



**Board of Trustees Meeting**  
**December 8, 2020**



**Presented for Review and Approval**  
**March 10, 2021**

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**BOARD OF TRUSTEES MEETING  
EMPLOYEES RETIREMENT SYSTEM OF TEXAS  
December 8, 2020**

All or part of the December 8-9, 2020 meeting of the ERS Board of Trustees may be held by video conference call as authorized under Section 551.127 of the Texas Government Code. THIS MEETING WILL BE 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 will participate in the meeting remotely and will be visible and/or audible to the public. Members of the public may access the meeting by clicking <https://ers.texas.gov/about-ers/ers-board-of-trustees/2020-december-board-meeting>

Members of the public may provide public comment on agenda items presented to the Board by registering first with ERS by submitting an email to [Kelley.davenport@ers.texas.gov](mailto:Kelley.davenport@ers.texas.gov) identifying the name of the person requesting to provide public comment and the agenda item no later than 8:30 a.m. on December 8, 2020 for agenda items posted for the December 8 meeting date, and no later than 7:30 a.m. on December 9, 2020 for agenda items posted for the December 9 meeting date. ERS will provide further instructions to those who timely request to make a public comment on an agenda item for either the December 8 or December 9 meeting in accordance with the above instructions.

**TRUSTEES PRESENT**

I. Craig Hester, Board Chair  
Catherine Melvin, Board Vice-Chair  
Brian Barth, Member  
Ilesa Daniels, Member  
Dr. Jim Kee, 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  
Machelle Pharr, Chief Financial Officer

**ERS STAFF PRESENT**

Nora Alvarado, Group Benefits  
Georgina Bouton, Group Benefits  
Kelley Davenport, Executive Office  
Blaise Duran, Group Benefits  
Bruce Marton, Information Systems  
Roger Nooner, Benefits Communications  
Tanna Ridgway, Investments  
Lauren Russell, Group Benefits

**ALSO PRESENT**

Janet Bezner, Chair of Group Benefits Advisory Committee  
Mitchell Bilbe, Rudd and Wisdom, Inc.  
Phil Dial, Rudd and Wisdom, Inc.  
Chris Johnson, Rudd and Wisdom, Inc.

## Meeting of the ERS Board of Trustees

### 7. Call Meeting of the ERS Board of Trustees to Order

Mr. Craig Hester, 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 10:23 a.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 1:22 p.m. on Monday, November 23, 2020, as required by Chapter 551 Texas Government Code, referred to as the Open Meetings Law.”

### 8. Review and Approval of the Minutes to the August 19, 2020 ERS Board of Trustees Meeting – (ACTION)

Chair Craig Hester opened the floor for a motion on the approval of the minutes from the August 19, 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 August 19, 2020.

**Motion** by Brian Barth second by Jim Kee

Final Resolution: Motion Carries

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

### 9. Executive Session

Mr. Hester stated the time is 10:26 a.m. on Tuesday, December 8, 2020. A quorum of the Board of Trustees will meet in executive session in accordance with section 815.3106 Texas Government Code to consider and discuss an alternative investment or potential alternative investment in a private equity secondary overflow fund.

Following the conclusion of the Board's consideration of the issues deliberated pursuant to Texas Government Code Section 815.3016, the Board of Trustees will continue to meet in executive session in accordance with section 551.074 of the Texas Government Code to deliberate the employment, evaluation and duties of the Internal Auditor of the Employees Retirement System of Texas.

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 16, 2020. Thereafter, the board may consider appropriate action in open session.

Upon returning from executive session, Mr. Hester announced it was 12:14 p.m. on Tuesday, December 8, 2020 and the Board is now in open session. No action, decision, or vote was taken by the Board while in executive session. Mr. Hester further stated he would entertain any motion from members of the Board at this time.

**Motion** made to move that the Board of Trustees of the Employee Retirement of Texas award Internal Auditor, Tony Chavez a one-time merit in the amount of \$5,000, effective January 1, 2021.

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

Final Resolution: Motion Carries

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

Mr. Hester asked if there were any other business to come before the Board and stated he would entertain any motion from the members of the board at this time.

**Motion** made to move that the Board of Trustees of the Employees Retirement System of Texas authorize the executive director to make the investment in the Alternative Investment Fund previously discussed during the executive session held under Texas government Code Section 815.3106 by negotiating and executing documentation for the investment with terms and conditions acceptable to ERS and to authorize the executive director to thereafter administer the investment in accordance with negotiated terms and conditions.

**Motion** by Catherine Melvin, seconded by James Kee

Final Resolution: Motion Carries

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

**10. Review, Discussion and Consideration of Proposed Rules of the Board of Trustees, Texas Administrative Code, Title 34, Part IV, Chapter 63 (Board of Trustees) – (ACTION)**

Mr. Bernie Hajovsky, Director of Enterprise Planning Office introduced the proposed amendments to Chapter 63 pertaining to the election process for the Board of Trustees. The first amendment relates to a change in the method by which potential candidates submit their nomination packets. Beginning with the 2021 trustees' election, candidates could submit their questionnaire and signatures from eligible voters using the traditional paper-based forms, through the newly-introduced electronic method, or through a combination of paper and electronic means. The second amendment also pertains to the election nomination and would remove the use of social security numbers from the voter authentication process as a security measure for voters. Mr. Hajovsky noted that voters could be authenticated through a combination of other data elements such as name, zip code, and date of birth.

Notice of the proposed amendments was published in the October 23, 2020 issue of the Texas Register. ERS received no comments on the proposed amendments.

Mr. Hester asked how a potential candidate would establish an electronic portal for garnering voter signatures. Mr. Hajovsky responded by stating the potential candidate would need to contact ERS to express interest in running as a candidate, and ERS would instruct its third-party election vendor to set up a custom electronic portal on behalf of the potential candidate to collect signatures from eligible voters.

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

**MOTION** to move that the Board of Trustees of the Employees Retirement System of Texas adopt the proposed amendments to Chapter 63, concerning Board of Trustees, as reflected in Exhibit A and this agenda item.

**Motion** by Brian Barth seconded by Ilesa Daniels

Final Resolution: Motion Carries

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

**11. Report of the Group Benefits Advisory Committee Activities**

Mr. Bernie Hajovsky provided the Board with a brief overview of the Group Benefits Advisory Committee (GBAC) before introducing Ms. Janet Bezner, committee chair, to present the GBAC annual report. Ms. Bezner offered a recap of the committee's two meetings in 2020, the first of which occurred in June. The GBAC discussed, among other items, the impact of COVID-19 on the health plans, the updated tobacco certification policy, and possible incentives for wellness program participation. The June meeting concluded with discussion of topics for the next meeting in October. Proposed topics from committee members included more analysis on the recent benefits survey results, a status update on the long-term care offering, a review of offerings in the Discount Purchase Program and mental health benefits utilization.

At its October meeting, the GBAC received a presentation from a health plan participant on fertility benefits. In addition, the committee and employees discussed the outlook for the 2021 legislative session, reviewed Discount Purchase Program offerings, and took a deeper dive into the responses from the 2019 benefits survey, which yielded positive satisfaction ratings across most of the health and

voluntary plans. There were, however, some mixed satisfaction ratings from survey respondents with respect to the dental plans. Proposed topics for consideration at the next committee meeting in 2021 include additional discussions on fertility coverage, proposed legislation with potential impact to the GBP, and possible incentives for wellness program participants.

Mr. Hester asked if the committee had collected specific complaints from dental plan participants. Mr. Hajovsky noted that the benefits survey included general questions about the voluntary plans, but ERS and the committee have discussed conducting a deeper dive into dental plan satisfaction in the future. Mr. Barth expressed his appreciation to the committee for its continued review of fertility coverage within the GBP health plans.

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

## **12. Appointment of Group Benefits Advisory Committee Members – (ACTION)**

Mr. Bernie Hajovsky, Director of Enterprise Planning Office announced that the terms for three members of the Group Benefits Advisory Committee were set to expire at the end of December 2020. Mr. Hajovsky provided a general overview of the committee's composition, structure and requirements for serving. He noted that vacancies existed across three categories and explained the process to solicit and evaluate applicants. Mr. Hajovsky cited recruitment as a challenge for the committee, as ERS received applications from only three individuals. Mr. Hajovsky then presented to the Board of Trustees the three nominees recommended by staff for appointment to the committee for three-year terms beginning January 1, 2021:

<b>Nominee</b>	<b>Category</b>	<b>Organization</b>
Dr. Barbara Cherry	Health-Related Institution	Texas Tech University Health Sciences Center
Jim Dobbins	Retiree	N/A
Megan Lavoie	Mid-Size State Agency	Office of Court Administration

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

**Motion** made to move that the Board of Trustees of the Employees Retirement System of Texas accept the nominations made by agency staff as listed in Exhibit A as appointees to the ERS Group Benefits Advisory Committee

**Motion** by Jim Kee seconded by Catherine Melvin

Final Resolution: Motion Carries

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

## **13. Review and Discussion of Health Insurance Program for Fiscal Year 2020 and Outlook for Fiscal Year 2021**

Ms. Diana Kongevick, Director of Group Benefits, introduced Mr. Blaise Duran of Group Benefits to discuss and present the Health Insurance Program for Fiscal Year 2020 and outlook for Fiscal Year 2021.

Mr. Duran stated the first half of Plan Year 2020 had relatively normal trends with the medical trend during the first two quarters of 5.8% and 8.8%. There was a lower pharmacy trend at 0.4% in the first quarter, and 7.0% in the second quarter. The combined trend (medical and pharmacy) for the first quarter was at 4.3% and the second quarter at 8.3%.

During the third quarter there was a significant reduction in medical services utilization of -17.9% as the impact of the pandemic's stay-at-home orders went to place. Mr. Duran noted overall trend remained steady, with little impact in the third quarter and 8% trend in the fourth quarter. The combined third quarter trend (medical and pharmacy) was -10.8% with combined fourth quarter trend at 3.2%. Overall, Plan Year 2020 medical trend was at -0.6%, pharmacy trend at 5.7% and combined trend at 1.1%.

Mr. Duran informed the board of the COVID-19 pandemic's impact and, based on Plan Year 2020 claims data, HealthSelect<sup>SM</sup> had almost 10,000 cases with a cost of \$35 million. The decrease throughout the summer months, even as the number of cases increased, was primarily due to increased testing, which led to identification of cases that were less severe.

Medical service utilization reductions in the spring reduced cost by an estimated \$160 million. Mr. Duran noted that the Plan Year 2020 net impact (cost of COVID-19 cases less utilization reductions) to plan costs, lowered costs about \$125 million for the year.

For Plan Year 2021 outlook, ERS does not expect to see the same level of medical service utilization reductions seen last spring. The COVID-19 case rate is growing again and, as of November 3, 2020, there were more than 15,000 cases. Mr. Duran reported that as of December 2, 2020, that number increased to more than 19,000 cases - a 4,000 case growth over the one-month period. The cost of COVID-19 cases is likely to be high in Plan Year 2021. ERS estimates about 50% of the Plan Year 2020 delayed medical services will occur later, with much of it expected to occur in Plan Year 2021. The combination of these factors is projected to result in a 16% trend for the year.

Mr. Phil Dial of Rudd and Wisdom added that among the many unprecedented impacts of the pandemic is the unprecedented time for actuarial projections as well.

Mr. Duran reviewed plan predictions through Plan Year 2021, assuming the per capita contribution rate stays the same. Mr. Duran pointed out that the net gains are projected to fall to the point where the plan is expected to lose money annually starting in Plan Year 2023, with exhaustion of the contingency fund balance in Plan Year 2027.

For Plan Year 2022, ERS projects a low trend due to costs that are projected for this year, such as the deferred medical service utilization and the high COVID case rate. This results in a projected 2.2% trend for Plan Year 2022 compared to Plan Year 2021. Going forward, ERS expects to return to a normal trend of approximately 7% trend on an annual basis.

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

#### **14. Review and Discussion of the Texas Employees Group Benefits Update**

Ms. Diana Kongevick, Director of Group Benefits introduced Lauren Russell and Nora Alvarado of Group Benefits to present and discuss the Texas Employees Group Benefits update.

Ms. Russell reminded the board that at the August 19, 2020 ERS Board of Trustees meeting, Group Benefits staff presented an update to the COVID-19 plan benefits changes and staff adapted quickly after shutdowns in March. In-network and out-of-network COVID-19 diagnostic testing and related services will continue to be in place at no cost to participants and will last throughout the Declaration of the Public Health Emergency.

On March 27, 2020, ERS waived HealthSelect of Texas® and consumer-directed high deductible health plan copays, deductibles and coinsurance for non-COVID-19 related in-network medical and mental health virtual visits (Doctor on Demand and MD Live). ERS also waived cost sharing for in-network provider-platform primary care physician and specialist telemedicine visits (medical and mental health). These enhancements are extended through December 31, 2020. Prior authorization of requirements that apply to transferring between hospital facilities to lower levels of care were also waived through December 31, 2020.

Ms. Alvarado provided an update on the CARES Act that included several provisions to provide relief to retirement plan participants that included coronavirus-related distributions (CRD), increased loan limit and suspension of the loan repayment period.

On June 19, 2020, the IRS issued additional guidance that expanded the definition of CRD eligibility requirements. Prior to that notice, eligibility requirements did not include adverse consequences suffered by a spouse or a member of the household because of COVID-19 did not 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.

Ms. Alvarado reported that as of October 31, 2020, there were 2,688 coronavirus-related distributions that had been taken, totaling \$12 million since April 2020. When compared to the same period last year (pre-COVID), there were 575 hardship distributions during the same period in 2019 that totaled approximately \$974,000.

Ms. Kongevick reported that effective September 1, 2020, Blue Cross Blue Shield of Texas began providing mental health services for HealthSelect participants instead of Magellan. The network doubled to more than 19,000 providers between August and September 1. By the end of October, Magellan provider disruption was extremely low with fewer than 170 providers who had not yet joined.

Mental health visits more than doubled from August 2020 to September 2020 and resulted in the most mental health visits during a single month. There were several types of mental health visits that increased including office visits and virtual visits through Doctor on Demand or MDLIVE. Provider-platform telemedicine increased at the greatest rate, with 26,250 visits during the month of September. In October, about 18,000 to 19,000 visits occurred.

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

#### **15. Review and Discussion of the Group Benefits Plans Compliance and Operational Updates**

Ms. Diana Kongevick, Director of Group Benefits, introduced Ms. Lauren Russell and Ms. Nora Alvarado of Group Benefits to present and discuss Group Benefits Plans Compliance and Operational updates.

Ms. Kongevick provided an overview of the HealthSelect<sup>SM</sup> programs which include the two Health Maintenance Organizations, HealthSelect and Medicare Eligible Retiree Health Benefits, the optional add-on voluntary benefits (Dental Plans: State of Texas Dental Choice Plan<sup>SM</sup> and HumanaDental DHMO), State of Texas Vision<sup>SM</sup>, Optional Life, AD&D Insurance, TexFlex<sup>SM</sup> flexible spending account programs (health care, dependent care and limited purpose flexible spending accounts), TexFlex Commuter spending account, Short-and-long-term disability insurance, and the deferred compensation plans (TexaSaver<sup>SM</sup> 401(k)/457 plan).

Performance guarantees (PG) are part of every contract connected to business critical functions required of a vendor through the contract period. Metrics are formulated from regulatory standards and best practices. Those PGs are risk-rated using risk assessment modeling and given a PG severity level. Severity levels identify the basis for the assessment amount in the event a PG is missed.

Ms. Kongevick shared with the Board that all vendors are performing very well. Out of the hundreds of potential missed performance guarantees, very few were missed. Those that met all Calendar Year 2019 performance standard guarantees include the HealthSelect<sup>SM</sup> Medicare RX plan and the Employer Group Waiver Plan + Wrap administered by UnitedHealthcare Services, Inc., HealthSelect<sup>SM</sup> Medicare Advantage PPO plan administered by Humana Insurance Company, KelseyCare Advantage Medicare Health Maintenance Organization, and TexaSaver program 401(k)/457(b).

The following vendors also met PGs for Fiscal year 2020: TexFlex Flexible Spending and Commuter Spending accounts administered by WageWorks, and the fully insured HMO plans, Community First Health Plan (San Antonio Region) and Scott & White Health plan (Central Texas Region).

Ms. Russell reported that Blue Cross and Blue Shield of Texas (BCBSTX) is the third party administrator for HealthSelect of Texas® and Consumer Directed HealthSelect<sup>SM</sup> medical plans. Performance guarantees were met for emergency, critical and minor severity levels and assessments did not apply. Ms. Russell stated that PGs were not met for a moderate severity level and an assessment applied.



The HealthSelect<sup>SM</sup> Prescription Drug Program is the self-funded prescription drug program administered by UnitedHealthcare Services Inc. (OptumRx). The prescription drug program is paired with HealthSelect medical plans for active employees and non-Medicare retirees. During Fiscal Year 2020, OptumRx met their critical severity level PGs and assessments did not apply for those.

During this time-period, OptumRx missed one emergency severity level PG (maintenance eligibility file processing); however, ERS opted to waive the PG due to ERS' involvement in the root cause. One moderate severity level PG (quarterly written correspondence rate) assessment occurred during this time-period. Two minor severity level PGs were also missed; one related to a late report and one due to a missed communication requirement.

Ms. Russell presented the optional dental plan for Fiscal Year 2020. She explained the self-funded State of Texas Dental Choice Plan is a dental preferred provider organization (PPO) administered by Delta Dental and Fiscal Year 2020 was the first year of their contract. Performance guarantees were met for emergency and critical severity levels.

Performance guarantees were not met for several moderate severity levels with assessments applied. Delta missed five moderate and 11 minor PGs during this time-period. The moderate assessments applied to two pre-service grievance and appeals, one adjudication of clean paper claims, and two post-service grievance and appeals turnaround time. Of the 11 minor PG assessments, six related to reporting requirements, four applied to communication materials and one was not met due to interval service level requirements.

The Dental HMO program (DeltaCare USA) is also in its first year. During this time-period, DeltaCare USA met all emergency, critical and moderate PGs. There were 11 minor PG assessments, of which seven were connected to reporting requirements and four applied to communication materials.

Ms. Russell provided State of Texas Vision information. The State of Texas Vision plan is a self-funded plan that provides vision and eyewear benefits nationwide, administered by Superior Vision Services, Inc. Performance guarantees were met for emergency and critical severity levels. Assessments applied in connection with one moderate PG (adjudication of clean claims) and one minor PG (reporting requirements).

Ms. Alvarado presented Voluntary Income Plan performance. She explained the optional life AD&D and life insurance plans are administered by Minnesota Life Insurance Company (Securian). The coverage offered includes optional term life, voluntary AD&D, and dependent term life with AD&D. Participants pay full cost of coverage.

Securian met Fiscal Year 2020 performance guarantee requirements for emergency, critical and minor severity levels. One moderate severity level assessment applied (notification of file transfer error).

The Texas Income Protection Plan<sup>SM</sup> (TIPP) is an optional self-insured short-term and long-term disability insurance coverage funded by plan participants and administered by Reed Group Management, LLC. While Calendar Year 2019 critical severity level PGs were met, PG assessments applied to one emergency PG (maintenance eligibility file processing), two moderate PGs (financial accuracy rate of claims) and two minor PGs (interval service levels).

The Calendar Year 2019 Texa\$aver 401(k)/457 Program Advised Assets Group Performance Reporting included one minor PG assessment (Interval Service Levels).

Dr. Kee asked if staff could provide the board with PG assessment historical context for PG categories over the last three years to help clarify the information. Ms. Kongevick responded that staff would provide this information going forward.

Mr. Hester asked what happens when a performance guarantee is not met and there's an assessment. Ms. Kongevick responded that there is a payment made to ERS and there is no claw back. She further described the ERS process before a PG is assessed and the various levels of review that occur.

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

**16. Review, Discussion and Consideration of Recommended updates to Texa\$aver Product Review Committee Charter – (ACTION)**

Ms. Diana Kongevick, Director of Group Benefits and Georgina Bouton, Assistant Director of Group Benefits presented to the board recommended updates to Texa\$aver Product Review Committee Charter. Ms. Kongevick noted the Product Review Committee Charter defines the purpose of the Product Review Committee (PRC), committee structure and membership, roles and responsibilities, frequency of meetings, as well as the documented processes for committee voting. The committee originally approved the Charter on August 23, 2017, and it calls for a full review by the Board, every three years, at a minimum. Ms. Kongevick explained that updates to the Charter were formulated in collaboration with the PRC and ERS' Office of General Counsel.

Ms. Bouton reminded the board that during the August 19, 2020 board meeting, updates to the PRC Charter were presented in a redline format for review and consideration. These updates include written documentation of the appointment process for PRC members; this documentation requirement is included in Section 3.2. Other updates were to the language on the sub-committee composition and to the language on the scope of duties that may be undertaken by an appointed sub-committee. Those edits to the sub-committee are included in Section 3.3.

Ms. Bouton presented that the proposed changes provide a degree of clarity in these areas and better document the processes that align with current practices.

There was an open period from August 20 through October 20 for the Board to provide any additional changes or edits to the PRC Charter. Staff received no further edits from the Board members. Ms. Bouton explained that the finalized PRC Charter is being presented for final consideration and board approval.

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

**Motion** made to move that the Board of Trustees of the Employees Retirement System of Texas approve the Texa\$aver Product Review Committee Governance Charter, attached as Exhibit A to this agenda item.

**Motion** by Brian Barth seconded by Jim Kee

Final Resolution: Motion Carries

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

**17. Review, Discussion and Consideration of Recommended updates to Texa\$aver 401(k)/457 Investment Policy – (ACTION)**

Ms. Diana Kongevick, Director of Group Benefits and Georgina Bouton, Assistant Director of Group Benefits presented to the board recommended updates to Texa\$aver<sup>SM</sup> 401(k)/457 Investment Policy.

Ms. Kongevick reported that the Texa\$aver Investment Policy defines investment objectives of the program, the investment options, describes fund selection process and outlines performance monitoring in the evaluation process for the funds. It was approved August 23, 2017, and updates were formulated in collaboration with the Advised Assets Group, Investment Advisory Committee, the Product Review Committee (PRC), and the ERS Office of General Counsel.

Ms. Bouton reminded the board that proposed amendments were presented in redline format to the board on August 19 2020. Ms. Bouton shared that the edits noted throughout the policy provide for an overall improvement to the function and clarity of the Investment Policy. The restated policy will serve as a more efficient guide for the management of the investment options.

Ms. Bouton then reviewed the changes presented in August 2020 and reflected in the redline edits. In Section 3.2 there is updated language so that the Board may clearly limit or eliminate market timing and excessive trading practices for a fund. Under Section 5.4 included the CRSP benchmark as an acceptable benchmark within each of the following equity funds: domestic large-cap funds under Subsection D, domestic mid-cap funds under Subsection E, and domestic small-cap funds under Subsection F. Section 5.5 has provided clarifying language that the Board, under recommendations from staff and PRC, may alter investment options or include other investment categories that would allow participants to build diversified portfolios to better suit their personal time horizon, risk tolerances, and investment goals. As discussed with the Board in August 2020, the Watch List section has been moved from Section 5.6 of the Investment Policy. Section 6.2, includes further details on the responsibility and duties that may be undertaken by the appointed PRC subcommittees. And lastly, under Section 7.1, includes clarifying language that the TexaSaver Investment Policy is to be presented to the Board no less than every three years.

An open period from August 20 through October 20 was provided to members of the Board to provide any additional edits or changes regarding the Investment Policy, and staff received no further edits from the Board. The finalized version of the TexaSaver Investment Policy has been included as Exhibit A to this Agenda Item for final consideration and board approval.

Dr. Kee requested to change and offer both value and growth options in the categories listed under Section 5.4, Subsections D, E and F to edit the language from “or” to “and” specific to the CRSP benchmark so as to state (Value **and** Growth). Chairman Hester supported this change, as amended.

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

**Motion** made to move that the Board of Trustees of the Employees Retirement System of Texas approve the TexaSaver 401(k)/457 Program Investment Policy **as edited** in Section 5.4 and attached as Exhibit A of this agenda item.

**Motion** by Brian Barth seconded by Ilesa Daniels

Final Resolution: Motion Carries

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

#### **18. Review and Discussion of the Texas Employees Group Benefits Program: Actuarial Valuation of Retiree Health Insurance Benefits as of August 31, 2020**

Ms. Mabelle Pharr, Chief Financial Officer, Mr. Phil Dial, Rudd and Wisdom, Mr. Mitchell Bilbe, Rudd and Wisdom and Mr. Chris Johnson, Rudd and Wisdom presented the Actuarial Valuation of Retiree Health Insurance Benefits.

Ms. Pharr started with opening remarks that, each fiscal year the liabilities associated with providing retirees of state agencies and higher education institutions post-employment benefits, such as our health insurance, is included in the financial reports. Ms. Pharr explained that these benefits do not include pension benefits, thus they are called Other Post-Employment Benefits, or OPEB.

Ms. Pharr stated that ERS contracts with Rudd and Wisdom to conduct a valuation in accordance with chapter 2266, Texas Government Code, and with the financial reporting standards established by the Government Accounting Standards Board under GASB statement number 74. Ms. Pharr introduced Mr. Dial, Mr. Bilbe and Mr. Johnson and then turned the presentation over to Mr. Dial. Mr. Dial stated that the GASB 74 valuation performed by Rudd and Wisdom for 2020 is for other post-employment benefits or retirees of state agencies, certain higher education institutions, and other miscellaneous employers, as specified under chapter 5051 of the Texas Insurance Code. He explained that this valuation is of the health benefits, but it also includes valuation of the basic life benefits available to retirees since those are funded by the state. He further stated that the valuation does not include optional benefits discussing earlier today available under the GBP as those benefits are funded solely by member contributions, and therefore they do not generate any employer obligations.

Mr. Dial also noted other post-employment benefits does not include retirement benefits. Mr. Bilbe described the GBP membership in the following categories: active employees who may become eligible in the future; deferred vested former employees who have met the service requirements, but have not yet commenced benefits under the plan and can do so if they do not withdraw their employee account balances from the retirement plan prior to reaching retirement age; and the retirees and nominees currently receiving OPEB benefits under the GBP. Mr. Bilbe commented that the total of these categories is 375,000 as of August 31, 2020, which represents a net change of 2,500 from last year's total.

Mr. Bilbe noted that the valuation includes covered spouses and dependent children as well as nominees. He explained that rather than using the specific counts of these individuals at the end of the year, an assumption is made as to the likelihood of those spouses and children being covered at a future retirement date. Mr. Bilbe also noted that the retirees and nominees number includes retirees who are receiving the opt-out credit in lieu of health benefits coverage.

Mr. Bilbe stated, prior to FY17, the plan reported under GASB 43. Since FY17, GASB 74 has replaced GASB43. He noted because the plan is funded on a pay-as-you-go basis, the discount rate assumption that is used to discount these obligations is based on a 20-year tax-exempt general obligation municipal bond as of the measurement date under GASB 74. This discount rate is much lower than the rate that was used under the GASB 43 standard, which inflates the liabilities.

He commented that because this rate is determined at each measurement date every year, it injects a great deal of volatility as those discount rates or municipal bond rates vary over time. The result is fluctuation in the net OPEB liabilities reported each year. In addition, note disclosures and supplementary information required under GASB 74 are more extensive, including showing changes in the liability due to plus or minus 1% changes in the discount rate as well as the health care trend assumption.

Mr. Mitchell Bilbe commented GASB 75, which is the employer reporting for OPEB that became effective beginning in FY18, requires the Comptroller to report OPEB expense and liability and information for ERS and TRS in the financial statements of the state's CAFR. In addition, GASB 75 requires increased reporting by some of the GBP participating employers to report their proportionate shares of the net OPEB liability and OPEB expense, including community colleges and a few state agencies that prepare audited financial statements.

Mr. Bilbe also noted that during this past year, Gabriel, Roeder, Smith, (GRS) who of course does a retirement plan valuation for ERS, was retained to audit the FY19 OPEB valuation, prepared by Rudd & Wisdom. The results was a clean actuarial audit. He noted that GRS did not identify any issues that would have a material impact on the per capita cost development or the associated obligation.

Mr. Bilbe stated that GRS offered some suggestions for the FY20 valuation, which Rudd & Wisdom did incorporate. These included more detailed disclosures of select assumptions in the report, minor changes to the decrement assumptions to align with GRS assumptions in the retirement and additional disclosure on assumptions used to determine the actuarially determined contribution.

Mr. Mitchell Bilbe explained that for purposes of the GBP OPEB valuation utilizes an actuarial cost method and actuarial assumptions. The cost method used is the entry age, which is identical to the funding method used by the retirement plan. The actuarially determined contribution is determined as a normal cost of the current year's accrual plus a 30-year amortization of the unfunded obligation. The assumptions used include demographic and economic assumptions, the discount rate, the per capita health benefit costs, and health benefit cost trend.

Mr. Bilbe stated that for state agency employees and retirees we use the same demographic and economic assumptions utilized by ERS for the retirement plan valuation in FY20 including the pre-retirement and post-disability mortality rates, the state agency members, termination retirement rates, general inflation, payroll growth, and salary increases.

He further noted that for the higher education employees and retirees, Rudd & Wisdom used the same demographic and economic assumptions utilized by TRS for its FY20 retirement plan valuation. So all assumptions align with those two retirement evaluations of ERS and TRS.

Mr. Philip Dial explained that in addition there are three assumptions that are unique to the OPEB evaluation as compared to the retirement plan evaluation. The first is the discount rate that was previously discussed, is The OPEB liabilities are valued at very low rates as required under the accounting standards. Additionally, using the municipal bond rates at the measurement date results in volatility. At the end of FY19, the rate used was close to 3%. At the end of FY20, the rate was 2.2%. So that change alone results in a fairly significant increase in the OPEB liabilities.

Mr. Dial pointed out another extremely important assumption is the per capita health benefit costs. About 25% of our Medicare primary participants participate in HealthSelect<sup>SM</sup>, with the remaining 75% participating in the HealthSelect<sup>SM</sup> Medicare Advantage plan in which a significant reduction was negotiated by ERS during last procurement. Additionally, Mr. Dial noted the health insurance provider's fee requirement of the Affordable Care Act was permanently repealed about this time last year.

Mr. Philip Dial stated that while the HealthSelect costs are based on extensive historical data there is more uncertainty currently due to COVID-19 than in recent years. He explained that this is reflected in the benefit cost trends. For purposes of the valuation Rudd & Wisdom uses a select and ultimate table. This takes into account both near and intermediate future as well as projecting the cost for active employees well into the future.

Mr. Chris Johnson, discussed the valuation results for FY20. He stated that the total OPEB liability for FY20 is \$33.15 billion which is approximately a \$1.5 billion decrease compared to FY19.

Mr. Johnson went into further detail explaining the increases and decreases to the OPEB liability for each of the assumptions. Mr. Dial and Ms. Pharr then stated they were happy to respond to any questions from the Board.

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

### **19. Review and Approve calendar for Board of Trustees Election – (ACTION)**

Mr. Bernie Hajovsky presented an overview of the upcoming election to fill the position currently held by Ms. Ilesa Daniels. Mr. Hajovsky informed the board that any state employee who is actively contributing to the employee class is eligible to run for a position on the board. Employees at the Department of Transportation and the Department of Public Safety are ineligible to run in this particular election since those agencies are already represented on the board by elected Trustees. All members of the system with an ERS account balance at the end of January, as well as retired state employees receiving an annuity from ERS, are eligible to vote in the election. Mr. Hajovsky reported that there were more than 355,000 eligible voters in the previous election. Voters can cast their ballots by mail, online or through a personalized, embedded link they receive by email. Mr. Hajovsky noted the addition of the electronic nomination process for the upcoming election and that YES Elections was recently awarded the contract to provide print, mail and ballot tabulation services for the next three election cycles.

Mr. Hajovsky then introduced the proposed schedule of key dates for the 2021 election. Those wishing to serve on the board must submit a petition of at least 300 unique signatures from eligible voters to be nominated as a candidate. ERS hosts a candidate forum to give members and retirees the chance to ask questions of the candidates to learn their positions on benefits and retirement issues. The voting period would span five weeks. Once the voting period ends, the new election administrator, YES Elections, compiles and validates the votes. The candidate that receives the most votes is the Trustee-elect. The Trustee-elect's term begins September 1, 2021. Staff recommends the Board of Trustees adopt the following calendar for the 2021 election as noted below.

#### **Nomination Period**

Distribution of Nominating Petitions

Monday, March 1, 2021

Close Nominations at 5:00 P.M.  
Certify Candidates; Select Ballot Order  
Candidate Forum

Wednesday, March 31, 2021  
Thursday, April 8, 2021  
Thursday, May 6, 2021

### General Election

Voting Begins  
Close Voting  
Executive Director Certifies Results

Friday, May 7, 2021  
Friday, June 11, 2021  
Thursday, July 15, 2021

Mr. Hester asked if the candidate forum would be conducted virtually, and Mr. Hajovsky responded that the May 6 event is scheduled to be conducted virtually. Mr. Porter Wilson noted the candidate forum will be recorded and made available on the ERS website throughout the voting period. In response to a question from Mr. Hester, Mr. Hajovsky stated that approximately 10% of eligible voters participate in the election.

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

**Motion** made to move that the Board of Trustees of the Employees Retirement System of Texas adopt the 2021 Board of Trustees Election Calendar as presented in this agenda item.

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

Final Resolution: Motion Carries

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

### **20. Review and Discussion of the 2020 Board of Trustees Self-Evaluation Report**

Mr. Bernie Hajovsky presented the results of the ERS board's recent self-evaluation, where each trustee anonymously evaluated the board's performance from an individual and collective perspective. The self-evaluation was nearly identical to the assessment conducted 2017, with the exception of a few modifications. The trustees responded with their level of agreement to each of the 48 statements on the board's duties and responsibilities with respect to mission and strategy, organization, stakeholder engagement and control management. Mr. Hajovsky noted that the responses were very positive and indicate an effective and highly functional board, as the trustees unanimously agreed on 42 of the 48 statements. Mr. Hajovsky highlighted some of the responses from each category.

Within the mission and strategy category, Mr. Hajovsky pointed out some board strengths, including a solid understanding of ERS' mission and its effectiveness in providing strategic direction to the various benefit programs that ERS administers. One area the board may look to improve is in its understanding of the impact of policy decisions on the annual operating budget for ERS and the potential strain on internal resources that result from these decisions.

With respect to organization and meetings, the trustees agreed that meeting agenda items are appropriate, quarterly meetings are suitable for this board, and meeting materials are sufficiently made available to trustees in advance of each meeting. In addition, all trustees agreed that the decorum and protocols used to conduct the meetings satisfied their needs. One opportunity for improvement is a more formal evaluation of board performance. Mr. Hajovsky mentioned this was also identified as an opportunity in 2017.

The stakeholder engagement category statements show that the board has a good understanding of ERS stakeholder groups. Responses were mixed, however, on the board seeking opportunities to collect input from our stakeholders on ERS-related issues. This was also identified as a possible area of improvement for the board in the 2017 assessment.

Mr. Hajovsky reported widespread agreement amongst the trustees on the control management statements. Strengths include the board's oversight of audits performed internally and by third party entities and its effective monitoring of program performance and financial information. No trustee disagreed with any of the statements within this category.

The evaluation concluded with a series of individual statements for each trustee to assess personal performance. Mr. Hajovsky noted each trustee avoids conflicts of interest, understands his or her role as a board member, supports decisions made collectively by the board, and complies with fiduciary responsibilities.

Following presentation of the survey results, Mr. Hester offered his thoughts on the board, citing the benefits of regular self-evaluation, the diversity of skill sets amongst the trustees, the independence of members in decision making, and the willingness of the trustees to freely discuss matters during their meetings. Mr. Barth mentioned that the evaluation forces the trustees to think about how it can better serve ERS employees and members, and he referenced the impact of board decisions on the ERS operating budget. Mr. Hester noted that board should be made aware of impacts to ERS' annual operating budget and employee resources when making decisions.

Ms. Melvin commended the evaluation statements and suggested introducing an exit survey for outgoing board members to provide feedback on their experience as a trustee. Mr. Hester and Ms. Daniels agreed that an exit survey would be beneficial for the board. Dr. Kee asked about opportunities for the trustees to engage with stakeholders on issues. Mr. Porter Wilson mentioned that ERS hosts informational events where trustees could communicate directly with members and retirees. Mr. Wilson also noted that some of the association groups invite ERS to attend their annual meetings for their membership, and these events are great opportunities for trustees to connect with ERS members and retirees.

Mr. Wilson asked the board its preferences on the frequency of conducting a board self-evaluation. These evaluations have been administered every two or three years dating back to 2015, and Mr. Wilson was curious if the board wanted to place the self-evaluation on a regular schedule. Following a discussion on the best timing for the assessment, the trustees agreed that a self-evaluation be conducted in the summer of every even-numbered year, with the results of the evaluation presented at the August meeting of every even-numbered year beginning in 2022.

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

## **21. Agency Update**

***Legislative Update*** – The 87<sup>th</sup> Legislative Session will open at noon on January 12, 2021. ERS responded to Legislative Request for Information (RFI) from various House and Senate Committees during the interium on pension and health care related issues and committees will use this information to publish interium reports and/or draft legislation or budget riders during the next Legislative Session.

***Legislative Appropriations Request Update*** – ERS submitted the 2022-2023 Legislative Appropriations Request on October 9, 2020. ERS requested additional funds to achieve actuarial soundness for the three pre-funded pension plans (ERS, LECOSRF and JRS 2). During the legislative session, ERS staff track bills as they're filed. The internal team (Legislative Analysis Group) analyzes those bills and the impact that they might have on either the pension fund or the health plan or any of the benefits that ERS administers, or on the operations as an agency. The board will be kept updated of bill tracking as session moves forward.

***Plan Year 2021 Fall Enrollment*** – Fall Enrollment for Medicare-eligible retirees and their families was held October 26 – November 13, 2020. ERS mailed 98,982 Personal Benefit Enrollment statement packets which provided member with information on their current enrollment, eligible coverage options and Plan Year 2021 changes. The ERS webpages related to Fall enrollment had 5,000 view and a little over 4,000 coverage changes were made. ERS received over 2,000 calls with majority of those taken by the customer service line at ACT. Over 1,000 retirees participated in webinars and phone sessions.

***RISE Project Update*** – RISE (Retirement & Insurance System Enhancement) is the name given to the major system project to update the system that ERS uses to manage customer operations, from benefits enrollment to paying retirement annuities. ERS moved from several mainframe systems to a PeopleSoft Oracle based system, and it went live with the insurance system in 2000. Ms. Cathy Terrell,

Deputy Executive Director stated, "this system is used internally at ERS by all of the people who process benefits and do the financial reporting. It's also used by members to enroll in insurance, to check their retirement benefits status, and it's used by all the employers, all the state agencies, and all the higher education institutions to inform us that somebody has been hired."

ERS contracted with Grant Thornton to lead a comprehensive process that gathered staff throughout the agency to complete a list of requirements and expectations of a modern pension and benefits system solution. Grant Thornton along with experts from Provaliant provided a lot of retirement system experience. The work on the Request For Proposal (RFP) has begun and will be delivered to the Office of Procurement Contract Oversight which will then go through the agency and oversight reviews. ERS will evaluate finalists through due diligence, site visits, and interview and will hopefully select a vendor in February 2021.

**Survey of Employee Engagement** – February 2020, ERS employees had an opportunity to anonymously provide feedback on the ERS workplace through the Survey of Employee Engagement (SEE). ERS employees' response rate was 89.9% and almost 90% of employees that received an invite completed the survey and provided their feedback. ERS participates in the SEE every two years. The Institute for Organizational Excellence at UT Austin conducts the survey and they provide a report of the aggregate data. The survey is used to measure employee engagement in the workplace.

ERS' overall survey score was 395. Scores above 350 are desirable.

**State Employee Charitable Campaign Update** – The State Employee Charitable Campaign (SECC), is an annual pledge drive for employees to support their choice of charities, either by payroll deduction or a one-time donation. ERS set a goal of raising \$57,000. The amount raised exceeded the \$57,000 fundraising goal by 8% or \$61,431.

**1836 San Jacinto building update** – Construction of the 1836 San Jacinto building has continued to progress. The exterior of the building was completed for all office floors and the first floor retail space. Exterior of the garage levels are ongoing and the permanent power for the building was turned on. Work continues to be on time (for first quarter 2021) and on budget.

**22. Set 2021 Meeting Dates for the Joint Meeting of the ERS Board of Trustees and Investment Advisory Committee, the meeting of the Board of Trustees and the meeting of the Audit Committee**

The Board of Trustees approved the dates for the 2021 Joint Meeting of the ERS Board of Trustees and Investment Advisory Committee, the meeting of the Board of Trustees and the meeting of the Audit Committee. They are as follows:

**Approved 2021 Meeting Dates:**

Wednesday, March 10, 2021  
Wednesday, May 26, 2021  
Wednesday, August 25, 2021

2-Day Workshop:  
Tuesday, December 7, 2021  
Wednesday, December 8, 2021

**23. Recess of the Board of Trustees**

Board Chair, Craig Hester announced the time is now 3:46 p.m. on Tuesday, December 8, 2020 and the Board is now in Recess.

The Board of Trustees will reconvene on Wednesday, December 9, 2020 at 8:30 a.m. with the Investment Advisory Committee to take up the remaining investment related agenda items.