Board of Trustees Meeting

March 11, 2020

ERS
EMPLOYEES RETIREMENT SYSTEM OF TEXAS

Presented for Review and Approval

May 20, 2020

TABLE OF CONTENTS

BOARD OF TRUSTEES MEETING
EMPLOYEES RETIREMENT SYSTEM OF TEXAS
March 11, 2020
TRS 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. Jim Kee, Member

TRUSTEE ABSENT
Catherine Melvin, Member – *Excused by the Board*

ERS DIRECTORS PRESENT
Porter Wilson, Executive Director
Cathy Terrell, Deputy Executive Director
Paula A. Jones, Deputy Executive Director & General Counsel
William "Shack" 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
Machelle Pharr, Chief Financial Officer
Gabrielle Schreiber, Director of Procurement and Contract Oversight
Dee Dee Sterns, Director of Human Resources
Kathryn Tesar, Director of Benefits Communications
Tom Tull, Chief Investment Officer
Chuck Turner, Chief Information Officer
Keith Yawn, Director of Strategic Initiatives

ERS STAFF PRESENT
Nora Alvarado, Group Benefits
Jason Avants, Information Systems
Georgina Bouton, Group Benefits
Eddie Chan, Finance
Carlos Chujoy, Investments
Kelley Davenport, Executive Office
Juli Davila, Investments
Blaise Duran, Group Benefits
Angelica Harborth, Group Benefits
Aaron Ismail, Internal Audit
Lanesia Jones, Investments
Nancy Lippa, Office of General Counsel
Roger Nooner, Benefits Communications
Susie Ramirez, Executive Office
Tanna Ridgway, Investments
Robert Sessa, Investments
John Streun, Investments
Mary Jane Wardlow, Executive Office
Ariana Whaley, Government Relations

ALSO PRESENT
Ann Bishop, Texas Public Employees Association
Adrienne Cabrera, Office of the Governor
Phil Dial, Rudd and Wisdom, Inc.
Ryan Falls, Gabriel, Roeder, Smith and Company
Mike Forster, Empower Retirement
David Gonzales, Humana
Bill Hamilton, Retired State Employees Association
Diana Head, Blue Cross and Blue Shield of Texas
Colleen McGlamry, UnitedHealthcare
Joe Newton, Gabriel, Roeder, Smith and Company
Tom Nun, Great West Investments
Mallory Sumner, Blue Cross and Blue Shield of Texas
David Tolliver, OptumRx
Rick Villarreal, Community First Health Plan

Meeting of the ERS Board of Trustees

24. 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 2:14 p.m. and read the following statement:

"A public notice of the ERS Board of Trustees meeting containing all items on the proposed agenda was filed with the Office of the Secretary of State at 8:37 a.m. on Tuesday, March 3, 2020, as required by Chapter 551 Texas Government Code, referred to as the Open Meetings Law."

25. Review and Approval of the Minutes to the December 10, 2019 ERS Board of Trustees Meeting – (ACTION)

Chair Ilesa Daniels opened the floor for a motion on the approval of the minutes from the December 10, 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 December 10, 2019.

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

26. Review, Discussion and Consideration of update to the Tobacco Certification Policy – (ACTION)

Mr. Keith Yawn, Director of Strategic Initiatives, presented a recommendation to amend the tobacco certification policy for the Texas Employees Group Benefits Program (GBP). ERS staff recommends adding electronic cigarettes and vaping products to the definition of tobacco products that must be certified by participants enrolling in a GBP health plan. The recommendation was previously reviewed and approved by the Group Benefits Advisory Council (GBAC). The Chair of the GBAC voiced support for the recommendation during the December 2019 Board of Trustees meeting.

Mr. Yawn reviewed the tobacco certification policy's original implementation and current operation for the trustees. Texas Insurance Code 1551 requires ERS to charge tobacco users participating in GBP health plans a monthly tobacco premium supplement. A tobacco user is defined as a participant who has used a tobacco product five or more times in the previous three months. The state's General Appropriations Act sets the amount of the tobacco premium at $30 per month per tobacco user (up to $90 per month). This amount has been unchanged since the start of the program in Fiscal Year 2012.

There are several methods that GBP participants can use to certify their tobacco use status. Open enrollment periods for the health plans – summer for active employees, and fall for retirees – are the prime opportunities for participants to certify as they make changes to their enrollment or verify continued enrollment selections. Members are also asked to certify their tobacco use when they first enroll in a health plan as a new employee or retiree. During these periods, members and retirees are also asked to certify the tobacco use of any dependents covered by the plans. Finally, the ERS benefits system offers a self-service tobacco certification option that plan participants should use at any time their tobacco use status changes.

Mr. Yawn reported that at the end of Fiscal Year 2019 there were 33,000 GBP participants certified as tobacco users and during the year ERS collected $12.1 million in tobacco premium payments. Those charges were based on the current definition of tobacco product, which was originally defined as: "cigarettes, cigars, pipe tobacco, chewing tobacco, snuff, dip, or any other products that contain tobacco. The term does not include an electronic cigarette that does not contain tobacco and is designed expressly for the purpose of smoking cessation." The proposed staff recommendation presented to the Board would alter the definition to read: "A tobacco product is defined as all types of tobacco, including, but not limited to, cigarettes, cigars, pipe tobacco, chewing tobacco, snuff, dip, and all e-cigarettes and vaping products."

The recommended definition clarifies the inclusion of all e-cigarette and vaping products and removes reference to smoking cessation. The smoking cessation reference is no longer needed due to the creation of the Choose to Quit program, in response to the Affordable Care Act. The Choose to Quit program allows any member who is a certified tobacco user to work with their physician to define a tobacco cessation program and a way to formally attempt to quit using a tobacco product. Whether successful or not, upon completion of the program, verified by a physician, the participant can cease paying the tobacco premium for the remainder of the current fiscal year. Program completions must occur annually unless the participant actually ends their use of tobacco products. The use of e-cigarettes or vaping products in a Choose to Quit program would be allowed if approved by the treating physician.

Dr. Jim Kee asked about the inclusion of nicotine gum in the new definition. Mr. Porter Wilson stated that there are not the same health concerns with nicotine gum as with inhalation products that push products into the lung and respiratory system. Mr. Yawn added that nicotine gum is approved by the Federal Drug Administration and the Centers for Disease Control and Prevention as a tobacco cessation product, whereas the products being added to the definition have not received such a designation.

Mr. Craig Hester asked if staff had received any negative feedback on the proposal. Mr. Yawn stated that all responses staff were aware of had been supportive of the proposed change. Mr. Yawn then provided an overview of the planned implementation and communication timeline. Communications were planned to begin immediately and run through summer enrollment, with the policy change having an effective date of September 1, 2020. The implementation timeline would allow members to take action to cease use of the newly included products before the effective date if they do not want to pay the tobacco premium.

There being no further questions, the Board of Trustees took the following action:

Motion made to move that the Board of Trustees of the Employees Retirement System of Texas approve the proposed change to the definition of “Tobacco Product” within the Tobacco Certification Policy, related forms, educational materials, and instructions.

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

Mr. Yawn noted that ERS staff planned to bring a related rule revision to the Board for approval during the August Board meeting to further clarify the change and ensure transparency in the process.

27. Review and Discussion of the Texas Employees Group Benefits Program (GBP) Update

Ms. Diana Kongevick, Director of Group Benefits, introduced Blaise Duran, FSA, Manager of Group Benefits Actuarial and Reporting Services and Phil Dial, FSA, with Rudd and Wisdom, Inc. who will assist in presenting Agenda Item 27. Ms. Kongevick then asked Mr. Duran to start the presentation by providing updated FY19 and FY20 trend information for the HealthSelect^{SM} plans.

Mr. Duran reported that the FY19 medical trend is a bit better than previously presented at the December 10, 2019 board meeting, largely due to fewer run out claims than initially projected. Run out claims are claims incurred in FY19 but paid in FY20. As a result, FY19 medical trend is expected to be 3.5% instead of 4.0% previously reported. The FY19 pharmacy trend remained as reported at the December 10, 2019 board meeting for a combined FY19 medical and pharmacy trend of 4.5%. For context, Mr. Duran explained that an annual trend of 7% to 7.5% is normally expected, with an estimated 5% to 5.5% trend for medical alone. Overall, trend is running better than the good results reported in December 2019.

Mr. Duran further reported that FY20 medical trend projections are slightly higher than average at 6.1%. While higher utilization was observed through the first part of the fiscal year, it is not out of line or unusual, and is well within the range of what is expected when compared to a normal expected medical trend of 5.5%. FY20 pharmacy trend is expected to continue at 8.4%, still below historical averages which are in the 12% range. The estimated combined FY20 medical and pharmacy trend is projected to be

6.7%, still less than a normally expected annual trend of 7% to 7.5%. Based on current trend information, favorable experience is expected for FY20.

In its report to the board at the August 29, 2019 board meeting, Internal Audit recommended establishing non-financial performance measures for HealthSelect key performance areas and periodically communicating that performance measure information to the board. Mr. Duran explained that today's presentation includes the first HealthSelect non-financial performance measure reporting information. While Group Benefits is planning enhancements and additions in the future, Mr. Duran requested the board provide feedback indicating what they found useful, items they would like to hear more about, and any recommended additions to the report.

Group Benefits developed non-financial performance measures in four key areas and Mr. Duran reviewed those measures included in today's report: network performance, competiveness of benefits, utilization of benefits, and participant satisfaction with the HealthSelect health plans.

There are six measures in the network performance category:

1) the percentage of claims paid to a network provider,
2) percentageof participants who selected a primary care physician (PCP),
3) the participant to PCP ratio,
4) the percentage of participants with access standards met,
5) the percentage of PCPs accepting new patients and
6) participant satisfaction with the network.

The information presented included the benchmark, FY19 current period result and the prior period result. Mr. Duran noted that, for the most part, the benchmark was met in each of the categories. Participants primarily use in-network benefits, the majority are able to go to a network PCP for full use of their benefits, the PCP ratio is good and is improved from 2018, access standards are above the benchmark and continue to improve, and participant satisfaction with the network continues to grow.

Mr. Duran offered additional information in several areas and further explained access in connection with those rural counties with few or no PCPs and access in neighboring counties. While there are 10 to 15 counties without a PCP, all are considered by the Center for Medicare Services (CMS) to be counties with extreme access considerations. In those cases, neighboring counties provide access to HealthSelect members within access standards.

Ms. Kongevick said that PCPs are a very valuable component of the HealthSelect of Texas plan design. PCP access measures continue to improve. It is important to note telemedicine and virtual visits help to bridge any potential access gap.

Mr. Dial indicated that, from an immediacy standpoint, access is probably more related to hospital access versus physician access, with a more serious hospital access problem in rural areas.

Mr. Duran went on to explain the measure reflecting participants who met access standards. For this purpose, the standard is that each participant have access to two PCPs within 15 miles and one hospital within 15 miles. No distinction was made between urban and rural areas, with the same standard used across the state. While ERS is currently transitioning to software for use in evaluating this measure in-house, for this purpose Blue Cross and Blue Shield of Texas (BCBSTX) surveys assisted in calculating this measure. As of January 31, 2020, 89.5% of HealthSelect participants had access to PCPs, compared to 88.6% in the prior period and the 85% benchmark.

The number of PCPs accepting new patients is an important measure to avoid limiting access and the benchmark was set at 90% to reflect the importance of this measure. While this measure was not available for the prior year, at December 31, 2019 the measure was 94% and exceeded the benchmark.

To reflect the importance of a broad network and to align with the network satisfaction performance guarantee, the network satisfaction benchmark is 85%. For the current period, 86.9% of HealthSelect participants indicated their satisfaction with the network, which is up from 86.3% in the prior year.

When asked to indicate the two or three biggest dissatisfactions heard from participants about HealthSelect, Mr. Duran explained this survey does not go into that type of detail. However, Group Benefits has had discussions about bringing this type of survey in-house in order to assess additional questions. Additionally, an in-house survey would allow for survey consistency in the event of a third-party administrator change. Ms. Kongevick noted that an in-house survey will help Group Benefits monitor satisfaction on a more frequent basis, so that potential changes can be identified and reviewed often.

Keith Yawn informed the board that ERS recently completed customer surveys; one on retirement benefits and another related to some of the group benefit programs which measured satisfaction with more than HealthSelect. Those survey results will be presented at a future board meeting and should provide some more granularity related to satisfaction and dissatisfaction and where people think benefits programs could be improved.

Moving on to competiveness of benefits, Mr. Duran reported that individually, member cost share (MCS) and member contributions as a percentage of total cost, are at 14% and 17% respectively. These measures are at or below benchmark. Member cost share includes copay, coinsurance and deductible. The combined MCS and member contributions as a percentage of total cost, is 31%, which is also below benchmark. This means that through copays, coinsurance and deductibles, as well as monthly contributions, HealthSelect members pay approximately 31% of the total cost. The benchmark used is the Willis Towers Watson 2019 Financial Benchmarks Survey, an annual survey primarily of large private sector employers comprised of 2,248 companies in 18 industry groups (less than 5% public sector/education). Since Chapter 1551 requires the GBP to maintain benefits that are at least as good as those in the private sector, this was determined to be an appropriate benchmark for this purpose. To the extent that this measure is below benchmark it means that GBP members are paying less than other employees. However, total compensation is also a key factor that should be monitored in connection with MCS.

Continuing to utilization of benefits, two measures were targeted, virtual visits and wellness visits. A virtual visit occurs through utilization of one of the two in-network HealthSelect virtual visit providers. Mr. Duran reminded the board of the importance of offering virtual visits, from the standpoint of rural access, participant convenience and cost. Virtual Visits are offered at no or low cost to HealthSelect participants, and a benchmark of 25% growth was established by ERS' Actuarial and Reporting Services. The benchmark may be re-evaluated in the future based on utilization.

Ms. Kongevick added that virtual visits could expand. Just this past year, a scheduled virtual mental health visit was implemented and ERS is keeping an eye on the potential for additional needs. With more than 400% growth in FY18 following the elimination of the HealthSelect of Texas copay, followed by 78% growth in FY19, Mr. Duran noted that virtual visits are valuable to participants and to the plans.

When asked if doctors can provide prescriptions through a virtual visit, Ms. Kongevick advised that doctors can prescribe and electronically send the prescription to the patient's pharmacy. HealthSelect has two virtual visit providers, Doctor on Demand and MD Live and after using the service once, Ms. Kongevick reported many participants become repeat users. Utilization increases during flu season, and the service is popular for respiratory illnesses and minor conditions.

Mr. Duran then discussed utilization of benefits measures by discussing wellness visits. This benchmark is aspirational at 70% and is established to align with ERS targeted wellness goals. Currently HealthSelect is under the target at 41%. ERS is working with state agencies and higher education institutions and their wellness coordinators, to increase the number of annual preventive visits.

Mr. Duran continued the presentation by reporting on the participant satisfaction measure, with the measurement based on the BCBSTX survey indicating satisfaction with the HealthSelect medical plans. The 85% benchmark is aligned with performance guarantees. For FY19, 78.4% indicate they are satisfied compared to 78.8% in the prior period. Mr. Duran indicated this is one more area that may benefit by bringing the survey in-house.

Dr. Kee asked if there is sufficient staff to bring the survey in house. Ms. Kongevick noted that bringing the survey in-house is a goal and capacity to do that is still to be determined; however, if it can be done, she believes it will result in becoming more strategic. When asked if there is a timeline when it might be brought in-house, Ms. Kongevick responded that it will not be this year. She noted they are trying to evaluate exactly where and when they will have the resources and capacity to support the design and implementation, possibly next year.

Mr. Duran also mentioned potential additional targeted areas for non-financial performance measures, such as grievance and appeals, behavioral health network, prescription drug plans and GBP optional plans. He concluded the presentation by reminding the board that he is very interested in their feedback and opened it up for questions.

Mr. Dial stated he had one comment he failed to make earlier in connection with the slide about competiveness of benefits, specifically related to member contributions. Member contributions, as a percent of total cost, has been steady at 17% for many, many years. And, of course, that is attributable to the fact that the state contributes 100% of the member contribution cost and 50% of the dependent contribution cost. Many have felt, over the years that it has been one of the most important keys to the strength of this program – its ability to serve the members and its ability to maintain a good financial picture because it guarantees a high level of participation in the program.

Mr. Hester stated that, given the financial position that the plan is in at the moment at least, it looks like there is a runway for that being relatively steady for the next three or four years if trends hold.

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

28. Review and Discussion of the Texa$aver 401(k)/457 Program Performance Review

Ms. Diana Kongevick, Director of Group Benefits, explained that staff prepared this presentation to serve as a basis for an annual investment review of the Texa$aver program investments. Ms. Kongevick noted that the board's feedback is greatly appreciated regarding the information provided within the overview. Following her opening comments, Ms. Kongevick introduced Georgina Bouton, Assistant Director of Group Benefits and Tom Nun, Portfolio Strategist with Great West Investments.

Mr. Nun serves as a subject matter expert on the investment products offered by Great West and is responsible for developing and communicating the company's investment and capital market views. Ms. Kongevick invited Mr. Nun to share with the board some information about his professional background.

Mr. Nun informed the board that he has been with Great West Investments (GWI) for almost two years. He then provided an overview of his professional background in risk management, asset allocation, research analysis, and financial translation with firms such as Janus Henderson and Standard & Poors; he holds a MBA and CFA.

Ms. Kongevick reported that during the December 10, 2019 board meeting, the Board delegated authority to the Executive Director to remove First Eagle Fund of America and Victory Munder Mid Cap Core Growth Y funds from the Texa$aver program, following the selection of new mid-cap funds through a selection process involving the Texa$aver Product Review Committee (PRC). Ms. Kongevick expressed her appreciation to the PRC and the PRC subcommittee for their contributions to the successful fund searches.

Ms. Kongevick reported that on January 23, 2020, BlackRock Mid Capitalization Equity Index F fund (BlackRock Mid Cap), a passively managed CIT fund, was selected as the replacement mid cap fund. The fund mapping from the First Eagle Fund of America and Victory Munder Mid Cap Core Growth Y funds to the BlackRock Mid Cap fund took place at close of business Friday, March 6, 2020. There was no blackout period for this fund mapping.

On February 27, 2020, Wellington's WTC CIF II Mid Cap Opportunities (Series 1) (Wellington Mid Cap Opp), an actively managed mid cap fund, was subsequently selected. There were no funds mapped to this actively managed mid cap fund. Ms. Kongevick explained that the PRC will be performing a full review of the Texa$aver fund line-up as part of its strategic review process.

Ms. Kongevick responded that the BlackRock Mid Cap, the passive fund, is the replacement fund for both the First Eagle Fund and Victory Munder funds. Texa$aver participants have the option to invest in the Wellington Mid Cap Opp fund at their discretion. Ms. Kongevick then turned the presentation to Ms. Bouton.

Ms. Bouton provided the program overview, explaining that ERS administers the Texa$aver program on behalf of the state of Texas, providing an optional supplemental retirement benefit savings program. All contributions are from employees; the State does not contribute or match contributions to the plan. ERS encourages employees to save through Texa$aver to supplement their state provided retirement benefits, which do not include cost of living increases, and Social Secruity. Texa$aver is a benefit that assists employees with their personal financial savings.

Texa$aver is unique in that it is comprised of two distinct plans: the 401(k) plan was established in 1985 and is available to employees of state agencies; the 457 was established in 1974 and is available to employees of eligible higher education institutions, as well as employees of state agencies.

Ms. Bouton explained that contributions are done through payroll deductions, which are then invested into those funds offered within the Texa$aver fund line-up. Since January 1, 2008, the Texa$aver program has automatically enrolled all state employees hired on or after that date in the 401(k) plan. Automatic enrollment is done at 1% of an employee's salary and invested into program’s target date fund offering. Employees may opt out of this enrollment. Since inception and through December 31, 2019, the auto enrollee retention rate was 83.8%.

Ms. Bouton pointed out that the data throughout the presentation is through December 31, 2019 unless otherwise noted. However, recent market events and the mid cap fund transitions are highlights in the presentation outside of the reporting period that will be addressed at appropriate times within the presentation. Ms. Bouton noted that, as of the end of 2019, the combined assets of both Texa$aver plans were in excess of $3.6 billion with 73% of those assets attributed to the 401(k) plan. The fund offerings between the plans are identical. She explained that Texa$aver offers a tiered fund menu approach designed around the participants’ desired level of engagement around portfolio construction and diversification.

Tier 1 are the professionally managed target date funds, which are currently offered through BlackRock's LifePath® Index Funds series. These funds offer a streamlined approach to asset allocation designed for participants who do not want to actively manage their contributions. At the close of 2019, assets under management in the target date funds were approximately $871 million representing 24% of the program assets. Participant funds are placed into a fund that “targets” their expected year of retirement. The target date funds are the Qualified Default Investment Alternative for contributions for which employees have not made an investment election.

Tier 2 are core funds, which are the 12 mutual funds and collected trust funds. Texa$aver follows the Morningstar Style Box approach for a transparent, easy-to-follow portfolio construction for domestic equity, international funds, and fixed income funds. The core funds are institutionally priced so participants receive the benefit of low expense ratios. At the end of 2019, the assets under management in core funds totaled $2.6 billion, which is 74.4% of program assets.

Tier 3 is the self-directed brokerage account offered through Charles Schwab's Personal Choice Retirement account. This investment offering requires the highest level of participant engagement but offers the greatest investment flexibility. Investments held in brokerage accounts totaled $168.3 million, or 4.6% percent of program assets.

Ms. Bouton explained that the program uses an investment Product Review Committee (PRC) to provide guidance and oversight of the investment options offered within both plans. The nine-person committee consults on all matters related to the investment options, as well as with the fund managers. Committee membership includes ERS agency and investment leadership, staff, industry experts, and members of the Investment Advisory Committee.

The PRC is required to meet no less than two times annually; this is stated in the committee's charter. However, based on the business at hand, the PRC may meet more regularly than this stated minimum. Sub-committees are appointed for a specific purpose within the due diligence process and will meet more frequently while undergoing a due diligence review. Ms. Bouton reported that the subcommittee is made up of PRC members, and may also include members of the IAC and ERS staff possessing subject matter expertise. Ms. Bouton thanked the members of the mid cap PRC sub-committee, as well as members of the PRC, for their work on the mid cap fund searches. She then turned the presentation to Mr. Nun for the capital markets update.

Mr. Nun acknowledged that the board received several capital market updates throughout the day as a result of recent market events. His focus would be on those capital market items that relate to the funds that he will be addressing today. Mr. Nun reiterated that the capital market performance data prepared for the board was through December 31, 2019; however, the market activity in the last two and a half weeks may make some of the capital returns data more or less relevant.

With regards to equity market returns, Mr. Nun reported that the S&P 500 return for 2019 was exceptional at 31.5%. He made note that the fourth quarter was also very favorable for large cap US equities and highlighted the outperformance of growth to value throughout 2019. Mr. Nun further reported that while the MSCI EAFE, representing developed non US stocks, had a robust 22% performance, this performance was significantly behind that of US domestic large caps for the same period.

Mr. Nun recapped his earlier comments regarding growth outperforming value for a persistently long duration - essentially going on for 10 years almost uninterrupted. Throughout 2019, large caps had outperformed small cap funds; US equities outperformed the rest of the world, primarily because the US economy has been so much stronger than countries, such as China and Europe, which were hit relatively hard by the ongoing trade.

Moving to fixed income and specialty returns, Mr. Nun noted that Bloomberg US aggregate reported a very strong return of 8.7%. He commented that it is somewhat unusual to occur at the same time that market has a very strong equity performance. In addition to that, almost 20% return on a US government credit long is truly exceptional.

Mr. Nun commented on the S&P sector returns with information that would be relevant in the individual fund performance review. He stated that the technology sector had a 50% return for 2019, citing that this is a PE driven market. He also highlighted the performance of utilities. Mr. Nun stated that the fourth quarter underperformance of the real estate sector was substantial. It was the only market sector within the S&P to sell off. Other market sectors that will be relevant later in the fund performance discussion are the performance of energy stocks and financials.

Mr. Nun then reviewed the different asset class exposures currently provided with the Texa$aver fund options. Although the current offerings provide very adequate coverage across the listed asset classes, Mr. Nun did reiterate that the PRC will be doing a strategic review of the fund offerings available within Texa$aver.

Mr. Hester asked if Mr. Nun or Great-West Investments had any opinion on expanding the fund options, specifically if there was potential to broaden the diversification of the line-up or is the line-up sufficiently diversified.

Mr. Nun responded that there are a couple of discussion points that the PRC will be looking at more closely, but overall the fund options represent an adequate exposure.

Dr. Kee asked if a broad US index fund in the form of a multi cap fund is currently available within the Texa$aver line-up.

Mr. Nun responded no, not at the present time.

Next, Dr. Kee inquired about the availability of an international equity option.

Mr. Nun explained that the Texa$aver line-up does include an international offering that includes 10% to 12% emerging markets. He reported that this offering does cover a wide range of capitalization, as well. Mr. Nun confirmed the current international offering is an actively managed fund.

First Eagle Fund of America Y (First Eagle) and Victory Munder are the mid cap offerings; both funds were discussed at the December 2019 Board meeting and required enhanced due diligence as a result of performance. As a result of the due diligence, these funds were removed and replaced March 6, 2020 with the BlackRock Mid Cap fund. Mr. Nun explained that he participated in the due diligence process and discussions. He did want to acknowledge to the board that both First Eagle and Victory Munder were very accommodating, forthcoming and professional throughout this entire due diligence process. So, BlackRock Mid Cap fund serves as the replacement fund for First Eagle and Victory Munder. Wellington Mid Cap Opp fund is the active strategy and will serve as a new fund to the line-up with no funds being directly mapped to this offering.

Next, Mr. Nunn gave an overview of the BlackRock Short Term Investment fund, the program's money market offering. He reported that this fund has had very solid performance at a competitive price of 8 basis points (bps). He commented that this is a very competitive price for what has been an outperforming fund. In the money market space, there have been no issues in terms of performance or with the expense ratio (fee).

BlackRock 1-3 Year Government Bond Index Fund, the short-term bond offering, has had a solid performance. The index tracking has been excellent and 6 bps fee is competitive. Mr. Nun reported that the fund's duration is very consistent for this type of portfolio at 1.8 years - 2 years. Overall, fund performance is consistent with expectations.

Similarly, the BlackRock Bond Index, the intermediate bond offering, has had superb index tracking, within +/- 3 bps of its index benchmark. Mr. Nun explained that both the duration and credit quality are consistent with expectations for an index fund.

The Vanguard Wellington Admiral fund is an asset allocation fund. Mr. Nun explained that this is a 60/40 (60% equity, 40% bond) fund, which is widely utilized in defined contribution plans. He did explain that this fund is sub-advised by Wellington, the firm that has been chosen to provide the active mid cap option; however, this will be a different portfolio management team. Overall, this fund has had a very strong performance. This management team keeps their asset allocation very close to 60/40 allocation.

Mr. Nun presented an overview of Davis New York Venture, the large cap offering. He reported that performance has been a little bit difficult over the long term. In fourth quarter, the fund was roughly even with its benchmark. This fund is highly concentrated; there are approximately 48 stocks within the portfolio. It tends to be very heavy in the financial sector. In the earlier discussion of sector performance, financials had been one area that has been somewhat middling. More important than that, the fund also tends to carry more non-US equity than might be expected for a fund of this nature. These are known biases that are self-acknowledged by the portfolio managers. These biases have, from time to time, served the fund performance relatively well; however, as mentioned in the capital markets update, non-US securities have been a difficult place to be. So this strategy has provided something of a headwind to the portfolio.

Next is the Vanguard Institutional Index fund, the large cap blend offering. This fund is benchmarked to the S&P 500 and has had a very superb index tracking. This fund offers an extremely low cost at 2 bps. Mr. Nun commented that even for a passively managed fund, this expense ratio is extremely competitive. Mr. Nun did report that some years ago Vanguard, as a firm, made the decision to move many of its portfolios to the CRSP index, moving away from other benchmarks. The Vanguard Institutional Index, however, continues to be managed to the S&P 500 as its designated benchmark.

Vanguard Growth Index Institutional fund is the large cap growth offering. Mr. Nun reported that this fund has had no performance issues; the fund tracks its index very closely. However, this is one of the funds that Vanguard has transitioned to CRSP from its previous benchmark. Mr. Nun explained that this benchmark change does create some performance issues relative to the Russell 1000 growth index, which is the benchmark index indicated on the performance report for the board. Mr. Nun did note that the

PRC indicated their intent to revisit this benchmark transition; however, he wanted to point out to the board the fund's very strong performance and low expense ratio at 4 bps.

Next, Mr. Nun addressed Lord Abbett Small Cap Value I, the program's small cap offering. He explained that performance has been difficult for this fund. As presented in the style discussion, large cap has outperformed small cap funds, and growth has been outperforming value. So this fund, residing in the small cap value space, has had a difficult time. Mr. Nun went on to explain that this fund has also had a clear move toward value; it had been somewhat more core. The portfolio managers had relayed their intention to members of the PRC to manage this from more of a core fund to more of a value fund. Mr. Nun stated that the portfolio managers have delivered on this commitment.

The AB All Market Real Return Portfolio Fund, is a specialty fund offered within Texa$aver. Mr. Nun explained that this is a difficult fund to benchmark for several reasons. Its stated objective is to reduce the impact of inflation on people's overall portfolio. It's an inflation finding portfolio. The fund invests in asset classes that aren't easily benchmarked, either by stated indices or by peers. For that reason, performance itself is somewhat difficult to measure in isolation. This fund currently has only $2 million worth of program assets within it, which is estimated at less than 10 basis points of the plan. Mr. Nun explained this fund, by design, invests a significant portion of its assets in real estate equities. As discussed during the market sector portion of the presentation, real estate has been a difficult place to be until very recently.

In addition to real estate equities, commodities in energy is also a very large component of the AB All Market Real Return fund. Again, that is by design, as the fund's stated objective is to combat inflation. These are strategies that are not unusual in those types of products but have attributed to the fund's overall performance.

The Fidelity Diversified International fund is the international fund. This is the fund that provides participants with exposure and ability to invest in international equities. Performance over the long term has been strong with moderate exceptions. Mr. Nun pointed out that this fund is benchmarked to the MSCI EAFE Growth. Mr. Nun stated that this fund is a growth portfolio, and he characterized it as somewhat GARP-y (Growth at a Reasonable Price).

To finish up the fund performance review, Mr. Nun addressed the BlackRock LifePath® Index Funds, the program's target date offering which is the default investment option. He reported that the target date series is a very strong offering provided by BlackRock with a strong portfolio construction. All of these underlying funds within this target age series are passive. Mr. Nun explain that this is done to control costs. Mr. Nun reported to the board that in 2014, the fund managers actually made the conscious decision to make this a little bit more aggressive than it had been in the past. In the environment that we've been in for quite some time, that has helped performance. Mr. Nun pointed out that performance over the long term has been very strong; however, the more recent equity performance may represent something of a headwind to the fund.

Mr. Nun concluded his presentation by stating that this was the first performance review of the Texa$aver funds presented to the board. He welcomed any feedback on how to make this information more worthwhile to the board.

Dr. Kee said that he considers a broad passive domestic equity option and an active domestic equity option to be critical offerings in a deferred compensation plan.

Mr. Nun noted that the Texa$aver program does offer options on the domestic side that are passively managed.

Dr. Kee clarified that these offerings are not broad; they are large cap. He then asked for fees on the target date funds since this information was not included within the presentation.

Mr. Nun responded that the expense ratio for the target date funds is 8 bps.

Ms. Kongevick reported to the board that the PRC will be conducting their strategic review for the funds within the program. This review will extend to addressing potential gaps in the fund offering. Following this review, an overview of the final findings will be presented to the board, as well.

Mr. Hester stated the performance review was helpful for the board. With the program assets at $3.6 billion, the board has a need for a performance report like this on an annual basis. Mr. Hester went on to comment that some funds' performance, at least from Morningstar rating, have appeared to have slipped from when the funds were originally put into the lineup. So a fund review by the PRC is necessary. Mr. Hester went on to state that he would agree with Dr. Kee that it would be good to provide participants both broader passive options, as well as active options for their choices on each end of the risk spectrum.

Ms. Kongevick explained that staff has started the process to facilitate the PRC strategic review and appreciated this feedback.

Mr. Hester stated that it is really encouraging to see so many people participating and the growth in the assets under management for the program.

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

29. Review, Discussion and Consideration of the Proposed Texa$aver 401(k)/457 Program Rates – (ACTION)

Ms. Nora Alvarado, Manager of Voluntary Income Plans, provided an overview of the Texa$aver Program offered by the State of Texas. The Texa$aver Program is a tax-deferred, supplemental retirement program with two separate plans, the 401(k) and the 457. No funds are appropriated by the legislature for administration of the program, which is 100% funded by the participants.

Administrative fees assessed to participant accounts each month cover record keeping and ERS internal costs. The ERS board adopted the current administrative fee schedule, which became effective September 1 of 2009.

Ms. Alvarado reviewed the chart shown below, which reflects board approved participant fee changes (by tier) since September 2009. Fees have generally decreased over time. In addition to fee reductions, structural changes occurred in October 2018 and May 2019. These changes eliminated the per-contribution type fee and the no-fee tier for participants with a balance of $10 or less.

Participant Fee Changes
By Account Balance Tier
September 2009 – August 2019

Additional Fee changes:
October 2018 - Monthly fees to be charged per participant, per account (eliminate per contribution type fees)
May 2019 - Eliminated $10 or less tier, moving those participants to $1,000 or less tier (eliminate 'no fee' tier)

Ms. Alvarado explained that the Actuarial and Reporting Services area of Group Benefits designed the administrative fee schedule based on participant account balance and automatic enrollment, and periodically performs reviews to ensure fees generate sufficient revenue to cover ERS internal costs and record keeping services. ERS proposes fee adjustments as necessary, based on actual enrollment figures and balances.

Based on the most recent administrative fee review, ERS recommends a fixed percentage reduction of 15% across all tiers. The table below shows the current monthly fee, the proposed monthly fee effective May 1, 2020 with the corresponding monthly fee reduction amount.

Account Balance	Current Monthly Fee Effective June 1, 2019 (Per Participant, Per Account)	Proposed Monthly Fee Effective May 1, 2020 (Per Participant, Per Account)	Monthly Fee Change (Per Participant, Per Account)
$1,000.00 or less	$ 0.71	$ 0.60	$ (0.11)
$1,000.01 to $16,000.00	$ 2.41	$ 2.05	$ (0.36)
$16,000.01 to $32,000.00	$ 3.62	$ 3.08	$ (0.54)
$32,000.01 to $48,000.00	$ 4.93	$ 4.19	$ (0.74)
$48,000.01 to $64,000.00	$ 6.57	$ 5.58	$ (0.99)
$64,000.01 or more	$ 8.22	$ 6.99	$ (1.23)

ERS staff continues to research the overall fee structure and tiered approach based on updated best practices and participant feedback. In the interim, and based on ERS' review, Ms. Alvarado advised that ERS staff recommend a 15% reduction in monthly administrative fees, effective May 1, 2020.

Communication about the fee reduction will be provided to participants at least 30 days prior to the fee change effective date. Ms. Alvarado described the communication plan coordinated with Empower Retirement to notify participants. The plan will include Texa$aver website messaging, direct email to participants, and a quarterly statement narrative. In addition, information will be included in *News About Your Benefits* and *Update Express* for benefit coordinators.

At this time, ERS staff recommend the Board of Trustees of the Employees Retirement System of Texas adopt the proposed Texa$aver 15% participant administrative fee reduction effective May 1, 2020.

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 approve the proposed administrative fee structure for the Texa$aver program.

Motion by Craig Hester, second by Jim Kee
Final resolution: Motion carries
Aye: Ilesa Daniels, Brian Barth, Craig Hester, Jim Kee

30. Agency Update

Legislative Interim Activities – Porter Wilson, Executive Director, announced that there was a Capitol briefing with legislative employees on February 6, 2020 and Ryan Falls and Joe Newton, Actuaries from Gabriel Roeder Smith presented their presentation from the December 2019 ERS Board of Trustees Meeting.

ERS Strategic Plan Update for Fiscal Year 2021-2025 – Mr. Wilson provided an update on the development of ERS's strategic plan which focuses on four strategic initiatives: Supporting Retirement Security, Sustaining Competitive Group Benefits Programs, Engaging Stakeholders for Informed Decision Making, and Enhancing Agency Performance and Accountability. An update to the Board will be provided at the May 20, 2020 ERS Board of Trustees meeting.

Customer Benefits Update – Robin Hardaway, Director of Customer Benefits, updated the Board on Customer Service challenges ERS is experiencing. Benefits counselors are the voice and face of ERS when it comes to members. They are educating members through multiple channels such as taking calls, responding to emails, and seeing visitors that come to the building (whether it is by walk-in or by appointment). Benefits counselors educate and counsel over 180,000 state of Texas and higher education employees, retirees and beneficiaries on retirement and insurance benefits.

ERS contracts with ACT, which is an external call center, to answer general customer service calls such as updating beneficiaries and personal information, and checking account balance information. They also handle the bulk of annual enrollment calls. Recently members are experiencing lengthier wait times than normal for assistance from the ERS Contact Center. Ms. Hardaway told the Board that this is not the level of service that ERS expects to give to its members and is focused on improving their experience.

Ms. Hardaway informed the board that calls from Fiscal Years 2018 – 2019 increased by 18%, emails increased over 30% and visits increased by 11%. The average wait time on calls for Fiscal Year 2018 was a little over nine minutes, and the handle time (measured from the time the phone was answered to the time the call is completed) was over 11 minutes. For Fiscal Year 2019, the average wait time to answer the phone was over 21 minutes, with the handle time 12 minutes. Ms. Hardaway noted that currently the average wait time is over 43 minutes and handle time for the call is a little over 14 minutes. This wait time is a direct reflection of staffing and the difficulty associated with recruiting and retaining contact center employees qualified staff. There are 29 full time employees (FTEs) budgeted in the Contact Center. Currently 18 of those positions are filled by employees, and three others are staffed by temporary employees for a total of 21.There is a current vacancy of eight employees.

ERS offers a virtual callback feature to members who do not want to wait on the phone. The feature allows them to provide a number and ERS will call them back when it is their turn. They do not lose their place in line and they do not have to wait on the phone. ERS increased the number of hours this feature is available from 7:30 a.m. to 3:30 p.m.

Ms. Hardaway announced that ERS is actively looking at different recruitment and retention strategies, including a market salary analysis. ERS is currently in a request for proposal process for the outsourced call center with the expectation that the vendor may be able to handle additional calls on behalf of ERS.

Major Publications – Mr. Wilson informed the board that the Consumer Directed HealthSelect[SM] Program report and the Employees Group Benefit Program Annual Report can be found on the ERS website for members to view.

Survey of Employee Engagement (SEE) – The SEE is a survey through the Institute for Organizational Excellence at the University of Texas that is sent out to ERS employees every two years to gauge their level of engagement and satisfaction in a number of areas. ERS is just one of many state agencies that participate in the survey. ERS employees received the survey on February 3, 2020. ERS generally has high participation in the survey and high scores, especially as compared to other surveyed employees. Mr. Wilson will update the Board on the SEE results once received.

2020 Get Fit Texas State Challenge – The Texas Get Fit Challenge happens around the first of each year. The challenge is for employees to have 30 minutes of physical activity every day for five days, or 150 minutes a week for ten consecutive weeks. Multiple agencies are involved in the challenge. ERS has won first place for agencies in its size category in 2018 and 2019 and Mr. Wilson has challenged ERS employees to a three-peat in 2020. A final update will be announced at the May 20, 2020 ERS Board of Trustees meeting.

Additional Updates:

COVID-19: ERS has been engaged over the last few weeks in conversations with the Governor's Office and the Department of Insurance and health plans, including ERS, Teacher Retirement System, University of Texas, and Texas A&M to discuss what can be done to help manage the health crisis for participants.

ERS will waive member cost share for HealthSelect members in connection with physician-ordered lab tests to diagnose COVID-19. Mr. Wilson also reminded the Board that there is no out-of-pocket costs to members for using the telemedicine program. The prescription drug program will allow people to get access to a 90 day supply of their medications and get those filled earlier if needed.

ERS will limit employee international travel to the CDC-identified areas of concern, including China, Hong Kong, Japan, South Korea and Italy, and will continue to examine safety concerns related to travel requests.

ERS' operational division has been engaged in a more robust cleaning of the ERS facility and posting information around the building about making sure people adhere to the guidelines about washing hands and not touching our face.

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

31. Executive Session – In accordance with Section 551.089, Texas Government Code, the Board of Trustees will meet in executive session to discuss: (1) security assessments or deployments relating to information resources technology; (2) network security information as described by Section 2059.055(b); or (3) the deployment, or specific occasions for implementation, of security personnel, critical infrastructure, or security devices and/or (4) a security audit. Thereafter, the Board may consider appropriate action in open session.

Ms. Daniels stated the time is 4:20 p.m. on March 11, 2020. The ERS Board of Trustees will meet in executive session in accordance with Section 551.089, Texas Government Code, to discuss: (1) security assessments or deployments relating to information resources technology; (2) network security information as described by Section 2059.055(b); or (3) the deployment, or specific occasions for implementation, of security personnel, critical infrastructure, or security devices and/or (4) a security audit. Thereafter, the Board may consider appropriate action in open session.

Upon returning from executive session, Ms. Daniels announced it was 5:18 p.m. on March 11, 2020 and the Board is now in open session. No action, decision, or vote was taken while the board was in executive session.

32. Adjournment of the Board of Trustees meeting.

The Board of Trustees adjourned at 5:19 p.m. on Wednesday, March 11, 2020.