

Employees Retirement System Summary of Recommendations - House

Section 1

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Porter Wilson, Executive Director

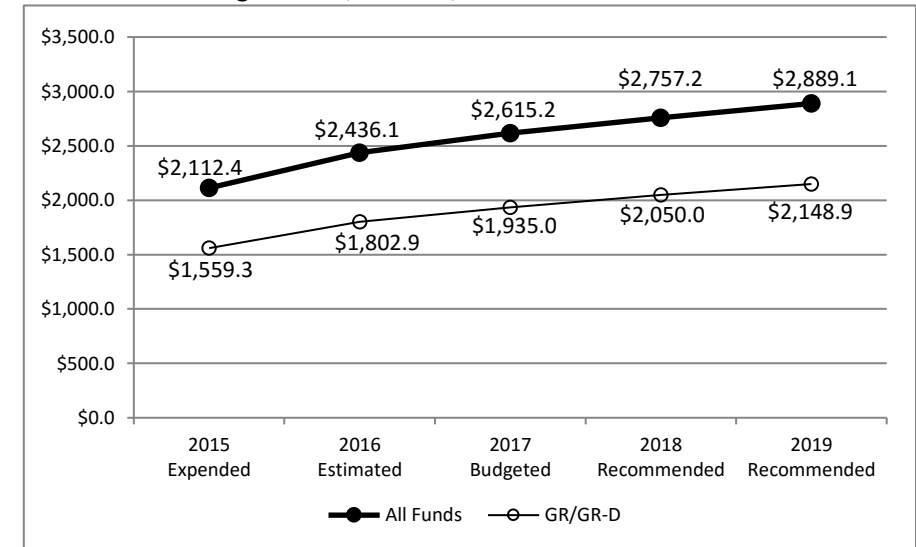
Katy Fallon, LBB Analyst

Method of Financing	2016-17 Base	2018-19 Recommended	Biennial Change (\$)	Biennial Change (%)
General Revenue Funds	\$3,510,447,494	\$3,962,961,665	\$452,514,171	12.9%
GR Dedicated Funds	\$227,442,195	\$235,993,116	\$8,550,921	3.8%
<i>Total GR-Related Funds</i>	<i>\$3,737,889,689</i>	<i>\$4,198,954,781</i>	<i>\$461,065,092</i>	<i>12.3%</i>
Federal Funds	\$751,491,537	\$818,828,415	\$67,336,878	9.0%
Other	\$561,915,473	\$628,525,042	\$66,609,569	11.9%
All Funds	\$5,051,296,699	\$5,646,308,238	\$595,011,539	11.8%

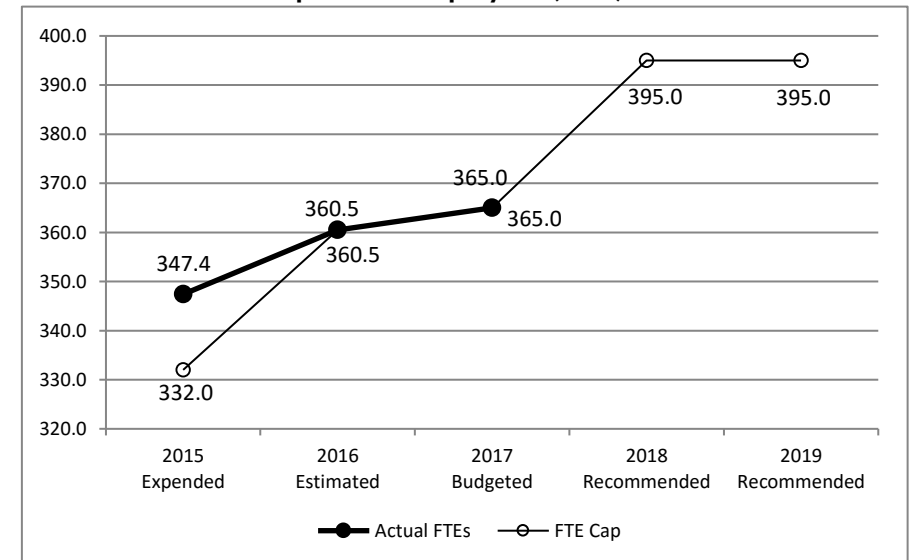
	FY 2017 Budgeted	FY 2019 Recommended	Biennial Change	Percent Change
FTEs	365.0	395.0	30.0	8.2%

The bill pattern for this agency (2018-19 Recommended) represents an estimated 11.8% of the agency's estimated total available funds for the 2018-19 biennium.

Historical Funding Levels (Millions)



Historical Full-Time-Equivalent Employees (FTEs)



Employees Retirement System
Summary of Funding Changes and Recommendations - House

Section 2

Funding Changes and Recommendations for the 2018-19 Biennium compared to the 2016-17 Base Spending Level (in millions)	General Revenue	GR-Dedicated	Federal Funds	Other Funds	All Funds	Strategy in Appendix A
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SIGNIFICANT Funding Changes and Recommendations (each issue is explained in Section 3 and additional details are provided in Appendix A):

A)	Net increase in ERS Retirement for 0.5 percent salary growth in fiscal year 2017. GR-Dedicated and Federal Funds decreased due to method of finance adjustments.	\$33.2	(\$4.4)	(\$1.9)	\$0.2	\$27.0	A.1.1
B)	Increase in Law Enforcement and Correctional Officers Supplemental Retirement Fund to maintain funding at the fiscal year 2017 level, which is an increase from fiscal year 2016 expenditures.	\$0.4	\$0.0	\$0.0	\$0.0	\$0.4	A.1.2
C)	Decrease in Public Safety Death Benefits funding due to high volume of claims in the 2016-17 biennium.	(\$4.0)	(\$2.3)	\$0.0	\$0.0	(\$6.3)	A.1.5
D)	Increase in Group Benefits Program funding due to the growth of health care costs.	\$423.7	\$15.2	\$69.3	\$66.5	\$574.7	B.1.1

OTHER Funding Changes and Recommendations (these issues are not addressed in Section 3 but details are provided in Appendix A):

E)	Decrease in Judicial Retirement System I funding due to attrition.	(\$0.8)	\$0.0	\$0.0	\$0.0	(\$0.8)	A.1.4
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TOTAL SIGNIFICANT & OTHER Funding Changes and Recommendations (in millions)	\$452.5	\$8.5	\$67.4	\$66.7	\$595.0	As Listed
<i>SIGNIFICANT & OTHER Funding Increases</i>	\$457.3	\$10.8	\$67.4	\$66.7	\$602.1	As Listed
<i>SIGNIFICANT & OTHER Funding Decreases</i>	(\$4.8)	(\$2.3)	\$0.0	\$0.0	(\$7.1)	As Listed

NOTE: Totals may not sum due to rounding.

Employees Retirement System
Selected Fiscal and Policy Issues - House

1. **Employees Retirement System.** Recommendations for the 2018-19 biennium total \$1,305.1 million in All Funds (\$922.3 million in General Revenue) for the system that provides a defined retirement benefit to state employees and elected officials. This is an All Funds increase from the 2016-17 biennium of \$27.0 million (2.11 percent) and a General Revenue increase of \$33.2 million (3.73 percent).

Contribution Structure					<div>2016 Actuarial Valuation Fiscal Year 2016 Actuarially Sound Contribution Rate (ASC): 19.88% Fiscal Year 2017 ASC: 20.17% Normal Cost: 12.28% Amortization Period: 35 years Assumed Rate of Return: 8.0% 2018-19 Legislative Appropriations Request - Updated All Funds Exceptional Item Request: \$92.0 million GR-Related Exceptional Item Request: \$66.4 million</div>
	State	Agency	Member	Total	
2014	7.5% (6.5% + 1% UB)	0.5%	6.6%	14.6%	
2015	7.5%	0.5%	6.9%	14.9%	
2016	9.5%	0.5%	9.5%	19.5%	
2017	9.5%	0.5%	9.5%	19.5%	
Requested 2018	10.17%	0.5%	9.5%	20.17%	
Requested 2019	10.17%	0.5%	9.5%	20.17%	
Recommended 2018	9.5%	0.5%	9.5%	19.5%	
Recommended 2019	9.5%	0.5%	9.5%	19.5%	

The recommendations assume 0.5 percent payroll growth in fiscal year 2017, and no payroll growth in fiscal years 2018 and 2019. Recommendations also maintain the contribution structure from the 2016-17 biennium depicted above. This recommendation accounts for FTE increases at the Department of Public Safety (DPS) as well as FTE growth and transfers between health and human services agencies, the Workforce Commission, and the Department of Licensing and Regulation.

Legislation and appropriations by the Eighty-fourth Legislature increased both state and member contributions to ERS, now totaling 19.5 percent, and the system now has a funding period of 35 years instead of infinite as reported in the 2014 actuarial valuation.

House Bill 9, Eighty-fourth Legislature, Regular Session, increased the member contribution rate to 9.5 percent; the rate was 6.9 percent in fiscal year 2015 and previously set to be 7.2 percent in fiscal year 2016 and 7.5 percent in fiscal year 2017. House Bill 9 also eliminated the 90-day membership waiting period. Member and state contributions now begin on the first day of employment.

The Eighty-fourth Legislature provided \$329.8 million to increase the 7.5 percent state contribution rate to 9.5 percent and continued the Article IX requirement that agencies contribute 0.5 percent. The combined state and agency contribution rate of 10.0 percent is equal to the maximum contribution rate according to the Texas Constitution (Article XVI, Sec. 67 (b)(3)).

The Eighty-fourth Legislature also provided \$333.1 million for a 2.5 percent salary increase to state employees, intended to offset the impact of members' increased contributions to the system.

2. **Law Enforcement and Correctional Officers Supplemental (LECOS) Retirement Fund.** Recommendations for the 2018-19 biennium total \$17.9 million in All Funds (\$17.6 million in General Revenue), an increase over the 2016-17 biennium of \$0.4 million (2.1 percent) All Funds and General Revenue. Recommendations continue the base amount and contribution structure from fiscal year 2017. LECOS provides a supplemental retirement benefit to law enforcement and custodial officers in addition to their benefit as state employees through the ERS plan.

	Contribution Structure				<div>2016 Actuarial Valuation</div> <div>Fiscal Year 2016 Actuarially Sound Contribution Rate (ASC): 2.33% + \$19.2 million court fees</div> <div>Fiscal Year 2017 ASC: 2.44% + \$19.2 million court fees</div> <div>Normal Cost: 1.81%</div> <div>Amortization Period: Infinite</div> <div>Assumed Rate of Return: 8.0%</div> <div>2018-19 Legislative Appropriations Request - Updated</div> <div>All Funds Exceptional Item Request: \$51.6 million</div> <div>GR-Related Exceptional Item Request: \$51.5 million</div>
	State	Court Fees*	Member	Total	
2014	0.5%	1.2%	0.5%	2.2%	
2015	0.5%	1.2%	0.5%	2.2%	
2016	0.5%	\$19.2 million	0.5%	1.0% + \$19.2M	
2017	0.5%	\$19.2 million	0.5%	1.0% + \$19.2M	
Requested 2018	1.94%	\$19.2 million	0.5%	2.44% + \$19.2M	
Requested 2019	1.94%	\$19.2 million	0.5%	2.44% + \$19.2M	
Recommended 2018	0.5%	\$19.2 million	0.5%	1.0% + \$19.2M	
Recommended 2019	0.5%	\$19.2 million	0.5%	1.0% + \$19.2M	
*Previous actuarial valuations considered the court fee contribution as 1.2 percent of payroll. Beginning with the fiscal year 2016 valuation, court fees are expected to remain level at \$19.2 million, which will not remain level as a percent of payroll over time. For fiscal year 2017, the court fee contribution is approximately 1.1 percent of payroll.					

3. **Judicial Retirement System II (JRSII).** Recommendations for the 2018-19 biennium total \$24.8 million in All Funds and \$15.4 million in General Revenue. This represents no change from the 2016-17 biennial base amount and contribution structure because the number of judges and their salaries are expected to remain the same. JRSII provides a defined retirement benefit to state judicial officers who first took office on or after September 1, 1985.

	Contribution Structure			<div><u>2016 Actuarial Valuation</u> Fiscal Year 2016 Actuarially Sound Contribution Rate (ASC): 23.48% Fiscal Year 2017 ASC: 23.77% Normal Cost: 21.18% Amortization Period: 49 years Assumed Rate of Return: 8.0% <u>2018-19 Legislative Appropriations Request - Updated</u> All Funds Exceptional Item Request: \$1.1 million GR-Related Exceptional Item Request: \$0.7 million</div>
	State	Member	Total	
2014	15.663%	6.6%	22.263%	
2015	15.663%	6.9%	22.563%	
2016	15.663%	7.2%	22.863%	
2017	15.663%	7.5%	23.163%	
Requested 2018	16.33%	7.44%*	23.77%	
Requested 2019	16.33%	7.44%*	23.77%	
Recommended 2018	15.663%	7.5%	23.163%	
Recommended 2019	15.663%	7.5%	23.163%	
*The agency indicates that the effective member contribution rate is 7.44% as some active members elect to cease contributions and cease to accrue additional benefits.				

4. **Public Safety Death Benefits.** House Bill 1278, Eighty-fourth Legislature, Regular Session, increased the financial assistance paid to the survivors of certain law enforcement officers, firefighters, and other public employees killed in the line of duty. Lump-sum amounts are now \$500,000 and monthly payments to guardians of surviving children begin at \$400.

Recommendations include \$22.6 million in All Funds (\$16.2 million in General Revenue) for the 2018-19 biennium. This maintains the 2017 budgeted level and is a reduction of \$6.3 million in All Funds (\$4.0 million in General Revenue) from the 2016-17 biennium due to high volume of claims in fiscal year 2016.

5. **Group Benefits Program and Contingency Reserve Fund Balance.** Recommendations include \$4.2 billion in All Funds (\$2.9 billion in General Revenue) to provide employees and retirees with health and life insurance. This is an increase over the previous biennium of \$574.7 million in All Funds (15.83 percent) and \$423.7 million in General Revenue (16.96 percent).

	Contribution Structure			Contingency Reserve Fund	
	Benefit Cost Trend ¹	State Contribution Increase Appropriated / Recommended (Requested) ²	Agency / Institution	Activity	Balance (millions)
2014	9.0%	7.36% (8.0%)	1.0%	\$53.9 million Increase	\$379.3
2015	8.0%	7.33% (8.0%)	1.0%	\$61.2 million Increase	\$440.5
2016	8.9%	7.19% (6.9%)	1.0%	\$58.4 million Increase	\$498.9
2017	8.5%	7.17% (6.9%)	1.0%	\$108.1 million Increase ³	\$607.0 ³
2018	8.5%	4.57% (4.42%)	1.0%	Recommendations assumed expenditure of \$260.1 million, which was anticipated to leave a \$300.0 million balance at the end of fiscal year 2019. ³	\$716.9 ³
2019	8.5%	4.56% (4.42%)	1.0%	The anticipated spenddown is offset by several factors, including the December award of the HealthSelect contract.	\$660.6 ³
¹ Cost trends are projected by the agency in cooperation with an actuarial firm and submitted in the LAR. Cost trends for fiscal years 2014, 2015, and 2016 reflect actual experience.					
² ERS requests an annual state contribution increase in the LAR. Appropriations and recommendations consider other funding sources.					
³ Projected reserve fund spending and balances provided in the LAR have been updated to reflect actual experience and subsequent activity.					

ERS projects that the average annual health benefit cost trend will be 8.5 percent in fiscal years 2017, 2018, and 2019. Health care cost increases are primarily due to the price and utilization of health care, new technologies and procedures, chronic diseases associated with the aging population, and the price and use of pharmaceuticals.

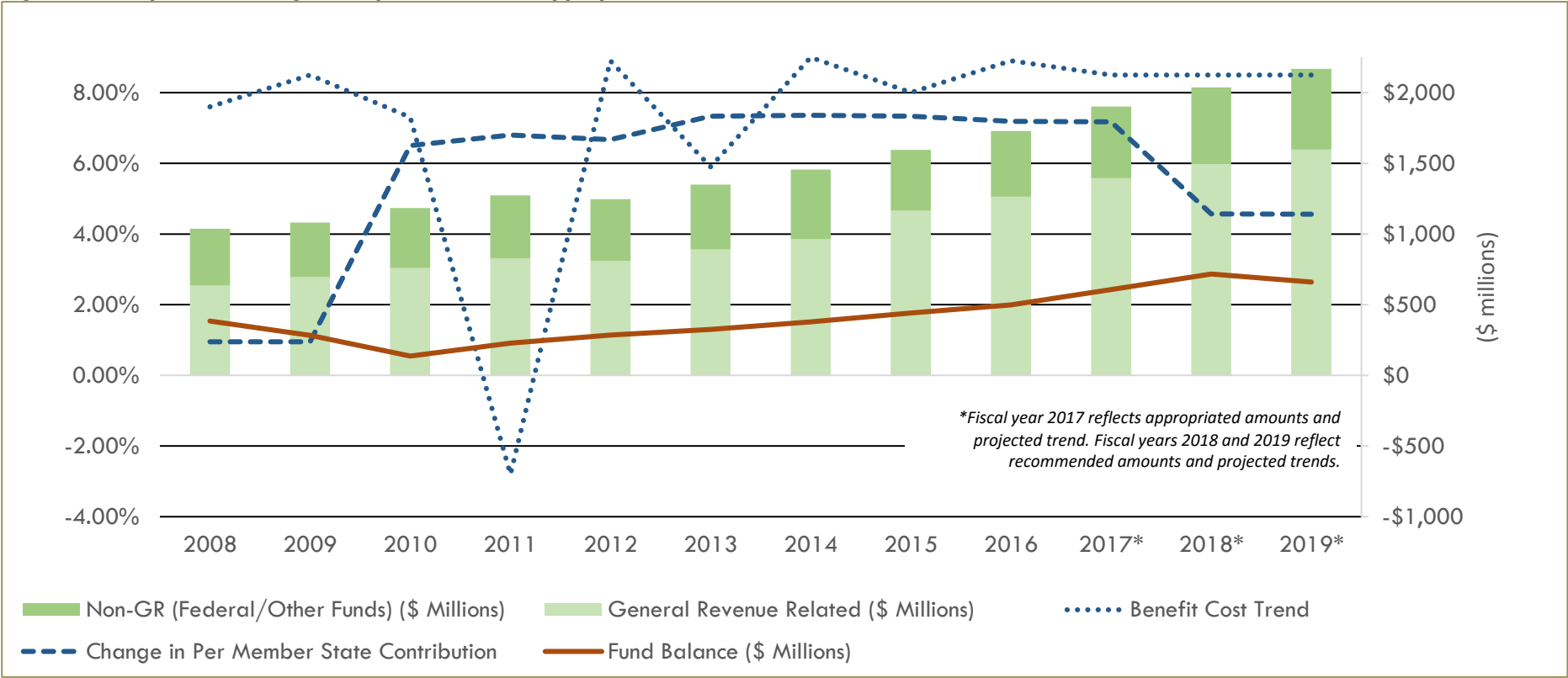
The agency requested a 4.42 percent state contribution increase in each fiscal year of the 2018-19 biennium in order to fund the 8.5 percent cost trend when combined with using \$260.1 million from the Contingency Reserve Fund. At the time, the request and recommendations were anticipated to leave \$300.0 million in the Contingency Reserve Fund which would cover approximately 22 days of claims. Recommendations include a per member state contribution increase of 4.57 percent in fiscal year 2018 and 4.56 percent in fiscal year 2019 in order to account for agencies' and institutions' payroll-based contributions that will not grow at the same rate.

Recommendations also provide for member growth among retirees at 5.0 percent in fiscal year 2017 and 4.7 percent in fiscal years 2018 and 2019. The number of active members is assumed to remain flat. Finally, recommendations account for FTE growth at the Department of Public Safety as well as FTE growth and transfers between health and human services agencies, the Workforce Commission, and the Department of Licensing and Regulation.

The Contingency Reserve Fund receives all revenues for the Group Benefits Program, including employer and member contributions, the one-percent agency and institution employer contribution, the tobacco user fee, federal subsidies, prescription drug rebates, and investment income. The Fund makes expenditures to cover claims costs. The plan's experience, and therefore the Fund's revenues and balances, have been favorably affected by higher than expected rebates and Part D subsidies, as well as the new Pharmaceutical Benefit Manager and HealthSelect contracts. In addition, the pharmacy cost trend in 2016 was 10.9 percent, lower than 18 percent previously anticipated. As a result of these factors, the fund balance is projected to reach a high of \$607.0 million at the end of fiscal year 2017.

The cost trends, contribution increases, and contingency reserve fund expenditures and balances from fiscal years 2008 through 2019 are reflected in **Figure 1**. The significant decrease in the cost trend in fiscal year 2011 is due to benefit design changes, including increased co-pays on medical visits and prescriptions as well as increases to out-of-pocket maximums.

Figure 1: Group Benefits Program Expenditures and Appropriations, Cost Trends, and Reserve Fund Balance



Source: Legislative Budget Board, Employees Retirement System

Section 3

6. **Consumer-Directed Health Plan.** House Bill 966, Eighty-fourth Legislature, Regular Session, directed ERS to establish a voluntary consumer-directed health plan, which includes a high-deductible health plan and a health savings account, as an option for participants in the Group Benefits Program. The legislation also required the state to contribute the difference, if any, between the full state contribution to HealthSelect and coverage cost of the high-deductible plan to a health savings account.

The plan, Consumer Directed HealthSelect, began on September 1, 2016 and 346 people enrolled in plan year 2017. Since contributions for family coverage are lower than those for traditional HealthSelect, the state contributes \$45 per month for individuals and \$90 per month for families to participants' health savings accounts.

7. **Sunset.** The agency underwent review by the Sunset Advisory Commission during the 2016-17 review cycle. The Sunset Advisory Commission Staff Report was published in April 2016 and outlined four major findings regarding ERS management of the Group Benefits Program and state retirement plans. The report provided the following recommendations to ERS:
- Build on recent centralization and standardization of contracting practices by providing further authority to the new contracting division, implementing contract term dates, and further consolidating and centralizing contracting staff.
 - Implement more strategic, higher-level effort and vision for managing the group benefits program including more comprehensive reporting, the creation of an advisory committee, and developing a clear process of re-evaluating changes to the group benefits program.
 - Allow members to directly participate in the appeals process for benefits-related decisions, develop a manual regarding the appeals process, and improve member education efforts.
 - Better track and report profit-sharing amounts paid to contracted external fund managers.

On November 10, 2016, the Commission adopted the recommendations from the Staff Report as well as two new statutory changes and one new management action. The statutory changes require the board to 1) adopt revised actuarial assumptions resulting from an experience study every four years instead of five, and 2) approve any individual investment over \$100 million. The Commission also directed the ERS internal auditor to consider best practices in investment decision-making when reviewing investment governance.

8. **Contracting.** ERS currently manages several large contracts within the Group Benefits Program. In December 2016, the agency awarded a new contract for the third-party administrator of the HealthSelect program to BlueCross BlueShield of Texas to begin on September 1, 2017. Over the six-year term, the new contract has a projected total cost, including provider reimbursements, of \$25.8 billion. The new award projects savings of \$51.6 million in administrative fees compared to the current contract and the agency indicates the new contract overall will save approximately \$1.1 billion in the contract period. Additionally, on January 1, 2017, ERS entered into a new contract with pharmacy benefit manager, OptumRx, which the agency estimates will save the state approximately \$100 million in pharmacy benefits.

Legislative agencies have examined ERS's contracting procedures twice in the last two biennia. Following the 2012 change in vendors, the State Auditor's Office (SAO) audited ERS's management of the HealthSelect third party administrator contract in 2014. The report found that ERS failed to clearly define best value or evaluation processes prior to issuing a request for proposals and had insufficient processes to ensure timely, accurate contract monitoring. In response, the Eighty-fourth Legislature included Rider 13, HealthSelect of Texas Contract, in the General Appropriations Act, which required the agency to implement recommendations from the SAO report and submit related reports.

Section 3

Additionally, the subsequent Sunset review of ERS in fiscal year 2016 mentioned above noted that the agency had made progress towards implementing the 2014 SAO recommendations by establishing a director of procurement position and centralizing procurement and contracting functions into a new division. However, the review also highlighted ongoing concerns with the following procurement and contract management practices:

- Performance guarantees that are unachievable or too lenient to ensure accountability;
- Inconsistent contract monitoring and enforcement procedures, including a lack of agency-wide policies for implementing corrective action plans and assessing when to apply or reduce performance penalties; and
- Open-ended contract terms or unlimited renewal options without rebidding the contract.

To ensure successful contracting outcomes for all major ERS contracts, the recommendations include new Rider 13 requiring the agency to certify that they have complied with the 2014 SAO and 2016 Sunset contracting-related findings for all contracts reasonably expected to exceed \$10 million.

**Employees Retirement System
Rider Highlights - House**

Modification of Existing Riders

2. **Informational Listing of Appropriated Funds.** Revise rider to reflect LBB recommendations for each benefit type.
12. **Tobacco User Monthly Premium Fee.** Revise rider to update tobacco user fee estimated revenues for the 2018-19 biennium.

New Riders

13. **Notification of Contracts Greater than \$10 Million.** Recommendations add a new rider requiring ERS to provide notices to the LBB certifying that its contract planning, procurement, formation, and oversight for contracts over \$10 million comply with statutory and contracting guidelines. Required notices must also include documentation of planning and evaluation tools and a certification that ERS has implemented major contracting-related recommendations from the State Auditor's Office and Sunset Advisory Commission.

Deleted Riders

13. **HealthSelect of Texas Contract.** Remove rider requiring the agency to comply with recommendations made by the SAO and provide documentation that contract planning, procurement, formation, and oversight comply with statutory and contracting guidelines for the HealthSelect third party administrator contract. Rider is no longer necessary as the HealthSelect contract is scheduled to be awarded December 2016 and similar provisions are included in new Rider 13.
14. **Diabetes Type 2 Prevention Program for ERS Participants.** Removed rider directing ERS to assess the prevalence of pre-diabetes among the state employee population and evaluate the economic impact of providing an evidence-based prevention program. If supported by economic analysis and prevalence data, the rider directed the agency to implement a diabetes Type 2 prevention program for state employees. Rider is no longer necessary as the agency submitted the report required by the rider to the Legislature and Governor on August 31, 2016 and began offering Real Appeal, a virtual intensive lifestyle intervention program, to eligible HealthSelect participants on April 1, 2016.

Employees Retirement System
Items Not Included in Recommendations - House

Section 5

	2018-19 Biennial Total			Information Technology Involved?	Contracting Involved?	Estimated Continued Cost 2020-21
	GR & GR-D	All Funds	FTEs			

Agency Exceptional Items - In Agency Priority Order

1)	ERS Retirement Plan Actuarially Sound. Funding request would increase the state's contribution to 10.17 percent. This rate, when combined with agency contributions of 0.5 percent and member contributions of 9.5 percent, would allow the plan to achieve the Actuarially Sound Contribution (ASC) rate of 20.17 percent of payroll. The Constitution limits the state's contribution to ten percent of compensation.	\$66,404,022	\$91,979,136	0.0	No	No	\$91,979,136
2)	LECOS Plan Actuarially Sound. Funding request would increase the state's contribution to 1.94 percent from the current 0.5 percent. These contribution rates together would equal the ASC rate of 2.44 percent when combined with court fee contributions of \$19.2 million.	\$51,451,206	\$51,621,558	0.0	No	No	\$51,621,558
3)	JRS II Plan Actuarially Sound. Funding request would increase the state's contribution to 16.33 percent from the current 15.663 percent. This increased state contribution rate, along with the effective 7.44 percent member contribution, would equal the ASC rate of 23.77 percent.	\$653,684	\$1,055,510	0.0	No	No	\$1,055,510
4)	Group Benefit Program 60 Day Reserve Fund. Funding request would provide for the contingency reserve fund to maintain a balance that could pay 60 days of claims. This request is statutorily required by Chapter 1551, Section 211 of the Insurance Code. Amounts requested incorporate recommendations that fund cost growth in the 2018-19 biennium.	\$65,883,136	\$92,008,986	0.0	No	No	\$125,170,326

TOTAL Items Not Included in Recommendations	\$184,392,048	\$236,665,190	0.0			\$269,826,530
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**Employees Retirement System
Appendices - House**

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* Appendix is not included - no significant information to report

Employees Retirement System
Funding Changes and Recommendations - House, by Strategy -- ALL FUNDS

Strategy/Goal	2016-17 Base	2018-19 Recommended	Biennial Change	% Change	Comments
RETIREMENT CONTRIBUTIONS A.1.1	\$1,278,056,736	\$1,305,060,134	\$27,003,398	2.1%	Recommendations reflect an increase of \$27.0 million in All Funds over the 2016-17 biennium based upon the following assumptions: - Continued state contribution rate of 9.5 percent of salary for ERS Retirement; - 0.5 percent payroll growth in fiscal year 2017 in order to biennialize the fiscal year 2016 statewide salary increase; - Payroll remaining flat in fiscal years 2018 and 2019; and - FTE growth at the Department of Public Safety and FTE growth and transfers among health and human services agencies, the Workforce Commission, and the Department of Licensing and Regulation.
LECOS A.1.2	\$17,557,211	\$17,924,152	\$366,941	2.1%	Recommendations reflect an increase of \$0.4 million over the 2016-17 biennium to biennialize the contribution expenditures to LECOS in fiscal year 2017.
JRS-II A.1.3	\$24,786,272	\$24,786,272	\$0	0.0%	Recommendations reflect no change from the 2016-17 biennium. The number of active members and their salaries are assumed to remain the same.
JRS-I A.1.4	\$50,522,831	\$49,753,448	(\$769,383)	(1.5%)	Recommendations reflect a decrease of \$0.8 million over the 2016-17 biennium. This is a pay-as-you-go retirement plan with ten active members. Expenditures are decreasing due to attrition.
PUBLIC SAFETY BENEFITS A.1.5	\$28,876,292	\$22,572,616	(\$6,303,676)	(21.8%)	Recommendations reflect a decrease of \$6.3 million over the 2016-17 biennium. This benefit provides financial assistance to survivors of certain law enforcement officers killed in the line of duty. Decrease maintains the fiscal year 2017 funding level in fiscal years 2018-19 due to high number of lump-sum claims in fiscal year 2016.

Employees Retirement System
Funding Changes and Recommendations - House, by Strategy -- ALL FUNDS

Strategy/Goal	2016-17 Base	2018-19 Recommended	Biennial Change	% Change	Comments
RETIREE DEATH BENEFITS A.1.6	\$20,159,738	\$20,159,738	\$0	0.0%	Recommendations reflect no change from the 2016-17 biennium. Expenditures on retiree death benefit claims increased in fiscal year 2016 and this level of expenditures and claims is expected to continue into fiscal years 2017, 2018, and 2019.
Total, Goal A, EMPLOYEES RETIREMENT SYSTEM	\$1,419,959,080	\$1,440,256,360	\$20,297,280	1.4%	
GROUP INSURANCE B.1.1	\$3,631,337,619	\$4,206,051,878	\$574,714,259	15.8%	Recommendations reflect an increase of \$574.7 million from the 2016-17 biennium to account for health care cost growth and are based on the following assumptions: - Per member state contribution increases of 4.57 percent in fiscal year 2018 and 4.56 percent in fiscal year 2019; - 4.7 percent member growth among retirees in each year of the 2018-19 biennium; - The number of active members remaining flat in fiscal years 2018 and 2019; and - FTE growth at the Department of Public Safety and FTE growth and transfers among health and human services agencies, the Workforce Commission, and the Department of Licensing and Regulation. These growth trends, combined with offsetting positive experience, are anticipated to leave \$660.6 million in the Contingency Reserve Fund at the end of fiscal year 2019.
Total, Goal B, EMPLOYEES RETIREMENT SYSTEM	\$3,631,337,619	\$4,206,051,878	\$574,714,259	15.8%	
Grand Total, All Strategies	\$5,051,296,699	\$5,646,308,238	\$595,011,539	11.8%	

**Employees Retirement System
FTE Highlights - House**

Full-Time-Equivalent Positions	Expended 2015	Estimated 2016	Budgeted 2017	Recommended 2018	Recommended 2019
Cap	332.0	360.5	365.0	395.0	395.0
Actual/Budgeted	347.4	360.5	365.0	NA	NA

On August 16, 2016, the ERS Board of Trustees adopted an operating budget with 395.0 FTEs beginning in fiscal year 2017 and the Board also adopted the LAR which included an FTE cap request of 373.0 in fiscal years 2018-19. The agency expects the latter amount will reflect their actual FTE levels when considering turnover and vacancies, particularly in the Customer Service Division. ERS indicates that FTE levels at the agency have been increasing due to expanding the agency's Investments Division and requirements to count temporary contracted workers after six months of service.

Recommendations increase FTE cap for the 2018-19 biennium to that of the current internal operating budget for transparency. Recommendations also adjust fiscal year 2016 and 2017 caps to the actual levels experienced and anticipated by the agency in the current biennium.

Because ERS employees are paid with funds outside the Treasury and not appropriations made by the GAA, ERS is not subject to Article IX, Sec. 6.10, Limitation on State Employment Levels.

Schedule of Exempt Positions (Cap)					
Executive Director	\$312,000	\$357,120	\$357,120	\$357,120	\$357,120
Director of Investments	\$375,272	\$384,654	\$416,401	\$416,401	\$416,401

Recommendations increase the salary authority for the Director of Investments position to the requested amount of \$416,401, which is the actual salary effective September 1, 2016.

Pursuant to Government Code, Sec. 815.208, the exempt positions' salaries are not subject to the limits in the GAA.