



Board of Trustees Meeting
August 23, 2023



Presented for Review and Approval
December 5, 2023

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BOARD OF TRUSTEES MEETING
EMPLOYEES RETIREMENT SYSTEM OF TEXAS
August 23, 2023

TRUSTEES PRESENT

Dr. Jim Kee, Board Chair
Brian Barth, Vice Chair
Neika Clark, Member
I. Craig Hester, Member
Catherine Melvin, Member
John R. Rutherford, Member

ERS DIRECTORS PRESENT

Porter Wilson, Executive Director
Cathy Terrell, Deputy Executive Director
Jennifer Chambers, Director of Government Relations & Special Projects
Tony Chavez, Director of Internal Auditor
Blaise Duran, Acting Director of Group Benefits
Bernie Hajovsky, Director of Enterprise Planning Office
Cynthia Hamilton, General Counsel
Robin Hardaway, Director of Customer Benefits
Shack Nail, Special Projects & Policy Advisor
Machelle Pharr, Chief Financial Officer
Gabrielle Schreiber, Director of Procurement and Contract Oversight
DeeDee Sterns, Director of Human Resources
Kathryn Tesar, Director of Benefits Communications
Chuck Turner, Director of Information Systems
David Veal, Chief Investment Officer

ERS STAFF PRESENT

Lisa Caffarate, Group Benefits
Raquel Colon, Investments
Kurt Cressotti, Internal Audit
Kelley Davenport, Executive Office
Pablo de la Sierra Perez, Investments
Peter Ehret, Investments
Marcia Gibbs, Benefits Communications
Valorie Guerra, Group Benefits
Trudy Hill, Operations Support
Tiffani Jenkins, Benefits Communications
Debbie Legg, Group Benefits
Dani Levrie, Benefits Communications
Averi Mullins, Group Benefits
Jonathan Puckett, Internal Audit
Samantha Ramirez, Investments
Evelin Ramos, Investments
Ben Schuman, Investments
Cheryl Scott Ryan, Office of the General Counsel

ALSO PRESENT

Sam Austin, NEPC
Philip Dial, Rudd & Wisdom, Inc.
Stuart Greenfield, Self
Gina Lindsey, Blue Cross and Blue Shield of Texas
Tara Morales, Blue Cross and Blue Shield of Texas
John Posey, Legislative Budget Board

Meeting of the ERS Board of Trustees

1. Call Meeting of the ERS Board of Trustees to Order

Dr. Kee, 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 8:30 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 2:47 p.m. on Tuesday, August 15, 2023, as required by Chapter 551 Texas Government Code, referred to as the Open Meetings Act.”

“The same posting provided notice of today’s Audit Committee Meeting and Joint Meeting of the ERS Board of Trustees and Investment Advisory Committee.”

2. Consideration of Consent Agenda – (Action)

Dr. Kee, Chair, opened the floor for a motion on the approval of the Consent Agenda items:

- Consideration of the minutes to the May 17, 2023 Board of Trustees Meeting
- Consideration of the minutes to the May 17, 2023 Joint meeting of the Board of Trustees and Investments Advisory Committee
- Consideration of Audit Administrative Items: Internal Audit’s Proposed Fiscal Year 2024 Audit Plan and Fiscal Year 2024 Annual Independence Report
- CPI-U adjustment for Chapter 615 Benefits for Fiscal Year 2024
- Consideration of updates to the Group Benefits Advisory Committee Charter

Move that the Board approve all items on the Consent Agenda as presented.

Motion by Brian Barth, second by Craig Hester

Final Resolution: Motion carries

Aye: Brian Barth, Neika Clark, Craig Hester, Jim Kee, Catherine Melvin, John R. Rutherford

3. Recess of the Board of Trustees

Following the Audit Committee Meeting, the Board of Trustees will reconvene to take up the remaining items listed on the agenda. The Board recessed at 8:32 a.m. on August 23, 2023.

7. Reconvene the Meeting of the Board of Trustees

Board Chair Dr. Kee announced the Board of Trustees has reconvened at 9:04 a.m.

PUBLIC COMMENT

Dr. Stuart Greenfield provided public testimony to the Board of Trustees on the network disruption caused by the removal of Austin Radiology Associates (ARA) as a contract provider in the UnitedHealthcare network for the HealthSelect Medicare Advantage plan. Dr. Greenfield’s concern is that the dispute can interrupt beneficiary care mid-cycle with no warning, creating confusion and disruption for providers and beneficiaries.

The Board then thanked Dr. Greenfield for providing his comments. No action or discussion was taken.

8. Consideration of Group Benefits Program Update – (Action)

Mr. Blaise Duran, Acting Director of Group Benefits, and Phil Dial, Rudd and Wisdom, Inc. presented the Proposed Calendar Year 2024 (CY24) rates for Medicare Advantage Preferred Provider Organization health plan (HealthSelect MA PPO). Mr. Duran stated that the HealthSelect MA PPO is a fully-insured PPO medical plan customized for the Employees Retirement System of Texas (ERS). The federal government subsidizes the plan cost resulting in lower retiree cost and reduced program cost. Members must have both Medicare Part A and Medicare Part B to be eligible. Sierra Health and Life Insurance Company (United), a UnitedHealthcare® underwriting entity, became the insurer effective January 1, 2021.

The HealthSelect MA PPO continues to provide the most cost-effective medical benefits for both the state and eligible enrolled members. Those enrolled in the HealthSelect MA PPO receive prescription drug benefits through the self-funded HealthSelectSM Medicare RX plan. The HealthSelect MA PPO is a customized plan designed for ERS. Mr. Dial added that out-of-network benefit is one of the important customizations of the plan. The benefit provides the same coverage whether a provider is in or out of the network. Mr. Duran said that ERS is following up with UnitedHealthcare on network issues, such as the current one with ARA. However, in general, members should not be impacted by a provider leaving the network because of the benefit structure of the HealthSelect MA PPO.

As of January there are over 100,000 members enrolled in the plan, which is up from 90,000 two years ago. Mr. Dial stated that about 80% of the Medicare-eligible retirees and dependents are enrolled in the plan.

In order to assure the cost effectiveness of the this plan, the consulting actuary utilizes a theoretical cost index model to estimate the cost that would be required to cover HealthSelect MA PPO participants if they were enrolled in HealthSelect of Texas, the GBP’s self-funded health insurance plan.

The HealthSelect contribution rate is composed of two elements: the HealthSelect MA PPO plan premium and the projected cost of HealthSelect Medicare Rx prescription drug coverage. Calendar year 2023 (CY23) member contribution rates are broken down to \$40.00 for medical coverage fully-insured premium and \$173.32 for the projected cost of prescription drug coverage for a total of \$213.32. For CY24, the negotiated premium for medical coverage is increasing from \$40 to \$46.57 (an increase of about 5.2%). The projected cost of prescription drugs coverage is \$180.67 in CY24 for a total of \$227.24 member contribution rate.

Mr. Duran provided a history of the member contribution rates. There was a significant reduction due to the new contract in 2021, and the proposed 2024 rate is still significantly under 2020 rates. Mr. Dial chimed in to say that with the rest of the plan, there is no member contribution for most retirees, and the spouse rate is 50% of the cost.

Below is the proposed HealthSelect MA PPO CY24 Monthly Contribution Rates for Medicare-Primary Spouse and Medicare-Primary Surviving Spouse that Mr. Duran presented to the Board:

	Medicare-Primary Spouse	Medicare-Primary Surviving Spouse
Current (CY23) HealthSelect MA PPO Rates	\$ 106.66	\$ 213.32
Proposed CY24 HealthSelect MA PPO Rates	\$ 113.62	\$ 227.24
Change from CY23 Rates	\$6.96	\$13.92

Below is the CY24 retiree savings by choosing the HealthSelect MA PPO versus HealthSelect of Texas that Mr. Duran discussed with the Board:

	Medicare-Primary Spouse	Medicare-Primary Surviving Spouse
HealthSelect of Texas FY24 Rates	\$ 358.00	\$ 716.00
Proposed CY24 HealthSelect MA PPO Rates	\$ 113.62	\$ 227.24
Retiree Savings through HealthSelect MA PPO <i>(difference in HealthSelect of Texas and HealthSelect MA PPO rates)</i>	\$ 244.38	\$ 488.76

Staff answered questions posed by trustees and following discussion, questions and comments from the Trustees, the Board took the following action:

Move that the Board approve the CY24 Member Contribution Rates for the HealthSelectSM Medicare Advantage PPO health plan offered under the Texas Employees Group Benefits Program, as presented in this agenda item, effective January 1, 2024.

Motion by Craig Hester, second by John R. Rutherford

Final Resolution: Motion carries

Aye: Brian Barth, Neika Clark, Craig Hester, Jim Kee, Catherine Melvin, John R. Rutherford

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

Porter Wilson, Executive Director, and Machel Pharr, Chief Financial Officer, presented the ERS FY24 Operating Budget for approval. Mr. Wilson outlined significant accomplishments achieved with the FY23 budget, including:

- Significant strides made by the Legislature in funding the pension plans;
- Paying over \$2.9 billion in annuity payments;
- Managing the health insurance plan without needing to request additional funding for the group health insurance benefit from the Legislature, while continuing to provide current level funding for active and retired members, which is unprecedented. He further stated that this is the seventh consecutive year contribution rates have remained stable for the member;
- Soliciting and awarding a new contract for pharmacy benefit management services estimated to save the program \$2.9 billion over the life of the contract;
- Starting a pilot project with Texas Tech University and Texas Department of Criminal Justice to engage their staff in their health care, including at home annual check-ups. ERS hopes to roll out this project more broadly in the future;
- Reducing agency vacancy and turnover rates, which was helped in part by implementing CAPPS Recruit, a new module in the HR system to receive job applications;
- Significant improvements in survivor benefit payment processing and call answer times;
- Launching the Retirement Insurance System Enhancement (RISE) project and other projects to enhance agency performance and accountability;
- Enhancing the Investment Policy Statement to match best practices;
- Signing the first lease for 1836 San Jacinto;
- Significant efforts to explain the new cash balance benefit for Group 4 including two videos, each with English and Spanish versions;
- Education on the new vendor for the vision plan; and
- A special educational campaign to improve the financial stability of state employees with student loan debt. By partnering with a local non-profit with expertise on the federal Public Service Loan Forgiveness (PSLF) program, ERS helped to educate employees on the program.

Mr. Wilson also spoke about initiatives for FY24. These include implementation of legislation recently passed, including a cash balance benefit plan for members of the judiciary, new options for how retirees can receive their annuity and implementation of service purchases for members of Group 4. Mr. Wilson noted this is the first year we will be applying gain sharing to the Group 4 account balances for both members and retirees. Mr. Wilson noted the federal government passed the SECURE 2.0 Act which will require some changes in the TexaSaver program. In the Group Benefits area, a recommendation will be made at the December Board meeting for the third-party administrator for the HealthSelect of Texas and Consumer Directed HealthSelect medical plans. The team has received and is evaluating those proposals.

In addition, ERS continues to implement the pharmacy benefit management contract, which changed vendors with a January 1, 2024 start date. The disability and life insurance benefits have been largely unchanged for a number of years, so we will be evaluating those programs to determine if changes are

needed. As part of the overall intention to engage participants, ERS is beginning a comprehensive well-being initiative that encompasses physical, mental and financial health.

As part of our goal to engage stakeholders, ERS will redesign its website during FY24, as well as looking at vendor websites. Another initiative is to take control of the participant satisfaction survey for HealthSelect to provide better data than the current survey. To enhance agency performance and upgrade technology, the RISE project will look at better ways to deliver the member experience. Best practice reviews continue in Investments, including a practice review, which is required by statute. Mr. Wilson talked about an internship program and how to use that as a pipeline for recruiting. Staff continues to look at new technologies, such as robotics and AI, and other ways to improve processes.

Mr. Hester commended the Legislature and agency for efforts to improve the funding for the pension funds and implementation of the cash balance benefit.

Ms. Pharr stated that ERS is proposing a budget of \$106 million for FY24, a \$10 million increase over the current year budget. She stated that of the current year budget of approximately \$96 million, expenditures are projected at \$93 million. Of the \$10 million increase, \$3 million is related to the 5% across-the board pay increase. She reminded the Board that funds we do not spend remain in the Trust.

Ms. Pharr stated that four new positions are recommended for FY24, as well as some re-alignment of existing positions. The new positions are critical for the implementation of RISE and various legislative changes made during the current and last legislative session.

Ms. Pharr noted that there are approximately 30 budget line items on page 11, which can be put in to roughly seven categories. The largest is salaries and other salary costs, which make up about 62% of the budget. Professional and other contracts is the second largest category. The two categories together make up 84% of the ERS budget. Professional and other contracts include the contract with Group O, the outsource contact center. Professional and other contracts include a large number of contracts for information technology services, such as developers for various systems, routine operations and data management. Also included in this category are actuarial and outside legal services. Investment and other electronic tools account for approximately 7% of the budget, of which the largest expense is Bloomberg. Another category is computer licensing, software and equipment. We use over 70 different software applications and spend approximately \$2 million each year in licensing expense.

Ms. Pharr stated that the Customer Benefits division is by far the largest. However, when comparing the divisions on funding, the Investments division is the largest, with Customer Benefits coming in as the 3rd largest. Ms. Pharr also noted that we have other direct investment-related expenses in other divisions such as Finance, Legal and Internal Audit.

Ms. Pharr presented performance measures for the budget along with the current year estimates and targets for FY24. Ms. Pharr also provided statistics on customer trends noting the rise in inactive members and retirees since 2012, while active members have remained relatively flat.

Ms. Pharr stated that the budget includes \$8.2 million for the capital and property management budget. She explained that property management includes utilities and security for 1836 San Jacinto and that the capital is for tenant improvements. Ms. Pharr stated that the last time we requested tenant improvement funds were for the 2019 budget when the construction contract was awarded. In the intervening time, costs for construction have risen and a higher tenant improvement allowance is required to compete in the current office marketplace.

Ms. Pharr called the Board's attention to Exhibit B, which provides information on the contracts included in the budget as well as an estimate of the investment advisory fees, which are not included in the budget. Ms. Pharr reminded the Board that this is an action item.

Mr. Hester commented that it appears that the projected unexpended funds from the FY23 budget seem to be primarily related to salaries. Ms. Pharr confirmed that the unexpended funds were primarily from salaries, particularly vacancies at the beginning of the year.

Dr. Kee asked for confirmation that the increase was just over \$10 million and another \$8.2 million for the building. Ms. Pharr confirmed this was correct. Dr. Kee asked for information on the declines and increases in the budget over the last few years. Mr. Wilson explained that the budget process is designed to capture what the divisions think are needed to fulfill the operations and projects. Ms. Pharr reminded the Board that in FY20, all agencies were asked to reduce their budgets by 5% due to COVID. ERS set aside just over 5% of its budget for FY20 and remained at that level for FY21. In FY22, ERS requested the reinstatement of the 5% and an additional 3%. In FY23, the budget increased 7%.

Mr. Rutherford asked if there were any areas under or over budget that prevented us from doing the best job we can. Mr. Wilson replied that we had sufficient dollars and flexibility in the budget to address areas that needed focus such as using recruitment and retention funds to fill information system vacancies. Mr. Wilson also mentioned that we have contingency budget, but it was not necessary to use it.

Ms. Melvin asked if we have built-in career ladders to allow individuals to grow within the agency without having to compete for a job, e.g. the ability to allow for natural progression. Mr. Wilson replied each division includes their career ladder requests or other salary actions requests. Ms. Pharr explained that in general there is a pool of 1.5% of division salary budgets to address salary and career growth. .

Mr. Hester asked how much of the additional funds that the Board added to the budget for recruitment and retention were used. Ms. Pharr stated that all of the funds were used. Mr. Wilson went on to explain that these were strategically used by the agency to address vacancies in information technology and other areas during this fiscal year. In the past, ERS has used them to shore up customer service salaries. Mr. Hester stated that he feels the recruitment and retention funds are achieving its purpose. He requested and received information from Ms. Sterns on turnover rates. The turnover rate dropped to 12.8% from 18.6%. ERS is ending the year with 44 vacancies and began the year with 87 vacancies. The current vacancy rate is 11%, down from 16% last year. Also Ms. Sterns has been able to hire a recruitment coordinator. Austin Chamber of Commerce just came out with its report on employment, which noted a 3.1% increase in jobs. Austin has a hot job market. Mr. Hester noted that it was great that the legislators increased state salaries by 5%, but salaries still lag.

Mr. Hester proposed to amend the budget to include a retention and recruitment pool equivalent to 1% of total agency salaries plus related other salary costs, the total of which is \$548,766.

Dr. Kee asked for the motion reader to read the motion.

Move that the Board of Trustees adopt the Fiscal Year 2024 proposed operating budget, including contingency and the Fiscal Year 2024 capital and property management budget, and add a recruitment and retention supplement of 1% of total agency salaries and costs.

Motion by Brian Barth, second by Catherine Melvin

Final Resolution: Motion carries

Aye: Brian Barth, Neika Clark, Craig Hester, Jim Kee, Catherine Melvin, John R. Rutherford

10. Agency Update

Porter Wilson, Executive Director, provided his Agency Update to the Board of Trustees on the following items:

2023 Board of Trustee Election – Retiree Stuart Greenfield of Austin was certified on July 20, 2023 as the winner of the 2023 ERS Board of Trustees Election. YesElections, ERS' election administrator, presented the election results, which are provided below. The new Trustee-elect will begin his term on September 1.

2023 Board of Trustees Election Results		
Candidate	Votes	% Received
Stuart Greenfield	11,244	31%
Ilesa Daniels	8,500	23%
Jimmy Jackson	7,483	21%
Suzy Whittenton	4,559	13%
Chris Nelson	4,514	12%
Total	36,300	100%

Customer Service Update – “Action Beyond the Call” – Robin Hardaway, Director of Customer Benefits, provided an “Action Beyond the Call” update and reported that service response times continue to improve as a result of multiple initiatives. Retirement training is underway for a class of new employees, as well as training for existing counselors.

Achievements since the last May Board meeting are:

- Full staff in the Benefits Counseling center with call answer times stabilizing;
- Insurance calls (excluding Medicare) will be fully outsourced by Group O, on September 1, 2023; and
- Survivor Benefits team is fully staffed and processing times are significantly improved.

Legislative Update - Jennifer Chambers, Director of Government Relations and Special Projects, provided a legislative update and stated that the regular 88th Legislative Session adjourned on May 29, 2023. ERS staff tracked over 200 pieces of introduced legislation that could have had an impact on ERS members, benefits programs or operations. The focus was on strategies to further improve ERS pension plan funding, as well as addressing funding issues for Law Enforcement and Custodial Officer (LECO) and Judicial Retirement System 2 (JRS 2) pension plans. Continued funding for health plan benefits and policy changes that would benefit health plan members was also a focus.

House Bill 90 extends Government Code Chapter 615 line of duty death benefits to members of the Texas Military Department and ERS will be working with the Texas Military Department to establish the process for determining eligibility and beneficiaries for these benefits.

In the Texas Employees Group Benefits Program (GBP), the Legislature maintained funding levels for for eligible employees’, retirees’ and dependents’ health coverage in the GBP. The state employee and retiree health plans receive just over \$2 billion in appropriations each year of the biennium.

In the pension plans, state funding was provided to address the normal cost contribution shortfall and entirely eliminate the unfunded liabilities for both the LECO and JRS 2 plans. These plans are on track to be 100% funded by the August 31, 2023 actuarial valuation. Continued funding of \$510 million per year was provided for the ERS Plan as part of the Legacy Payments.

In addition to the required annual Legacy Payment, the Legislature appropriated a one time \$900 million supplemental payment to further reduce the ERS Plan’s unfunded liabilities.

Senate Bill 1245 created a cash balance defined benefit plan for judges elected on or after September 1, 2024, in the JRS 2 Plan. The cash balance benefit features:

- New judicial officers contributing 6% of their monthly pay;
- Guaranteed annual 4% interest on the member account; and
- In addition to the guaranteed interest, members could receive additional annual interest through gain sharing, depending on the investment returns of the ERS Trust.

11. Executive Session – In accordance with Section 551.074, Texas Government Code, the Board will meet in executive session to deliberate the employment, evaluation, and duties of the Executive Director. Thereafter the Board may consider appropriate action in open session.

Dr. Kee announced the Board's intent to convene in executive session, and the Board moved to a separate conference room for the executive session.

Upon returning from executive session, Dr. Kee announced that no action was taken by the Board while in executive session. Dr. Kee then called for members to entertain a motion.

Mr. Barth stated that the Board had set out specific evaluation criteria for ERS Executive Director, Mr. Porter Wilson, which included expectations for leadership, management, communications, policy matters, and staff development. Mr. Wilson is held accountable to lead the agency in achieving the initiatives set forth in the agency budget. ERS has met these expectations and has done an excellent job in continuing to secure the retirement and insurance benefit programs for ERS active and retired members. The Board then proceeded to make the following motions.

Motion #1

Move that the Board of Trustees of the Employees Retirement System of Texas award ERS Executive Director, Mr. Wilson, an increase in his annual compensation of 3.294% effective September 1, 2023.

Motion by Brian Barth, second by Jim Kee

Final Resolution: Motion carries

Aye: Brian Barth, Neika Clark, Craig Hester, Jim Kee, Catherine Melvin, John Rutherford

Motion #2

Move that the Board of Trustees of the Employees Retirement System of Texas award the ERS Executive Director the maximum incentive compensation award for which he is eligible based on participation in the Incentive Compensation Plan for fiscal year 2023 for qualitative 100% of his 50%, which reflects his leadership and management accomplishments for the year, and for quantitative 100% of his 50%, which is based on Trust fund performance.

Motion by Brian Barth, second by John Rutherford

Final Resolution: Motion carries

Aye: Brian Barth, Neika Clark, Craig Hester, Jim Kee, Catherine Melvin, John Rutherford

Motion #3

Contingent on the adoption of an Incentive Compensation Plan for fiscal year 2024, move that the Board of Trustees of the Employees Retirement System of Texas affirm that effective September 1, 2023, the ERS Executive Director is approved to participate in the ICP as a leadership employee with a maximum award percentage available of 100% of his salary in accordance with the terms of the plan.

Move that Mr. Wilson's performance goals for plan year 2024 should reflect 50% of his possible award under the ICP as a quantitative goal of relative Trust fund performance and 50% of possible award under the ICP as a qualitative goal, reflecting his overall agency leadership, management, communications, policy matters, staff development, and implementation of the agency's strategic initiatives, as reflected in the Board approved operating budget for Fiscal Year 2024.

Motion by Brian Barth, second by Catherine Melvin

Final Resolution: Motion carries

Aye: Brian Barth, Neika Clark, Craig Hester, Jim Kee, Catherine Melvin, John Rutherford

12. Recess of the Board of Trustees. Following a temporary recess, the Board of Trustees will reconvene to take up the remaining items listed on the agenda.

The Board of Trustees recessed at 12:18 p.m. on Wednesday, August 23, 2023. Following a temporary recess, the Board will reconvene to take up the remaining items listed on the agenda.