

## Public Agenda Item #9

*Consideration of Fiscal Year 2024 Operating Budget and  
Fiscal Year 2024 Capital and Property Management Budget –  
(Action)*

August 23, 2023

Porter Wilson, Executive Director  
Machelle Pharr, Chief Financial Officer

# FY23 Accomplishments



*Support our members retirement income security*

- Engaged with legislators and policymakers on **pension funding integrity**
  - Elimination of unfunded liabilities for two of the three prefunded plans
  - Full funding of legacy payments and supplemental payments for ERS
  - Normal costs covered for all three prefunded plans
- Issued **\$2.9 billion+** in annuity payments
- Sustained investment operations and management
  - **Trust returns of +5.68%** on a net basis as of 6/30/23
  - **Trust assets of \$35.5 billion** as of 6/30/23

# FY23 Accomplishments



## *Sustain competitive group benefits program*

- Engagement with legislators and policymakers resulted in **continued current level state funding** for the employee and retiree health insurance programs
- Member only contribution rates held stable for the **seventh consecutive year** while maintaining competitive benefits
- Executed a new contract for pharmacy benefit management services with **estimated savings of \$2.9 billion** over the life of the contract
- Implemented **Catapult VirtualCheckup<sup>®</sup>** pilot project

# FY23 Accomplishments



## *Engage stakeholders for informed decision making*

- Developed **communications** on the cash balance benefit for Group 4 employees
- Educated participants about the **State of Texas Vision<sup>SM</sup>** third-party administrator change
- Partnered with a local not-for-profit for an education campaign on the federal **public service loan forgiveness** program

# FY23 Accomplishments



## *Engage stakeholders for informed decision making*

- Held 177 in-person and virtual member events with **total attendance greater than 10,400**
- Published 45 editions of newsletters and Board meeting recaps distributed to more than **355,000 unique recipients**
- Engaged with members and employers through a variety of media
  - Members: **448,000 phone calls and 23,100 emails**
  - Employers: **10,000 emails and 10,000 requests for assistance**

# FY23 Accomplishments



*Enhance agency performance and accountability*

- Implemented **Recruit**, a module in the HR system, to facilitate submission of job applications
- **Reduced internal job vacancy rate by approximately 50%**, and lowered turnover rate
- **Significantly improved survivor benefit processing** and call answer times

# FY23 Accomplishments



## *Enhance agency performance and accountability*

- Selected vendor, completed contract, and began work on the **Retirement Insurance System Enhancement (RISE)** software project to replace the current pension and insurance system
- Enhanced the **Investment Policy Statement** to match best practices and created Investment Implementation Policy to guide and document investment operations
- Contracted for the first office tenant for **1836 San Jacinto**

# FY24 Initiatives



## *Support Our Members' Retirement Income Security*

- **Implement legislation** passed by the 88<sup>th</sup> Legislative Session
  - Cash balance benefit for judiciary entering the plan on or after September 1, 2024
  - Additional annuity option for Group 1- 3 employees
  - Service purchases for Group 4
- If applicable, make **first gain sharing** deposits to Group 4 accounts
- Implement provisions of federal **SECURE 2.0 Act**
- Complete the Request for Qualifications process to provide a **comprehensive suite of investment services** at competitive prices



# FY24 Initiatives



## *Sustain Competitive Group Benefits Program*

- Evaluate, select and implement a contract for the **third-party administrator for HealthSelect of Texas<sup>®</sup>**
- **Implement the pharmacy benefit management** contract effective January 1, 2024
- Review the **disability and life insurance** benefit programs

# FY24 Initiatives



## *Sustain Competitive Group Benefits Program*

- Enhance participant wellbeing by implementing a **new wellness initiative** designed to engage Group Benefits Program participants
- Review the **state wellness statute** for potential enhancements to improve the wellness opportunities for all state agencies

# FY24 Initiatives

## *Engage Stakeholders for Informed Decision Making*



- **Redesign ERS public website** improving navigation and usability, including a translation tool
- Develop a **participant satisfaction** survey for HealthSelect plan participants
- **Communicate with members** regarding changes resulting from legislation

# FY24 Initiatives



## *Enhance Agency Performance and Accountability*

- Complete appropriate milestones in the **implementation of RISE**
  - Functional and technical fit/gap analysis
  - Data conversion planning and activities
- Complete the **Investment Practices Review** as required by statute
- **Launch internship program** and continue efforts to strengthen recruitment and retention
- Complete **automation of select financial processes** using robotics and other new technologies

# Proposed Fiscal Year 2024 Operating Budget



## Budget drivers and initiatives

The proposed FY24 budget reflects an increase of \$10 million (10.6%) to carry out the mission and objectives of the agency

- *Salary-related costs comprise 62% of the total budget*
- *\$3 million is related to the 5% across-the-board pay increase.*

	FY23	FY24*
Salary-related	\$58.6 M	\$65.7 M
Non-salary-related	\$37.3 M	\$40.3 M
<b>Total budget</b>	<b>\$95.9 M</b>	<b>\$106.0 M</b>
FTEs	436	440

*\*Additional \$8.2 M in contingency.*

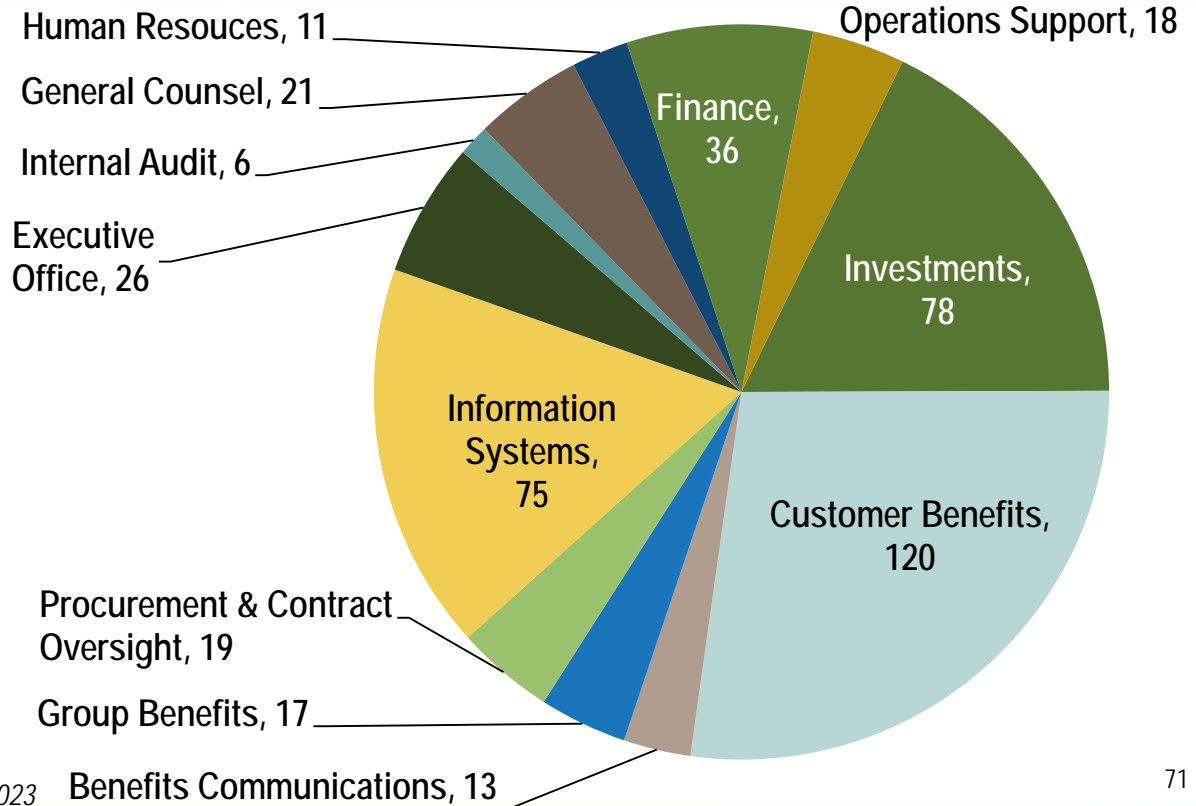
*Unspent funds remain in the Trust*

# Proposed Fiscal Year 2024 Operating Budget



## Proposed FY24 FTEs

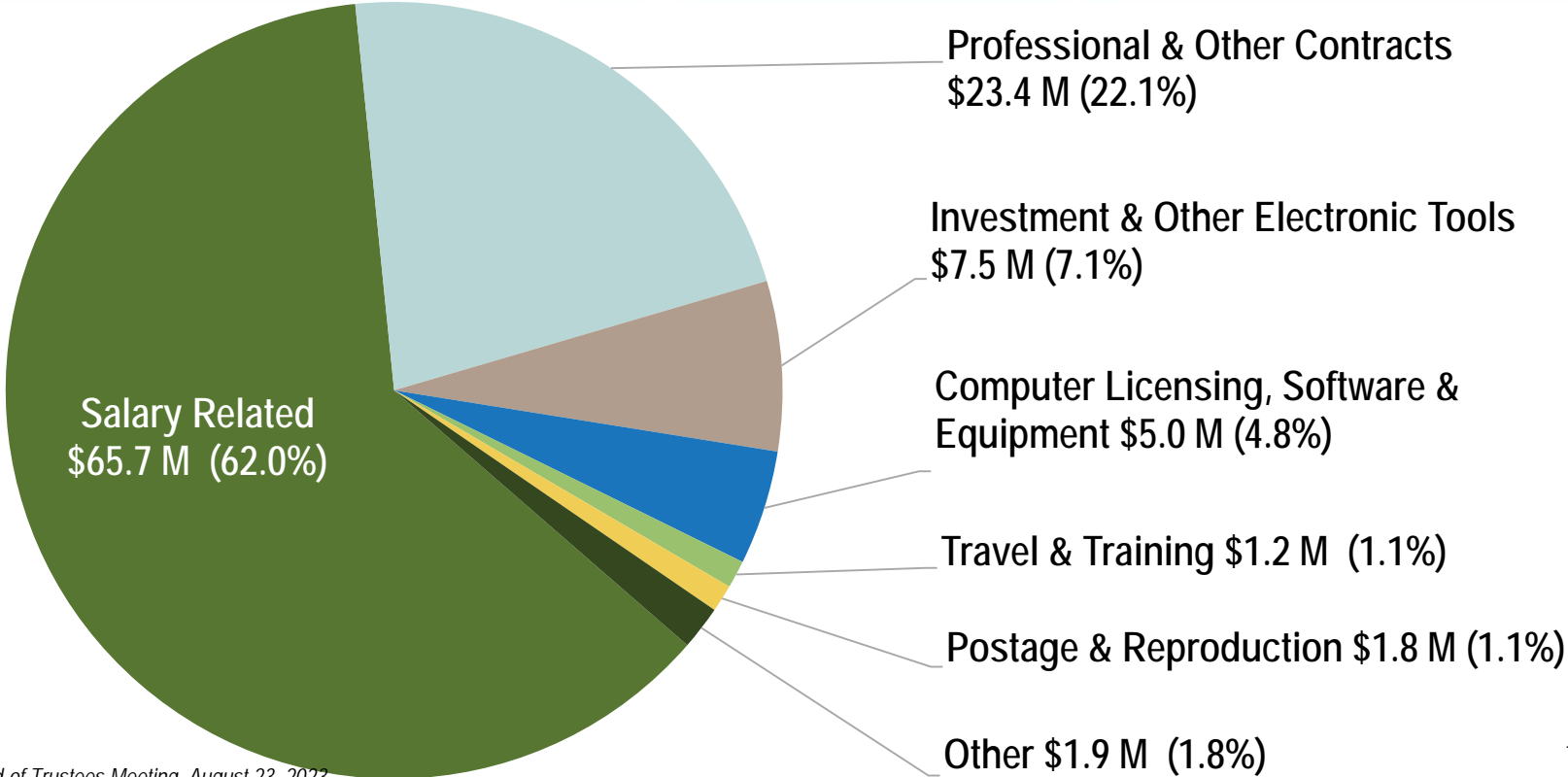
Proposed New FTEs	
Customer Benefits	3
Benefit Communications	1
<b>Total</b>	<b>4</b>



# Proposed Fiscal Year 2024 Operating Budget



*All categories*

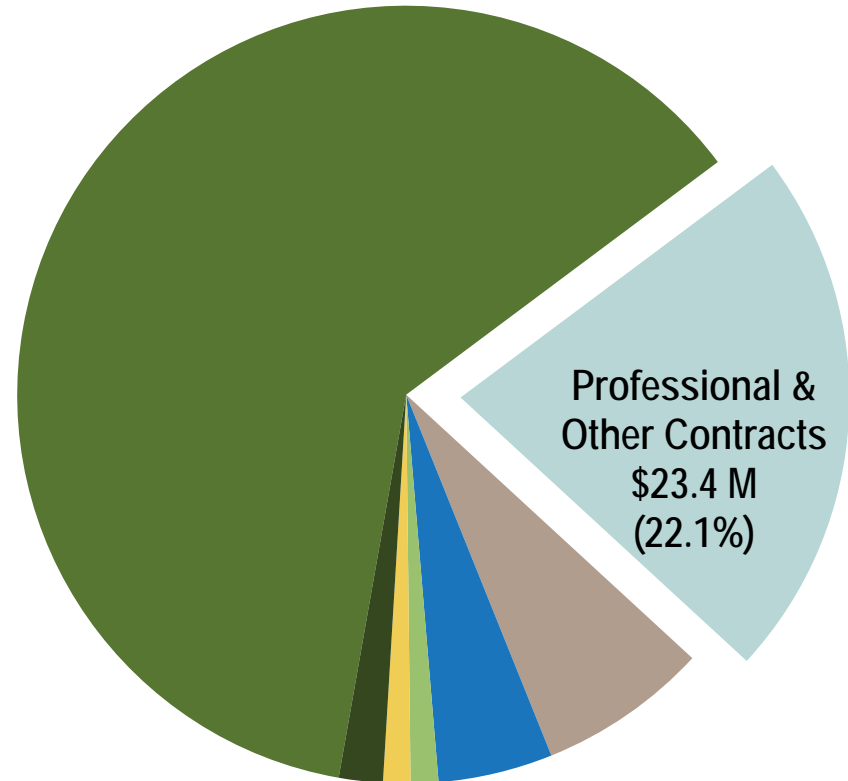


# Proposed Fiscal Year 2024 Operating Budget



## *Key drivers - Professional & Other Contracts*

- **Reduction of customer wait times**
  - Group O expansion
- **System modernization and maintenance**
  - Accommodate new benefit designs
  - Upgrades/enhancements
  - Automation of manual processes
- **Data quality and security**
- **Investment consultants**
- **Outside legal services**
- **Actuarial services**
  - Pension
  - Group Benefits



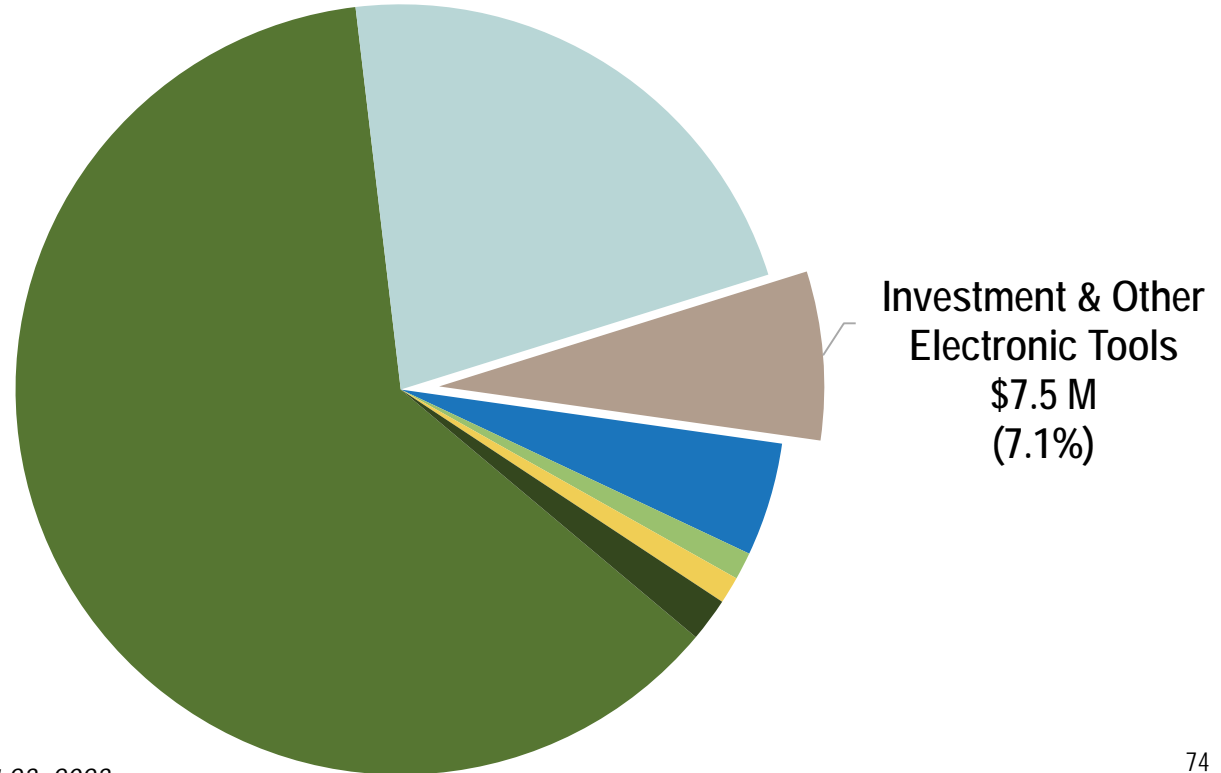


# Proposed Fiscal Year 2024 Operating Budget



*Key drivers - Investment & other electronic tools*

- Subscriptions to investment research services and tools

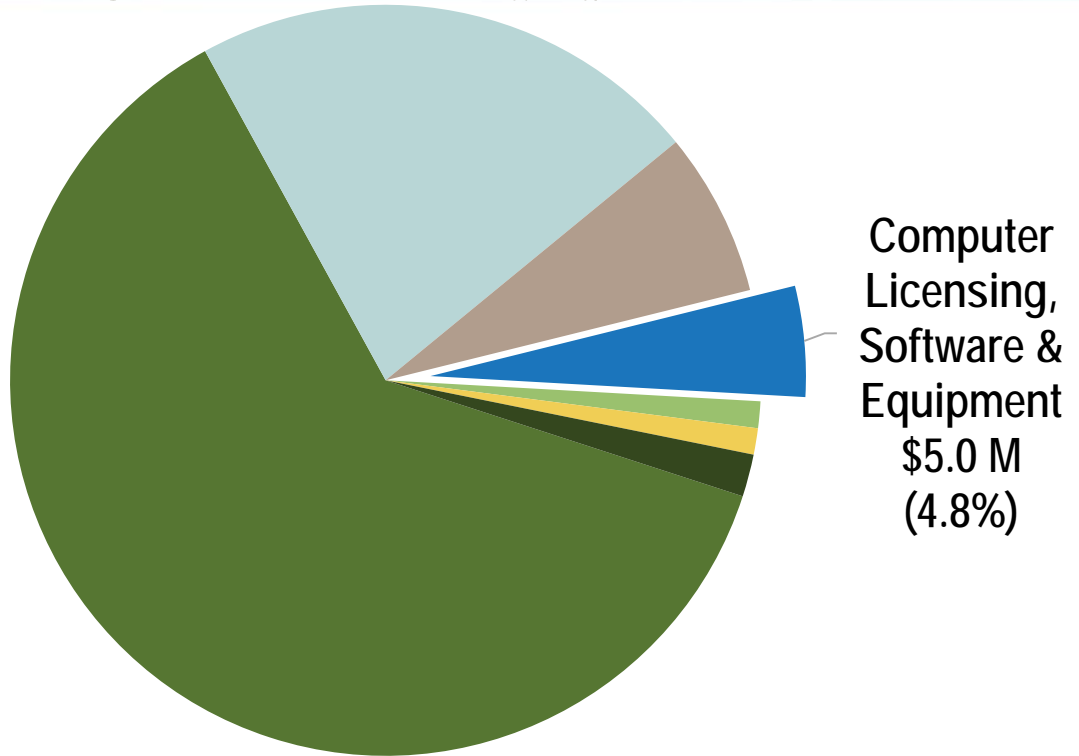


# Proposed Fiscal Year 2024 Operating Budget



*Key drivers - Computer licensing, software & equipment*

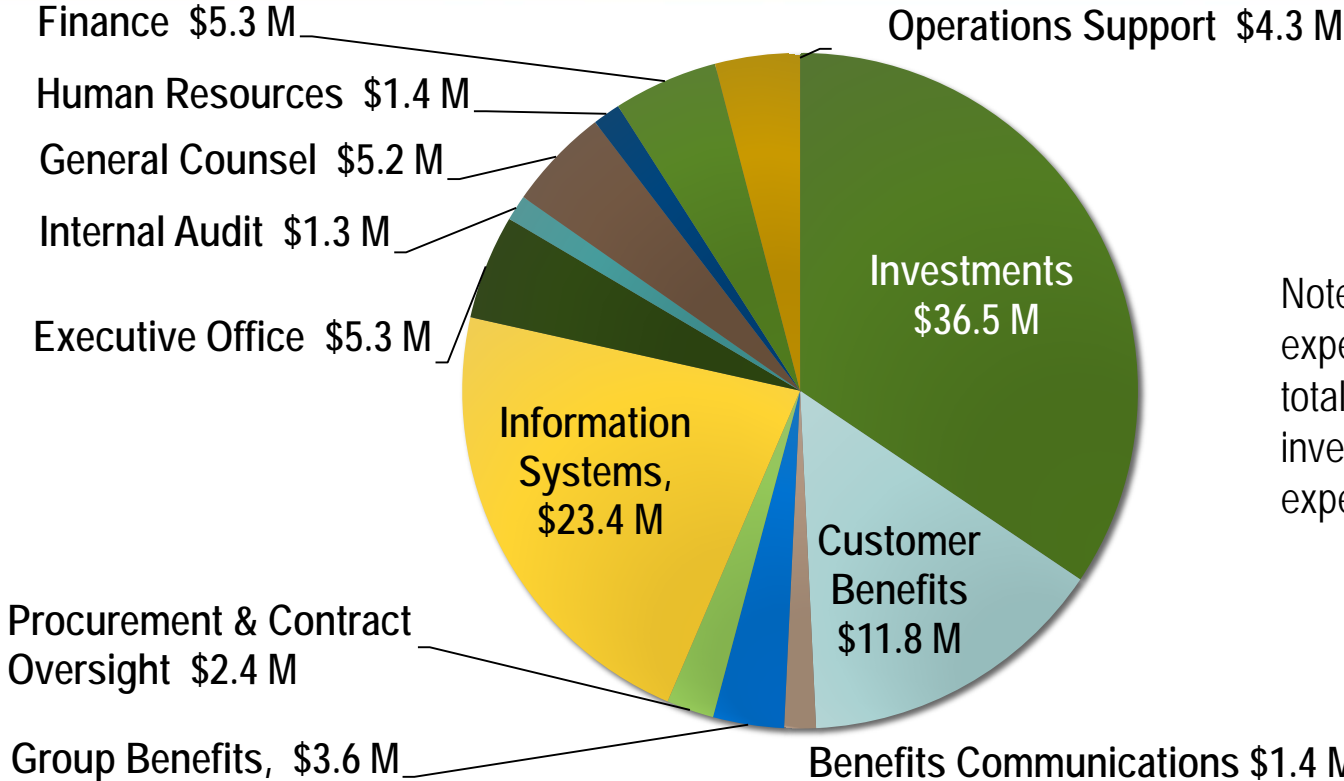
- 70+ computer software applications
- Lease and procurement of computer and telecommunications equipment



# Proposed Fiscal Year 2024 Operating Budget



*By division*



Note: Investment-related expenses in other divisions total \$4.2 M, for total direct investment-related expenses of \$40.7 M.

# Performance Measures



*Associated with Retirement and Competitive Benefit Goals*

	FY23 Estimated	FY24 Target
Percent of ERS Retirees Expressing Satisfaction with Member Benefit Services	97.0%	97.0%
Multiplier on Investment Manager Expenses	2.5 x	2.0 x
Multiplier on Internal Investment Manager Expenses	16.8 x	14.6 x
Percent of HealthSelect of Texas Funded by Members	25.0%	25.0%
Participants Enrolled in Optional Plans	77.7%	78.0%

# Performance Measures



*Associated with Stakeholder Engagement and Agency Performance*

	FY23 Estimated	FY24 Target
Benefit Coordinator Community Group Visits	15,000	17,500
Average Attendance at In-person Benefits Education Sessions	54	74
Inbound Call Service Level	51.7%	70.0%
ERS Online Uptime	99.0%	99.0%
Annuity Payment Audited	100%	100%
Percent of Audit Plan Completed	80.0%	90.0%

# Customer Trends



	2012	2017	2022	2023
<b>ERS</b>	<i>(as of June 30<sup>th</sup>)</i>			
Active members	132,669	141,629	133,751	138,477
Inactive members	90,190	112,192	155,148	159,249
Retirees and beneficiaries	87,799	107,530	122,720	120,043
<b>LECOS</b>				
Active members	37,404	38,306	31,075	30,926
Inactive members	7,129	17,100	32,371	33,321
Retirees and beneficiaries	8,477	12,248	15,923	16,280
<b>GBP Participants</b>				
	507,571	515,068	511,164	496,370

# Proposed Fiscal Year 2024

## Capital and Property Management Budget



### Property Management

- Increase reflects brokerage services

### Capital

- Tenant improvements
- Reflect projects that span multiple fiscal years

	FY23	FY24
Property Management	\$2.3 M	\$4.2 M
Capital	\$150.0 M	\$4.0 M
<b>Total</b>	<b>\$152.3 M</b>	<b>\$8.2 M</b>

# Proposed FY24 Budgets



## *Exhibit B: Contracts and other costs notes*

- Professional and other contracted services – Executive Director authorized to contract on behalf of ERS
- Notes are referenced in division budget
- Investment advisor fees are presented in detail in Exhibit B – Note 3



Discussion  
**Action Item**