
AGENDA ITEM DETAILS

Subject: Consideration and Approval of Fiscal Year 2024 Operating and Capital and Property Management Budgets – (Action)

RECOMMENDED ACTION:

Move that the Board adopt the Fiscal Year 2024 Proposed Operating Budget, including contingency, and the Fiscal Year 2024 Capital and Property Management Budget.

Background/Analysis:

Texas Government Code § 815.208 requires the board to establish the operating budget for each fiscal year to carry out the duties and responsibilities of the Employees Retirement System. The fiscal year begins September 1 and ends August 31. ERS finances its administrative budget from the insurance and retirement trust funds and does not request or receive state appropriations for its administrative operations. Funds that are budgeted, but not used for operating costs during the budget year, remain in the Trust fund.

In addition to using money from the trust funds, by statute ERS receives annual fees of \$3.00 collected for each retirement system member. The fee is designed to offset retirement administration costs. Participants in certain optional programs also pay fees to fund the administrative costs of those programs since the State does not provide any program funding. These programs include the TexaSaverSM 401(k) / 457 Program, State of Texas VisionSM, State of Texas Dental Choice PlanSM and the dental health maintenance organization. Money in the retirement and insurance trust funds can only be used to administer their respective programs.

ERS is on target to spend \$3 million less than the approved budget of \$95.9 M based on end of year projections. In FY23 ERS used budgeted fiscal and human resources to achieve progress toward the following four strategic goals:

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

Highlights of these accomplishments are listed below. Additional information is in the FY24 Proposed Operating Budget document.

Strategic Goal 1: Support our member's retirement security

- Continued engagement with legislators and policymakers to emphasize the importance of pension funding integrity and the need for all pension plans to be actuarially sound. Legislative efforts resulted in the elimination of the Law Enforcement and Custodial Officer (LECO) Supplemental Fund and the Judicial Retirement System (JRS) Plan 2 unfunded liabilities, continued Legacy Payment schedule and an additional \$900 M supplemental payment to further reduce the unfunded liability for the ERS plan. The LECO and JRS2 plans are anticipated to be 100% funded and the ERS plan will have a 31-year funding period as of the August 31, 2023 actuarial valuation.

- In addition to eliminating the unfunded liabilities for the LECO and JRS 2 through one-time payments, the State increased funding for the 2024-25 biennium to cover the ongoing normal costs for these two systems.
- Issued more than \$2.9 billion in payments for retirees and beneficiaries.
- Enrolled members in the cash balance benefit plan for new employees joining the workforce on or after September 1, 2022, known as Group 4.
- Outperformed the Trust's benchmark by 60 basis points with a return fiscal year to date of 5.68% on a net basis. Total Trust value of \$35.5 billion as of June 30, 2023.
- Recognized twice by NEPC as the #1 performing pension fund in the country among its peers for long-term investment returns.
- Added more than \$1 billion of incremental value above the policy benchmark over the last three years through both asset allocation and security selection.
- Reported a 71.2% automatic enrollment retention rate for TexaSaver 401(k) for Plan Year 2023.

Strategic Goal 2: Sustain Competitive Group Benefits Programs

- Provided actuarial, demographic and financial data and information to assist decision making for legislation that proposed changes to benefit programs for current and future state employees and retirees. Legislative efforts resulted in continued state funding levels for employee and retiree health insurance programs.
- Maintained stable member-only contribution rates in the HealthSelectSM plans for the seventh consecutive year while providing competitive benefits.
- Executed contract and began implementation for pharmacy benefit management services of the HealthSelectSM Prescription Drug Program and HealthSelectSM Medicare Rx (Medicare Part D) under the Group Benefits Program (GBP) which is estimated to save \$2.9 billion over the six-year contract term.
- Developed, published and began evaluation of vendor submittals to the Request for Proposals to provide third-party administrative services for the HealthSelect of Texas[®] and the Consumer Directed HealthSelectSM (a high deductible health plan) under the GBP for award in December 2023 with an expected implementation date of January 2025.
- Implemented a new third-party administrator for State of Texas Vision under the GBP with a start date of September 1, 2023.
- Continued to promote the HealthSelectShoppERSSM member rewards program resulting in net program claim savings of approximately \$540,000.
- Implemented Catapult VirtualCheckup[®] program pilot project.

Strategic Goal 3: Engage Stakeholders for Informed Decision Making

- Developed communications about the cash balance retirement benefit structure for Group 4 employees, including:
 - short, easy-to-understand videos in English and Spanish and
 - a video especially for TDCJ recruitment and retention.
- Incorporated ERS Trust Fund performance updates into member communications
- Began work on new design for ERS website.
- Conducted a total of 177 member presentations in person and via webinar, with total attendance of more than 10,400.
- Published 45 editions of newsletters and Board meeting recaps, with total distribution to more than 355,000 unique recipients.
- Educated participants about the State of Texas Vision third-party administrator change.
- Began educating participants about the third-party administrator changes in the prescription drug programs.
- Partnered with a not-for-profit to educate eligible state employees on the federal public service loan forgiveness program.
- Planned and hosted a virtual wellness fair for state and higher education employees to share resources on wellbeing, improving physical health, nurturing mental health and improved financial wellness through webinars, fitness session, cooking demonstrations and musical concerts attended by nearly 3,000 participants across the state.

- Engaged ERS Group Benefits Advisory Committee (GBAC) for input on benefits and wellness programs.
- Engaged with 448,000 members through phone calls (164,000 at ERS and 284,000 Outsourced).
- Conducted 1,700 counseling sessions by appointment through phone and virtually by WebEx.
- Responded to 23,100 member emails, 10,000 employer emails and 10,000 employer requests for assistance.

Strategic Goal 4: Enhance Agency Performance and Accountability

- Implemented a new system (Recruit module) in the agency’s HR system making it easier for job applicants to submit applications for open positions. The new system, plus improvements to the recruitment e-bulletin and Careers pages on the ERS website, have significantly increased the number of interested job applicants.
- Hired 63 new employees, 17 contractors and 16 temporary workers. Reduced the vacancy rate by 50%.
- Selected and contracted for RISE (Retirement Insurance System Enhancement) solution, a multi-year project, to replace the current pension and insurance systems.
- Implemented Multi Factor Authentication (MFA) for the pension and benefits system, including internal and outsource call center personnel and continued identification for other users.
- Provided ethics training to the Board and agency staff.
- Coordinated additional recruiting efforts for critical staffing needs and developed a direct hire process to enhance recruitment for Benefit Counselors; participated in virtual and in-person career fair.
- Contracted for the first office tenant for 1836 San Jacinto with occupancy expected at the end of the fiscal year.
- Reconciled over \$3.8 billion in employee and employer insurance contributions and \$750 million in member retirement contributions.
- Managed and coordinated the completion and audit of the FY22 Annual Comprehensive Financial Report (ACFR) for ERS, receiving the Certificate of Achievement for Excellence in Financial Reporting.

The FY24 Proposed Operating Budget supports the 2023-2027 Strategic Plan and the four goals outlined above. ERS staff identified tactical activities and initiatives to meet these goals. The ERS management team examined each item of expense in the budget to determine where expenditures could be reduced to make funding available for activities that were critical in moving the agency forward to meet strategic objectives. Each manager continues to look for efficiencies. ERS regularly rebids contracts to ensure the best value.

Budget Request Overview

The FY24 proposed operating budget is \$106 million, an increase of 10.6% over the FY23 approved budget. In addition, a contingency of \$8.3 M is proposed to use for items vital to the agency’s mission. The contingency budget includes anticipated salary and incentive compensation lapse, computer system services and other contractual services which may require additional funds during the year. Upon budget approval the Executive Director may transfer funds from contingency to ensure the agency’s mission, goals and objectives are met and report use of those funds to the Board.

	FY23 Approved Budget	FY24 Proposed Budget
Salaries and Other Salary Costs	\$58.6 M	\$65.7 million
Non-Salary Costs	\$37,3 M	\$40.3 million
Total	\$95.9 M	\$106.0 million

FY24 proposed Contingency Account \$8.3 million.

The FY23 investment related budget of \$36 million represents only 0.10% of the pension fund assets totaling \$35.46 billion as of June 30, 2023. The remaining \$59 million of the FY23 budget provides for

administration of benefit payments of approximately \$6.4 billion (\$3.5 for insurance and \$2.9 billion for retirement and other). This represents approximately 0.92% of benefits paid.

Personnel costs are a major portion of the agency budget, accounting for 62% of the FY24 budget. The FY24 budget assumes 1% of salary lapse which has been included in the contingency account. The FY24 budget includes the 5% across the board pay increase approved by the board with an effective date of July 1 2023, compensation study for investment staff; and additional funding for merits and promotions. Four new positions and additional computer system services are proposed to assist with implementation of legislation and new systems, enhance and expand communications, and maintain effective and accurate accounting and pension benefit operations.

Capital and Property Budget

The FY24 Capital and Property Management budget of \$8.2 million provides funding for tenant improvements, brokerage services and additional security for the 1836 San Jacinto Building. These costs will be offset by revenue from tenants.

ATTACHMENTS:

1. Exhibit A – ERS Fiscal Year 2024 Proposed Operating Budget
2. Slides – Fiscal Year 2024 Proposed Operating Budget