Executive Director
Machelle Pharr, Chief Financial Officer

FY20 Accomplishments



Support Our Members Retirement Income Security

- Issued more than \$2.5 billion in annuity payments.
- Performed the statutorily required Pension Experience Study.
- Sustained operations and investment management during the global pandemic.
- Implemented provisions of the CARES Act to provide financial relief to deferred compensation participants.
- Received national recognition of the Texa\$aver program.
- Processed 21 Chapter 615 lump-sum payments to survivors of those killed in the line of duty.

FY20 Accomplishments



Sustain Competitive Group Benefits Program

- Implemented COVID-19-related benefit changes and temporary exceptions for greater access to lower-cost care in HealthSelect plans.
- Partnered with BCBSTX and Catapult Health for COVID-19 education, assistance, triage and testing.
- Developed and implemented the HealthSelectShoppERS program.
- Added coverage for certain diabetic supplies through the HealthSelect Prescription Drug Program to increase testing adherence.
- Solicited new third-party administrator of the HealthSelect Medicare Advantage Plan PPO, with expected six-year savings of about \$320 million.
- Increased enrollment in HealthSelect Medicare Advantage by 6.1%.
- Saved retirees in Medicare Advantage plans an estimated \$64.6 million in dependent premiums.

FY20 Accomplishments



Engage Stakeholders for Informed Decision Making

- The GBP Annual Report received the National Association of Government Communicators' Blue Pencil Award for excellence in annual reporting.
- Presented customized health and wellness reports to generate senior-level workforce engagement and state leadership interest in promoting wellness.
- Conducted remote Grievance Review Committee meetings, meeting ACA guidelines and supporting the second-level appeals Optional Recorded Audio Statement Process.
- Broadened in-house educational conferences and promoted strategic outreach, such as the investment primers.

FY20 Accomplishments

Engage Stakeholders for Informed Decision Making



Member Support through Customer Benefits Division

**424,420
member
phone calls**

**121,000
requests
processed**

**30,000
member
emails**

**2,000
member
visits**

FY20 Accomplishments



Enhance Agency Performance and Accountability

- Closed the building and transitioned staff to work remotely during pandemic.
- Conducted the first fully virtual Board meeting in ERS' 73-year history.
- Implemented 34 program and system changes based on legislation from the 86th Texas Legislature.
- Developed the agency's FY21-25 strategic plan.
- Completed seven audit engagements to assure the effectiveness of agency controls and operations.
- Met new federal Web Content Accessibility Guidelines to ensure people with disabilities have appropriate access to ERS website.
- Implemented Shelf, a cloud-based system providing Customer Benefits with easy access to information when assisting ERS participants.

Proposed Fiscal Year 2021 Operating Budget



Budget Drivers and Initiatives

Responding to the current economic situation, the proposed FY21 budget is 95% of FY20's, with the remaining 4.3% in a contingency account.

- Elimination of one-time projects and continued use of FY20 funds for ongoing contracts/projects
- Reallocation of resources to address critical activities, including cyclical initiatives
 - Board of Trustees election
 - Legislative requests/cost estimates for the 87th Legislature
 - Continued management of investments during volatility and uncertainty
 - Assessment and determination of critical systems replacements (RISE)
 - Recruitment and retention of Contact Center staff

Proposed Fiscal Year 2021 Operation Budget



By Budget Category

- Salary-related costs comprise 64.6% of the budget
- FTEs reallocated among divisions and within sections to address critical needs
- FY20 Board-approved recruitment and retention funds provided 10% increase in base funds for Contact Center staff; additional 10% increase in FY21 through reallocation of funds

	FY20	FY21	Contingency
Salary-related	\$53.6 M	\$52.1 M	\$1.5 M
Non-salary-related	\$32.1M	\$29.3 M	\$2.8 M
Total Budget	\$85.7M	\$81.4 M	\$4.3 M
FTEs	415	415	

Note: An additional 1.7% of salary costs are not included in the budget

Proposed Fiscal Year 2021 Operations Budget



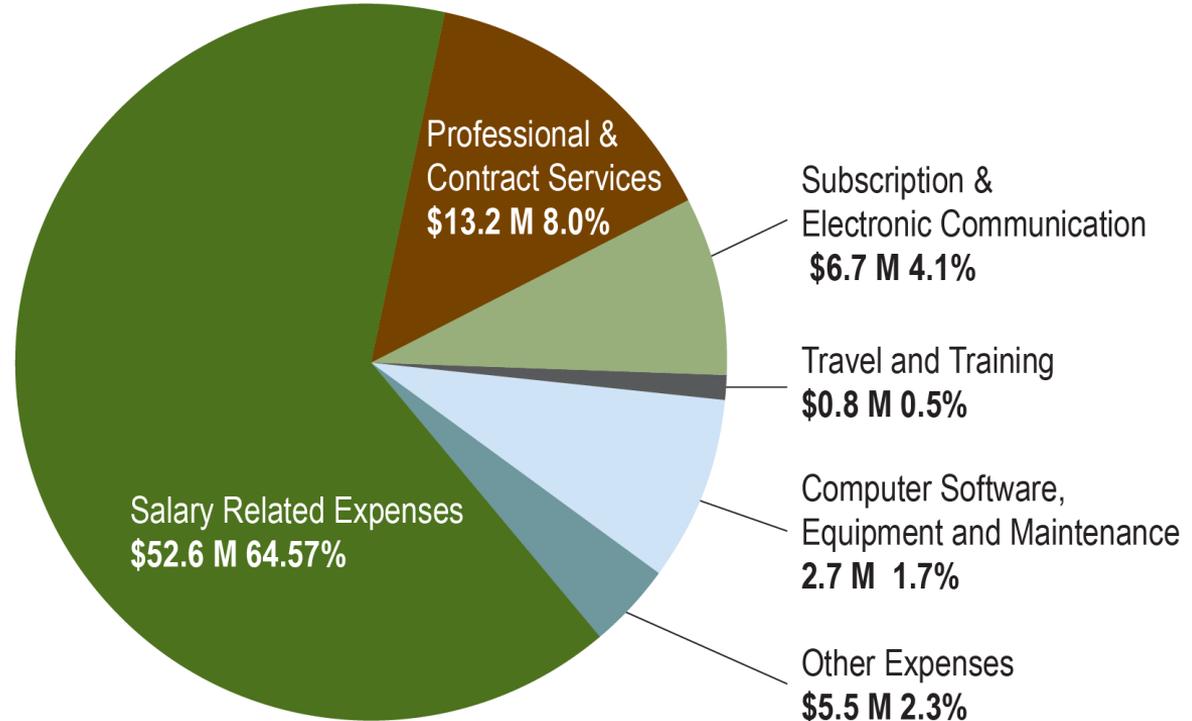
By Budget Category

Key non-salary drivers and initiatives:

- Trustee election
- Contractual increases

Exhibit B

- Professional and other contracted services – Executive Director authorized to contract on behalf of ERS
- Notes referenced in division budgets

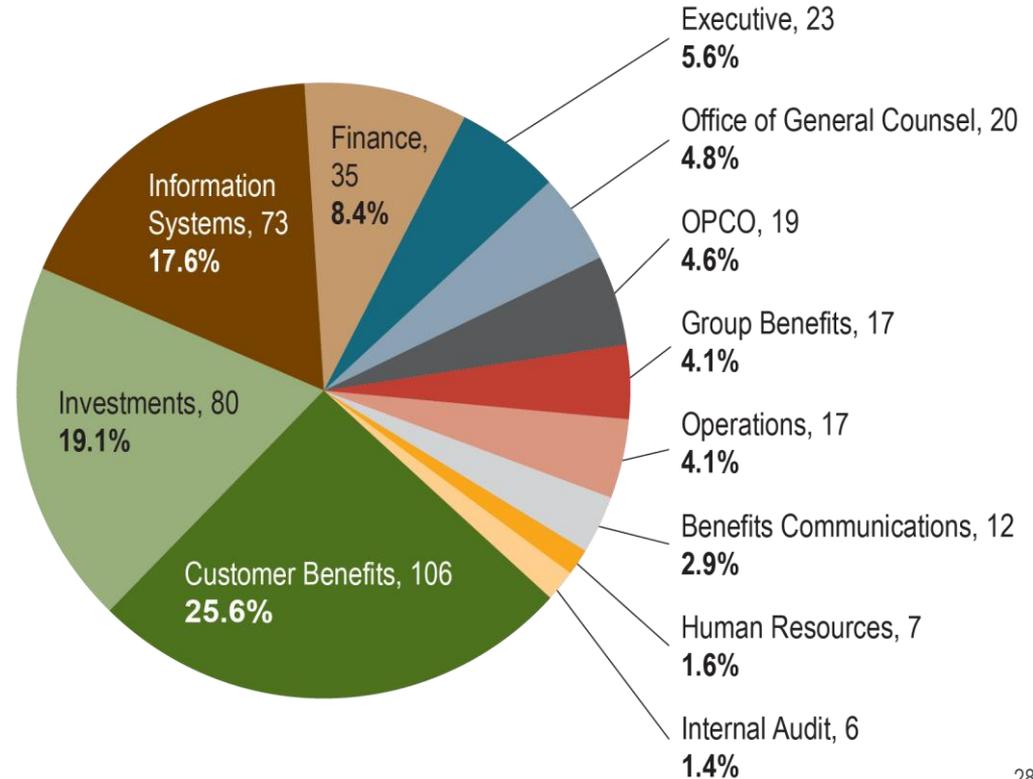


Proposed Fiscal Year 2021 Operations Budget



By Division

Direct Investment-related Expenses	
Investments Division	\$29.5 M
Other Divisions	\$4.0 M
Total Direct Investment-related Expenses	\$33.5 M



Investment advisor fees are detailed in Exhibit B – Note 3

Proposed Fiscal Year 2021 Capital and Property Management Budget



Construction is underway.

2019 Budget	Expenses*
\$92.1 M	\$69 M

*Includes obligations

Payments as of August 1, 2020 equaled \$35.9 million.

FY21 Additional Funds requested: \$2.3 million

- Renovation of existing building to accommodate social distancing
- Property management, legal services and various other expenses

Questions?
Action Item

Public Agenda Item #35

Agency Update

August 19, 2020

Porter Wilson, Executive Director

Executive Director Update

Legislative Issues



- **Senate Finance** released Interim Report to the 87th Legislative Session in August
 - Contained a section on state funds investment oversight, including ERS, TRS and other state funds
 - Recommendation to the 87th Legislature to “*Develop a plan to improve the financial forecast of the ERS Pension Trust Fund to ensure benefits for members and preserve the state's high credit rating.*”
- **House Appropriations Committee** and **Committee on Pensions, Investments and Financial Services** posted requests for comments on interim charges in lieu of holding in-person hearings
 - ERS will provide written comments to the Committees regarding our critical pension issues and investments oversight and transparency
- In mid-July, the **Comptroller** provided an updated revenue estimate for the current biennium.
 - Due to economic impact of recent global events, now projecting a **\$4.58B** shortfall
 - Does not take into consideration the 5% budget reduction efforts by state agencies
 - Comptroller did not provide a revenue estimate for next biennium but said to expect a tight budget

Agency Update



Legislative Appropriation Request, Fiscal Years 2022-23

- LAR instructions are pending; we expect them to take into account the Comptroller's updated revenue projection.
- In prior years, ERS' base level for retirement and group benefit programs has been maintained at the second year of the current biennium.
- Items above the base-level funding are considered “exceptional items” and must be itemized, prioritized and justified in the LAR submission
 - Exceptional items requests will include funding to attain actuarial soundness for the three pre-funded pension plans.

Plan Year 2021 Summer Enrollment

Benefits Enrollment Information



**ERS mailed
272,568 PBES
packets.**



**The Contact Center and
ACT fielded 5,595
Summer Enrollment
calls.**



**Members made
39,031 coverage
changes.**

Plan Year 2021 Summer Enrollment

Online-only Benefits Education



- The ERS website had more than **1 million pageviews** by more than 200,000 visitors during Summer Enrollment.
 - The Summer Enrollment page had almost **42,000 views**.
- Almost **5,000 members** attended 54 webinars.
 - Attendees asked more than **2,700 questions** in the webinars.
 - **98% of respondents** to a one-question survey after each session said the webinars were useful.



Preparation for Fall Enrollment, October 26 – November 13, is well underway.

1836 San Jacinto Building

East Rendering



1836 San Jacinto Building

Tenant Retail Space



1836 San Jacinto Building

Tenant Retail Space



[Tenant Retail Space Flythrough.mp4](#)

1836 San Jacinto Building

Tenant Conference Center



1836 San Jacinto Building

Tenant Conference Center



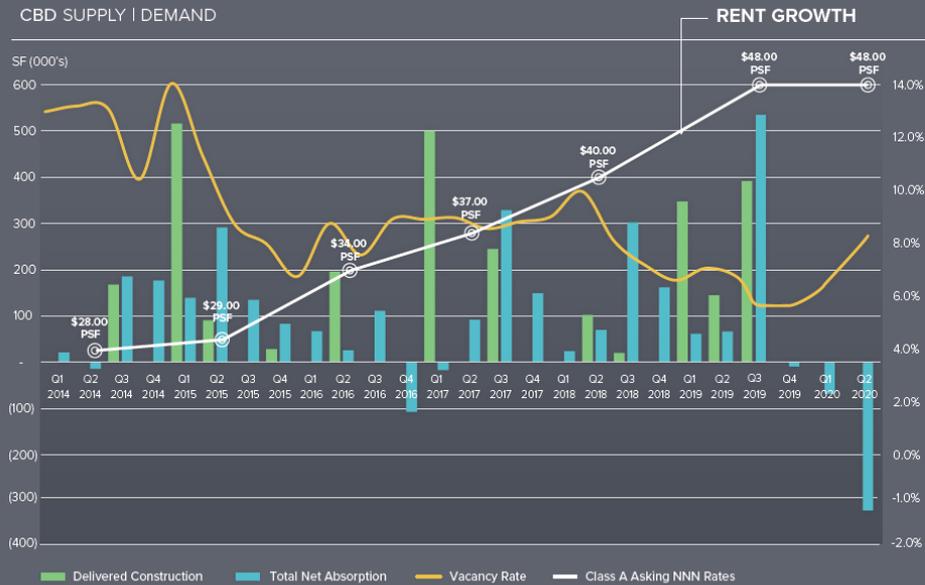
[Tenant Conference Center Flythrough.mp4](#)

1836 San Jacinto Building

Market Update



CBD FUNDAMENTALS SNAPSHOT



POST GREAT RECESSION CBD PERFORMANCE (2010-2019)

WHERE WE ARE

-  **8.7%**
TOTAL VACANCY

-  **(381,089 SF)**
2020 YTD NET ABSORPTION

-  **11,522,048 SF**
CBD INVENTORY

-  **3,220,202 SF**
UNDER CONSTRUCTION

-  **51.5%**
LEASED AT DELIVERY

-  **2020 DELIVERIES:**
OVER **75%** PRE-LEASED

CYCLE HIGHLIGHTS (2010 - 2019)

-  OVER **55%**
RENTAL RATE GROWTH

-  OVER **2.6MM SF** OF
INVENTORY GROWTH
28% INCREASE

-  **18.7% to 6.8%**
TOTAL VACANCY
(7.4% AVERAGE SINCE 2014)

-  **480K SF** AVERAGE
NET ABSORPTION SINCE 2014

VACANCY RATE VS. AVERAGE ASKING CLASS A LEASE RATE AUSTIN CBD

Q2 2020



GREAT RECESSION

- Great Recession – Q1 2008- Q3 2009
- CBD Vacancy Spikes Q3 2009 (18.7%)
- Peak to Trough Class A Rents Stay Relatively Flat (-4.8%); bottomed Q3 2010
- No New Inventory
- Immediately pre-recession, market supported cost justified rents for new development

RECOVERY

- Recovery Begins In 2010 with falling vacancy rates and rental rate growth
- Lack of new inventory pushes rents to previous peak signaling time to build around Q2 2012
- New development constrained by capital markets requiring pre-leasing
- Developers begin new construction with pre-leasing rental rates at discount to what market could support
- First construction starts begin mid-2013 and deliver full or nearly full

ACCELERATED GROWTH

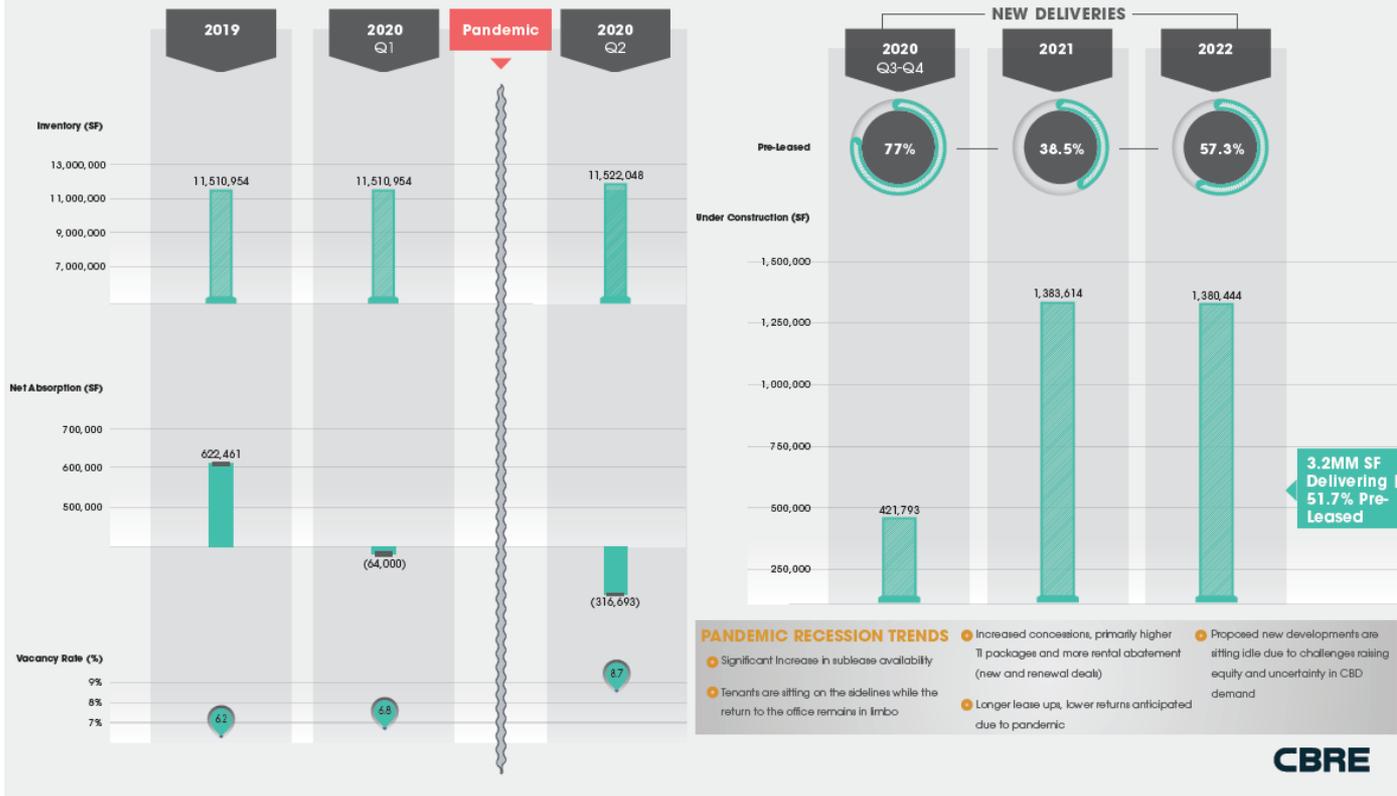
- Net absorption at record levels pushing rents past previous peaks
- Development capital responds to demand for new inventory triggering robust development pipeline
- Significant inventory growth with speculative development projects leased upon delivery or shortly thereafter
- Vacancy rates remain well below avg. with limited large blocks of availability

SUSTAINED GROWTH

- Historic low vacancy despite sizable inventory growth, propelling rents and sales values to record highs
- Record positive net absorption maintains rapid pace as large block availabilities are in short supply
- Tenants are forced to look at CBD periphery b/c of speed to market and lack of availability
- Robust development

CBRE

POST PANDEMIC OUTLOOK



BIG BLOCK AVAILABILITY (40K+ SF)



816 CONGRESS

Area (SF)	433,024
Typical Floor Plate (SF)	21,505
Vacant (SF)	50,161
Sublease (SF)	14,998
Available (SF)	203,793
Largest Contiguous Available (SF)	50,161
Coworking (SF)	0
% Vacant	12%
% Leased	88%
Asking Net Rent	\$42.00
Estimated Operating Expenses	\$22.64
Gross Rent	\$64.64
Parking Ratio	1.2
Parking Costs (Unreserved)	\$200
Parking Costs (Reserved)	\$270
Year Built	1983
Owner/Developer	Cousins Properties
Listing Company	JLL
Major Tenants	TRS Lloyd Gosselink Texas Monthly



301 CONGRESS

Area (SF)	446,839
Typical Floor Plate (SF)	19,015
Vacant (SF)	68,952
Sublease (SF)	129,617
Available (SF)	198,569
Largest Contiguous Available (SF)	41,803
Coworking (SF)	0
% Vacant	15%
% Leased	85%
Asking Net Rent	\$42.50
Estimated Operating Expenses	\$26.65
Gross Rent	\$69.15
Parking Ratio	1.6
Parking Costs (Unreserved)	\$250
Parking Costs (Reserved)	\$310
Year Built	1985
Owner/Developer	Prudential
Listing Company	HPI
Major Tenants	ReliMeNot Gerson Lehman Group Morgan Stanley



SAN JACINTO CENTER

Area (SF)	410,248
Typical Floor Plate (SF)	19,535
Vacant (SF)	12,310
Sublease (SF)	0
Available (SF)	81,164
Largest Contiguous Available (SF)	62,073
Coworking (SF)	29,090
% Vacant	4%
% Leased	96%
Asking Net Rent	\$43.00
Estimated Operating Expenses	\$28.52
Gross Rent	\$71.52
Parking Ratio	1.6
Parking Costs (Unreserved)	\$195
Parking Costs (Reserved)	\$270
Year Built	1987
Owner/Developer	Cousins Properties
Listing Company	JLL
Major Tenants	Norton Rose Baker Botts LogiMonitor



ONE ELEVEN CONGRESS

Area (SF)	518,385
Typical Floor Plate (SF)	18,598
Vacant (SF)	21,061
Sublease (SF)	65,562
Available (SF)	130,556
Largest Contiguous Available (SF)	38,744
Coworking (SF)	23,150
% Vacant	4%
% Leased	96%
Asking Net Rent	\$43.00
Estimated Operating Expenses	\$27.04
Gross Rent	\$70.04
Parking Ratio	1.6
Parking Costs (Unreserved)	\$195
Parking Costs (Reserved)	\$300
Year Built	1985
Owner/Developer	Cousins Properties
Listing Company	JLL
Major Tenants	Wells Fargo Husch Blackwell RigUp



COLORADO TOWER

Area (SF)	373,234
Typical Floor Plate (SF)	21,264
Vacant (SF)	3,165
Sublease (SF)	65,298
Available (SF)	140,993
Largest Contiguous Available (SF)	72,530
Coworking (SF)	0
% Vacant	1%
% Leased	99%
Asking Net Rent	\$50.00
Estimated Operating Expenses	\$30.67
Gross Rent	\$80.67
Parking Ratio	2.7
Parking Costs (Unreserved)	\$225
Parking Costs (Reserved)	\$275
Year Built	2015
Owner/Developer	Cousins Properties
Listing Company	JLL
Major Tenants	DLA Piper Atlasian Scott Douglas

BIG BLOCK AVAILABILITY (40K+ SF) - CONTINUED



FROST TOWER

Area (SF)	560,674
Typical Floor Plate (SF)	27,000
Vacant (SF)	26,826
Sublease (SF)	3,718
Available (SF)	76,606
Largest Contiguous Available (SF)	39,870
Coworking (SF)	0
% Vacant	5%
% Leased	95%
Asking Net Rent	\$50.00
Estimated Operating Expenses	\$30.32
Gross Rent	\$80.32
Parking Ratio	2.7
Parking Costs (Unreserved)	\$230
Parking Costs (Reserved)	\$295
Year Built	2003
Owner/Developer	Lionstone/CaSTRS
Listing Company	Endeavor
Major Tenants	Vista Equity Winstead PIMCO



600 CONGRESS

Area (SF)	503,951
Typical Floor Plate (SF)	32,000
Vacant (SF)	41,595
Sublease (SF)	12,300
Available (SF)	149,901
Largest Contiguous Available (SF)	37,943
Coworking (SF)	89,834
% Vacant	8%
% Leased	92%
Asking Net Rent	\$43.00
Estimated Operating Expenses	\$26.58
Gross Rent	\$69.58
Parking Ratio	1.7
Parking Costs (Unreserved)	\$215
Parking Costs (Reserved)	\$295
Year Built	1984
Owner/Developer	Lionstone/CaSTRS
Listing Company	Endeavor
Major Tenants	WeWork Box



AUSTIN CENTRE

Area (SF)	343,664
Typical Floor Plate (SF)	20,395
Vacant (SF)	12,180
Sublease (SF)	95,417
Available (SF)	107,597
Largest Contiguous Available (SF)	68,279
Coworking (SF)	58,647
% Vacant	4%
% Leased	96%
Asking Net Rent	\$37.50
Estimated Operating Expenses	\$23.48
Gross Rent	\$60.98
Parking Ratio	1.3
Parking Costs (Unreserved)	\$240
Parking Costs (Reserved)	\$305
Year Built	1986
Owner/Developer	Sidra Real Estate
Listing Company	Stream
Major Tenants	Capital Factory E.ON Thompson Coe

PRE-LEASING UNDER CONSTRUCTION

701 RIO



BUILDING SF:	120,924
AVAILABLE SF:	120,924
% LEASED:	0%
ASKING NNN/SF:	\$43.50
DELIVERING:	2021
LANDLORD/DEVELOPER:	Baring+B&Z Properties
STORIES:	5

6TH X GUADALUPE



BUILDING SF:	597,500
AVAILABLE SF:	597,500
% LEASED:	0%
ASKING NNN/SF:	\$45.00
DELIVERING:	2022
LANDLORD/DEVELOPER:	Lincoln Property Co/OlvoWest
STORIES:	32

BLOCK 185



BUILDING SF:	790,000
AVAILABLE SF:	0
% LEASED:	100%
ASKING NNN/SF:	\$42.00
DELIVERING:	2022
LANDLORD/DEVELOPER:	Tammell Crow/MSD Capital
STORIES:	35

RIVERSOUTH



BUILDING SF:	350,611
AVAILABLE SF:	281,938
% LEASED:	20%
ASKING NNN/SF:	\$43.50
DELIVERING:	Late 2021
LANDLORD/DEVELOPER:	Stream
STORIES:	15 stories

INDEED TOWER



BUILDING SF:	669,130
DIRECT SF:	231,629
SUBLEASE SF:	101,673
% LEASED:	65%
ASKING NNN/SF:	\$48.00
DELIVERING:	2021
LANDLORD/DEVELOPER:	UT System/Tammell Crow/Principal Real Estate Investors
STORIES:	36

405 COLORADO



BUILDING SF:	205,496
AVAILABLE SF:	187,443
% LEASED:	9%
ASKING NNN/SF:	\$48.00
DELIVERING:	2020
LANDLORD/DEVELOPER:	Brandywine
STORIES:	25

300 COLORADO



BUILDING SF:	366,798
DIRECT SF:	44,173
SUBLEASE SF:	154,532
% LEASED:	88%
ASKING NNN/SF:	\$47.00
DELIVERING:	2021
LANDLORD/DEVELOPER:	Cousins Properties/Riverside Resources/Bronwood Real Estate
STORIES:	33

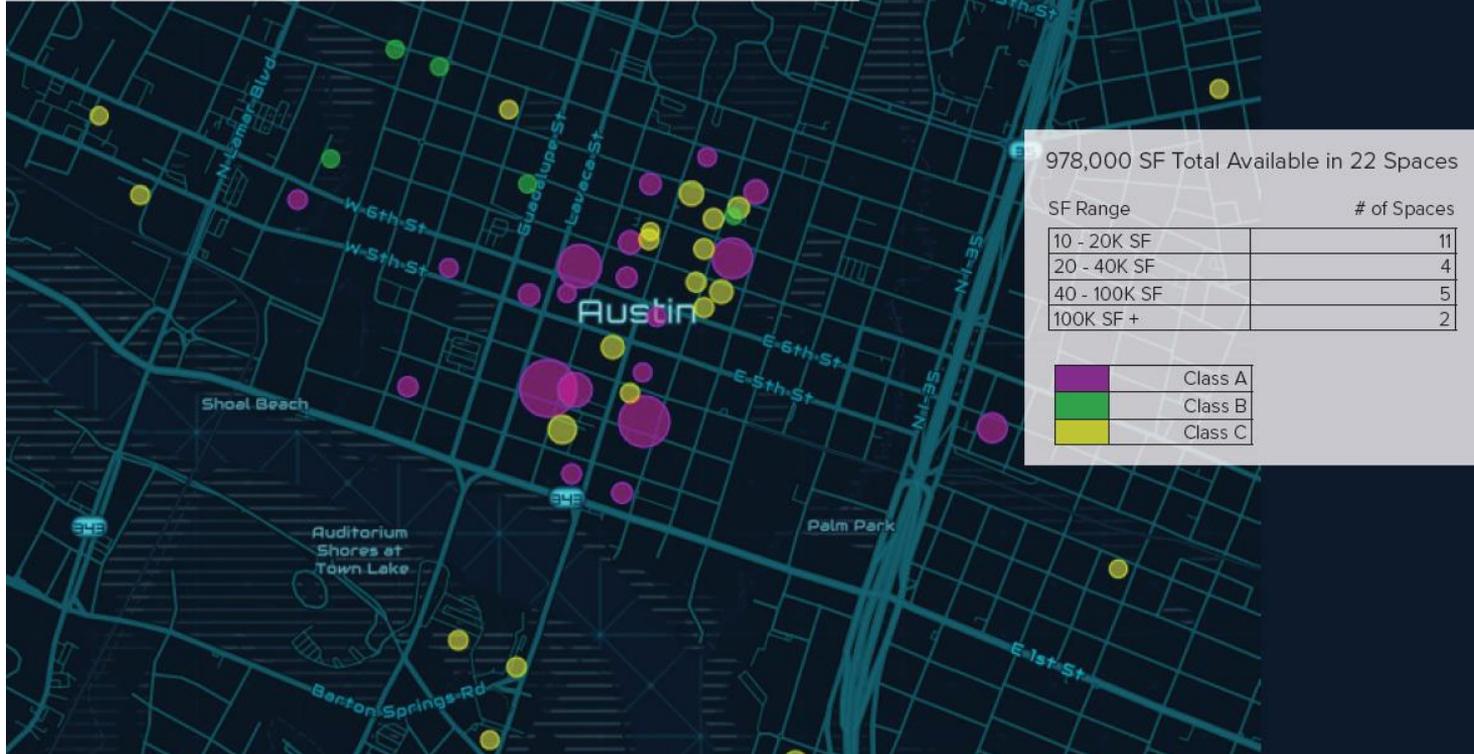
THE QUINCY



BUILDING SF:	78,000
AVAILABLE SF:	77,782
% LEASED:	0%
ASKING NNN/SF:	\$38.00
DELIVERING:	2021
LANDLORD/DEVELOPER:	93 Red River Investors Ltd/Endeavor
STORIES:	29

1836 SAN JACINTO

CBD SUBLEASE AVAILABILITIES



Questions?

Public Agenda Item #36

Executive Session

August 19, 2020

Executive Session



- In accordance with Section 551.074, Texas Government Code, the ERS Board of Trustees will meet in executive session to deliberate the employment, evaluation and duties of the Executive Director of the Employees Retirement System of Texas. In accordance with Section 551.072, Texas Government Code, the ERS Board of Trustees will meet in executive session to deliberate the purchase, exchange, lease, or value of Real Property and the ERS building. Thereafter, the Board may consider appropriate action in open session.*

Public Agenda Item #37

*Election of Chair and Vice Chair of the ERS Board of Trustees for Fiscal Year 2021– (**Action**)*

August 19, 2020

Questions?
Action Item

Public Agenda Item #38

Adjournment of the Board of Trustees Meeting

August 19, 2020