

AGENDA ITEM DETAILS

Subject: Consideration of Fiscal Year 2022 Operating and Capital & Property Management Budgets – (Action)

RECOMMENDED ACTION:

Move that the Board of Trustees of the Employees Retirement System of Texas adopt the ERS Fiscal Year 2022 Proposed Operating Budget, including contingency funds, and the Fiscal Year 2022 Capital and Property Management Budget, as presented in this agenda item.

Background/Analysis:

The ERS Board of Trustees reviews and approves the operating budget for the system each year in August for a fiscal year that begins September 1 and ends August 31. ERS finances its administrative budget from the insurance and retirement trust funds. No appropriations are received for the ERS administrative budget. Operational costs are paid in accordance with § 815.208 of the Texas Government Code.

In addition to using money from the trust funds, ERS receives annual fees of \$3.00 collected for each retirement system member designed to offset retirement administration costs. Revenue is also collected from fees paid by optional program participants such as the TexasSaver 401(k)/457 Deferred Compensation Program. Those fees must be used exclusively for the administrative costs associated with the program for which they were received. ERS formally tracks and documents the administrative cost of these programs including dedicated staff time through an online timekeeping system.

In FY21 ERS had a very successful year using budgeted fiscal and human resources in achieving progress toward the following four strategic goals:

- Support Our Members' Retirement Income Security
- Sustain Competitive Group Benefits Programs
- Engage Stakeholders for Informed Decision Making
- Enhance Agency Performance and Accountability

Highlights of these accomplishments include:

For Retirement Income Security:

- Passage of Senate Bill 321, which eliminates the infinite amortization period through a series of scheduled payments until the Trust is considered fully funded. Also creates new Group 4 benefit structure, a cash balance defined benefit plan for employees hired after August 31, 2022, with lifetime benefits and opportunity for gain sharing as an employee and a retiree.
- Issuance of more than \$2.7 billion in payments for retirees and beneficiaries.
- Successfully sustained operations and investment management during the global pandemic, including the following as of June 30, 2021:
 - The Fiscal Year to Date Trust return is 20.99% on a net basis, outperforming its benchmark by 608 basis point. Total Trust assets are \$33.9 billion.

- The combined market capitalization of high yield Exchange Traded Funds (ETFs) created by the agency grew to \$7.4 billion
 - Committed \$300 million to two Fixed Income funds.
 - The Absolute Return Portfolio is experiencing its strongest fiscal year of performance since its inception. As of June 30, 2021, the portfolio was up +15.83%. In comparison, the T-Bills +350 basis points benchmark is up +2.99%. The Hedge Fund Research Investments Funds of Funds Diversified Index is up +12.30%.
 - Committed \$175 million to hedge fund investments associated with Absolute Return Portfolio.
 - Committed \$425 million to Real Estate and closed six funds.
 - Committed \$1.3 billion to five International Equity advisors.
 - Committed \$800 million to Private Equity and closed on eight funds, four new relationships, and 10 co-investments.
 - Committed \$320 million to Private Infrastructure and closed on three funds and five co-investments.
 - Held 4,812 meetings with external companies, brokers, managers and advisors to provide due diligence of investable ideas for the trust.
- Closed 23 private market transactions for total commitments of \$1.5 billion USD and \$27.4 million AUD; oversaw redemption from seven funds; negotiated 84 private markets investor actions.
 - Continued to improve the Texa\$aver program by:
 - Introducing a passive international fund to the Texa\$aver line-up.
 - Achieved Morningstar's premier Enhanced Diversification status.
 - Launched monthly "Texa\$aver Thursday" webinars to educate members about the feature of Texa\$aver retirement accounts, averaging more than 100 attendees per session.
 - Efforts to encourage members to save more in their Texa\$aver accounts resulted in an award for the Texa\$aver communication campaign from *Pensions & Investments* and the National Association of Government Defined Contribution Administrators (NAGDCA)

For Competitive Group Benefits Programs:

- Took proactive measures to mitigate the pandemic's impact to those enrolled in Group Benefits Program (GBP) plans.
 - Quickly implemented COVID-19 diagnostic testing and associated service at no cost to a participant and without prior authorization.
 - Adopted temporary HealthSelect benefit enhancements, including no cost telemedicine and virtual visits for non COVID-19 services to help plan participants access care and to relieve pressure on the medical community.
 - Implemented temporary provisions consistent with the provision of the Consolidated Appropriations Act of 2021 to allow employees to retain funds deposited to TexFlex flexible spending and dependent care reimbursement from elections made before the public health emergency.
 - Together with the GBP Third Party Administrator, health plan vendors and in support of Governor Abbott's Save our Seniors Initiative, implemented a targeted COVID-19 vaccine campaign to assist age 65 and older participants with locating and scheduling their vaccine.
- Pursued and implemented increased availability and access to important mental health services by:
 - Doubling the number of providers in the HealthSelect mental health provider network increasing participant access.

- Emphasizing no-cost mental health visit availability through telemedicine and virtual visits.
- Implemented the HealthSelectShoppERSSM member rewards program to meet the requirements of rider 16 of the General Appropriations Act of the 86th Legislative Session. HealthSelectShoppERS seeks to reduce GBP costs by rewarding participants for choosing lower cost in-network providers for certain elective procedures under the HealthSelect of Texas[®] medical plan.
- Recovered insurance subrogation amounts of approximately \$552,000 for the Texas Employees Group Benefits Program (GBP).
- Conducted extensive communications to educate:
 - Retirees about the insurer change in the HealthSelectSM Medicare Advantage Plan.
 - Kelsey Care Advantage, Community First Health Plans and Scott and White Care Plans participants about the discontinuation of the HMO in the GBP.
- Launched a new webinar series to educate members about the features of each plan ERS offers and created five new educational videos.

For Engaging Stakeholders:

- Added video counseling capabilities to safely counsel members about their upcoming retirement, conducting 398 sessions either by phone or video
- Transitioned in-person Fall enrollment (for Medicare retirees) events to 49 virtual ones in response to the pandemic, including telephone only events for retirees who prefer using the telephone to doing a computer webinar
- Held 50 virtual education sessions during Summer Enrollment
- Engaged with 531,445 members through phone calls
- Responded to 33,824 member emails.
- Processed over 121,000 member requests and more than 415,000 pieces of incoming and outgoing mail
- Hosted more than 56 other events and webinars with a combined attendance totaling more than 3,700.
- Supported agency benefits coordinators:
 - Handled over 11,000 calls and 9,000 e-mails
 - Created and distributed monthly agency report cards to every agency and higher education institution that provides processing and contact information to ERS.

For Enhanced Agency Performance and Accountability:

- Completed the construction of the 1836 San Jacinto Building.
- Conducted a search and selected David Veal to succeed Tom Tull as CIO, following Tom's retirement.
- Completed ten audit engagements in accordance with the FY21 Audit Plan providing assurance on the effectiveness of controls and operations to meet ERS' strategic objectives and goals.
- Implemented Centralized Accounting Payroll/Personnel System (CAPPS) HR.
- Implemented 30-day New Hire Check-Ins.
- Implemented Multifactor Authentication for Virtual Desktop Infrastructure and Outlook Web access.
- Collected and reconciled over \$3.6 billion in Employee and Employer insurance contributions.
- Managed and coordinated the completion and audit of the FY 20 Annual Comprehensive Financial report (ACFR) for ERS, receiving the Certificate of Achievement for Excellence in Financial Reporting.
- Increased paperless processing and scanned over 280,000 images.
- Upgraded the Investment Accounting System.

The FY22 Proposed Operating Budget supports the 2021-2025 Strategic Plan and the four goals outlined above. ERS staff identified tactical activities and initiatives to meet these goals. The ERS management team examined each item of expense in the budget to determine where expenditures could be reduced to make funding available for activities that were critical in moving the agency forward to meet strategic objectives.

Major initiatives for FY22 include:

- Implementation of a new retirement benefit for state employees hired on or after September 1, 2022.
- Continued diversification of the agency’s investment portfolio.
- Contact Center staffing and enhanced call management by the outsource vendor
- Data quality review and improvement
- In-house information governance review and implementation of document management solution
- Solicitation for Retirement Insurance System Enhancement (RISE)
- Solicitation for Pharmacy Benefit Manager Services

Budget Request Overview

The FY22 proposed operating budget of \$87.7 million reflects restoration of the 5% reduction and an increase of 2.7% over the FY21 budget. In addition, a contingency of \$4.8 million is proposed for use if needed.

In order to fund critical initiatives and bi-annual costs, ERS reviewed each budget category for opportunities to reduce or eliminate costs. Each division continues to look for efficiencies and regularly bids contracts to ensure the best value.

Personnel costs are a major portion of the agency budget, accounting for 63% of the FY 22 budget. The FY22 budget assumes 2% of salary lapsed from unfilled positions which has been included in the contingency account. The FY22 budget includes additional funding for anticipated incentive compensation payments, and equity and salary adjustments based on a recent compensation study of investment positions.

New staff positions are requested to assist in increasing the asset allocation to infrastructure, in investment operations, and in customer service in the contact center and survivor benefits.

The FY21 budget included resources to address recruitment and retention issues for the contact center. As the population supported by ERS and complexity of the programs continue to increase, the FY22 budget requests four additional employees for the contact center. The budget is also increased to pay the contracted third party contact center for handling additional types of service calls, adding capacity to handle incoming volume of calls and improving answer times and overall service.

During FY21 ERS relied heavily on FY20 funds to cover information technology contract costs. The FY22 budget includes funds to cover these contracts for a full year.

	FY21 Approved Budget	FY22 Proposed Budget
Salaries and Other Salary Costs	\$52.6 million	\$54.9 million
Non-Salary Costs	\$28.8 million	\$32.8 million
Total	\$81.4 million	\$87.7 million

Capital and Property Budget

ERS completed construction of the expanded headquarters building in August 2021. A portion of the building will be used by ERS staff and the rest will be leased to tenants. Included in the FY22 Capital and Property Management budget of \$2.9 million is funding for property management and professional services for 1836 San Jacinto. As the building is leased, these costs will be shared with tenants.

ERS has engaged an architectural design firm to begin planning renovations to the 200 E. 18th Building. When staff formalizes these plans and the firm develops renovation pricing, staff will present a budget amendment request to the Board for approval.

ATTACHMENTS:

1. Exhibit A – FY22 Proposed Operating Budget and FY22 Property Management and Capital Budget
2. Slides – FY22 Operating and Capital & Property Management Budgets