Board of Trustees Meeting

December 10, 2019

ERS

EMPLOYEES RETIREMENT SYSTEM OF TEXAS

Presented for Review and Approval

March 11, 2020

1. CALL TO ORDER 3
1.1 Call Meeting of the ERS Board of Trustees to Order 3
2. MINUTES 3
2.1 Review and Approval of the Minutes to the August 21, 2019 ERS Board of Trustees Meeting – (ACTION) 3
3. EXECUTIVE SESSION 3
3.1 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 Internal Auditor of the Employees Retirement System of Texas. Thereafter, the Board may consider appropriate action in open session. 3
4. RULES OF THE BOARD OF TRUSTEES 4
4.1 Review, Discussion and Consideration of the Rules of the Board of Trustees, Texas Administrative Code, Title 34, Part IV, Chapter 73.47 (Assignment of Death Benefit for Funeral Services) – (ACTION) . 4
5. GROUP BENEFITS PROGRAM ADVISORY COMMITTEE 4
5.1 Report of the Group Benefits Advisory Committee Activities 4
5.2 Appointment of Group Benefits Advisory Committee Members – (ACTION) 5
6. TEXAS EMPLOYEES GROUP BENEFITS PROGRAM 5
6.1 Health Insurance Financial Status Update for Fiscal Year 2019 and Outlook for Fiscal Year 2020 5
6.2 Discussion of the Group Health Benefits Program and Compliance Information 7
7. VOLUNTARY BENEFIT PLANS 12
7.1 Update and Compliance Information: TexFlex, Texas Income Protection Plan (TIPP) and Texa$aver 12
7.2 Review, Discussion and Consideration of Recommended updates to Texa$aver 401(k)/457 Program – (ACTION) 14
8. ACTUARIAL VALUATION RETIREE HEALTH INSURANCE BENEFITS 16
8.1 Review and Discussion of the Texas Employees Group Benefits Program: Actuarial Valuation of Retiree Health Insurance Benefits as of August 31, 2019 16
9. ACTUARIAL VALUATIONS 18
*9.1 Review of Retirement Program Actuarial Valuations and Financial Status 18
10. CONTRACT AWARD RECOMMENDATION 21
10.1 Review, Discussion and Consideration of Contract Award Recommendation for Pension Actuarial Services – (ACTION) 21
11. AGENCY UPDATE 22
11. Agency Update 22
12. CALENDAR 24
12. Set 2020 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 24
13. EXECUTIVE SESSION 24
14. RECESS 25

BOARD OF TRUSTEES MEETING
EMPLOYEES RETIREMENT SYSTEM OF TEXAS
December 10, 2019
Teacher Retirement System Board Room, E513
TRS Building - 1000 Red River Street
Austin, Texas 78701

TRUSTEES PRESENT
Ilesa Daniels, Board Chair
I. Craig Hester, Board Vice Chair
Brian Barth, Member
Dr. James 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
William Nail, Special Projects & Policy Advisor
Jennifer Chambers, Director of Government Relations
Tony Chavez, Director of Internal Audit
Bernie Hajovsky, Director of Enterprise Planning Office
Robin Hardaway, Director of Customer Benefits
Diana Kongevick, Director of Group Benefits
Wendy McAdams, Director of Operation Services
Machelle Pharr, Chief Financial Officer
Gabrielle Schreiber, Director of Procurement and Contract Oversight
DeeDee Sterns, Director of Human Resources
Katheryn Tesar, Director of Benefits Communications
Tom Tull, Chief Investment Officer
Keith Yawn, Director of Strategic Initiatives

ERS STAFF PRESENT
Nora Alvarado, Group Benefits
Brannon Andrews, Office of General Counsel
Jason Avants, Information Systems
Georgina Bouton, Group Benefits
Leena Chaphekar, Office of General Counsel
Carlos Chujoy, Investments
Kelley Davenport, Executive Office
Juli Davila, Investments
Blaise Duran, Group Benefits
Leah Erard, Office of Strategic Initiatives
Angelica Harborth, Group Benefits
Aaron Ismail, Internal Audit
Roger Nooner, Benefits Communications
Rhyne Perkins, Group Benefits
Susie Ramirez, Executive Office
Tanna Ridgway, Investments
Lauren Russell, Group Benefits
Cheryl Scott Ryan, Office of General Counsel
Robert Sessa, Investments
Mary Jane Wardlow, Executive Office
Ariana Whaley, Government Relations
Lacy Wolff, Strategic Initiatives

ALSO PRESENT
Nick Arnold, Humana
John Barksdale, CBRE
Bo Beacham, CBRE
Tom Bevins, Gabriel, Roeder & Smith
Janet Bezner, Group Benefits Advisory Committee
Phil Dial, Rudd and Wisdom, Inc.
Sonya Etheridge, Texas Facilities Commission
Katy Fallon-Brown, Legislative Budget Board
Ryan Falls, Gabriel, Roeder & Smith
Lynn Gordon, Securian
Diana Head, Blue Cross and Blue Shield of Texas
Peter Jansen, CBRE
Christopher Johnson, Rudd & Wisdom, Inc.
Kirk Lavalle, Delta Dental
Louellan Lowe, Legislative Budget Board
Colleen McGlamry, UnitedHealthcare
Joe Newton, Gabriel, Roeder & Smith
Tom Nun, Empower Retirement
Chris Paxton, Optum Rx
Mallory Sumner, Blue Cross and Blue Shield of Texas
David Tolliver, OptumRx
Stephen White, OptumRx

Meeting of the ERS Board of Trustees

1. CALL TO ORDER

1.1 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 10:13 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 10:50 a.m. on Monday December 2, 2019, as required by Chapter 551 Texas Government Code, referred to as the Open Meetings Law."

2. MINUTES

2.1 Review and Approval of the Minutes to the August 21, 2019 ERS Board of Trustees Meeting – (ACTION)

Chair Ilesa Daniels opened the floor for a motion on the approval of the minutes from the August 21, 2019 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 21, 2019.

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

3. EXECUTIVE SESSION

3.1 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 Internal Auditor of the Employees Retirement System of Texas. Thereafter, the Board may consider appropriate action in open session.

Ms. Daniels stated it was 10:14 a.m. on December 10, 2019. 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 Internal Auditor of the Employees Retirement System of Texas. Thereafter, the board may consider appropriate action in open session.

Upon returning from executive session, Ms. Daniels announced it was 11:16 a.m. on December 10, 2019 and the Board is now in open session. No action, decision, or vote was taken while the board was in executive session. Ms. Daniels further stated she would entertain any motions from members of the board. In discussion, board members complimented Tony Chavez and the internal audit department for their diligence in performing audits and the value they provide to the agency.

Motion made to move that the Board of Trustees of the Employees Retirement System of Texas promote the Internal Audit Director to a Director V with an increase in annual salary of 4.5% effective January 1, 2020.

Motion by Craig Hester, seconded by Cat Melvin
Final Resolution: Motion Carries
Aye: Craig Hester, Brian Barth, Ilesa Daniels, James Kee, Catherine Melvin

4. RULES OF THE BOARD OF TRUSTEES

4.1 Review, Discussion and Consideration of the Rules of the Board of Trustees, Texas Administrative Code, Title 34, Part IV, Chapter 73.47 (Assignment of Death Benefit for Funeral Services) – (ACTION)

Ms. Robin Hardaway, Director of Customer Benefits, informed the board that during the 86th Legislative Session, House Bill 3522 was passed. The new law allows designated beneficiaries of ERS members and retirees to assign lump sum death benefits to licensed funeral directors or funeral establishments. The death benefits that can be assigned include: active account death benefits, which is the lump sum of account balances or any additional death benefits; the $5,000 lump sum retiree death benefit, provided to all ERS retirees; and occupational death benefits.

In order to administer this program ERS is proposing a new rule for Section 73.47 titled Assignment of Death Benefits for Funeral Services which includes three different sections. Section 73.47(a) allows designated beneficiaries of a member or retiree to actually assign a death benefit. Section 73.47(b) clarifies that the assignment must be made on a form created by ERS. Section 73.47(c) clarifies how ERS administers the assignment if there are multiple beneficiaries that are requesting the assignment to be made.

Ms. Hardaway informed the board that the notice of the proposed amendments to Chapter 73 were published in the October 25, 2019, Texas Register and the deadline to receive comments was November 25, 2019. No comments were received.

Ms. Hardaway explained that the legislation requires ERS to assign these particular death benefits directly to the funeral establishment, instead of making the payment to the beneficiary, then the beneficiary paying the funeral establishment. The legislation also required ERS to promulgate rules.

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

MOTION made that the Board of Trustees of the Employees Retirement System of Texas adopt the proposed amendment to Section 73.47 (Assignment of Death Benefit for Funeral Services) of the Trustee Rules, 34 Texas Administrative Code (TAC) as described in this agenda item.

Motion by Craig Hester, seconded by Brian Barth
Opposed: James Kee
Final Resolution: Motion Carries
Aye: Craig Hester, Brian Barth, Ilesa Daniels, Catherine Melvin

5. GROUP BENEFITS PROGRAM ADVISORY COMMITTEE

5.1 Report of the Group Benefits Advisory Committee Activities

Mr. Bernie Hajovsky, Director of Enterprise Planning Office, reminded the Board that the Group Benefits Advisory Committee (GBAC) was formed in late 2017 to support planning and development of our benefits programs. Nearly all of the committee members are Texas Employees Group Benefit Program (GBP) participants and provide valuable firsthand experiences and feedback on the benefits ERS administers on behalf of the State of Texas. Mr. Hajovsky introduced Dr. Janet Bezner, GBAC Chair, to present the annual report. Dr. Bezner is a professor in the Department of Physical Therapy at Texas State University and is one of two representatives for the Four-Year Institution of Higher Education category on the committee.

Dr. Bezner provided an overview of the committee's March 2019 meeting, which included discussion of proposed legislation with potential impact to the GBP. Staff updated the committee on recent actions taken to reduce opioid use, as well as the challenges faced when communicating complex benefits information to a large and diverse group of plan participants. Committee members offered input on a benefits survey that launched in November 2019 and provided feedback on a number of participant informational guides in an effort to make the material more reader-friendly. The committee also reviewed discount purchase program offerings and discussed ways to promote use of these offerings.

During the October 2019 meeting, the committee discussed new legislation impacting the GBP, including the change in statute allowing ERS to offer individual long-term care insurance. Committee members offered ideas to encourage participant involvement in the Assess, Manage, Prevent (AMP) wellness campaign. The committee also gave input on possible changes to ERS' tobacco certification policy, encouraging expansion of the existing policy to include e-cigarettes as tobacco products under the policy. Staff provided an overview of voluntary plans within the GBP and asked committee members for feedback on other types of voluntary plans for possible consideration.

Mr. Hester asked if the tobacco certification policy had been updated to include e-cigarettes. Mr. Wilson stated that proposed changes to the policy would be brought to the Board for consideration at the next meeting. Dr. Kee asked how ERS defines a tobacco user, and Mr. Hajovsky explained that a health participant who uses a tobacco product five times or more in a three-month period should certify as a tobacco user.

In looking ahead to 2020, staff will orient new committee members on GBP plans and current committee areas of interest. The committee will also focus on different methods to engage participants in our wellness programs and review voluntary plan offerings.

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

5.2 Appointment of Group Benefits Advisory Committee Members – (ACTION)

Mr. Hajovsky announced that six seats on the Group Benefits Advisory Committee were available as of January 1, 2020 because of expiring terms or changes in employment that affected eligibility to serve. Mr. Hajovsky provided a general overview of the committee's composition, structure, and requirements for serving. He noted that vacancies existed across five categories and explained the review process used by staff to solicit and evaluate applicants. Mr. Hajovsky then presented to the Board of Trustees the six nominees recommended by staff for appointment to the committee for three-year terms beginning January 1, 2020:

Nominee	Category	Organization
Sandra White	State Agency, Large	Dept. of Criminal Justice
Matthew Miller	State Agency, Large	Dept. of Motor Vehicles
Jan Thomas	State Agency, Mid-Sized	Lottery Commission
Teresa Nelson	State Agency, Small	Dept. of Savings and Mortgage Lending
Missy Kittner	Inst. of Higher Education, 2-Year	McLennan Community College
Jennifer Cawley	Insurance or Benefits Professional	Texas Association of Life and Health Insurers

Mr. Hajovsky thanked the outgoing members for their service to the committee. Mr. Hester thanked Dr. Bezner for her leadership and service to the committee.

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

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 James Kee, second by Brian Barth.
Final resolution: Motion carries
Aye: Ilesa Daniels, Brian Barth, Craig Hester, James Kee, Catherine Melvin

6. TEXAS EMPLOYEES GROUP BENEFITS PROGRAM

6.1 Health Insurance Financial Status Update for Fiscal Year 2019 and Outlook for Fiscal Year 2020

Mr. Blaise Duran, Actuarial and Reporting Services Manager, Group Benefits, began with an FY19 financial review. ERS ended the year with a better financial outcome than expected. Within the HealthSelect℠ plans, medical utilization did not increase as initially projected following the lower

utilization experienced in FY18. The FY19 medical trend was 4.2%, which was less than the average expected trend of 5.5%. This lower trend resulted in higher plan savings. Pharmacy trend was less than expected at 7.2%, less than the average expected trend of 12%. The FY19 combined medical and pharmacy trend was 5.0% (September 1, 2018 to August 31, 2019).

As a result of the better than expected experience, the Texas Employees Group Benefits Program (GBP) finished the year with a net gain of $652.2 million and a Contingency Fund balance of $2.09 billion at the end of FY19. ERS is required by statute to have $622 million in the contingency fund based on today's experience.

Next, Mr. Duran discussed financial projections for FY20 through FY26. For FY20, ERS is projecting medical and pharmacy trends to return closer to normal historic trends. Medical trend is projected at 5.5% and pharmacy trend is projected at 11.4% for a combined projected trend of 7.1%. Contribution rates for FY20 remain the same as FY19. Despite these factors, ERS is projecting the GBP to have a gain of $385 million at the end of FY20 due to the continued savings from the HealthSelect third-party administrator (TPA) contract and Pharmacy Benefit Manager (PBM) contract.

At current funding levels, ERS projects that the contingency fund will increase slightly until FY22. At that time, the fund will start to decrease until it is projected to have a negative balance by FY26. ERS would need to ask for increased appropriations in order to prevent a negative balance.

Mr. Duran confirmed for Mr. Hester that these projections utilized a combined trend of 7%.

Mr. Duran continued with an update on HMO plans. HMO plans first participated in the GBP in 1977. By the year 2000, there were 22 HMO plans in the GBP. Since then, the number of participating HMO plans has steadily decreased. Today, there are only two HMO plans in the GBP. This decrease was initially due to market changes, and subsequently due to the challenge of meeting the ERS Theoretical Cost Index (TCI) requirements. The TCI estimates the cost of covering the HMO GBP participants in HealthSelect of Texas. These participants are often healthier than the average HealthSelect participant and thus are less expensive to cover. Each HMO is required to provide rates that are at least 5% less than its TCI.

The other challenge for HMOs to participate in the GBP is the lack of an increase in state funding to the GBP, preventing rate increases for participating HMO plans. ERS will continue to evaluate the continued viability of HMO participation in the GBP.

Mr. Duran concluded with a legislative update from the 86th Legislative Session and the bills that could affect the GBP in FY20 and beyond.

- HB 170 – Effective September 1, 2020. Requires the GBP to cover diagnostic mammography at the same benefit level as screening mammography.
    - Currently, only routine screening mammograms are covered at no cost to the participant. Beginning September 1, 2020, diagnostic mammography will be covered at that same level.

- HB 392 – Effective September 1, 2019. Allows the GBP to offer individual long-term care insurance.
    - ERS is currently exploring the individual long-term care market and industry practices connected to individual (vs. group) long-term care coverage.

- HB 1584 – Effective January 1, 2020, for HealthSelect℠ Medicare Rx and effective September 1, 2020, for HealthSelect℠ Prescription Drug Program (PDP). Prohibits step therapy for drugs prescribed for the treatment of stage 4, advanced, metastatic cancer.
    - Minimal impact is expected, as there is not wide use of step therapy in these situations. Step therapy requires that effective, but less expensive, therapies are tried before more costly therapies are used.

- SB 1264 – Effective January 1, 2020. The bill applies to GBP health plans (except Medicare Advantage plans) and prevents patient surprise billing (also known as balance billing).
    - Applies to out-of-network emergency services, out-of-network facility based provider performing services at an in-network facility, and out-of-network diagnostic imaging provider or laboratory provider performing services in conjunction with an in-network facility.
    - Does not apply to non-emergency health care services when a participant chooses to seek care from an out-of-network provider and receives a written disclosure in advance about the out-of-network providers involved with the service and the estimated costs.

- Rider 10.06 – Directs the University of Texas Health Science Center Houston to provide data analysis and individual benchmarking for Texas Health and Human Services Commission, ERS, Teacher Retirement System, and Texas Department of Criminal Justice.
    - The agencies started meeting in July 2019 in order to comply with this rider.

- Rider 15 – Directs ERS to maintain competitive and favorable contracted provider rates with Health Related Institutions receiving appropriations.
    - ERS is in compliance with this rider. ERS continues its unique program with MD Anderson to provide mobile mammography screenings at no cost to the participant or the plan.

- Rider 16 – Directs ERS to provide an incentive to participants to shop for lower cost in-network healthcare services through the use of shared savings.
    - ERS plans to offer a program that allows participants to earn rewards when they use a lower cost in-network provider as recommended by the health plan. This program is currently in development for HealthSelect of Texas and Consumer Directed HealthSelect℠ members for a September 1, 2020 effective date.

Mr. Duran confirmed for Mr. Hester that the gain in FY19 of $652.2 million was almost equivalent to the balance required for the Contingency Fund of $622 million.

Mr. Hester pointed out this is good news for the members in being able to maintain benefits and for the state as no additional funding was needed for FY20.

This agenda item was presented for information and discussion purposes only. No further discussion occurred or questions asked, and no action was taken.

6.2 Discussion of the Group Health Benefits Program and Compliance Information

Ms. Kongevick began with a brief overview of the ERS Group Health Benefits Programs in place through August 31, 2019.

Ms. Kongevick continued with an overview of contract monitoring and performance guarantee assessments. Performance Guarantees (PGs) are connected to business-critical service functions required of a vendor throughout the contract period. PG metrics are formulated from regulatory standards and industry best practices. Each PG is then risk-rated using risk assessment modeling and given a PG severity level. The severity levels are: Emergency (severity level 1); Critical (severity level 2); Moderate (severity level 3); and Minor (severity level 4). The assessment is based on the severity level of the missed performance.

Next, Ms. Kongevick provided basic information about the HealthSelect medical plans administered by Blue Cross and Blue Shield of Texas® (BCBSTX), the third-party administrator (TPA) effective September 1, 2017 (FY18). Approximately 80% of employees, retirees and dependents are enrolled in HealthSelect of Texas. Less than 1% are enrolled in Consumer Directed HealthSelect℠, although this population is increasing. Ms. Kongevick pointed out the enrollment data for each of the GBP plans is included for reference in Exhibit E.

Ms. Russell presented on the vendor's performance reporting for Fiscal Year 2019:

Blue Cross and Blue Shield of Texas
HealthSelect of Texas and Consumer Directed HealthSelect Medical Plans

PG Severity	PG Category	Vendor Performance Results	PG Review Period	PG Performance Assessment Determination
1	Emergency Performance Guarantees (PG)	1 Emergency PG assessment	Q3 FY19	**System Availability Rate** 99.33% system availability rate vs. 99.5% system availability rate required
		1 Emergency PG under review	Q4 FY19	**System Availability Rate** 99.27% system availability rate vs. 99.5% system availability rate required
2	Critical PG	1 Critical PG under review	08/2019	**Identification Card Mail Out Rate, Initial** 98.97% Initial ID Cards Mailed out timely vs. 100% Initial ID Cards mailed timely required
3	Moderate PG	1 Moderate PG assessment	05/2019	**Financial Accuracy Rate of Claims** 98.69% financial accuracy rate of claims vs. 99% financial accuracy rate required
4	Minor PG	2 Minor PGs under review	08/2019	**Identification Card Mail Out Rate, Reissues** 99.07% Reissued ID Cards Mailed out timely vs. 100% Reissued ID Cards mailed timely required
			FY19	**Participant Satisfaction Rate** 83.56% participant satisfaction rate vs. 85% participant satisfaction rate required

Ms. Kongevick gave an update on the regional HMO plans. The GBP currently offers two fully insured regional HMO plans: Community First Health Plans (CFHP) and Scott & White Health Plan (SWHP). As discussed previously, the HMOs must provide coverage at a lower plan cost than HealthSelect of Texas and this presents some challenges. Effective September 1, 2019, KelseyCare powered by Community Health Choice, in the Houston area, voluntarily withdrew from the GBP. Compliance reporting for Fiscal Year 2019 includes all three Fiscal Year 2019 HMOs.

Ms. Russell presented on the vendor's performance reporting for Fiscal Year 2019:

Community First Health Plans
HMO

PG Severity	PG Category	Vendor Performance Results	PG Review Period	PG Performance Assessment Determination
1	Emergency Performance Guarantees (PG)	1 Emergency PG assessment	09/2018	**Maintenance Eligibility File Processing** 80.0% eligibility files loaded timely vs. 100% eligibility files loaded timely required
2	Critical PG	2 Critical PGs under review	06/2019 07/2019	**Identification Card Mail Out Rate, Initial** 97.82% Initial ID cards mailed out timely 82.55% Initial ID cards mailed out timely
3	Moderate PG	None missed	N/A	N/A
4	Minor PG	1 Minor PG under review	08/2019	**Identification Card Mail Out Rate, Reissues** 97.34% Initial ID cards mailed out timely Vs. 100% Initial ID cards mailed timely required

KelseyCare powered by Community Health Choice
HMO

PG Severity	PG Category	Vendor Performance Results	PG Review Period	PG Performance Assessment Determination
1	Emergency Performance Guarantees (PG)	1 Emergency PG assessment	09/2018	**Maintenance Eligibility File Processing** 85.0% eligibility files loaded timely vs. 100% eligibility files loaded timely required
2	Critical PG	None missed	N/A	N/A
3	Moderate PG	1 Moderate PG assessment	Q1 FY2019	**Written Correspondence Rate** 98.0% of written correspondence resolved timely vs. 100% written correspondence resolved timely required
4	Minor PG	1 Minor PG under review	06/2019	**Reporting Requirements** 0.0% of reports received timely vs. 100% of reports time received required

Scott & White Health Plan
HMO

PG Severity	PG Category	Vendor Performance Results	PG Review Period	PG Performance Assessment Determination
1	Emergency Performance Guarantees (PG)	None missed	N/A	N/A
2	Critical PG	None missed	N/A	N/A
3	Moderate PG	None missed	N/A	N/A
4	Minor PG	1 Minor PG assessment	06/2019	**Identification Card Mail Out Rate, Reissues** 95.59% Initial ID cards mailed out timely vs. 100% Initial ID cards mailed timely required

Ms. Kongevick described the two fully insured medical plans available for Medicare-eligible Retirees. Both plans are paired with the HealthSelect Medicare Rx – Employer Group Waiver Plan (EGWP) + Wrap prescription drug program. The HealthSelect Medicare Advantage Plan is a preferred provider (MA PPO) administered by Humana Insurance Company. The KelseyCare Advantage Medicare Health Maintenance Organization (MA HMO) is for participants in the Houston area.

Ms. Russell presented on the vendor's performance reporting for Calendar Year 2018 and pointed out that these plans are administered on a calendar year basis, not a fiscal year.

Humana Insurance Company
HealthSelect MA PPO

PG Severity	PG Category	Vendor Performance Results	PG Review Period	PG Performance Assessment Determination
1	Emergency Performance Guarantees (PG)	None missed	N/A	N/A
2	Critical PG	None missed	N/A	N/A
3	Moderate PG	None missed	N/A	N/A
4	Minor PG	1 Minor PG assessment	01/2018	**Reporting Requirements** 89.0% reports provided timely vs. 100% reports provided timely required

KelseyCare Advantage
KelseyCare Advantage Medicare Advantage HMO

PG Severity	PG Category	Vendor Performance Results	PG Review Period	PG Performance Assessment Determination
1	Emergency Performance Guarantees (PG)	None missed	N/A	N/A
2	Critical PG	None missed	N/A	N/A
3	Moderate PG	None Missed	N/A	N/A
4	Minor PG	1 Minor PG assessment	10/2018	**Reporting Requirements** <100% reports provided timely vs. 100% reports provided timely as required

Ms. Kongevick described the HealthSelect prescription drug plans administered by UnitedHealthcare Services, Inc. (known as OptumRx.) The HealthSelect Prescription Drug Program is a self-funded comprehensive prescription drug program paired with HealthSelect medical plans for active employees and non-Medicare retirees. The HealthSelect Medicare Rx Plan is a comprehensive Employer Group Waiver Plan (EGWP) + Wrap paired with medical plans for Medicare-enrolled retirees.

Ms. Russell reported there were no PG assessments that applied for either of these plans. For the HealthSelect Prescription Drug Program, UnitedHealthcare Services, Inc. PGs were met for all performance standards for Fiscal Year 2019. For HealthSelect Medicare Rx, UnitedHealthcare Services, Inc. PGs were met for all performance standards for Calendar Year 2018.

Ms. Kongevick described the optional add-on (voluntary) plans beginning with the two dental insurance plans available under the GBP. The State of Texas Dental Choice plan is a dental preferred provider organization (PPO) available nationally and administered by Delta Dental. The HumanaDental DHMO is a fully insured plan available in Texas and administered by DeltaCare USA.

Ms. Kongevick pointed out the transition from the prior dental plan administrator to Delta Dental and DeltaCare USA was successfully completed on September 1, 2019. For the Fiscal Year 2019 compliance review period, Humana Dental was the Dental PPO administrator, and DentiCare, Inc. was the DHMO carrier.

Ms. Russell reported good news for the dental plans in Fiscal Year 2019. Humana Dental PGs were met for all performance standards and assessments did not apply for the Dental Choice Plan. DentiCare, Inc., (an affiliate of Humana Dental) PG's were met for all performance standards and assessments did not apply for the DHMO plans.

Next Ms. Kongevick described the State of Texas Vision plan. ERS began offering this plan on September 1, 2016. It is a very popular plan among employees, retirees, and their eligible dependents. This is a self-funded plan administered by Superior Vision Services, Inc. and provides comprehensive vision and eyewear benefits nationwide.

Ms. Russell presented the vendor's performance reporting for Fiscal Year 2019:

Superior Vision Services, Inc.
State of Texas Vision

PG Severity	PG Category	Vendor Performance Results	PG Review Period	PG Performance Assessment Determination
1	Emergency Performance Guarantees (PG)	None missed	N/A	N/A
2	Critical PG	None missed	N/A	N/A
3	Moderate PG	2 Moderate PGs assessments	10/2018 05/2019	**Adjudication Rate of Clean Claims** 99.98% claims adjudicated within 15 days 99.99% claims adjudicated within 15 days vs. 100% adjudication rate within 15 days required
		1 Moderate PG under review	08/2019	**Adjudication Rate of Clean Claims** 99.81% claims adjudicated within 15 days vs. 100% adjudication rate within 15 days required
4	Minor PG	8 Minor PG assessments	09/2018 10/2018 11/2018 12/2018 01/2019 02/2019 03/2019 04/2019	**Reporting Requirements** 66.67% reports provided timely 66.67% reports provided timely 75.0% reports provided timely 66.67% reports provided timely 66.67% reports provided timely 66.67% reports provided timely 66.67% reports provided timely 66.67% reports provided timely vs. 100% reports provided timely required
		1 Minor PG is under review	07/2019	**Reporting Requirements** 99.96% reports provided timely vs. 100% reports provided timely required

Ms. Kongevick concluded with an update of the Optional Life and AD&D plans. The Life Insurance Plans are administered by Minnesota Life Insurance Company or Securian. The plans are Optional Term Life including AD&D with additional life coverage up to four times the annual salary; Voluntary AD&D with additional coverage up to $200,000; and Dependent Term Life including AD&D with $5,000 coverage for each eligible dependent.

Ms. Russell reported that for Fiscal Year 2019, Minnesota Life Insurance Company PGs were met for all performance standards and PG assessments did not apply to the Life Insurance and AD&D plans.

Ms. Russell confirmed for Mr. Hester that BCBSTX received a participant satisfaction rate of 83.56% for Fiscal Year 2019 and this is an improvement over last year's rate of 80%.

This agenda item was presented for information and discussion purposes only. No further discussion occurred or questions asked, and no action was taken.

7. VOLUNTARY BENEFIT PLANS

7.1 Update and Compliance Information: TexFlex, Texas Income Protection Plan (TIPP) and Texa$aver

Georgina Bouton, Assistant Director, Group Benefits, began with an overview of the optional coverages and benefits managed by the Voluntary Income Plans team: TexFlex Flexible Spending Account, a flexible spending account designed for payment or reimbursement of health care and dependent care expenses; TexFlex Commuter Spending Account, which allows for payment or

reimbursement of eligible transit and parking expenses; Texas Income Protection Plan, voluntary short and long term disability coverage for GBP participants; and Texa$aver 40(k) / 457 Program.

She explained that these benefit plans are managed by plan managers. Plan managers are certified as Certified Texas Contract Managers with a primary responsibility to monitor vendors' adherence to the contractual requirements. The overall scope and structure of the monitoring strategy used for monitoring is designed to (a) ensure the vendor is performing the obligations under the contract, (b) the services are being performed timely, and (c) the financial interests of ERS are protected. However, the underlying activities as well as the level and frequency of the performance monitoring, will vary based on the nature of the contract. This makes our monitoring strategy scalable according to the contract and complexity of the benefit plan.

Performance Guarantees (PGs) specify the service performance expectations required of the vendor throughout the contract period. PG metrics are formulated from regulatory standards and industry best practices. Each PG is formulated using a risk assessment model to define the PG's severity level. Severity levels identify the basis of the assessment amount in the event of a performance miss.

Next, Nora Alvarado, Manager of Voluntary Income Plans, Group Benefits, provided an update on the plans and compliance reporting.

The TexFlex Flexible Spending Account is available to active employees. This plan allows pre-tax dollars from a paycheck to be set aside to be used for eligible out-of-pocket expenses. The TexFlex Commuter Spending Account allows payment or reimbursement of eligible transit and parking expenses. Employees may enroll in one or more of the TexFlex benefit accounts.

WageWorks, Inc. (WageWorks) is the third-party administrator for the TexFlex program. WageWork's performance reporting for Fiscal Year 2019 included two minor PG assessments related to two separate instances during the month of August for communication materials.

WageWorks, Inc.
TexFlex Flexible Spending Accounts
Vendor Performance Overview
Fiscal Year 2019

PG Severity	PG Category	Vendor Performance Results	PG Review Period	PG Performance Assessment Determination
1	Emergency Performance Guarantees (PG)	None missed	N/A	N/A
2	Critical PG	None missed	N/A	N/A
3	Moderate PG	None missed	N/A	N/A
4	Minor PG	2 Minor PGs assessed	8/2019	**Communication Materials*** Failed to send communication timely and to the correct population

*Frequency of PG measurement is done by exception, per occurrence or incident.

Next, Ms. Alvarado described the Texas Income Protection Plan (TIPP). The State of Texas offers the two optional disability benefit plans to its employees: short-term disability and long-term disability. This optional benefit coverage can increase an employee's financial security and assist an employee or his or her family through a period without the employee's salary income. The disability plans with TIPP are self-insured plans and are fully funded by plan participants.

ReedGroup Management, LLC (ReedGroup) is the current third-party administrator. ReedGroup performance reporting for Fiscal Year 2019 included one minor PG assessment. This was related to the payroll file not being timely submitted.

Reed Group
Texas Income Protection Plan
Vendor Performance Overview
Fiscal Year 2019

PG Severity	PG Category	Vendor Performance Results	PG Review Period	PG Performance Assessment Determination
1	Emergency Performance Guarantees (PG)	None missed	N/A	N/A
2	Critical PG	None missed	N/A	N/A
3	Moderate PG	None missed	N/A	N/A
4	Minor PG	1 Minor PG assessed	July 2019	**Reporting requirements** Payroll file not submitted timely

Ms. Alvarado concluded with the Texa$aver program, a tax-deferred supplemental retirement program, comprised of 401(k) and 457 plans. The Texa$aver 401 (k) is available to state agency employees. It features an automatic enrollment at 1% for new hires and provides both traditional and Roth contributions. The Texa$aver 457 plan is available to state agency employees and participating higher education institutions.

Great-West Life & Annuity Insurance Company (Empower Retirement) is the third-party administrator. Empower Retirement met all PGs under the contract for Fiscal Year 2019 and no assessments were made.

This agenda item was presented for information and discussion purposes only. No further discussion occurred or questions asked, and no action was taken.

7.2 Review, Discussion and Consideration of Recommended updates to Texa$aver 401(k)/457 Program – (ACTION)

Ms. Bouton began with an overview of the Texa$aver 401(k) / 457 program (Texa$aver), a voluntary tax-deferred supplemental retirement program. As of September 30, 2019, assets under management were in excess of $3.42 billion. Approximately $2.5 billion, or 73%, of program assets are attributed to the 401(k) plan; approximately $909 million, or 27%, are attributed to the 457 plan.

The program offers many of the deferred compensation industry's recognized best practices to assist state and higher education employees in becoming retirement ready:

(a) Automatic enrollment feature in the 401(k) plan since January 1, 2008;
(b) Convenient elective payroll contributions,
(c) Flexible contribution formats which allow participants to select their contributions as a percentage of salary or as a flat dollar amount; and
(d) Robust participant engagement and education strategy.

Additionally the program offers a tiered fund menu approach designed around a participant's desired level of engagement. Tier 1 are professionally managed target date funds requiring the lowest level of participant engagement. Tier 2 are the 10 core funds comprised of mutual fund and collective trust funds. Tier 3 is the self-directed brokerage account requiring the highest level of participant engagement.

For the core fund offerings, the program follows the Morningstar Style Box™, a nine square grid strategy, to provide a transparent, easy-to-follow portfolio construction for domestic equity, international securities, and fixed income funds. The fund offerings between the 401(k) and 457 plans are the same. The funds offered within the program are institutionally priced, which means that participants receive the

benefit of low priced funds. However, the fund manager will generally require a minimum investment amount for this institutional offering.

Ms. Bouton described the Texa$aver Program Investment Policy (Policy). ERS staff developed a restated and amended policy and the ERS Board of Trustees (Board) approved the Policy in August 2017. The Policy provides a description of the program, states the program objectives, defines roles and responsibilities, describes the investment options available to participants, outlines performance monitoring, due diligence, evaluation processes, as well as describing the fund selection process.

The Board also approved a formalized charter for the Product Review Committee (PRC). The PRC is consists of no more than six ERS employees and three designated IAC members. The PRC has a significant role concerning the program's investments. The PRC is critical in formulating criteria for the selection of investment options, setting strategies for those investment offerings, and monitoring the investment product's performance.

Overall, the PRC serves a key role regarding investment options, the fund managers, and the investment advisory services to participants of the program. The PRC is to meet no less than semi-annually to conduct investment reviews, but may meet more often as deemed necessary to support the work of the committee, as well as the program.

Dr. Kee, Ms. Bouton and Mr. Wilson discussed some of the specifics of the PRC as governed by the charter including their role in recommending investment options, their expertise and the frequency of meetings. They also discussed comparing the performance between the investment management options and future performance reporting of funds within Texa$aver.

Ms. Harborth informed the Board that during the May 2019 PRC meeting, the committee determined two mid-cap funds, First Eagle Fund of America Y and Victory Munder Mid-Cap Growth Fund, required additional due diligence based on their overall performance relative to their respective benchmark. The PRC designated a due diligence subcommittee to conduct an in-depth review of the funds and report their findings to the committee at the next meeting which was held on November 20.

Ms. Harborth presented information on the participant accounts, assets under management and the enhanced due diligence activities conducted for both the First Eagle Fund of America Y and Victory Munder Mid-Cap Growth Fund funds.

The due diligence subcommittee met again on November 4 to discuss site visit findings and formulate a recommendation for presentation to the PRC. At the November 20 PRC meeting, the PRC voted to recommend to the Board that both the First Eagle Fund of America Y and Victory Munder Mid-Cap Growth Fund be removed from the program. The removal recommendation is based on poor performance relative to the fund’s respective benchmark. The PRC designated a fund search subcommittee to begin the process for replacement mid cap fund(s).

There was discussion among Ms. Bouton, Mr. Hester and Mr. Wilson about the process for measuring fund performance and how this led to the recommendation for the increased due diligence for the two mid cap funds.

Ms. Bouton concluded with the next steps and staff recommendation. Staff are proposing a delegation of authority to the Executive Director to select the mid cap funds in conjunction with the PRC, approve the fund mapping, and negotiate and execute any required documentation for the selected funds to be included in the Texa$aver program.

The subcommittee will identify and recommend finalists to the PRC. The full PRC will meet and hear presentations from the finalists before voting on replacement funds.

The targeted effective date of the change to allow a sufficient 30-day notice to participants would be February 29, 2020. A multipronged communication strategy would be leveraged to notify participants of the fund change. This would include email communication, website notices, a statement notice, as well as updated FAQs and fund information sheets.

There was further discussion among Ms. Melvin, Mr. Barth, Mr. Wilson, Ms. Harborth and Ms. Kathryn Tesar, Director of Benefits Communications, about the communication initiatives to inform the members of the fund changes, and the funds mapping that would occur because of the fund changes.

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

Move that the Board of Trustees of the Employees Retirement System delegate authority to the Executive Director to select from the Product Review Committee's proposed list of mid cap funds for the Texa$aver 401(k)/457 Program, and to negotiate and execute any required documentation acceptable to ERS to give effect to such selection that may be required to include such funds as investment options in the Texa$aver 401(k)/457 Program.

Further move that the Executive Director be provided the delegated authority to remove the First Eagle Fund of America Y and Victory Munder Mid-Cap Growth Fund funds from the Texa$aver 401(k)/457 Program, following the selection of new mid cap funds.

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

8. ACTUARIAL VALUATION RETIREE HEALTH INSURANCE BENEFITS

8.1 Review and Discussion of the Texas Employees Group Benefits Program: Actuarial Valuation of Retiree Health Insurance Benefits as of August 31, 2019

Ms. Machelle Pharr, Chief Financial Officer, introduced Mr. Phil Dial, Mr. Mitchell Bilbe, and Mr. Chris Johnson of Rudd and Wisdom, ERS' independent actuaries for the Texas Employees Group Benefits Program, to present the Actuarial Valuation of Retiree Health Insurance Benefits as of August 31, 2019. She explained that Governmental Accounting Standards requires the reporting of other post-employment benefits (OPEB) in ERS's 2018 Comprehensive Annual Financial Report (CAFR)

Mr. Johnson reported that the Texas Employees Group Benefits Program (GBP) provides Other Post-Employment Benefits (OPEB) to the retirees of state agencies, higher education institutions and other employers. The benefits provided through the GBP includes health and basic life benefits. They do not include optional benefits available to retirees under the GBP which include dental, vision, life insurance and disability benefits since those are fully funded by member contributions. OPEB also does not include retirement benefits. Retirement benefits have separate actuarial valuations.

Mr. Johnson provided a comparison of the membership accounts categorized by active, retiree/nominees, and deferred, as well as counts on covered spouses and covered dependents between 2018 and 2019. He noted that while members had increased by approximately 7,200, covered spouses and covered dependents experienced a slight decrease. Mr. Johnson noted that the increase in members was largely due to a net increase in retirees, accounting for approximately 4,700 of the 7,200. Active members increased by approximately 2,000 and the remaining 500 was an increase in the deferred vested. Mr. Dial noted that this has been a consistent pattern for many years with the active population remaining steady or growing only slightly while retirees are increasing about 4% or 5% a year.

Mr. Johnson noted that the GASB standards that governs OPEB reporting (GASB 74 and 75) are relatively new standards. GASB 74, which governs plan reporting for OPEB, first became effective in Fiscal Year 2017. GASB 75, which governs employer reporting, came into effect one year later in Fiscal Year 2018. Mr. Johnson noted that the State Comptroller of Public Accounts reports expense and liability for OPEB administered by ERS and TRS in the state's financial statements. GASB 75 also requires increased OPEB reporting for some participating employers, such as community colleges and a few state agencies that prepare audited financial statements.

Mr. Johnson addressed some of the inputs in the valuation process. He noted that the actuarial cost method is mandated by GASB and is the same cost method required by GASB 67 and 68 for the retirement plan valuations. Mr. Johnson noted that while this plan is funded on a pay-as-you-go basis, they do calculate actuarial determined contributions as normal costs and a 30-year amortization

determined as a level percentage of pay. Mr. Johnson briefly described other assumptions used in the valuation. The demographic and economic assumptions used in the 2019 valuation are substantially the same as those used for the prior year valuation. Demographic and economic assumptions for state agency employees and retirees are aligned with the assumptions used by ERS in its Fiscal Year 2019 retirement plan valuation. Similarly, for higher education employees and retirees, the assumptions are aligned with the TRS valuation for Fiscal Year 2019.

Mr. Johnson noted that the discount rate, or assumed rate of return, is perhaps the most important assumption. Because the GBP benefits are provided on a PAYGO basis, GASB 74 requires the discount rate to be based on yields of 20-year general obligation municipal bonds as of each measurement date. GASB 74 requires the discount rate to be determined as of each measurement date, thus this rate can fluctuate significantly from one measurement date to the next. For example, the Fiscal Year 2018 discount rate was 3.96% but dropped to 2.07% for 2019. Mr. Dial noted that for Fiscal Year 2017, the first year GASB 74 was in effect, the discount rate was 3.51%. The 2.97% discount rate assumption is based on the August 31, 2019 Bond Buyer Index of general obligation bonds with 20 years to maturity with an average credit quality that is roughly equivalent to Moody's Investors Service's Aa2 rating and Standard & Poor's Corp.'s AA rating.

Mr. Dial noted that in addition to the discount rate, there are a few other important assumptions such as the per capita health benefit cost. He noted that retirees participate in two health plans in the GBP. One is HealthSelect of Texas® for participants for whom Medicare is not primary and the other is HealthSelect℠ Secondary for Medicare primary participants who elect to remain in HealthSelect. Using the latest date from HealthSelect Rudd and Wisdom established the beginning point for the valuation, i.e. the per capita cost for the HealthSelect members for both medical and prescription drug benefits.

Mr. Dial stated that approximately 27% of the retirees who are Medicare primary remain in HealthSelect with the remaining 73% in the HealthSelect Medicare Advantage Plan, which was adopted by ERS in 2012. Participation in the plan has grown slowly over time. In 2012, approximately 70% of the retirees were in Medicare Advantage compared to the current 73%. The HealthSelect Medicare Advantage is considerably less expensive. So the higher percentage of the population in it, the more beneficial it is to the cost determinations. Since everyone is in the same prescription drug plan, the same prescription drug cost is used.

Mr. Dial stated that the second key component of the cost project is the health trend. He noted that is discussed frequently in Rudd and Wisdom's routine presentations but that those presentations focus on the relatively near-term projections. The Health Benefit Cost Trend is a select and ultimate trend assumption which begins at the levels the actuaries are using for the current biennium. The trends have been revised to reflect updated projections. While the near to intermediate HealthSelect trend is expected to be 7.3% to 7.4% it then is projected to decline to a "sustainable" ultimate level of 4.5%. Mr. Dial noted that this is reviewed and adjusted each year.

Mr. Bilbe presented the projected liabilities associated with actives, deferred and retirees. He reported that the liability for actives is split among normal costs which are those accrued for the current year and the amount of the present value of benefits attributable to past service. He went on to report that the present value, future normal cost is the remainder to be accrued in the future. He compared this to the vested non-contributing and retirees where the liability is equal to the present value of benefits since it is fully accrued.

Mr. Dial explained how the volatility in the discount rate affects the liabilities. He noted that in Fiscal Year 2017, the total was $34.7 billion, dropping to $30 billion in Fiscal Year 2018, and then increasing to $34.6 billion in Fiscal Year 2019 and this is primarily attributable to the change in discount rate.

Mr. Bilbe presented the actuarial determined contribution. He noted that this is not an actual contribution. If the plan were to be funded, this amount represents the normal cost and the accrual for the current year as well as a 30-year amortization of the unfunded obligation. Mr. Bilbe noted that the normal costs for Fiscal Year 2019 is 12.5%. Mr. Dial clarified that these percentages represent employer costs only. He noted that the portion of the current health plan costs for actives and retirees is limited to their share of dependent cost and that is taken into account in determine the net liability.

Mr. Bilbe discussed how the differences between the assumptions and actual experience impacted the change in liability. He reported that while the discount rate increased the obligation by $5 billion, the change in claims and trend assumptions offset that by approximately $2 billion for a total net change of $3 billion.

Mr. Bilbe stated that GASB 74 required the disclosure of the sensitivity in the net OPEB liability for changes in the discount rate as well as changes in the trend assumption. The liability will increase or decrease between $5 and $6 billion with a 1% increase or decrease in the discount rate. Similarly, a 1% change in the health trend will result in a change of $5.5 billion to $7 billion increase or decrease.

This agenda item was presented for information and discussion purposes only. Rudd and Wisdom stated that one of their requirements is to be consistent with the pension plan inflation assumption which has a 2.5% inflation rate. However, an integral part of the evaluation is the ultimate rate, which Rudd and Wisdom assumes to be 4.5%. No further question or discussion occurred.

9. ACTUARIAL VALUATIONS

**9.1 Review of Retirement Program Actuarial Valuations and Financial Status*

Ariana Whaley, ERS Pension Policy Analyst, Government Relations, introduced Mr. Ryan Falls, Mr. Joseph Newton and Mr. Tom Bevins, actuaries from Gabriel Roeder Smith (GRS), ERS' independent consulting actuaries for retirement, who presented the results of the annual actuarial valuations on ERS' pre-funded pension plans as of August 31, 2019.

Mr. Falls stated the outlook of the plans is similar to last year except now all trust funds are projected to run out of money and the timeframe for depletion has accelerated. The plans did not receive additional funding for this biennium and no additional funding is expected prior to the next legislative session. This delay will make those adjustments more costly. Mr. Newton agreed with Mr. Barth that the current situation is worse news than last year. Responding to a question, Mr. Falls stated that if we had earned our assumed rate of return and assuming all other changes still occurred, our plans would be near 100% fully funded. However, Mr. Newton stressed that an assumption is not a prediction of the future. It is supposed to be a starting point into a very uncertain situation. Successful plans adapt to missed assumptions quickly.

GRS then walked through the impact that investment returns have on the plan. The net investment return for FY19 was 3.0% which fell short of the assumed rate of return of 7.5%. Due to the system's asset smoothing methodology, which recognizes losses and gains over a five-year period, the plan immediately recognized all deferred gains from the prior year and deferred an additional $700 million in investment shortfalls. The asset smoothing changes serve to dampen the volatility that can be created from measuring funds on a market value basis. The problem is not the assumptions but when the plans started falling short of the assumptions at the time, there was not a funding policy that helped the trust catch back up.

Mr. Newton started by discussing the traditional way pension plans have been funded in Texas is through a fixed contribution rate that rarely changes. This puts a burden on the plan to seek changes instead of the plan sponsor responding to automatic triggers for change. To summarize the history of the plan's funding strategy, Mr. Newton used a graph to show that the actuarially determined contribution that was calculated was not what was actually received even though it did get close in one session.

Mr. Newton then presented a peer comparison. This Texas peer had similar asset size, benefits package, assumed return and actual return but the plan's funded ratio had increased over the same time that the ERS' Trust funded ratio declined. The difference is that the peer has a funding policy where any new unfunded liability would be put on a 20-year payment schedule by the sponsor(s) immediately with no negotiations. The peer system did not cut benefits nor did members pay more contributions. Even after missing the assumed rate of return, the peer system managed to keep the funded ratio relatively consistent.

Mr. Newton then introduced a paper that the Pension Review Board (PRB) did earlier this year. It took all the plans in Texas and split them between actuarially determined funding strategies and fixed rate. He explained that fixed rate plans had lagged significantly in funded ratio behind plans that were actuarially determined. Plans that are succeeding in the country are ones where the board certifies an appropriate amount and the sponsors pay it. The first concern that is generally raised is that contributions can become volatile but there are strategies, including ones in Texas like the City of Houston reforms, to dampen this.

Mr. Newton explained that sponsors who adhere to a pre-defined policy leads to a sustainable plan. He reiterated doing nothing cannot be an option. The contributions on this plan have fluctuated but the benefit package has flexibility, and there could be some changes to both. However, there cannot be a fixed benefit program and a fixed contribution program trying to work together. It's not going to work long-term. Responding to Ms. Melvin's question, Mr. Newton explained that an actuarially determined contribution can occur biennially to align with session. There are also ways to have a regulation that caps increases to 0.5% each year so there is not a 2% change in the budget.

Mr. Falls reported that as of August 31, 2019 the actuarial value of ERS trust assets was $28 billion, with liabilities valued at $40 billion, resulting in an unfunded liability of almost $12 billion and a funding ratio of 70.5%. Since there were no across the board pay increases in the last session, the salaries of current state employees are less than we expected them to be. When salaries are less than expected, the ultimate retirement benefits are also smaller than expected. This resulted in an approximately $560 million gain and the reason for the slight increase in funded ratio. He explained that this slight increase is misleading because the fund trajectory has deteriorated from where it was last year due to the smoothing method for the actuarial value of assets. The plan has an infinite funding period since the unfunded liability will never be eliminated.

Mr. Falls explained the Board adopted the Pension Funding Priorities and Guidelines in May 2018. That policy lays out a multi-level funding period goal. The first goal is to avoid depletion and even this first goal is not being met. The next goal is to meet the statutory requirement of amortizing all liabilities over an open 31-year funding period. Without a 31-year funding period, no benefit enhancements can be granted. However, this 31-year period is longer than what the actuarial community would recommend for a sound plan. The ultimate goal would be to meet a funding period that will pay down the unfunded liability within the average service years of retirees.

The presentation then compared current contribution rates to the actuarially sound contribution (ASC) and a rate that would immediately start decreasing the liability. Mr. Falls further explained that a 31-year funding period would back load contribution to future salary increases and the unfunded liability would continue to grow for 10 years before it starts to decrease. Mr. Newton clarified the peer system earlier is getting a rate close to the 26.37% to keep the unfunded liability from growing.

Mr. Falls introduced an analysis to show how sensitive the plan's outlook is to future investment returns. If the fund earned 6.5% over the next 15-20 years, it would accelerate the depletion date closer by 20 years to 2056. If the last 20 years play out and the annual average return is 5.8% for 20 years, the funds would be worse off and deplete in 2046. Lastly, the probability that the fund actually runs out of money in a certain year in the future emerges as early as in the next 15 years with 25% chance of that occurring in 30 years. The consistent message to convey is a sense of urgency to do something now.

Mr. Bevins then moved discussion to the Law Enforcement and Custodial Supplemental Retirement Fund (LECOSRF) and the Judicial Retirement 2 (JRS 2) plans. The LECOSRF plan is scheduled to deplete in approximately 24 years. Contributions to this plan are not covering the normal costs; the annual accrued benefits each year accelerate the unfunded liability. During this past legislative session, HB 2384 established a tiered pay structure for judges that are directly tied to retirement benefits. There was a member contribution increase to 9.5% of pay that was not sufficient to cover additional costs. The bill changed the trajectory of the JRS 2 plan from a funded period to a depletion date. Similar comparisons of contributions were presented for LECOSRF and JRS 2 with shortfalls of 2.14% and 2.787% relative to the ASC.

Mr. Falls shifted conversations to the accounting valuation that operates for a different purpose and will impact the state's balance sheet. Due to the plan's trajectory, the plan can only use the assumed discount rate until the funds deplete. After that point, liabilities must be discounted at a rate associated with municipal bonds. The lower discount rate increases the liability. For the ERS plan, the unfunded liability the state must include in its balance sheet is $30 billion. However, if the legislature adopted an improved funding strategy with a commitment to future contributions, the unfunded liability would drop to $12.4 billion.

Mr. Falls reiterated the plan does not have sufficient contribution levels and delay makes the unfunded liability worse and the solution more costly. Over the next year, the plan will work through an experience study to determine appropriate assumptions for the future. Mr. Falls explained that different plan designs do not solve the unfunded liability of the current plan. In fact, converting to a defined contribution style plan could increase the liability.

The presentation moved to discussions to messaging the urgency to the legislature of the need to do something now. Mr. Hester explained the issue in the majority of public pension plans face is putting the problem off. Dr. Kee added that reactions don't occur until right before a crisis, which makes it more expensive. The discussion turned to how to show these increasing costs. For some perspective, Mr. Wilson added that for each biennium that nothing is done, the unfunded liability will grow $700 million each biennium. After this valuation, this is now $1 billion each biennium. Mr. Barth offered a suggestion of showing costs if the fix occurred in the upcoming session versus future sessions to show the expected growth. Mr. Newton interjected that there are two successful examples of plans in Texas that have actuarially determined funding strategies. Mr. Wilson stated the silver lining is that the legislature has expressed their intention to focus on ERS in the upcoming session.

Mr. Wilson reminded the board that the current depletion date is based on our current investment return assumption and potential changes from the experience study could change that. Mr. Newton added there are too many scenarios where we could run out of money in our current generation of members. Mr. Wilson added that the state workforce has roughly the same number of active employees today as we had in 1993. Declining benefits could escalate current recruitment and retention issues.

Mr. Falls added that as far as benefits go, there's not a lot of easy cost-saving benefit reductions that can be made. The plans don't pay cost of living adjustments. Other plans often reduce or eliminate these adjustments to decrease the cost of the plan. The state has already lowered benefits for new hires twice in the past 10 years, making the current benefit structure quite affordable. In addition to the benefit reductions, the state increased member contributions to 9.5% of salary. Mr. Newton expressed that the member contribution is as high as it should reasonable go in his opinion. Since state employees also contribute to social security, members are already paying about 16% of pay. Responding to a question, Ms. Whaley stated that the most recent average reported for member contributions by the National Association of State Retirement Administrators (NASRA) was 6% for plans participating in Social Security.

Mr. Newton added there aren't easy answers but the urgency is real. For instance, 10 years ago, the State of Kentucky plan did not look much different from the current ERS plan. Something must be done as soon as possible to get the situation turned around. Mr. Hester added that our plan has seen rapid deterioration since 100% funded in 2003 and a lot of that has to do with not being funded.

Mr. Newton concluded with the need to consider other strategies because the current strategies historically have returned us to the current situation. Current standards start looking at what programs in the country are successful and what can be learned to apply to this situation. Ms. Melvin responded that this approach is better than just an infusion of cash. It's a more long-term, viable approach to see that the current way is not the only way. Responding to Mr. Hester's question, Mr. Newton agreed a case study on what other successful plans are doing could be helpful.

10. CONTRACT AWARD RECOMMENDATION

10.1 Review, Discussion and Consideration of Contract Award Recommendation for Pension Actuarial Services – (ACTION)

Ms. Gabrielle Schreiber, Director of Procurement and Contract Oversight (OPCO), and Mr. Keith Yawn, Director of Strategic Initiatives, presented a recommendation for award of a Pension Actuarial Services contract.

Ms. Schreiber noted that Gabriel Roeder Smith (GRS) holds the current pension actuarial services contract. ERS issued a Request for Proposals (RFP) on June 20, 2019 requesting the required services, including annual valuation, mid-year valuation, experience study, comprehensive financial reporting, and ad hoc consulting services. Three vendors submitted proposals by the deadline of July 19, 2019: GRS; Rudd and Wisdom; and the Segal Group.

Ms. Schreiber stated that staff recommend awarding the contract to GRS. She then explained that the recommendation was the result of a three-stage evaluation process. During the preliminary review phase, OPCO evaluated defined pass/fail criteria to evaluate proposal responsiveness and compliance with RFP requirements. OPCO staff also performed certain vendor performance checks required by the Texas Comptroller of Public Accounts. Also during the first phase, OPCO staff verified that respondents met the minimum requirements set with the RFP. All three respondents passed this preliminary review.

During the second evaluation stage, the proposal evaluation phase, agency staff reviewed the content of the proposals in two defined areas. Qualifications and services – including firm qualifications, staff qualifications, methodology, and technology – made up 70% of the score, while pricing was 30%. Staff also initially reviewed the respondents on contractibility, legal considerations, and financial stability during this stage of the evaluation. Depending on information gathered during this stage, these pass/fail items may be finally evaluated in the last evaluation state. As a result of the evaluations in this phase, ERS determined that all three respondents should be moved forward as finalists.

In the finalists evaluation phase, respondents provided best and final pricing, participated in face-to-face interviews and presentations with agency staff, and hosted ERS Information Systems and security staff on site visits. The scoring criteria and weights used in the finalist evaluation were the same as used in the proposal evaluation phase; however, staff based scores on the new or clarified information received through the finalist evaluation phase. ERS also finally evaluated the pass/fail items noted above and checked references, also evaluated on a pass/fail basis. All respondents passed on these items.

Mr. Yawn then provided the Board additional detail on the evaluation team's review of the proposals. He stated that while all three respondents clearly met the minimum requirements of the solicitation, the evaluation team focused on the quality, depth and breadth of the technical services that each respondent would provide. Mr. Yawn thanked all three respondents for the quality and professionalism of their work during the evaluation process. During the finalist evaluation stage, ERS performed a deeper review of each respondent's experience working with ERS peer organizations and identified how the respondents were integrated into state and federal pension regulatory activities. Finally, the team evaluated the respondent's indicated ability to assist the agency with messaging, communication, and education of pension funding needs and alternative solvency structures.

Ms. Catherine Melvin asked if the recommended respondent did not score as well as the other respondents in any individual part of the evaluation. Ms. Schreiber pointed the Trustees to the detailed scoring matrix results provided in their executive agenda item content and specifically noted the information technology scores. She noted that the subject matter experts discussed these scores but had no concerns given the use and needs of the specific data.

Mr. Craig Hester offered his perspective that GRS has historically done a great job of communicating a complicated subject with the Board in an understandable manner. He stated he was comfortable with the staff recommendation having reviewed all provided materials.

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

MOTION made that the Board of Trustees of the Employees Retirement System of Texas authorizes the Executive Director to negotiate and execute a contract with Gabriel, Roeder, Smith, & Company with terms that are fully acceptable to ERS, and to authorize the Executive Director to thereafter administer the contract agreed to by the parties. In the event that ERS is not able to timely negotiate a satisfactory contract with Gabriel, Roeder, Smith, & Company, or if Gabriel, Roeder, & Smith Company will not be capable of providing the required pension actuarial services to ERS' satisfaction during the contract term, then the Board authorizes the Executive Director to resume any necessary due diligence processes and contract negotiations with the next top-ranked qualified Respondent, and to negotiate and execute contract terms that are fully acceptable to ERS and thereafter administer the contract.

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

Mr. Hester noted that all three respondents represented quality firms, and specifically commented on the great work Rudd and Wisdom has provided ERS related to the HealthSelect Plan for a long time. Ms. Ilesa Daniels also thanked the Segal Group for participating in the process.

11. AGENCY UPDATE

11. Agency Update

86th Legislative Session Implementation Update – Senate Bill 2224 requires a public retirement system to adopt a funding policy. The Pension Review Board (PRB) provided informal guidance for developing a funding policy. The ERS Board of Trustees adopted the ERS Pension Funding Priorities and Guidelines at the May 2018 board meeting and will be submitting to the PRB in January 2020. ERS will continue to seek opportunities to include emerging best practices and concepts to better communicate funding needs to the Legislature.

2019 Interim Legislative Committee Charges – Senate Finance charges will review efficiencies in state-funded health care programs to reduce or contain costs. There will also be a charge to look at the investment of state funds, state contracting and the state budget spending limit. The Senate Business and Commerce charges will be looking at studying health care cost and monitoring implementation of Senate Bill 1264 (balance billing).

The Joint House Appropriations and Pensions and Investments & Financial Services committees have a charge to review actuarial soundness of ERS and TRS pension funds as well as examining cost and strategy for achieving actuarial soundness, studying the effect of unfunded liabilities on state credit rating and examining state investment policies and practices. The House Appropriations Committee has a committee on general employee turnover and the study of the state's economic stabilization fund to maximize investments and establish source of funding for long-term liabilities. The Pensions, Investments & Financial Services Committee has a charge on general legislative implementation, investment practices, and the implementation of Senate Bill 2224, which is the adoption of a funding policy.

Staying Connected Retiree Fairs - At the conclusion of each legislative session, ERS provides updates to retirees at the *Staying Connected Retiree Fairs*, which are held at various locations throughout the state of Texas. There were over 600 participants at five fairs in August and September (San Antonio, South Austin/Kyle, Central Austin, Arlington and Houston). State Representative Jim Murphy, Chairman of the Pensions, Investments & Financial Services Committee attended the Houston Staying Connected Fair to address the retirees.

Other Speaking Engagements – Mr. Wilson and ERS' executive staff had the opportunity to go out and educate members during the fall to update these groups on ERS, including the wellness initiative, AMP, and pension and health insurance funding. These benefits are important to the recruitment and the retention of employees, both the pension and the health insurance.

Retired State Employees Association – October 3, 2019

Department of Public Safety Officers Association – October 4, 2019
State Agency Coordinating Council – November 14
Parks & Wildlife Department, IT team – December 4, 2019

Wellness Update (The AMP Project) – Ms. Lacy Wolff, Wellness Coordinator provided the board with an update on the AMP project (**A**ssess, **M**anage, **P**revent).

Assess refers to participants completing an online health assessment to help participants identify their health needs. In FY18 there was a completion of 2.44% of online health risk assessments with a goal set of 20%.

Manage refers to participant enrollment in available weight management programs such as Naturally Slim and Real Appeal. In FY18 there was a 1.33% enrollment with a goal of 5%.

Prevent refers to the number of participants who get a preventive screening annually. In FY18 there 45% of participants sought an annual preventive screening with a goal of 70%.

There is no cost for the participant for AMP programs, such as the online health assessment, annual wellness exam and weight management program participation.

Plan Year 2020 Fall Enrollment Update – ERS mailed out over 95,000 Personal Benefits Enrollment Statements to Medicare-eligible members and retirees. The ERS website had 435,764 page views, and almost 100,000 visitors and members made over 6,000 coverage changes. There were 192 retirees who attended seven fairs across the state and two webinars.

Fiscal Year 2019 Accomplishments and State of ERS –

During the fall each year, Mr. Wilson addresses all ERS employees in a *State of ERS* presentation in which he talks about the accomplishments from the preceding year and lays out what is coming in the next fiscal year. This year, the presentation was done on video and including employees throughout the agency talking about major projects and accomplishments. An accomplishments poster is also displayed in the lobby of the ERS building.

Retirement and Benefits Surveys – ERS partnered with a UT expert to develop and launch a member survey on retirement and benefits programs. The surveys were sent by email beginning November 15 to employees and retirees.

Board Meeting Management Services – In May 2017, ERS contracted with a software company called BoardDocs to manage content for a secure board member portal. On August 27, 2019, a Request for Offer for board meeting management service proposals was published. ERS evaluated a variety of solutions and are in final contract negotiations with the top vendor. The contract will be final before the March 2020 Board meeting.

State Employee Charitable Campaign Update – ERS surpassed the 2018 level of participation with 368 (91%) of employees donating to the campaign and several divisions reaching 100% participation. ERS exceeded the donation goal of $55,000 (102%). Mr. Wilson noted that ERS has been the top mid-sized agency over the last several years for both dollars per participant and percentage participations. In addition to the individual donations employees made to the charities of their choice, ERS had two fundraisers that garnered a total of more than $600 and employees voted to donate those funds to Meals on Wheels/Senior Nutrition Program.

Market Update on Leasing Potential for ERS' New Construction - During last year's board meeting in December, the board approved the design and budget for expanding the ERS headquarters by developing the eastern half of ERS' block at 200 E. 18th Street. ERS will occupy a portion of the new building to meet the system's needs for additional staff space. The remainder of the building will be leased and revenue from those leases will benefit the Trust. Construction began in early 2019 and progress is visible on the building, called 1836 San Jacinto. The construction project is currently on time and on budget, and is projected to be completed in the first quarter of 2021. Staff will continue to keep the board members and stakeholders updated throughout the duration of the project. In previous board

meetings staff discussed the business case scenario for leading up to this decision to build a new building that would allow us to address our needs for our agency in a way that was good stewardship of the trust fund dollars. The building will have five office floors and ERS will occupy one-half of one floor. Third-party tenants will lease the other floors. Revenue from tenants is expected to cover the cost of the building and generate a return for the trust fund that is similar to other private real estate investments earned by the Trust. ERS has contracted with the brokerage firm CBRE to market the building. CBRE provided an update on the Austin real estate market. Data shows that the market in Austin is still going strong, and this furthers building our business case for this area.

Peter Jansen with CBRE said that the amount of development around the new city library over the past four to five years is roughly $2.5 billion in development just west of Congress. Investment dollars are now flowing east of Congress and north of the traditional business districts. This new area of development is approaching nearly $3 billion. CBRE shared that the new 1836 San Jacinto building is part of this movement and that is a good thing because as the market starts to change, people will want to move here.

In previous board meetings CBRE discussed one of the original premises of this project was that the market was devoid of large blocks of space, which is defined as 25,000 square feet to 40,000 square feet per floor. That large floor plate size is driven by tech demand to increase density of employee populations. The 1836 San Jacinto building is delivering 42,000 square foot plates, which is a major differentiator from what currently exists in this area, and is an attractive feature for prospective tenants.

According to the market report, there is 2.7 million square feet under construction, and 880,000 square feet is still available for lease going into 2021. Approximately 70% of what's under construction has already been pre-leased. Since 2014, the market has averaged just over 900,000 square feet of gross absorption where tenants are actively leasing space. The market is on pace for another 900,000 square feet of absorption going into 2021. Since 2014 the vacancy rate has declined. Austin maintained a vacancy under 9.4% over the last six years and is at 5.8% vacancy currently, which is extremely healthy. The overall market dynamics have strengthened tremendously in ERS' favor with the vacancy rate continuing to decline. When first presented to ERS back in 2016, CBRE was using about $32 a foot as the business case revenue model for the rental rate. Going into 2018 and 2019 rents increased to around $45 a foot. CBRE is seeing declining vacancy with accelerating rent growth, which makes the numbers even more compelling today.

12. CALENDAR

12. Set 2020 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 2020 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 2020 Meeting Dates:
Wednesday, March 11, 2020
Wednesday, May 20, 2020
Wednesday, August 19, 2020

2-Day Workshop:
Tuesday-Wednesday, December 8-9, 2020

13. EXECUTIVE SESSION

13. Executive Session – In accordance with Section 551.072 Texas Government Code, the ERS Board of Trustees will meet in executive session to deliberate the purchase, exchange, lease, or value of Real Property and the ERS building. Thereafter, the Board may consider appropriate action in open session.

Ms. Daniels stated it was 4:16 p.m. on December 10, 2019. The Board of Trustees will meet in executive session in accordance with Section 551.072, Texas Government Code to deliberate the purchase, exchange, lease, or value of real property and the ERS building. Thereafter, the board may consider appropriate action in open session.

Upon returning from executive session, Ms. Daniels announced it was 5:05 p.m. on December 10, 2019 and the Board is now in open session. No action, decision, or vote was taken while the board was in executive session.

14. RECESS

14. Recess of the Board of Trustees – The Board of Trustees will reconvene as a committee of the whole on Wednesday, December 11, 2019 at 9:00 a.m. with the Investment Advisory Committee to take up the remaining agenda items.

The time is 5:05 p.m. on Tuesday, December 10, 2019 and the Board of Trustees will recess until 9:00 a.m. on Wednesday, December 11, 2019.