



Board of Trustees Meeting

August 25, 2021

ERS

EMPLOYEES  RETIREMENT
SYSTEM OF TEXAS

Presented for Review and Approval

December 7, 2021

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**BOARD OF TRUSTEES MEETING
EMPLOYEES RETIREMENT SYSTEM OF TEXAS
August 25, 2021**

TRUSTEES PRESENT

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

ERS DIRECTORS PRESENT

Porter Wilson, Executive Director
Cathy Terrell, Deputy Executive Director
Jennifer Chambers, Director of Government Affairs
Cynthia Hamilton, Acting 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
Kathryn Tesar, Director of Benefit Communications
Tom Tull, Chief Investment Officer
David Veal, Incoming Chief Investment Officer
Keith Yawn, Director of Strategic Initiatives

ERS STAFF PRESENT

Jason Avants, Information Systems
Raquel Colón, Investments
Kelley Davenport, Executive Office
Blaise Duran, Group Benefits
Lanesia Jones, Investments
Tanna Ridgway, Investments
Nile Stork, Information Systems

ALSO PRESENT

Phil Dial, Rudd and Wisdom, Inc.
Neika Clark, Trustee-elect, Health and Human Services Commission

Meeting of the ERS Board of Trustees

23. 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 3:10 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 11:42 a.m. on Monday, August 16, 2021, as required by Chapter 551 Texas Government Code, referred to as the Open Meetings Law.”

24. Consideration of the Minutes to the May 26, 2021 ERS Board of Trustees Meeting – (ACTION)

Chair Craig Hester opened the floor for a motion on the approval of the minutes from the May 26, 2021 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 26, 2021.

Motion by Brian Barth second by Catherine Melvin

Final Resolution: Motion Carries

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

25. Consideration of Proposed Rates for HealthSelect Medicare Advantage Preferred Provider Organization Plan for Calendar Year 2022 – (ACTION)

Diana Kongevick, Director of Group Benefits and Blaise Duran, ERS Actuary, provided an overview of the HealthSelectSM Medicare Advantage Preferred Provider Organization (MA PPO). The federal government subsidizes the cost of this plan, which results in lower retiree cost and reduced program costs. Sierra Health and Life Insurance Company, a UnitedHealthcare underwriting entity, became the insurer effective January 1, 2021.

The HealthSelect MA PPO continues to provide the most cost effective medical benefits for the state and the enrolled members. Participants receive prescription drug benefits through the self-funded HealthSelectSM Medicare Rx Plan. The MA PPO is a customized plan designed by ERS.

As of January 2020, 80,000 participants were enrolled in the MA PPO plan. By January 2021, 90,000 were enrolled - an increase of 10,000 participants. To ensure cost effectiveness, the consulting actuary utilizes a theoretical cost index (TCI) model to evaluate the plan. The TCI estimates the total cost that would be required to cover those in the HealthSelect MA PPO as if they enrolled in the self-funded HealthSelect of Texas® health insurance plan.

The HealthSelect MA PPO participant cost is primarily composed of two elements; the fully insured HealthSelect MA PPO Plan Premium negotiated with UnitedHealthcare and the projected cost of the self-funded HealthSelect Medicare Rx Drug Coverage.

The proposed Calendar Year 2022 monthly contribution rate remains at 2021 levels. The \$179.04 monthly participant cost provides significant savings when compared to the cost of coverage under HealthSelect of Texas.

There being no further questions or discussion, Mr. Hester opened the floor for a motion.

Move that the Board of Trustees of the Employees Retirement System of Texas approve the Calendar Year 2022 plan rates as presented in this agenda item effective January 1, 2022 for the HealthSelect Medicare Advantage PPO Plan offered under the Texas Employees Group Benefits Program.

Motion by Brian Barth, Second by Ilesa Daniels
Final Resolution: Motion Carries
Aye: Craig Hester, Brian Barth, Ilesa Daniels, Jim Kee, Catherine Melvin

26. Consideration of Fiscal Year 2022 Operating Budget and Fiscal Year 2022 Capital and Property Management Budget – (Action)

Mr. Porter Wilson and Ms. Machel Pharr presented the ERS Fiscal Year Proposed Operating Budget for approval. Mr. Wilson outlined significant accomplishments that had been achieved with the FY21 budget including the completion of 1836 San Jacinto. The Board and Mr. Wilson then engaged in discussion regarding the role of ERS staff in management of the building. Mr. Wilson noted that an RFP has been issued for a property manager to run the new building. Additionally, we are finalizing an award for a long term contract with a broker who will be responsible for recruiting tenants.

Mr. Wilson then outlined major initiatives included in the FY22 proposed budget including implementation of legislation passed by the 87th legislature and efforts to improve customer service wait times. Ms. Pharr reminded the Board that in FY20 agencies were asked mid-year to conserve and evaluate ways to reduce their budget. ERS did that and reduced the budget by 6.6%, keeping those funds in the trust fund. In light of the pandemic, ERS continue with a 5% reduction in FY21. The proposed FY22 budget restores the 5% reduction and adds an additional 2.7% to address critical activities for a proposed FY22 budget of \$87.7 million, a \$2 million increase over the FY20 budget. It also include the addition of seven positions and the addition of 2 FTES for positions added in the FY21 budget.

From a category perspective, three categories make up 91% of our budget: 1) Salaries and related costs - 63% ; 2) professional and other contracts - 20%, and 3) investment electronic tools account - 8%. In FY21, FY20 funds were utilized to cover some of the computer system contracts. FY22 includes funds to cover those contracts. From a division perspective, three divisions make up about 65% of the budget. These three divisions are Investments, Customer Benefits and Information Systems. Similarly, from an FTE perspective, these three divisions account for the majority of the agency's FTEs.

Ms. Pharr provided historical trend information explaining that much of the increase in the agency's budget since 2006 was based on the decision to internally manage a majority of the investment assets, reducing external investment management fees. Ms. Pharr also outlined numerous changes that have occurred over the years in the retirement plans and group benefits that have impacted Customer Benefits and Information Systems. Mr. Wilson noted that while active members have benefits coordinators to address their questions, ERS is the only point of contact for inactive members, retirees and their beneficiaries.

Mr. Hester noted that the since 2014, the growth rate of the non-investment FTEs has been 1.9% compounded annually. The growth in investment division has been about 2.6% compounded annually. He further mentioned that the budget is about 21.9 basis points just considering the trust and DC assets, or about 2/10 of 1% to run a \$40 billion company. It puts the \$88 million into perspective.

Mr. Wilson reminded the Board of the conversation regarding customer services held with Ms. Hardaway at the last in person Board meeting. With the increasing number of retirees and complexity of the program, call times have increase. He invited Ms. Hardaway back to provide background for the additional FTEs requested in the FY22 budget.

Ms. Hardaway provided various data points to show the expanse of the Customer Benefits workload including:

- Over 4,000 had retired during FY21 as of the end of July. August is always the biggest month for retirements. Over 15,000 active employees are eligible for retirement next fiscal year.
- Over 11,000 retirement account withdrawals have been processed through July.
- Over 17,000 beneficiaries ah been updated through the end of July.
- Over 25,000 interactions with agency benefits coordinators through a variety of means including phone calls, emails, exception requests and assistant with processing requests.

Ms. Hardaway stated that Customer Benefits has completed over 70 projects and system fixes. Projects include summer and fall enrollments, implementation of new vendors, data enhancement, and data security. As preparation for RISE continues, over 2,000 data corrections have been made.

Ms. Hardaway then pivoted to speak about specific areas of the division. Survivor Benefits counsel and process benefits for surviving families, including but not limited to survivors of Chapter 615 deaths. Chapter 615 death benefits are for eligible survivors of certain law enforcement officer and fire fighter who died or were killed in the line of duty. These include employees of municipalities and counties not just state employees. ERS paid out 45 Chapter 615 payments during FY21. Much of the increase in Chapter 615 claims and payments is associated with COVID-19 deaths. As of the Board meeting, we have over 105 COVID-19 claims for Chapter 615 deaths. There has been over a 300% increase in Chapter 615 benefits and approximately 25-27% increase in non- Chapter 615 death benefit payments. Much of the increase in non-Chapter 615 death benefits is not related to COVID.

Ms. Hardaway noted that of the four positions budgeted currently for survivor benefits, three are currently filled and two of those individuals have been with ERS for about a year. Individuals in other sections of the divisions have been assisting with these benefits as these families go through this difficult time. Over 1700 hours of overtime has been incurred to manage the current workload.

Ms. Hardaway then addressed challenges in the contact center. Customer service surveys indicate a decline in member satisfaction from FY20 from 86% to 80% positive rating. We believe members are satisfied with the service they are provided but are not satisfied with the lengthy hold times. Based on questions from the Board, Ms. Hardaway clarified that we only have information from those who choose to leave a comment and those who have left comments complained about the hold time.

Ms. Hardaway explained that we have a very aggressive service level goal for the type of work performed in our contact center: answering 70% of the calls in 60 seconds. She explained that ERS utilizes an outside vendor to assist with the calls and that at the end of Calendar Year 2020, a new contractor took over. The outsourced volume for this fiscal year is over 274,000 calls with a projection of over 300,000 calls by the end of the fiscal year. Due to the complexity and evolving nature of our programs, there is an extensive learning curve. As a result, the average speed to answer a call and handle a call increased. Ms. Hardaway explained that the internal customer center handled over 147,000 calls with another 20,000 expected by the end of the fiscal year.

Ms. Hardaway provided statistics on budgeted positions versus actual staffing levels explaining that even with filled positions absenteeism and other duties must be taken into account. Ms. Hardaway expressed appreciation for the compensation increases made at the end of FY20 and additional increases included in the FY21 budget noting that they did work and we were fully staffed even if only for a short period. Ms. Hardaway and Mr. Wilson discussed transitioning the insurance calls that are currently being answered by our internal staff to the outsource vendor to allow the internal staff to handle the more complex calls in a timelier manner. In addition, new technology is being assessed to help the counselors navigate their resources more effectively so that they can provide a faster response.

Ms. Hardaway noted that if we kept our service level to answer 70% of the call in 60 seconds, we would need 45 FTEs. A more realistic goal is to answer 70% of the calls in 3 minutes. Typically, an individual will wait just over 3 minutes on hold before they abandon a call. A 60 second response time was based on emergency call center. We are counseling and educating our members and need to adjust our response time to take that into consideration. At the more realistic goal, we need 42 FTEs in February. In March, we plan to transition calls to Group O. Once we have gotten through that transition, we would need 33 FTEs to respond to 70% of call in 60 seconds, but in replacing the goal to 3 minutes, we would need 30 FTEs in March. The four additional FTEs requested for the contact center will help us to reach this goal.

Mr. Hester noted that Ms. Hardaway made a compelling case for the challenges faced by the Customer Service Department. He also complimented Ms. Pharr and her team on the comprehensiveness of the budget document. Ms. Pharr stated that in addition to the operating budget, we are seeking the Board's approval on the capital and property management budget for which we are

seeking \$2.9 million for FY22. In addition \$1 million is requested to redesign the main ERS building. Once the renovation costs are known, a budget amendment will be presented to the Board for consideration.

Ms. Melvin asked if there is a contracted service level with the outsourced vendor to meet the 70% in 60 seconds and penalties for not meeting. Ms. Hardaway confirmed that service levels are part of the contract and penalties are being assessed.

Ms. Melvin also asked how the turnover rate in Customer Benefits compares to other divisions. Ms. Hardaway noted that it may be slightly higher than other divisions, but the turnover rate has been basically the same from one fiscal year to the next.

Ms. Melvin mentioned that she agreed that Ms. Hardaway had made a compelling argument and complimented Ms. Hardaway and her team on the work they have been doing to keep up with demand. She asked that the investment and dedication to the customer service component be treated like a project with progress reports provided to the board more frequently than at the end of the year.

Mr. Hester noted that for a lot of the constituents, the Customer Benefits Division is the first impression. It's a challenging environment to recruit and retain staff not only in Customer Benefits but other ERS divisions. He noted that ERS staff provided data on recruitment and retention including that ERS has a turnover rate of approximately 10% and on average it takes 162 days to fill a position once posted. Reasons people give for leaving are better pay, better advancement opportunities and retirement. He recommended that the Board add the equivalent of 1.5% of salaries for a recruitment and retention pool.

The motion was made by Mr. Hester to adopt the ERS Fiscal Year Operating Budgeting which includes the contingency, and the Fiscal Year 2022 Capital Property Management Budget as amended by the discussion to include an additional \$450,000 in a compensation pool at the discretion of the executive director for recruitment and retention of staff not eligible for the incentive compensation plan. This was seconded by Ms. Melville.

Before calling the motion to a vote, there was a call for any further discussion. Ms. Melville asked if the budget include the cost to implement Senate Bill 321. Mr. Yawn explained that due to the technical requirements of the changes and the short timeframe, existing subject matter expert would be leveraged to address implementation of Senate Bill 321. Surge staffing may be required in certain areas such as education and communication, but the proposed budget contains flexibility that should allow us to address that effectively. Ms. Pharr also reminded the Board of the contingency funding included in the proposed budget.

There being no further questions or discussion, Mr. Hester opened the floor for a motion.

Move that the Board of Trustees of the Employees Retirement System of Texas adopt the ERS Fiscal Year 2022 Proposed Operating Budget, including contingency, and the Fiscal Year 2022 Capital and Property Management Budget.

Motion by Catherine Melvin, Second by Ilesa Daniels

Final Resolution: Motion Carries

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

27. Agency Update

Mr. Porter Wilson, Executive Director provided an update on the following items.

CPI-U adjustment for Chapter 615 benefits for Fiscal Year 2022

During the 2019 legislative session, the legislature directed the 615 Benefit was to be increased annually to reflect an increase in the Consumer Price Index, Urban (CPI-U) from the previous year. At the 2020 board meeting, the board decided to delegate the authority to adopt and implement it. In 2021, the board adopted a 2.3% CPI-U at \$511,500 and next Fiscal Year 2022, an increase of 1.4% to \$518,000.

Summer Enrollment for Plan Year 2022

The Customer Benefits division engaged in educating people about their benefits, sending out 266,000 benefit enrollment statements. The contact center and Group O fielded over 6,000 summer enrollment calls and over 60,000 members made coverage changes. The ERS website had 250,000 visits and 50 webinars with 5,700 people attending. Fall enrollment is scheduled for November 1-19, 2021.

Recent Agency Developments

Conviction of Cyber Criminals – In July, the Department of Justice announced the convictions of two conspirators who used information gathered from outside sources to access accounts. Staff reported activity very quickly to the Texas DPS and cooperated with the Texas Rangers. ERS has taken additional steps to enhance its security.

28. Board Member Recognition

Mr. Craig Hester, Chair, and Mr. Porter Wilson, Executive Director, presented a resolution to Ms. Ilesa Daniels for her service and contributions to the board. Trustees expressed their thanks for all she's done. Ms. Daniels noted how grateful it had been to be able to be a part of the Board of Trustees and how much she has learned from her time serving.

There were no questions or further discussion, and no action was required on this item.

29. Executive Session - In Accordance with Section 551.074, Texas Government Code, the 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. Thereafter, the Board may consider appropriate action in open session

Mr. Hester stated the time is 5:13 p.m. on Wednesday, August 25, 2021. A quorum of 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 of the Employees Retirement System of Texas. Thereafter, the Board may consider appropriate action in open session.

Upon returning from executive session, Mr. Hester announced the time is 5:54 p.m. on Wednesday, August 25, 2021 and the Board is now in open session. No action, decision, or vote was taken by the Board while in executive session.

Move that the Board of Trustees of the Employees Retirement System of Texas award ERS Executive Director, Porter Wilson an increase in his annual compensation of 5% effective September 1, 2021.

Motion by Ilesa Daniels, Second by Brian Barth
Final Resolution: Motion Carries
Aye: Craig Hester, Brian Barth, Ilesa Daniels, Jim Kee, Catherine Melvin

Move that the executive director be awarded the maximum incentive compensation award for which he is eligible based on his participation in the Incentive Compensation Plan for Fiscal Year 2021 for the qualitative 100% 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.

Motion by Ilesa Daniels, Second by Catherine Melvin
Final Resolution: Motion Carries
Aye: Craig Hester, Brian Barth, Ilesa Daniels, Jim Kee, Catherine Melvin

Move that the Board of Trustees of the Employees Retirement System of Texas affirm that effective September 1, 2021 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 plans.

Further move that Mr. Wilson's performance goals for Plan Year 2022 should reflect 50% of his possible award under the ICP as a quantitative goal of relative trust fund performance and 50% of his possible award under the ICP as a qualitative goal reflecting his overall agency leadership, management, communications, policy matters, staff development, and implementation of the agency's strategic initiatives, as reflected in the board-approved operating budget for Fiscal Year 2023.

Further move that the Board of Trustees of the Employees Retirement System of Texas use the agency initiative identified in the Fiscal Year 2022 operating budget and approved by the board to evaluate the executive director's job performance by measuring the initiatives against the accomplishments reported in Fiscal Year 2023 operational budget.

Motion by Ilesa Daniels, Second by Jim Kee

Final Resolution: Motion Carries

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

30. Election of Chair and Vice Chair of the ERS Board of Trustees for Fiscal Year 2022 – (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, Mr. Hester called for a motion.

Move that the Board of Trustees of the Employees Retirement System of Texas elect Catherine Melvin as Chair and Dr. Jim Kee as Vice-Chair of the ERS Board of Trustees for one-year terms beginning September 1, 2021 and ending August 31, 2022.

Motion by Brian Barth, seconded by Ilesa Daniels

Final Resolution: Motion Carries

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

31. Adjournment of the Board of Trustees meeting.

The Board of Trustees adjourned at 6:04 p.m. on Wednesday, August 25, 2021