



## Board of Trustees Meeting

August 19, 2020



**Presented for Review and Approval**

**December 8, 2020**

## TABLE OF CONTENTS

22. Call Meeting of the ERS Board of Trustees to Order.....	2
23. Review and Approval of the Minutes to the May 20, 2020 ERS Board of Trustees Meeting – (Action) .	2
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, Chapter 75 (Hazardous Profession Death Benefits), Chapter 81 (Insurance) and Chapter 85 (Flexible Benefits); Statutory Rule Review for Chapters 75 and 85 – (Action) .....	2
25. Review, Discussion and Consideration of the CPI-U Adjustment for the Lump Sum Payment under Tex. Gov't Code §615.022 for Fiscal Year 2021 – (Action) .....	4
26. Review, Discussion and Consideration of Proposed edits to ERS Pension Funding Priorities and Guidelines – (Action) .....	6
27. Review, Discussion and Consideration of recommended updates to the Group Benefits Advisory Committee Charter – (Action) .....	6
28. Review and Discussion of the Texas Employees Group Benefits and Texa\$aver Program update.....	7
29. Review and Consideration of Proposed rates for HealthSelect <sup>SM</sup> Medicare Advantage Preferred Provider Organization Plan for Calendar Year 2021 – (Action) .....	8
30. Review and Discussion of the future of the Medicare Advantage Health Maintenance Organization Plan .....	9
31. Review and Discussion of Recommended updates to Texa\$aver Product Review Committee Charter .....	10
32. Review and Discussion of recommended updates to Texa\$aver 401(k)/457 Investment Policy.....	11
33. Review, Discussion and Consideration of the ERS Incentive Compensation Plan for Fiscal Year 2021 – (Action) .....	11
34. Review, Discussion and Approval of Fiscal Year 2021 Operating and Capital and Property Management Budgets – (Action).....	12
35. Agency Update .....	16
36. Executive Session.....	17
37. Election of Chair and Vice Chair of the ERS Board of Trustees for Fiscal Year 2021 – (Action).....	18
38. Adjournment of the Board of Trustees meeting .....	18

**BOARD OF TRUSTEES MEETING  
EMPLOYEES RETIREMENT SYSTEM OF TEXAS  
August 19, 2020**

*The August 19, 2020 meeting of the ERS Board of Trustees was held by video conference call as authorized under Section 551.127 of the Texas Government Code.* This meeting was conducted by videoconference in accordance with the governor's authorization concerning suspension of certain open meeting law requirements in response to the COVID-19 (coronavirus) disaster. A quorum of members of the Board participated in the meeting remotely and could be heard and seen online by members of the public.

**TRUSTEES PRESENT**

Ilesa Daniels, Board Chair  
I. Craig Hester, Board Vice Chair  
Brian Barth, Member  
Dr. Jim Kee, Member  
Catherine Melvin, Member

**ERS DIRECTORS PRESENT**

Porter Wilson, Executive Director  
Cathy Terrell, Deputy Executive Director  
Paula A. Jones, Deputy Executive Director & General Counsel  
Bernie Hajovsky, Director of Enterprise Planning Office  
Robin Hardaway, Director of Customer Benefits  
Diana Kongevick, Director of Group Benefits  
Wendy McAdams, Director of Operations Support  
Machelle Pharr, Chief Financial Officer  
DeeDee Sterns, Director of Human Resources  
Keith Yawn, Director of Strategic Initiatives

**ERS STAFF PRESENT**

Nora Alvarado, Group Benefits  
Georgina Bouton, Group Benefits  
Carol Chapnek, Customer Benefits  
Kelley Davenport, Executive Office  
Blaise Duran, Group Benefits  
Nancy Lippa, Office of General Counsel  
Roger Nooner, Benefits Communications  
Jamey Pauley, Enterprise Planning Office  
Lauren Russell, Group Benefits  
Cheryl Scott Ryan, Office of General Counsel  
Bob Sessa, Investments  
Ariana Whaley, Government Relations

**ALSO PRESENT**

Philip Dial, Rudd and Wisdom, Inc.  
John Barksdale, CBRE  
Bo Beacham, CBRE  
Peter Jansen, CBRE

## **Meeting of the ERS Board of Trustees**

### **22. Call Meeting of the ERS Board of Trustees to Order**

Ms. Ilesa Daniels, Chair of the Board of Trustees of the Employees Retirement System of Texas (ERS), noting a quorum was present, called the meeting to order at 1:47 p.m. and read the following statement:

“A public notice of the ERS Board of Trustees meeting containing all items on the proposed agenda was filed with the Office of the Secretary of State at 6:33 p.m. on Monday, August 10, 2020, as required by Chapter 551 Texas Government Code, referred to as the Open Meetings Law.”

### **23. Review and Approval of the Minutes to the May 20, 2020 ERS Board of Trustees Meeting – (Action)**

Chair Ilesa Daniels opened the floor for a motion on the approval of the minutes from the May 20, 2020 ERS Board of Trustees meeting.

**Move** that the Board of Trustees of the Employees Retirement System of Texas approve the minutes to the meeting held on May 20, 2020.

**Motion** by Catherine Melvin second by Craig Hester

Final Resolution: Motion Carries

Aye: Craig Hester, Brian Barth, Ilesa Daniels, Jim Kee, Catherine Melvin

### **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, Chapter 75 (Hazardous Profession Death Benefits), Chapter 81 (Insurance) and Chapter 85 (Flexible Benefits); Statutory Rule Review for Chapters 75 and 85 – (Action)**

Ms. Robin Hardaway, Director of Customer Benefits, Ms. Diana Kongevick, Director of Group Benefits, and Mr. Keith Yawn, Director of Strategic Initiatives were introduced to present proposed amendments and new rules of the Board of Trustees for Chapters 75, 81, and 85.

Ms. Hardaway began by presenting proposed amendments to Chapter 75 regarding hazardous profession death benefits. During the 86<sup>th</sup> Regular Legislative Session, House Bill 3635 passed requiring ERS, by rule, to annually adjust lump sum benefits payable to eligible survivors of first responders killed in the line of duty. The increase is required to be an amount equal to the percentage change in the consumer price index for all urban consumers (CPI-U) during the previous calendar year. The law takes effect beginning September 1, 2020. The current Fiscal Year 2020 lump sum benefit payment for such instances is \$500,000. Rule Section 75.3 contains proposed amendments to comply with the new law's requirements, by having the system's actuaries provide the appropriate CPI-U adjustment to be applied annually on September 1.

Ms. Hardaway also presented proposed amendments to Rule sections 75.1 and 75.2 defining claims processing operations. The change to Section 75.1 requires certain worker's compensation claims related to Chapter 615 filed with ERS be provided to the Executive Director, or their designee. The change to Section 75.2 allows the Executive Director, or their designee, to request additional information needed to accurately process claims.

Notice of the proposed amendments and new rule for Chapter 75 was published in the July 3, 2020 issue of the Texas Register. ERS received no comments. Texas Government Code requires state agencies to review rules every four years. Notice of the review of Chapter 75 was published November 24, 2017. No comments were received. Ms. Hardaway concluded her presentation with the staff recommendation that the Board of Trustees adopt the proposed amendments and new rule for Chapter 75, Hazardous Profession Death Benefits, as provided in Exhibit A, and readopt Chapter 75, including the proposed changes, as the reasons for the initial adoption continue to exist.

Ms. Hardaway opened the discussion to questions from the trustees. Mr. Brian Barth asked for clarification that, due to the statutory requirement passed into law, the Board has no discretion in making the change each year, even when the adjustment might be negative. Ms. Hardaway confirmed that the CPI-U is a published number and dictates the action to be taken each year. Dr. Jim Kee noted his preference for using core inflation rather than CPI-U, because of the latter metric's volatility. Ms. Hardaway clarified that the statute required the use of CPI-U in making the annual benefit adjustment. Mr. Barth proposed that the Board delegate implementation of the annual adjustment to the Executive Director since there is no discretionary action available to the Board, and that the Executive Director report back to the Board annually on the specific adjustments made, as an informational item. Mr. Craig Hester supported Mr. Barth's proposal. Mr. Barth also suggest that the agency communicate to the legislature the potential impact of a negative CPI-U adjustment to the benefits. Ms. Catherine Melvin noted that the issue of potential negative adjustments is concerning to her as well, and she suggested the idea of establishing a floor that the benefit could not be reduced below. Mr. Porter Wilson, Executive Director, noted that ERS staff had shared such feedback with legislative members as the bill was being debated, but that staff could certainly raise the issue again with the next legislature.

Mr. Barth questioned whether it was possible to amend the proposed rule to delegate the function to the Executive Director. Ms. Paula Jones, General Counsel, noted the Board can adopt the rule with changes, and staff will then publish the new rule in the Texas Register for public notification, without re-starting the comment period. Ms. Jones suggested amending the last sentence of Section 75.3 to read, "The annual adjustment will be an amount as reported by the system's consulting actuary and approved by the Executive Director." The trustees agreed to the suggested change.

There being no further questions, the Board of Trustees took the following action:

**Motion** made that the Board of Trustees of the Employees Retirement System of Texas take the following actions with regard to the roles of the Board of Trustees, Texas Administrative Code, Title 34, Part 4, Chapter 75, Hazardous Profession Death benefits, as presented in Exhibit A, attached to this agenda item and as changed by the Board during this meeting. Adopt amendments as proposed in Section 75.1 and 75.2 without changes, and adopt the new rule as proposed in Section 75.3 with changes, as discussed by the Board during this meeting. Re-adopt Chapter 75, which includes the changes adopted by the Board during this meeting, because the reasons for initially adopting the chapter continue to exist.

**Motion** by Brian Barth, seconded by Catherine Melvin.

Final Resolution: Motion Carries

Aye: Ilesa Daniels, Craig Hester, Brian Barth, Jim Kee, Catherine Melvin

Mr. Wilson restated that staff will plan to bring an informational report on CPI-U adjustments to Chapter 615 benefits to the Board every August, along with operational statistics for the program's annual activities.

Mr. Yawn introduced the proposed amendments to Chapter 81, dealing with insurance program operations. The first amendment relates to the changes to the tobacco certification program the Board adopted during the March 2020 meeting, specifically the inclusion of e-cigarettes and vaping products in the definition of "tobacco products." The proposed rule amends the definitions of "tobacco product" and "tobacco user" to Section 81.1 and adds Section 81.7 providing a description of the tobacco certification program operations.

Ms. Kongevick then presented the second group of amendments to Chapter 81, related to the creation and administration of the HealthSelect ShoppERS<sup>SM</sup> program. The HealthSelect ShoppERS program was developed in accordance with ERS Rider 16 in the 2020-21 General Appropriations Act, and is designed to provide a shared savings incentive for eligible Group Benefits Program (GBP) health plan participants to select certain lower cost network facilities for specified, non-emergent covered medical services and procedures.

Notice of the proposed amendments and new rule for Chapter 81 was published in the July 10, 2020 issue of the Texas Register, and a correction of the initial notice was published July 24, 2020 to

correct language the register inadvertently missed in the original publication. ERS received no comments. Mr. Yawn presented the staff recommendation that the Board of Trustees adopt the proposed amendments and new rule for Chapter 81, Insurance, as provided in Exhibit B. There were no questions related to the changes to Chapter 81.

Ms. Kongevick presented the proposed amendments to Chapter 85, related to flexible benefits. The first amendment adds new content for the HealthSelect ShoppERS program administration into the TexFlex<sup>SM</sup> program rules. This allows participating plan members to receive their employer contribution incentives from the HealthSelect ShoppERS program through a health care reimbursement account or a limited purpose health care reimbursement account. The second amendment adds new content related to waiting period final rules to support federal regulations specific to health care reimbursement plans. The amendment supports the design of waiting periods prior to the effective date of a health care reimbursement plan elected by an employee, equivalent to the waiting period for health insurance coverage for employees who enroll in GBP health plans.

Notice of the proposed amendments and new rule for Chapter 85 was published in the July 10, 2020 issue of the Texas Register. ERS received no comments. Texas Government Code requires state agencies to review rules every four years. Notice of the review of Chapter 85 was published February 21, 2020. No comments were received. Ms. Kongevick concluded her presentation with the staff recommendation that the Board of Trustees adopt the proposed amendments and new rule for Chapter 85, Flexible Benefits, as provided in Exhibit C, and readopt Chapter 85, including the proposed changes, as the reasons for the initial adoption continue to exist.

There being no further questions, the Board of Trustees took the following action:

**Motion** made that the Board of Trustees of the Employees Retirement System of Texas adopt the proposed amendments to Chapter 81, Insurance, of the trustee rules, 34 Texas Administrative Code, as described in this agenda. Move that the Board of Trustees of the Employees Retirement System of Texas re-adopt Chapter 85, Flexible Benefits, of the trustee rules, Title 34, Part 4, Texas Administrative Code, because the reasons to adopt the rules in this chapter continue to exist. The re-adoption shall include the proposed amendments as described in this agenda.

**Motion** by Craig Hester, seconded by Dr. Jim Kee

Final Resolution: Motion Carries

Aye: Ilesa Daniels, Craig Hester, Brian Barth, Jim Kee, Catherine Melvin

**25. Review, Discussion and Consideration of the CPI-U Adjustment for the Lump Sum Payment under Tex. Gov't Code § 615.022 for Fiscal Year 2021 – (Action)**

Ms. Robin Hardaway, Director of Customer Benefits, presented the consideration of the Consumer Price Index of All Urban Consumers (CPI-U) adjustment for the Lump Sum payment. Ms. Hardaway explained that before she speaks about the CPI-U and the adjustment for this September 1, she would like to discuss the Chapter 615 benefits. The benefits are referred to as Chapter 615 based on the section of government code that authorizes them.

Ms. Hardaway described the Chapter 615 benefits to the Board and explained that they were enacted by the Texas Government Code during the 60th legislative session in 1967 to provide death benefits for eligible survivors of certain law enforcement, firefighters, and other first responders that are killed in the line of duty. Ms. Hardaway explained that the program is funded by the state of Texas, but it is administered by ERS. It is not part of the retirement program benefits that are paid from the Trust, instead benefits are directly appropriated from state revenue.

Ms. Hardaway informed the Board that survivors of certain individuals can be covered, including peace officers employed by the state of Texas, not only those that are employed by the state of Texas, but also other political subdivisions throughout the state. She further explained that city police officers, county police officers, sheriffs, jailers, guards, firefighters, emergency medical technicians, and a host of other first responders are eligible to be covered by this benefit.

Ms. Hardaway described the available benefits to the Board. There is the lump sum payment of and that amount is payable from the state of Texas to an eligible surviving spouse, child, or parent. Ms. Hardaway further explained that there are other payments that are eligible for surviving minor child or children until they reach the age of 18.

Ms. Hardaway explained to the Board that if there is one surviving child, the payment would be \$400 per month. If there are two surviving children, the payment would be \$600 per month and if there are three or more surviving children, the payment would be \$800 per month. The payments are divided into equal shares amongst the number of surviving children. The payments stop when the children turn 18.

Ms. Hardaway also informed the Board that there are other eligible benefits that are all subject to rules and eligibilities and not everyone is eligible. If eligible, there are spousal monthly payments. There are also funeral expenses, educational benefits, health, dental, and vision insurance that could be covered. There are federal benefits and a homestead exemption that could be covered as well. Ms. Hardaway also shared that ERS sends all this information to families and lets them know who they need to contact for the additional benefits so they know what's available to them, even if ERS is not administering those programs.

Ms. Hardaway also shared some information on Chapter 615 claims that have been paid over the past few fiscal years. Each fiscal year varies in numbers. Ms. Hardaway also stated that unfortunately, no one wants to see high numbers in this area, but this benefit is available when tragedy does strike, and is a great benefit available for those surviving family members.

Ms. Hardaway introduced the proposed amendments of the CPI-U adjustment as discussed in the previous agenda item, House Bill 3635 amends Texas Government Code 615.022 that requires the ERS Board of Trustees to adjust the lump sum benefit payable to eligible survivors by the amount equal to the percentage change in the CPI-U for the previous calendar year.

The first adjustment shall begin on September 1, 2020 and will be adjusted each September 1 thereafter.

As in the newly adopted rule, the system's actuary Gabriel Roeder Smith and Company (GRS) did report the percentage change in the CPI-U from December 2018 through December 2019. And that CPI-U change is 2.3%. That percentage change, as presented by system's actuary, would adjust the lump sum payment to survivors under 615.022 of the Texas Government Code to \$511,500 for deaths that occur September 1, 2020 through August 31, 2021.

Craig Hester announced, "As someone who personally has benefited from survivor benefits in my lifetime, I'm happy to make a motion to support this and would especially like to say thank you to all the peace officers in Texas, the firefighters, and the EMTs who put their life on the line every day for us. We appreciate what you do. I make a motion to approve."

There being no further questions or discussions, the Board of Trustees took the following action:

**MOTION** made that the Board of Trustees at the Employees Retirement System in Texas approve an adjustment to the lump sum payment to survivors under Texas Government Code 615.022, beginning September 1, 2020 through August 31, 2021 to \$511,500. This adjustment is reflective of the percentage change in the Consumer Price Index for All Urban Consumers as reported by the system's actuary.

**Motion** made by Craig Hester, seconded by Catherine Melvin.

Final Resolution: Motion Carries

Aye: Ilesa Daniels, Craig Hester, Brian Barth, Jim Kee, Catherine Melvin

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

Ms. Ariana Whaley, ERS Pension Policy Analyst, presented proposed edits to the ERS Pension Funding Priorities and Guidelines.

A funding policy is a written statement of the board's guiding principles and strategy to inform the plan sponsor on how to fully fund the long-term costs of promised benefits. The 86th Legislature set a new requirement for a funding policy that details a plan to achieve a 100% funded ratio. Ms. Whaley explained that although the current policy meets requirement, it was an opportune time after the Experience Study process to review the document to identify any needed any changes or clarifications.

Ms. Whaley described the purpose and key policies of the current document which was approved by the ERS Board of Trustees in May 2018. She explained the section related to the new statutory requirement to include a plan to get to 100% funded is the section on funding period goals. The Board established these funding period goals as a way to evaluate current contributions and help the plan sponsor (the State of Texas) determine a strategy for actuarially sound funding levels. She detailed the current multi-level funding period goals and the importance of closing the amortization period. In order to effectively target a 100% funded ratio, it is important to use a closed amortization period so that the unfunded liability will be fully paid at the end of that identified payoff period. Alternatively, an open amortization period is reset and refinanced under the same identified funding period or payoff period each year.

Ms. Catherine Terrell, Deputy Executive Director, finished the presentation after Ms. Whaley experienced technical difficulties. She described the minor proposed changes that included language for the new statutory requirements, new definitions, technical changes, and clarified the roles and responsibilities of the Board and the plan sponsor. The proposed changes also incorporates the goal of funding normal costs into the funding period goals to emphasize the importance of that minimum contribution rate since LECOSRF does not receive funding to cover accruing normal costs. Additionally, the policy proposes a regular review cycle.

There being no further questions, the Board of Trustees took the following action:

**MOTION** made that the Board of Trustees of the Employees Retirement System of Texas adopt proposed amendments to the Pension Funding Priorities and Guidelines Policy as recommended by staff in Exhibit A.

**Motion** by Brian Barth second by Catherine Melvin

Final Resolution: Motion Carries

Aye: Brian Barth, Catherine Melvin, Ilesa Daniels, Craig Hester, Jim Kee

**27. Review, Discussion and Consideration of recommended updates to the Group Benefits Advisory Committee Charter – (Action)**

Mr. Bernie Hajovsky, Director of Enterprise Planning Office, outlined the content within the Group Benefits Advisory Committee (GBAC) Charter, which the Board of Trustees originally adopted in 2017. The Charter lays out the structure and activities for the GBAC, including the number of committee members, the categories of membership representation, the frequency of meetings and topics of discussion at meetings. Hajovsky noted while most of the provisions within the Charter were still relevant, there is an opportunity to clarify language defining the categorization of large, mid-size and small state agency representatives. Hajovsky recommended revising the charter to use the count of full-time equivalents, or FTEs, listed in the most current General Appropriations Act instead of the count of GBP enrollees to determine categorization of state agency applicants. This would offer applicants a clearer understanding of the category they would represent, if appointed, and it would increase the number of potential applicants within the small state agency category. Hajovsky also pointed out that no current committee members would be impacted by the proposed Charter changes.



There being no further questions or discussion, Ms. Daniels opened the floor for a motion.

**MOTION** made that the Board of Trustees adopt the proposed changes to the Group Benefits Advisory Committee Governance Charter, as recommended in Exhibit A.

**Motion** by Jim Kee, second by Craig Hester.

Final resolution: Motion carries

Aye: Ilesa Daniels, Brian Barth, Catherine Melvin, Craig Hester

## **28. Review and Discussion of the Texas Employees Group Benefits and Texa\$aver Program update**

Ms. Diana Kongevick, Director of Group Benefits, introduced Mr. Blaise Duran, Actuarial and Reporting Services, Ms. Lauren Russell, Health Plan Operations and Ms. Nora Alvarado, Voluntary Income Plans with the Group Benefits division to provide a review of the Group Benefits and Texa\$aver<sup>SM</sup> program.

Mr. Duran began by discussing the projected trend for Fiscal Year 2020. He stated that the first half of Fiscal Year 2020 (September through February) shows the medical trend was higher than normally expected with a trend of 7.2% versus a typical year of about 5.2%. Utilization reductions due to the pandemic caused the trend to fall -5.9% for the second half of the fiscal year (March through August). Pharmacy trend was unusually low in the first part of Fiscal Year 2020, but returned to normal in the second half. The projected pharmacy trend for Fiscal Year 2020 is 6.8%. This results in a total combined medical and pharmacy trend of 2.2% for the year.

Virtual visits are delivered by Doctor On Demand or MD Live and telemedicine visits are services delivered using a provider platform. The plan experienced a reduction in virtual visit utilization with these platforms through April and May as members increased their virtual visits with their regular providers using the platform that their provider offered. Members may temporarily access telemedicine services without copay, just the same as virtual visits. Mr. Duran reported that telemedicine visit utilization continues to remain high with over 20,000 visits a month.

COVID-19 cases are increasing and based on paid claims, HealthSelect<sup>SM</sup> reported 1,000 cases as of June 1, 3,721 confirmed cases as of July 14 and 7,670 confirmed cases as of August 11. Due to the lag time in processing medical claims, staff continues to determine the ultimate impact based on the increase in cases. It is expected that the reduction in medical care (utilization) as a result of the pandemic will more than offset the potential claims cost increase due to COVID-19.

Ms. Russell explained that ERS is closely monitoring updates related to the COVID-19 pandemic and associated benefits changes. Within the HealthSelect plan, 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 at no cost to participants. Additional non-COVID-19 benefit enhancements were implemented for the HealthSelect medical plans, and several of those enhancements were recently extended.

On May 27, 2020, ERS waived HealthSelect and Consumer Directed HealthSelect<sup>SM</sup> co-pays, deductibles and coinsurance for non-COVID-19 virtual visits. ERS also waived cost sharing for in-network provider-platform primary care physician and specialist telemedicine visits for non-COVID-19 visits. These enhancements have been extended through September 30, 2020, which is a recent change. Prior authorizations for interfacility transfers to lower levels of care are waived through September 30, 2020.

Ms. Alvarado provided a Texa\$aver program update. She stated that the CARES Act included several provisions intended to provide relief to program participants including waiver of all required minimum distributions (RMDs) for Calendar Year 2020 and waiver of the RMDs that were due by April 1, 2020 for those participants who reached age 70 1/2 last year.

Ms. Alvarado reported that ERS implemented three CARES Act provision specific to the Special Rules for Retirement Funds in an effort to provide financial relief to program participants. These

provisions included implementation of Coronavirus-Related Distributions (CRDs), increasing loan limits, and extending loan repayment periods.

On June 19, 2020, the IRS issued additional guidance that expanded the definition for the CRD eligibility requirements. Prior to that notice, the eligibility requirement did not include adverse consequences suffered by a spouse or a member of the household as a result of COVID-19. Plan sponsors relied on an employee's self-certification for eligibility. As of June 30, 2020, TexaSaver received 694 CRDs totaling approximately \$4 million. When compared to the same period last year, there were 408 hardship distributions totaling approximately \$570,000.

Mr. Duran provided the board with an overview of the optional benefit plans. Utilization remains low for Dental. April incurred claims were 13% of what they were during the same period in the previous year. Utilization is expected to remain low for the remainder of the year.

Vision has a similar pattern with very low April utilization and then increases in subsequent months.

An increase in Life insurance benefit claims is expected due to the large increase in the number of COVID-19 diagnoses. Staff expects the current reserves to be adequate to cover this cost increase.

In reviewing disability claims, there does not appear to be a direct impact to disability claims due to the relatively short-term nature of the disease.

Rider 10.06 report is due to the legislature on September 1, 2020. The initial draft was written by the University of Texas Health Science Center Houston (UTHSCH) and provided to the agency for review. Currently it's going through the final steps of the review process of the Texas Health and Human Services Commission. Draft data dashboards have also been created by UTHSCH for each agency and is under review. Staff continues to meet in workgroups on a regular basis.

Ms. Catherine Melvin stated how impressed she is with staff helping members with their needs in dealing with COVID-19 and the availability of health care services and encouraging the different ways people can interact with their providers.

This agenda item was presented for information and discussion purposes only. There was no further discussion or questions and no action was taken.

### **29. Review and Consideration of Proposed rates for HealthSelect<sup>SM</sup> Medicare Advantage Preferred Provider Organization Plan for Calendar Year 2021 – (Action)**

Ms. Diana Kongevick, Director of Group Benefits, introduced Mr. Blaise Duran, Actuarial and Reporting Services, and Mr. Phil Dial with Rudd and Wisdom, Inc. to provide an update on HealthSelect<sup>SM</sup> Medicare Advantage Preferred Provider Organization (HealthSelect MA PPO) plan rates for Calendar Year 2021.

Ms. Kongevick reported that the HealthSelect MA PPO is a fully insured PPO customized for the Employees Retirement System of Texas. The cost of the plan is subsidized by the federal government, which results in lower costs to retirees to the program. Effective January 1, 2021, the insurer will be Sierra Health and Life Insurance Company, a UnitedHealthcare underwriting entity.

Mr. Duran stated that HealthSelect MA PPO continues to be the most cost-effective medical benefit for Medicare-primary participants in the GBP. In January 2018, there were approximately 74,000 participants, and in January 2020, there were more than 84,000 participants. Mr. Duran noted that this is a very well-received plan that continues to have strong growth. He also reported that the HealthSelect MA PPO is a fully insured customized group plan for ERS and is not an individual off-the-shelf product.

To ensure the cost effectiveness of the MA PPO plan, the consulting actuary uses a theoretical cost index (TCI). The TCI estimates the total cost that would be required to cover the HealthSelect MA PPO participants if they are enrolled in the HealthSelect<sup>SM</sup> Secondary plan.

Historically, the member contribution rate for the HealthSelect MA PPO consisted of three elements, (1) the HealthSelect MA PPO plan premium, (2) the projected cost of coverage under the HealthSelect<sup>SM</sup> Medicare Rx EGWP plan, and (3) the Health Insurance Providers Fee. Beginning January 1, 2021, there will no longer be a Health Insurance Providers Fee.

Mr. Duran explained the participant cost of coverage is the sum of the fully insured payment for medical coverage, the projected cost of prescription drug coverage (which is \$139.28), and the Medical Loss Ratio credit, which is due to the rebate paid by the two HMOs. The result is a member contribution rate of \$179.04.

Mr. Duran and Mr. Dial provided the board with a proposed Calendar Year 2021 monthly contribution rate comparison. The Medicare-primary spouse will save \$62.18 a month, and a Medicare-primary surviving spouse will save \$124.36 a month.

There being no further questions, the Board of Trustees took the following action:

**MOTION** made that the Board of Trustees of the Employees Retirement System of Texas approve the Calendar Year 2021 plan rates as presented in this agenda item effective January 1, 2021 for the HealthSelect Medicare Advantage PPO Plan offered under the Texas Employees Group Benefits Program.

**Motion** by Catherine Melvin second by Brian Barth

Final Resolution: Motion Carries

Aye: Craig Hester, Brian Barth, Ilesa Daniels, Jim Kee, Catherine Melvin

### **30. Review and Discussion of the future of the Medicare Advantage Health Maintenance Organization Plan**

Ms. Diana Kongevick, Director of Group Benefits, introduced Mr. Blaise Duran, Actuarial and Reporting Services, and Mr. Phil Dial with Rudd and Wisdom, Inc. to provide an update of the future of the Medicare Advantage Health Maintenance Organization Plan (MA HMO).

Mr. Duran stated that the 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®. The cost of the plan is subsidized by the federal government, which results in lower costs to retirees and reduced costs to the program.

The KelseyCare Advantage Medicare health maintenance organization (MA HMO) is the only MA HMO plan currently offered in the Texas Employees Group Benefits Program (GBP). Participants in that plan receive medical coverage through KelseyCare Advantage MA HMO, and prescription drug coverage through HealthSelect<sup>SM</sup> Medicare Rx. There were about 1,500 participants in January 2018, and then just under 1,700 in January of 2020. That number as of the board meeting was 1,730.

The General Appropriations Act includes a rider that is applicable to the legislative appropriation to ERS, and it specifies that "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 elected to participate in that optional health coverage." Under ERS rules, HealthSelect<sup>SM</sup> MA PPO is considered the basic coverage for Medicare primary participants.

On October 1, 2019, ERS issued an RFP seeking a qualified Medicare Advantage HMO in the Houston area. One proposal was received from KelseyCare Advantage MA HMO, and the proposed rates were significantly higher than HealthSelect Medicare Advantage PPO plan. Inclusion of KelseyCare Advantage MA HMO in the GBP as an optional health plan for Calendar Year 2021 would prevent compliance with the General Appropriations Act Rider.

Due to non-compliance with the rider, 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 HealthSelect<sup>SM</sup> Secondary) during fall enrollment with coverage, effective January 1, 2021. Mr. Duran pointed out that Kelsey physicians do not participate in either plan, and unfortunately participants will have to select new physicians.

Ms. Kongevick reported that KelseyCare Advantage MA HMO has committed to a smooth transition and that ERS is committed to making sure that retirees have consistent, factual information and the assistance they need to know their options and who to contact if they have questions related to this transition.

This agenda item was presented for information and discussion purposes only. There was no further discussion or questions and no action was taken.

### **31. Review and Discussion of Recommended updates to Texa\$aver Product Review Committee Charter**

Ms. Diana Kongevick, Director of Group Benefits, introduced Ms. Georgina Bouton, Assistant Director of Group Benefits, to discuss the recommended updates to the Texa\$aver<sup>SM</sup> Product Review Committee (PRC) Charter.

Ms. Kongevick explained that the PRC Charter was developed to formally define the purpose of the PRC, its composition and membership, duties and responsibilities, meeting schedules, and document the processes to be employed for committee voting. It was approved on August 23, 2017. The Charter is presented to the Board for review every three years, at a minimum. This period's updates to the Charter were formulated in collaboration with the PRC and ERS' Office of General Counsel. These amendments are presented to the Board for consideration and input.

Ms. Bouton began with an overview of the Texa\$aver PRC. She explained that the Texa\$aver program benefits from the expertise of the PRC, which provides guidance and oversight of the investment options and services. The PRC provides expertise on the Texa\$aver investment policy, providing recommendations on the overall numbers and types of options to be offered within the program, and reviewing the performance of each of the investment options.

She noted that the PRC is made up of no more than six ERS employees and three external professionals. Ms. Bouton stated that the PRC members leverage their collective experiences, expertise, and insight in performing their duties.

The PRC Charter documents the fiduciary duty, the roles and responsibility of the PRC members, as well as the committee composition, meeting frequency, voting procedures and guidelines. Ms. Bouton explained that documenting these key elements within a charter is a recognized best practice.

Highlighting a few notable amendments, Ms. Bouton stated that changes in subsection 3.2 of the PRC membership requirements include information on the PRC appointment process. Section 3.3 regarding PRC subcommittees contains clarifying information on the duties that may be performed by an appointed subcommittee. These amendments are recommended to document practices which have been in place regarding the membership appointments and the scope of duties that may be assigned to the appointed PRC subcommittees.

Ms. Bouton explained that the proposed amendments are being presented to the Board in a red-line format for review and consideration. There is an open period from August 20, 2020 through October 20, 2020 for the Board to provide feedback and any additional comments regarding the PRC Charter. Staff will then present a finalized version of the PRC Charter to the Board for consideration and approval at the upcoming December 2020 Board meeting.

This agenda item was presented for information and discussion purposes only. There was no further discussion or questions and no action was taken.

### **32. Review and Discussion of recommended updates to Texa\$aver 401(k)/457 Investment Policy**

Ms. Diana Kongevick, Director of Group Benefits, introduced Ms. Georgina Bouton, Assistant Director of Group Benefits, to discuss recommended updates to Texa\$aver<sup>SM</sup> 401(k)/457 Investment Policy (investment policy).

Ms. Kongevick explained that the policy was approved August 23, 2017. Updates to the investment policy are being presented to the Board for consideration and input.

Ms. Bouton reported that the investment policy defines the objectives of the program, general investment philosophy, and investment options available to program participants. It also defines the roles and responsibilities of the fiduciaries and key stakeholders. The policy outlines the performance-monitoring criteria and lays out the primary criteria for the fund selection process. The policy serves as a guide for the supervision, monitoring, and management of the investment options available under the program.

Ms. Bouton highlighted several of the amendments being presented to the Board for consideration, including the recommendation to remove the Watch List process defined under subsection 5.6 of the operational procedures. Ms. Bouton explained that staff would keep the watch list processes well-documented with documented risk controls and mitigations within internal procedures. This recommendation would conform and align with the current practices employed within ERS's defined benefits investment policy.

Changes proposed under subsection 6.2 addressing PRC sub-committees would provide clarifying information and language on the duties that may be performed by appointed PRC subcommittee.

Under subsection 7.1, the proposed amendments to the Review of Investment Policy section state the investment policy is to be presented to the Board no less than every three years for review and approval.

Amendments proposed to 5.4 Benchmarks include the addition of benchmarks as an acceptable benchmark for the large cap, mid-cap, and small cap funds.

Ms. Bouton explained that the proposed changes are being presented to the Board in a red-line format. There will be an open period whereby the Board can provide feedback to staff from August 20, 2020 through October 20, 2020. Staff will then be providing a finalized investment policy to the Board at the upcoming December 2020 Board meeting for Board approval.

This agenda item was presented for information and discussion purposes only. There was no further discussion or questions and no action was taken.

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

Ms. DeeDee Sterns, Director of Human Resources, presented the review, discussion and consideration of the ERS Incentive Compensation Plan (ICP) for Fiscal Year 2021. Ms. Sterns stated that this is an action item and reminded the Board that a draft copy of the plan document, along with proposed material changes were presented at the May Board meeting.

Ms. Sterns stated that staff annually reviews the plan and related processes to make recommendations to the Board on an annual basis. The ICP was most recently approved on August 21, 2019.

Ms. Sterns then reviewed the ICP objectives with the Board and discussed the material and non-material changes to the plan document that were presented at the May Board meeting. In addition to these changes, Ms. Sterns stated that one additional change is being recommended to Appendix A. This change aligns the leadership position for the risk management and applied research team with the current asset class director positions, increasing the maximum incentive award percentage from 80% to 100%.

Ms. Sterns stated that staff recommends that the Board consider and approve the ERS Incentive Compensation Plan for Fiscal Year 2021; and that the Board approve, as part of its annual review, the proposed Plan document, as presented in Exhibit A.

Mr. Hester asked for clarification on the change to Appendix A. Ms. Sterns confirmed that the change was due to the newly established director role in risk management and applied research.

Mr. Hester then asked if the unallocated cash that will now be included in the global composite performance metric impacts the total plan level. Ms. Betty Martin, Director of Investment Services, confirmed that the total trust return will now include unallocated cash.

There being no further questions, the Board of Trustees took the following action:

**MOTION** made that the Board of Trustees of the Employees Retirement System of Texas approve the ERS Incentive Compensation Plan for Fiscal Year 2021 as recommended by staff in Exhibit A of this agenda item.

**Motion** by Brian Barth second by Craig Hester

Final Resolution: Motion Carries

Aye: Craig Hester, Brian Barth, Ilesa Daniels, Jim Kee, Catherine Melvin

### **34. Review, Discussion and Approval of Fiscal Year 2021 Operating and Capital and Property Management Budgets – (Action)**

Mr. Porter Wilson introduced Ms. Machele Pharr, Chief Financial Officer, to assist in presenting the approval of Fiscal Year 2021 Operating and Capital and Property Management budget. Mr. Wilson explained that ERS employees present a proposed budget for the coming year to the Board for review and approval. He summarized how the budget for the current year had been used and the successes and accomplishments of the agency, then put those into the context of the ERS strategic plan.

Mr. Wilson explained that a big challenge for this past year was changing operations to remote work. Despite the additional complications, ERS had a successful year supporting each of the agency's four strategic directions.

The first strategic direction is to support members' retirement income security. During the last six months, ERS seamlessly continued annuity payroll operations, issuing more than \$2.5 billion in annuity payments. Mr. Wilson discussed leading the Board through the statutory required Pension Experience Study and the culmination of that process at the last Board meeting with a re-commitment to the asset allocation and adjustment to the long-term return assumption for the pension funds.

Mr. Wilson reminded the Board about the CARES Act's impact on the TexaSaver<sup>SM</sup> 457/401(k) deferred compensation plan and the adjustments made to align with the Act.

Mr. Wilson noted ERS received several national recognitions for the TexaSaver program and the great job by staff in engaging TexaSaver participants and active employees about the importance of putting aside personal savings for their retirement.

Mr. Wilson referenced the Chapter 615 benefits discussed earlier in the day by Ms. Robin Hardaway, Director of Customer Benefits. ERS paid 615 lump sum payments to survivors so far this fiscal year, 21 of which were Chapter 615 benefits paid to survivors of those killed in the line of duty, important benefits to those individuals in a very challenging time in their life.

Regarding the second strategic direction, Mr. Wilson discussed changes ERS made quickly to adjust to the changing environment and help address participants' health needs by implementing COVID related benefit changes. He spoke briefly on ERS' partnership with Blue Cross and Blue Shield of Texas and Catapult for additional education, assistance, triaging, and testing.

Mr. Wilson discussed the HealthSelectShoppERS<sup>SM</sup> program. The team has been developing and implementing the program with plans to go live on September 1, 2020.

Mr. Wilson noted that ERS added broader coverage for diabetic supplies so participants can get needed supplies through the prescription drug plan in addition to the medical plan. Previously, the GBP has primarily provided this benefit through the medical plan.

Mr. Wilson pointed out the importance of soliciting the third-party administrator contract for the HealthSelect<sup>SM</sup> Medicare Advantage PPO, as can be seen from the rates adopted in today's Board meeting. It has provided great savings for the plan and participants. Mr. Wilson noted the increasing enrollment in the Medicare Advantage Plan by 6.1%. This popular program has saved retirees in the Medicare Advantage plans an estimated \$64.6 million in dependent premium.

Mr. Wilson stated the third strategic direction is engaging stakeholders for informed decision-making, which is the continuous goal to make sure people understand what we do and what they need to do. ERS produces an annual report about our group benefit programs which was recognized by the National Association of Government Communicators with a Blue Pencil Award for excellence.

Mr. Wilson mentioned the Assess, Manage, and Prevent (AMP) initiative. At the beginning of this fiscal year, meetings were held with leaders of the largest state agencies to discuss how they could help engage their employees and their families in taking on wellness as an important part of maintaining their health, with the additional benefits of managing health care costs and helping to sustain health care benefits over the long period. ERS developed report cards for major employers, noting the employer's ranking in several measurable wellness metrics. The rankings were provided to agency/institution leadership in a series of meetings. This brought out the competitiveness and interest in how the employers could improve their metrics. The metrics allow agencies to better gauge how their employees engage in wellness activities. Mr. Wilson stressed the importance of pushing the AMP initiative as many are consuming less health care and this is evidenced by the utilization numbers reported earlier in the meeting.

Mr. Wilson noted at the beginning of the year, ERS employees were working to develop improvements in the grievance review process to allow participants to engage personally in second-level appeals. Previously a participant could send in a letter; now the participant has the ability to call in, make a statement to the grievance review committee and/or complete a prerecorded statement for the committee. These options are additional methods to obtain all information the review committee needs to understand the full circumstances and make an informed decision.

He referred to broader in-house educational conferences, promoted strategic outreach and investment primers which ERS will continue to roll out over the coming months. The Fixed-Income Investment Primer is an example which was recently conducted and well received.

Mr. Wilson briefed the Board on pertinent metrics associated with stakeholder engagement: answering 424,000 phone calls, processing 121,000 requests for information and responding to 30,000 member emails. The numbers for member visits is lower than in the past as we have not held on-site member visits since the end of March. Prior to the building closure, we had 2,000 member visits.

Mr. Wilson said enhancing agency performance and accountability is the final strategic direction. He was overwhelmed by the seamless way almost 95% of the ERS functions were shifted from the primary work location at ERS headquarters to working remotely from hundreds of individual locations. In about 10 business days, ERS shifted to work remotely without loss of quality to customer service, missing deadlines, or achieving important milestones.

He recognized the whole team deserved a compliment on the nimble and dramatic way they were able to pivot and in such a short period of time. He highlighted the information systems team efforts in the success of the transition. Fortunately, ERS had laid the groundwork for this transition several years ago, including securing an off-site data center, upgrading hardware, and enabling remote work capabilities. This previous work paid dividends during the early stages of the pandemic response. Information Systems rallied quickly to get us the bandwidth and the equipment needed to move everyone remotely.

Mr. Wilson reminded the Board that ERS conducted its first fully virtual board meeting in May and is currently in its second virtual meeting. Mr. Wilson discussed the 34 program and system changes

implemented based on legislation passed during the 86<sup>th</sup> Legislative session. He also discussed development of the strategic plan and mentioned that this effort involved a wide variety of individuals throughout ERS.

He noted we met new federal Web Content Accessibility Guidelines. ERS obviously wanted to make sure that the information we have is clear and accurate and that it is accessible to everyone that needs it. This is a continuing process. Additionally, ERS implemented a cloud-based system that provides our customer benefits team with easy access to information to better help our participants when they make contact with us.

Mr. Wilson said he was proud of the ERS team's work and the accomplishments. He discovered in his five years working at ERS, it's never a quiet year. Given the COVID pall over much of this year, he was extremely proud of the work the ERS team accomplished. These accomplishments would be great even in a year that did not have these additional challenges.

Mr. Wilson shifted to next year fiscal year and wanted to make sure the budget reflects awareness of the pandemic's effect on the state's economy. Machele Pharr and the finance team developed a budget with a reduction from the current year's budget. Many agencies were required to cut their budgets by 5%.

He also noted the LAR drafting instructions were issued yesterday and he expects it to be a very austere legislative session, given the drop in state revenue as a result of the economic impact of the pandemic. It was appropriate to make sure ERS' request of the board for the budget next year was in line with it.

Mr. Wilson stated we achieved more than a 5% reduction in the budget for the current year and introduced Ms. Pharr to address how this was achieved and express his appreciation to her and the Finance team.

Ms. Pharr stated that ERS is proposing a Fiscal Year 2021 budget at 95% of the existing budget, with the remaining 5%, or \$4.3 million, put in a contingency account to be used as circumstances require. To achieve a 95% budget, staff eliminated one-time projects and identified budget category line items that could be reduced or moved to contingency, such as travel funds. Staff also looked at where we could use Fiscal Year 2020 funds for continuing projects or contracts, like some of the data and security projects we have underway.

Ms. Pharr stated that resources were allocated to address critical activities occurring during Fiscal Year 2021; including the Board of Trustees election, additional actuarial estimate costs expected related to the 87th Legislature, and other legislative requests. The 2021 budget addresses continued management of investments during this volatile and uncertain time and provide funding for recruitment and retention of ERS Contact Center employees. A project to replace the current pension and benefit administration system, called RISE, continued during the spring with a comprehensive evaluation of proposed options. ERS expects to issue an RFP in the coming budget year.

Ms. Pharr mentioned that of the \$81.4 million proposed for the budget, just over 64% is salary-related. While ERS is not proposing to increase the number of full time employees (FTE) for next year, staff is proposing to reallocate some of the existing FTEs and use the vacancy trend rate to provide additional resources to Investments and Customer Benefits.

Ms. Pharr noted that some of the funding approved by the Board for recruitment and retention was used to provide the Contact Center employees a 10% increase to their base salaries. An additional 10% increase for the Contact Center base salary is included in this Fiscal Year 2021 budget. ERS does not include 100% of salaries in the budget; a certain level of salary lapse from unfilled positions is assumed and used to lower the budget. Ms. Pharr handed over the presentation to Ms. Hardaway to speak about the Contact Center employee recruitment and retention efforts.

Ms. Hardaway spoke about the customer service benefit counselors who work in the Contact Center. The budget requests a 10% request salary increase for this coming fiscal year, in addition to the



10% that was provided in the current budget year. The request is based on competitive market analysis and compensation analysis conducted this budget year. Ms. Hardaway stated, staff did the market analysis earlier in the year and then redid it again later for correctness and found the trend in the dollars requested was in line with the current job market.

She reminded the Board of the discussion in March on some of the challenges that ERS is experiencing in the Contact Center. She discussed some short-term and long term in order to help achieve the level of service the members expect.

One longer term solution is the external call center that ERS contracts with to take certain calls. This contract was rebid this past year and the contract was awarded to a new outsourced vendor. The plan is for this new vendor to take additional types of calls, which will help ease the call wait times for the ERS Contact Center. The new contract will take effect later this year.

Ms. Hardaway also mentioned the replacement of the pension and group benefits system (RISE project). The project continues to move forward. An easier to use system will help both internal customer service, as well as ERS customer's ability to perform self-service.

Ms. Pharr then turned to the non-salary budget which falls into five categories. Approximately 4% is for subscription and electronic communication such as our investment tools, Bloomberg, and other similar types of products. Approximately 8%, or \$13.2 million, is made up of professional and contract services. This category includes the Board of Trustee election during Fiscal Year 2021. Contractual increase have been included as well as a three-month parallel period for the of Contact Center vendors.

She referred the Board to Exhibit B in the Operating Budget for more detail on the professional and contracted services the Board is authorizing the executive director to contract with on behalf of ERS. She also noted that a small amount of travel and training is included in the budget, as well as computer software, equipment, and maintenance. Other expenses range from utilities to supplies.

Ms. Pharr commented that the Investment Division makes up approximately 36% of the budget; however, other divisions also have direct investment-related expenses. She referred the Board to Exhibit D for the detail. Together, investments and these direct investment-related expenses account for just over 41% of the budget. Ms. Pharr also mentioned numerous divisions, such as Information Systems and Office of Procurement and Contract Oversight and Office of General Counsel, which have indirect expenses related to investments.

Ms. Pharr stated the Investments Division has 80 FTEs that make up over 19% of the total 415 FTEs. Customer benefits has the largest number of FTEs, 106, and this has remained the same since 2007. It makes up about 25.6% of the budget.

She said, in addition to the operating budget, staff are proposing \$2.3 million for Fiscal Year 2021 for capital and property management budgets. The Fiscal Year 2019 budget included funds to move employees from the annex, renovate the existing building to accommodate all ERS staff, tear down the annex, and construct the new building. ERS is proposing funds to renovate the existing building to accommodate social distancing, provide funding for parking management of the new building, and legal services and other related expenses to the new building, in the proposed budget.

Mr. Craig Hester asked if Board approval includes the contingency account and if spending from the contingency account is at the discretion of the Executive Director. Ms. Pharr said the budget approval includes the contingency account and spending from that account is at the Executive Director's discretion.

Staff will update the Board on contingency spending as is done for the budget.

Mr. Hester comments, in the area of IT, it appears there's a decent reduction in the budget and in the footnotes, it appears projects have either been delayed or completed. He just sent an article this morning to Porter and Cathy about UC San Francisco. They had a ransomware attack, it cost them over \$1 million to get out of it. He wanted to make sure ERS' provides enough money to that area and IT can keep up the good work.

Ms. Pharr responded, we have included in prior years a significant amount of funding for data security in the budget. We are planning to continue to utilize funds from Fiscal Year 2020 in Fiscal Year 2021. We have additional funds in the contingency if needed for IS.

Mr. Wilson stated, about the budget in general, that it is developed on the premise to make sure we had a sufficient budget to fulfill our fiduciary responsibility, provide the level of customer service the board expects and secure our data. Spending from the contingency account would likely require a fundamental shift in the world, like the immediate ability to travel and a rapid change in working dynamics. He said he would update the Board on the budget if needed.

Mr. Hester commended the staff for the good job on the budget and the recognition to lower costs. He said it looked like ERS has good expense control. He congratulated and thanked Ms. Pharr and her team noting they've always done a great job on the budget and it answered just about any question one could come up with.

Dr. Kee asked if the additional request of \$2.3 million related to the new building was an addition or unexpected new expenses associated with the building.

Ms. Pharr noted that the Fiscal Year 2019 budget did not include costs for the existing building for the long term. Those costs have also changed because of new space requirements that will be needed in a post COVID-19 environment.

Mr. Wilson said the premise on which the initial analysis was conducted and based was a certain office size and cube size which wouldn't currently be advisable. ERS needs to review the new working environment ERS had long planned on bringing in architectural expertise once the new building was constructed to assist with the plans for the existing building. In addition, once the general contractor, and their architect, is done with the new building ERS will need a firm to assist with tenant designs for space and the schematics on those designs.

The new building will be served by a property management company. The property management team will take over the management of the building and the management of the tenants. All of these costs are included in this budget.

Ms. Melvin said she thought it was wise for ERS to have a contingency account given the uncertainty of the year ahead.

There being no further questions, the Board of Trustees took the following action:

**Move** the Board of Trustees of the Employees Retirement System of Texas adopt the ERS Fiscal Year 2021 Proposed Operating Budget, including contingency, and the Fiscal Year 2021 Capital and Property Management Budget as presented in exhibits attached to the agenda item.

Motion by Catherine Melvin; second by Craig Hester

Final Resolution: Motion Carries

Ayes: Catherine Melvin, Brian Barth, Dr. James Kee, Ilesa Daniels, Craig Hester

### **35. Agency Update**

#### ***Legislative Update –***

The Senate Finance Committee released their interim report to the 87<sup>th</sup> Legislative Session in August. The recommendation to the 87<sup>th</sup> Legislature relates to developing 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.

The 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

staff are currently constructing responses to their requests and will provide written comments to the Committees regarding critical pension issues and investments oversight and transparency.

In mid-July, the State Comptroller of Public Accounts (CPA) provided an updated revenue estimate for the current biennium. Revenue is significantly down from what was originally projected due to the economic impact of recent global events and the CPA is projecting a little over a \$4.58 billion shortfall for the current biennium. This does not take into consideration the 5% budget reduction efforts by state agencies.

#### ***Legislative Appropriation Request (LAR) for 2022-2023 –***

ERS received the LAR drafting instructions August 18 evening and staff is currently preparing the request for pension and insurance program funding on behalf of program participants.

#### ***Summer Enrollment for Plan Year 2021 –***

The Summer Enrollment period for employees, pre-Medicare retirees and their families was from June 22 through July 24. ERS mailed custom Personal Benefits Enrollment Statement packets to 272,568 members, to provide them with their current enrollment status, eligible coverage options and information on Plan Year 2021 changes. The contact center fielded 5,595 calls answering questions and members made 39,031 coverage changes during the enrollment period.

The ERS website had more than a million page views by more than 200,000 visitors during Summer Enrollment. Almost 5,000 members attended 54 webinars, and attendees asked more than 2,700 questions with 98% of respondents saying that the webinars were very useful.

#### ***1836 San Jacinto Building Update –***

The construction of the 1836 San Jacinto building has continued to progress over the summer and continue to be on budget and on time for delivery of the building. Bo Beacham, John Barksdale and Peter Jansen from CBRE provided the Board with a high level market update. The CBRE team indicated that there continues to be interest in the location, despite a general downturn in the commercial office space market.

#### ***36. 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***

Ms. Daniels stated it was 4:34 p.m. on Wednesday, August 19, 2020. The Board of Trustees will meet in Executive Session in accordance with Section 551.074 Texas Government Code to deliberate the employment, evaluation, and duties of the executive director.

A quorum of the Board of Trustees will continue to meet in an executive session in accordance with 551.072, Texas Government Code, to deliberate the purchase, exchange, lease, or value of Real Property and the ERS building. The entire quorum of the Board of Trustees will be in attendance at the Executive Session via video conference call, in accordance with section 551.127 of the Texas Government Code, as modified by Governor Abbott's emergency order suspending certain provisions of the Texas Open Meetings Act on March the 16, 2020. Thereafter, the Board may consider appropriate action in Open Session.

Upon returning from executive session, Ms. Daniels announced it was 5:59 p.m. on Wednesday, August 19, 2020 and the Board is now in open session. No action, decision, or vote was taken by the Board while in Executive Session. Ms. Daniels further stated she would entertain any motion from members of the Board at this time.

**Motion** made to move that the Executive Director of the Employees Retirement System of Texas be awarded the maximum incentive compensation award for which he is eligible based on his participation in the incentive compensation plan for Fiscal Year 2020, for the qualitative 75% of his 50%, which reflects his leadership and management accomplishments for the year; and for the quantitative 100% of his 50%, which is based on trust fund performance.

Further move, that the Board of Trustees of the Employee Retirement System of Texas affirm that effective September 1, 2020, Porter Wilson, ERS Executive Director, is approved to participate in the ERS incentive compensation plan for investment professionals and leadership employees as a leadership employee with a maximum award percentage available of 100% of his salary, in accordance with the terms of the plan.

**Motion** by Brian Barth, seconded by Craig Hester

Final Resolution: Motion Carries

Aye: Brian Barth, Craig Hester, Ilesa Daniels, Catherine Melvin, James Kee

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

Texas Government Code Section 815.201 and 34 Texas Administrative Code Section 63.9, provides that the Board of Trustees shall elect new officers from its membership. As a result of such an election, the newly elected Chair (presiding officer) and Vice-Chair of the ERS Board of Trustees will each serve a one-year term beginning September 1, 2020 and ending August 31, 2021.

There being no further discussion, Ms. Daniels called for a motion.

**Move** that the Board of Trustees of the Employees Retirement System of Texas elect Craig Hester as Chair and Catherine Melvin as Vice-Chair of the ERS Board of Trustees for one-year terms beginning September 1, 2020 and ending August 31, 2021.

**Motion** by Brian Barth, seconded by James Kee

Final Resolution: Motion Carries

Aye: Brian Barth, Craig Hester, Ilesa Daniels, Catherine Melvin, James Kee

**38. Adjournment of the Board of Trustees meeting.**

The Board of Trustees adjourned at 5:55 p.m. on Wednesday, May 20, 2020.