Employees Retirement System
Summary of Recommendations - House

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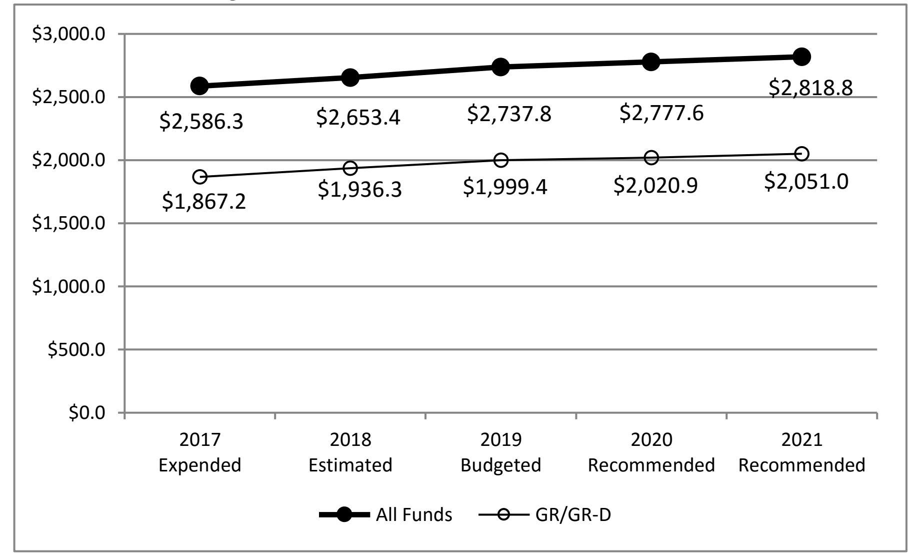
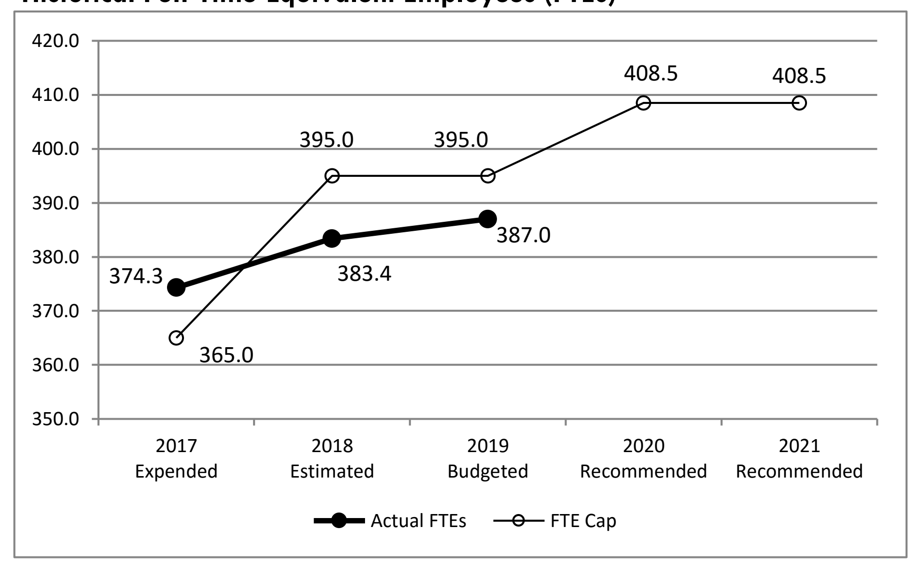
Method of Financing	2018-19 Base	2020-21 Recommended	Biennial Change ($)	Biennial Change (%)
General Revenue Funds	$3,724,224,806	$3,852,917,115	$128,692,309	3.5%
GR Dedicated Funds	$211,482,957	$218,993,634	$7,510,677	3.6%
Total GR-Related Funds	*$3,935,707,763*	*$4,071,910,749*	*$136,202,986*	*3.5%*
Federal Funds	$853,570,428	$898,107,373	$44,536,945	5.2%
Other	$601,994,923	$626,354,838	$24,359,915	4.0%
All Funds	**$5,391,273,114**	**$5,596,372,960**	**$205,099,846**	**3.8%**

	FY 2019 Budgeted	FY 2021 Recommended	Biennial Change	Percent Change
FTEs	387.0	408.5	21.5	5.6%

Historical Funding Levels (Millions)



Historical Full-Time-Equivalent Employees (FTEs)



The bill pattern for this agency (2020-21 Recommended) represents an estimated 12.4% of the agency's estimated total available funds for the 2020-21 biennium.

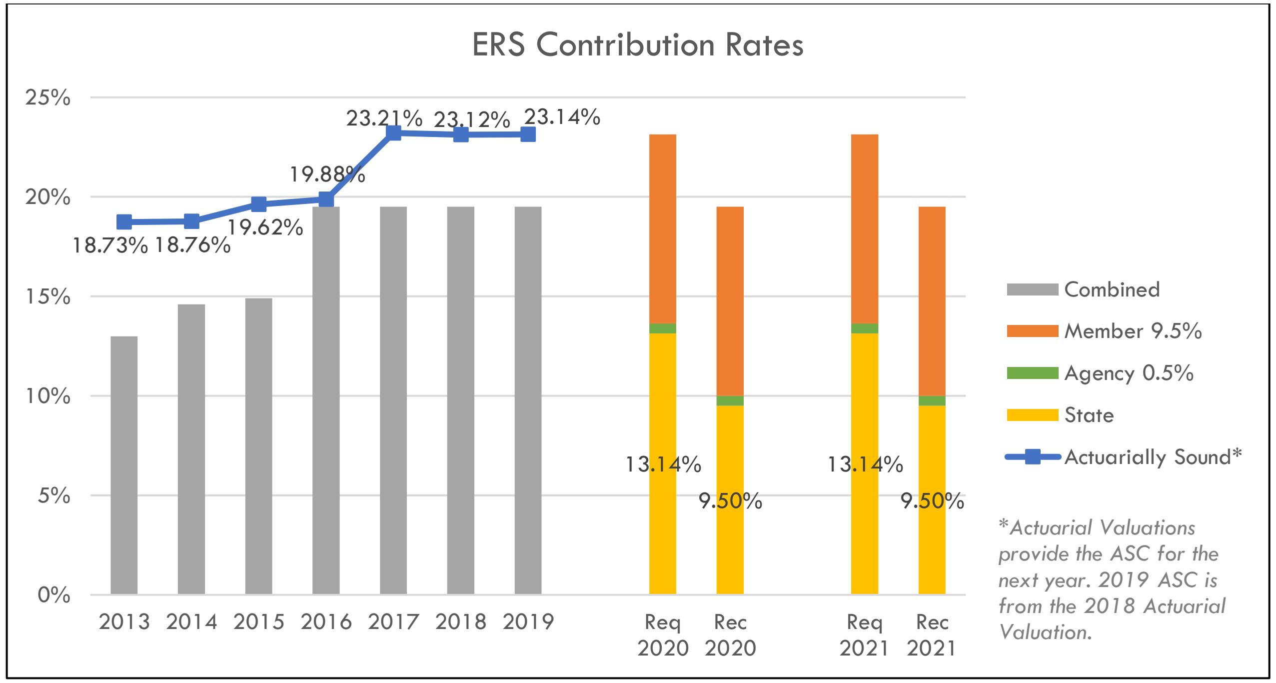
Employees Retirement System
Summary of Funding Changes and Recommendations - House

	Funding Changes and Recommendations for the 2020-21 Biennium compared to the 2018-19 Base Spending Level (in millions)	General Revenue	GR-Dedicated	Federal Funds	Other Funds	All Funds	Strategy in Appendix A
	SIGNIFICANT Funding Changes and Recommendations (each issue is explained in Section 3 and additional details are provided in Appendix A):						
A)	Increase for ERS Retirement Program contributions due to payroll growth, FTE growth, and salary increase for District Attorneys.	$12.5	$1.6	$7.4	$1.4	$22.9	A.1.1
B)	Increase for JRSII contributions due to ten percent salary increase for judges and justices.	$2.5	$0.0	$0.0	$0.0	$2.5	A.1.3
C)	Increase for Group Benefits Program contributions due to growth among retired members, state contribution increase in fiscal year 2019, and FTE growth.	$109.8	$6.7	$37.1	$22.9	$176.6	B.1.1
	OTHER Funding Changes and Recommendations (these issues are not addressed in Section 3 but details are provided in Appendix A):						
D)	Decrease in Public Safety Death Benefits due to closing a high number of claims in 2018.	($0.4)	($0.8)	$0.0	$0.0	($1.2)	A.1.5
E)	Increase for Retiree Death Benefits due to anticipated growth in volume of claims.	$0.3	$0.0	$0.0	$0.0	$0.3	A.1.6
F)	Increase for Probation Health Insurance contributions due to growth among retired members and state contribution increase in fiscal year 2019.	$4.0	$0.0	$0.0	$0.0	$4.0	B.1.2
	TOTAL SIGNIFICANT & OTHER Funding Changes and Recommendations (in millions)	**$128.7**	**$7.5**	**$44.5**	**$24.4**	**$205.1**	As Listed
	SIGNIFICANT & OTHER Funding Increases	$129.1	$8.3	$44.5	$24.4	$206.3	As Listed
	SIGNIFICANT & OTHER Funding Decreases	($0.4)	($0.8)	$0.0	$0.0	($1.2)	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 2020-21 biennium total $1.3 billion in All Funds ($943.0 million in General Revenue-Related Funds) for the system that provides a defined retirement benefit to state employees and elected officials. This is an All Funds increase of $22.9 million (1.8 percent) and a General Revenue-Related increase of $14.0 million (1.5 percent).



Recommendations assume 0.5 percent payroll growth in fiscal years 2019, 2020, and 2021, as well as FTE increases at the Health and Human Services Commission, the Texas Education Agency, the Teacher Retirement System, the Department of Public Safety, and the Railroad Commission. Recommendations also align with method of finance changes at the Railroad Commission and appropriate General Revenue for benefits at the Historical Commission that were previously paid with the Emergency Stabilization Fund. Recommendations maintain the current contribution structure that has been in place since fiscal year 2016, as depicted on the right. Recommendations also include a ten percent state contribution increase for District Attorneys at the Judiciary Section, Comptroller's Department.

According to the 2018 Actuarial Valuation, the current total contribution rate, 19.5 percent, is 3.62 percent lower than the contribution required for the fund to be actuarially sound, 23.12 percent. Statute defines actuarial soundness as having contributions that are sufficient to amortize the unfunded accrued liability during no more than 31 years. The funding period at the end of fiscal year 2018 is infinite, meaning the liability is expected to grow indefinitely. Furthermore, the assets are anticipated to be depleted in fiscal year 2096; in the 2017 valuation the depletion date was 2084. The funding period in the 2016 valuation was 35 years. The valuation also assessed the unfunded actuarial accrued liability at $11.6 billion, an increase of $371.4 million from the 2017 actuarial valuation. The plan's funded ratio, assets divided by liabilities, was 70.2 percent, which is 0.1 percentage points higher than the 2017 funded ratio.

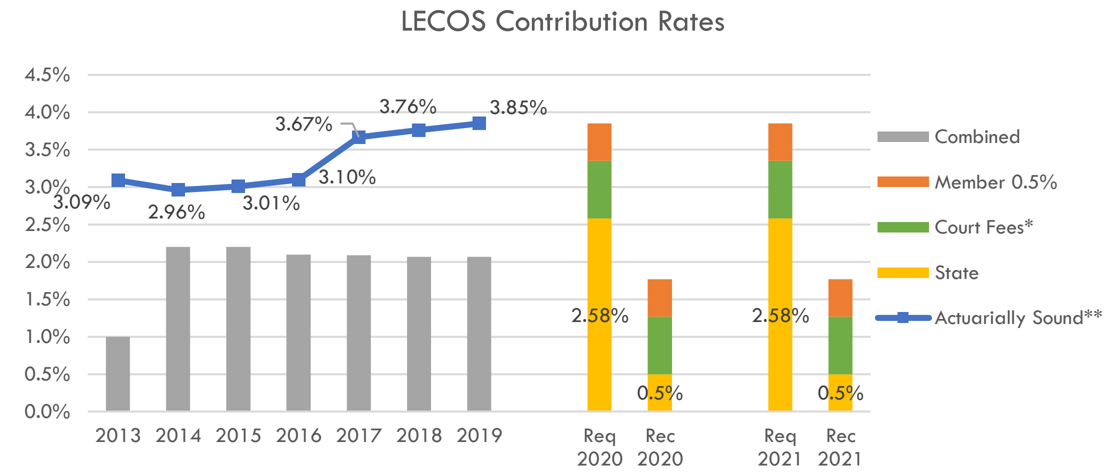
The 2017 and 2018 valuation results are significantly different from those in previous years due primarily to changes in actuarial assumptions and methods. In particular, the Board of Trustees in August 2017 decreased the investment return assumption from 8.0 percent to 7.5 percent. Additionally, the inflation assumption was decreased from 3.5 percent to 2.5 percent. The board also chose to reset the actuarial smoothed value of assets equal to market value, a onetime change that recognized deferred losses and prospectively changed its asset smoothing method. These changes were intended to provide a more realistic forecast of financial conditions and were applied to all three of the defined benefit retirement systems at ERS.

The agency's first exceptional item request is for $503.1 million All Funds and $360.9 million General Revenue-Related Funds to increase the state's contribution by 3.64 percent, to 13.14 percent, to reach the combined Actuarially Sound Contribution rate anticipated for fiscal year 2020. This exceptional item request includes the impact of the ten percent judicial salary increase. The agency has also indicated that a onetime lump sum payment of $4.4 billion on August 31, 2019 would bring the funding period to 31 years and the ASC to 19.5 percent, achieving actuarial soundness.

2. **Constitutional Maximum Contribution.** The current state and agency contribution rates of 9.5 and 0.5 percent respectively together equal 10.0 percent, which is the maximum contribution rate according to the Texas Constitution (Article XVI, Sec. 67 (b)(3)). The provision reads, “the amount contributed by the state may not be less than six percent nor more than 10 percent of the aggregate compensation paid to individuals participating in the system.” The Constitution also provides that if the governor determines the situation an emergency, “the legislature may appropriate such additional sums as are actuarially determined to be required to fund benefits authorized by law.”

   In February 2015, the Attorney General offered an informal letter of legal advice which guided that should the state appropriate funds that exceed the ten percent limitation without the governor having declared an emergency, it would “effectively rewrite… the constitutional provision,” concluding that state appropriations may not exceed the ten percent limitation unless the governor has declared an emergency.

3. **Law Enforcement and Custodial Officers Supplemental (LECOS) Retirement Fund.** Recommendations for the 2020-21 biennium total $16.9 million in All Funds and $16.8 million in General Revenue-Related Funds, which continue the base amount and contribution structure from the 2018-19 biennium, pictured on the right. LECOS provides a supplemental retirement benefit to law enforcement and custodial officers in addition to their benefit as state employees through the ERS plan.



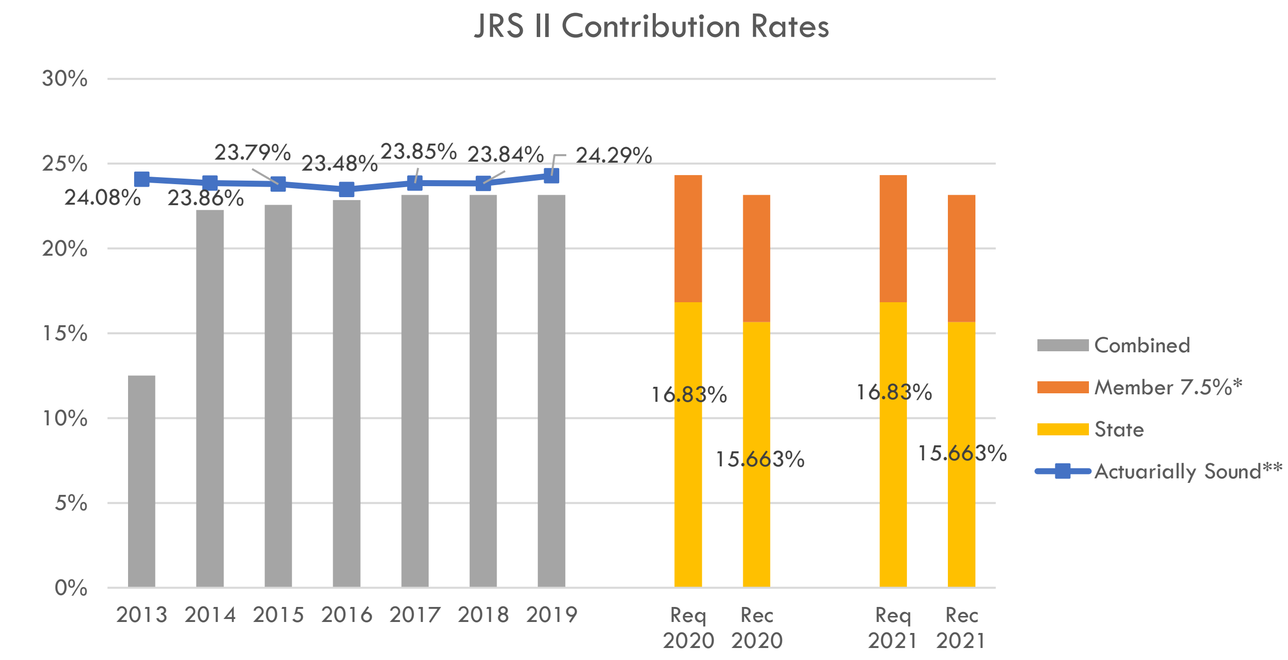
*Court fee contributions are decreasing, from $20M in 2014 to $17.4M in 2018.
**Actuarial Valuations provide the ASC for the next year. 2019 ASC is from the 2018 Actuarial Valuation and assumes court fees are 0.77% of salary.

   In addition to state and member contributions, the fund also receives court fees. In fiscal year 2018, the court fees were approximately 1.07 percent of payroll; however this amount has been declining and the rate will no longer remain level as a percentage of payroll over time.

   The 2018 Actuarial Valuation found that the LECOS funding period remains infinite with an expected depletion date of 2045; this is the same length of time to depletion as found in the previous valuation. The unfunded liability in 2018 is $499.6 million, $23.7 million more than the previous year. The funded ratio is 65.6 percent, compared to 66.0 percent in 2017. Finally, the 2018 valuation indicated that the actuarially sound contribution rate for fiscal year 2020 is 3.08 percent, which is in addition to court fees that are expected to make up 0.77 percent of payroll.

   The agency is requesting $70.3 million in All Funds to increase the state contribution by 2.08 percent in order to achieve actuarial soundness. The agency has also indicated that, if maintaining the current contribution rates, a onetime lump sum contribution of $680 million would be necessary to avoid a projected depletion date within the next 100 years.

4. **Judicial Retirement System Plan Two (JRSII).** Recommendations for the 2020-21 biennium total $27.5 million in All Funds and $19.2 million in General Revenue Funds. This increases the state's contribution to the system by ten percent, aligning with the ten percent judicial salary increase, and maintains the contribution structure from the 2018-19 biennium, pictured on the right. Judicial Fund No. 0573 comprises the remainder of the appropriation. JRSII provides a defined retirement benefit to state judicial officers who first took office on or after September 1, 1985.

   *The effective member contribution rate is 7.46%, as some members have elected to cease contributing to the plan.
   **Actuarial Valuations provide the ASC for the next year. 2019 ASC is from the 2018 Actuarial Valuation.

   The 2018 Actuarial Valuation found that the funding period is 69 years, an increase of six years from 2017. JRSII is expected to reach full funding in 2087. The unfunded liability is $40.7 million, $2.1 million less than 2017. The funded ratio is 91.7 percent, compared to 90.8 percent in 2017.

   In order to achieve soundness, the agency requests that the state increase its contribution to 16.83 percent, a 1.167 percent increase, in order to reach the ASC of 24.29 percent. This exceptional item request is for $2.1 million in All Funds and $1.4 million in General Revenue Funds and incorporates the impact of the ten percent judicial salary increase. The agency has also indicated that with a onetime lump sum payment of $7.5 million on August 31, 2019, the funding period would become 31 years and the Actuarially Sound Contribution rate would become the current contribution rate of 23.123 percent.

5. **Judicial Salary Increase.** House Bill 1 includes $30.2 million for a ten percent judicial compensation increase. This includes all positions statutorily linked to a district judge's salary, such as state and local prosecutors. This amount also includes a ten percent state contribution increase to ERS ($0.4 million) for District Attorneys at the Judiciary Section of the Comptroller's Office and a ten percent state contribution increase to JRSII ($2.5 million) for judges and justices at related courts. The increased state contributions are based upon the increased salary; the recommedations do not include the amounts necessary to cover the related increased ASC and liability for each retirement system. All salary and benefit increases are from General Revenue.

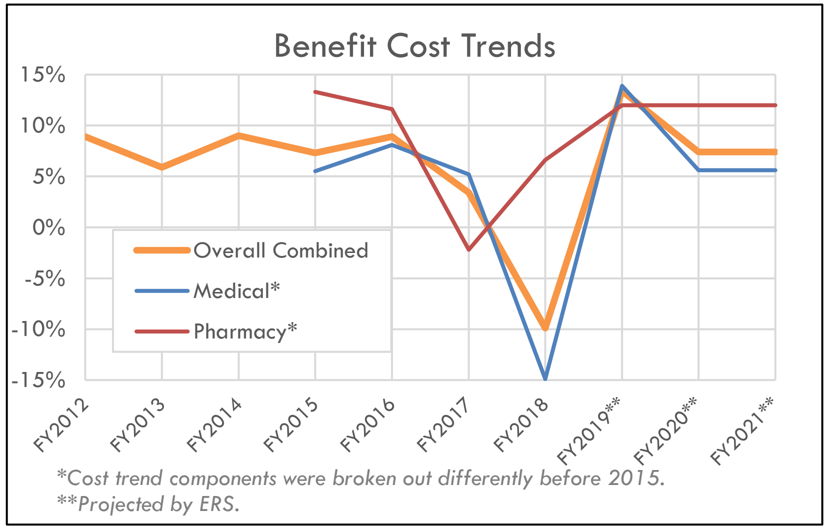
6. **Pension Funding Prorities and Guidelines.** In May 2018, the ERS Board of Trustees adopted a policy to enhance communications and provide transparency to the Legislature, plan members, and retirees regarding the Board's position on plan funding policy. Adopting such a policy is an emerging best practice among public defined benefit pension plans. The policy states that the board's primary objective is to fully fund the long-term cost of benefits and acknowledges that the Legislature, not the board, controls general plan design and contributions. The policy also introduces two new board goals:
   - The board's three-step goal regarding the system's funding period is to a) avoid depletion, b) achieve the 31-year funding period laid out in statute, and c) achieve a funding period that equals average years of service.
   - The board contends that any enhancements such as Cost of Living Adjustments or 13th checks should be funded at the time considered and should only be enacted if the funding period is less than 25 years.

7. **Group Benefits Program and Contingency Reserve Fund Balance.** Recommendations include $4.0 billion ($2.8 billion in General Revenue-Related Funds) to provide state employees and retirees with health and life insurance. This is an increase over the previous biennium of $176.6 million All Funds (4.6 percent) and $116.6 million General Revenue-Related Funds (4.3 percent). Recommendations assume that:
   - the state will continue to contribute the full cost of member-only group insurance and fifty percent of family coverage;
   - full-time-equivalent employment levels will grow at the Health and Human Services Commission, the Texas Education Agency, the Teacher Retirement System, the Department of Public Safety, and the Railroad Commission;
   - benefits align with method of finance changes at the Historical Commission and Railroad Commission;
   - retiree membership will grow 4.7 percent in fiscal year 2019 and 4.5 percent in fiscal years 2020 and 2021;
   - funding obligations for certain individuals who retired from health and human services agencies will shift from the Department of State Health Services to the Health and Human Services Commission; and
   - the state's per-member contribution to insurance will increase by 0.8 percent in fiscal year 2019 and will not increase in fiscal years 2020 and 2021.

   Recommendations align with ERS's Legislative Appropriations Request which indicates that no additional per-member state contributions above the base level would be necessary. The ERS request did not include member growth.

   Recommendations also include $143.1 million, all General Revenue, for health and life insurance contributions for local Community Supervision and Correction Department (CSCD) employees, retirees, and dependents, who also participate in the state's Group Benefits Program. This is $4.0 million (2.9 percent) more than the previous biennium due to a per-member contribution increase of 0.8 percent in fiscal year 2019 and retiree growth. This appropriation was moved to ERS from the Department of Criminal Justice last session.

   ERS did not request an increase in state contributions because the Group Benefits Program has achieved significant savings in new Pharmacy Benefit Administrator (PBM) and Third Party Administrator (TPA) contracts. The new PBM contract with OptumRx began on January 1, 2017, and the new TPA contract with Blue Cross Blue Shield began on September 1, 2017. At the time of their awards, the contracts were anticipated to save $1 billion each over their six-year terms. The agency estimates saving approximately $630 million in fiscal year 2018 due to these contracts, and the resulting changes in benefit cost trends are depicted in the figure on the right. While both medical and pharmacy trends dropped significantly in the year following the implementation of their respective contracts, ERS anticipates that they will bounce back in



fiscal year 2019 and then return to normal levels. Accordingly, the agency expects that its request for only the base contributions, without any exceptional items, is an anomaly limited to the 2020-21 budget cycle.

The Contingency Reserve Fund receives all revenues for the Group Benefits Program and makes expenditures to cover claims costs. The plan's experience, and therefore the Fund's revenues, expenditures, and balances, are positively affected by contract savings and other utilization trends such as increased generic dispensing rates. These efforts have allowed the Contingency Reserve Fund to build a significant balance. At the end of fiscal year 2017 the balance was $797.7 million, at the end of fiscal year 2018 it was $1.5 billion, and it is anticipated to be $1.8 billion at the end of fiscal year 2019. ERS anticipates that the balance, without increased state or member premium contributions, will be $1.9 billion at the end of fiscal year 2021. All of these balances exceed the statutory requirement that the fund maintain a balance to pay 60 days of claims. Recommendations by the Eighty-fifth Legislature assumed that the fund balance would be $175 million at the end of fiscal year 2019.

8. **Cost Containment Measures in the Group Benefits Program.** For fiscal years 2018 and 2019, the Eighty-fifth Legislature provided an annual 0.8 percent increase in the state's contribution due to targeted healthcare cost savings measures and spend-down from the contingency reserve fund. Targeted healthcare cost savings measures that were considered in funding decisions included:

85R Measure	**Savings (millions) GRR / All Funds**	**Reference**	**Status according to ERS**	**86R Recommendation**
Freestanding Emergency Rooms	$26.1 / $42.2	ERS Rider 15	ERS increased the $150 copay to $300 in September 2017 and in January 2018 began reimbursing non-network freestanding ERs the allowable amount instead of the billed charged. Savings in fiscal year 2018 were approximately $23.5 million.	Delete rider because new structure is in place.
Health Related Institutions Savings	$21.9 / $35.0	ERS Rider 18	ERS has achieved $13 million in rate reductions and has agreed in principle on how to achieve the rest. One HRI is implementing several value-added services that will count towards the requirement.	Revise language to maintain efforts and remove the savings target.
Medicare Maximization for Participants on Social Security Disability	$9.8 / $15.6		ERS is reviewing how Medicare maximization services are performed. While ERS works on possible enhancements, Medicare Advantage and the related prescription drug coverage are on track to reduce plan costs by $115 million in calendar year 2018.	No change.
Episode-based Bundling	$2.4 / $3.9	Article IX, Sec. 10.07	ERS expects to have a joint replacement pilot in place by the end of fiscal year 2019.	No change.
Value-based Incentive Design	$0.8 / $1.2		ERS is not pursuing a vanishing deductible, which is what the cost savings estimate was based upon, but instead plans to: continue Patient Centered Medical Homes, which saved $79.4 million in fiscal years 2011-17; continue reduced generic drug co-pays; and continue no-cost virtual visits, which saved nearly $1 million in the first year.	
Total Anticipated Savings, ERS and HEGI	**$61.0 / $97.9**			

In addition to these measures, the spenddown from the contingency reserve fund was expected to leave a balance of $175 million.

The Legislature also included measures intended to study and achieve efficiencies without specifying cost savings targets:

85R Measure	Reference	Status	86R Recommendation
Analysis of Certain Health Care Data	Article IX, Sec. 10.06	Report by HHSC, ERS, TRS, and TDCJ is complete. See summary below.	No change.
Consumer Directed Health Select Data Analysis and High Deductible Health Plan	Riders 14 and 16	ERS report is complete. See summary below.	Delete both riders.
Health Clinic at a State Agency or Institution of Higher Education	Rider 17	ERS reports that it is working with Texas Tech University Health Sciences Center to deliver telemedicine services to TDCJ employees through an onsite clinic at the Montford facility in Lubbock. In addition, the HealthSelect network now includes the UT Dell Medical Work Life Walk-in Clinic.	No change.
Community Supervision and Correctional Department (CSCD) Health Insurance	House Bill 1526	The state's contribution for probation officers' group health insurance was transferred from TDCJ to ERS and is now an estimated appropriation.	No change. Add non-key explanatory performance measure.

9. **Article IX, Section 10.06: Analysis of Certain Healthcare Data.** The 2018-19 General Appropriations Act, Eighty-fifth Legislature, included Article IX provision 10.06 which required the Health and Human Services Commission, in coordination with the Department of State Health Services, the Employees Retirement System, the Teacher Retirement System, the Department of Criminal Justice, and the Legislative Budget Board to develop recommendations and a comprehensive plan for an integrated health care information system to compare data related to the agencies' respective healthcare systems. The provision noted that agencies and systems will have differences in population and acuity, as well as potential for expanding data integration initiatives, use of existing health claims data sources, and the collection of new claims data.

The required report was submitted on May 1, 2018 and outlined three options:

A. <u>Standardized program reports done by each health program.</u> This could be done with existing resources and would take 3-4 months. However, as agencies have different capacities for generating datasets, the reports would not be age- or risk-adjusted, and furthermore the agencies do not have a tool to display shared results while protecting health information.
B. <u>Analysis conducted by a Texas academic institution.</u> This would require each agency to develop a Memorandum of Understanding with the Center for Healthcare Data at the University of Texas Health Science Center at Houston, which already holds and analyzes Medicare and private sector market data. This approach was tested by ERS with three years of data. This option could be implemented in 6-8 months.
C. <u>Analysis conducted by Texas Medicaid's data analysis vendor</u>. Contracting with HHSC's current External Quality Review Organization, the Institute for Child Health Policy (ICHP) at the University of Florida, would require a coordinated procurement and RFP which could take up to two years. A significant drawback is that ICHP currently does not report on non-Medicaid programs and does not hold Texas private claims data for benchmarking.

For these four agencies with approximately 5 million combined health plan participants, the latter two options are estimated to cost about $5 million per year or a dollar per individual insured per year.

10. **Consumer Directed HealthSelect and High-Deductible Health Plan Analysis.** Recommendations delete two ERS riders that required additional research and analysis of the Consumer Directed HealthSelect (CDHS) plan and other high deductible health plan options that would have higher deductibles and higher health savings account (HSA) contributions than the current plan. The agency's report on Riders 14 and 16 was published at the end of August and found the following:
    - ERS CDHS deductibles, out-of-pocket maximums, and member contributions for family coverage are higher than those in other states' high deductible plans; the state's monthly HSA contribution rate is in the median range; and member contributions for member-only coverage are the lowest ($0).
    - As of June 30, 2018, 1,782 participants were enrolled in CDHS. Approximately 65 percent chose member-only coverage and higher education employees account for 46 percent of the enrollment. Generally CDHS members are younger and earn more than those in other ERS plans. Forty-four percent of member-only CDHS enrollees had no out-of-pocket costs in calendar year 2017, while 1.34 percent met the out-of-pocket maximum ($6,550 in-network). Thirteen percent of members with dependent coverage had no out-of-pocket expenses while 5.24 percent met the out-of-pocket maximum ($13,100 in-network).
    - The report also laid out three options for a higher deductible health plan that would remain cost-neutral and still comply with state and federal law. The CDHS deductible is currently $2,100 for an individual and $4,200 for a family. Each of these models would allow for an embedded individual deductible within the family deductible. Currently CDHS member dependent contributions are ten percent lower than those in regular HealthSelect.
        - Increasing deductibles by 29 percent (to $2,700 individual / $5,400 family) would increase HSA contributions by 16 percent and reduce member dependent contribution rates by another seven percent.
        - Increasing deductibles by 79 percent ($3,750 / $7,500) would increase HSA contributions by 38 percent and reduce member dependent contributions by another 16 percent.
        - Increasing deductibles by 138 percent ($5,000 / $10,000) would increase HSA contributions by 56 percent and reduce member dependent contributions by another 21 percent.

11. **State Auditor's Office Audit Findings and GASB Reporting Requirements.** In December 2017 and June 2018 audits of ERS financial statements and accounting standards, the State Auditor's Office found material weaknesses in financial reports and implementation of new Governmental Accounting Standards Board (GASB) reporting requirements. The 2017 financial statement errors have since been corrected and a restatement was issued by the agency in the 2017 Comprehensive Annual Financial Report (CAFR). The December 2018 audit of the 2018 finanical statements had no findings and the 2018 audit of GASB implementation is forthcoming.

    In June 2015, GASB adopted Statements No. 74 and No. 75, to be implemented for fiscal years beginning after June 15, 2016 and June 15, 2017 respectively, which significantly altered the way Other Post-Employment Benefits (OPEB) liabilities are accounted for and reported in state and local governments' financial statements. Instead of including OPEB liabilities in the notes of financial reports, they must now be reported in the main portion of the financial statements. While the new reporting requirements may encourage states to address the way in which OPEB liabilities are financed, Moody's and Fitch have indicated that they do not expect resulting ratings downgrades because the liability remains fundamentally unchanged.

12. **Legal Authority and Trust.** The Texas Constitution directed the Legislature to establish the Employees Retirement System and Government Code §815.103 provides the ERS Board of Trustees 1) shall hold all retirement system assets in trust for the exclusive benefit of the members and annuitants, and 2) administer all operations funded by trust assets for the same purpose. Statute specifies that the Board and executive director may acquire, manage, and sell any of the system's assets, and exempts ERS from some statutory requirements such as certain contracting and risk management practices.

    ERS's status as a constitutionally-created agency and its trust fund structure are both uncommon among state agencies. In practice, ERS operates from three pension trusts and the Group Benefits Program trust. Legislative appropriations made to ERS are deposited into the appropriate trust and administrative expenses are allocated across respective funds. The Board's fiscal year 2019 Operating Budget of $82.3 million represents 0.29 percent of the funds administered by ERS. These funds total $28.9 billion and include investment assets of the three defined benefit pension funds, the contingency reserve fund, and deferred compensation plans.

13. **New Building Project.** ERS continues work on the planned replacement of its eastern annex building and the board approved a Guaranteed Maximum Project cost at the December 2018 board meeting. The new building will feature nine floors and more than 200,000 square feet of available office space, some of which will be for ERS use and the remainder to be leased to third-party tenants; pre-leasing for space has already begun.

    ERS has spent approximately $4.1 million in the design phase according to contracts submitted to the LBB. Because this building project is funded through the Trust, it is not subject to legislative approval. Additionally, contract reporting requirements for this project are not compulsory, nonetheless the agency has been submitting the contract information to the LBB.

Employees Retirement System
Contracting Highlights - House

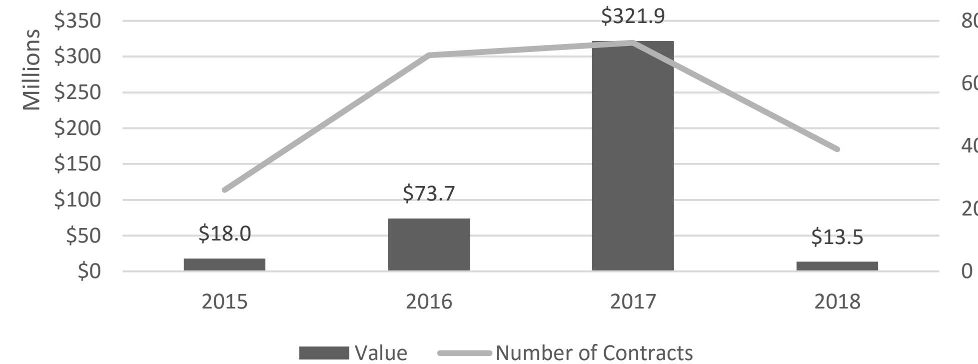
As of August 31, 2018, the Employees Retirement System had 89 active procurement contracts valued at $1.0 billion.

Summary of Contracts Awarded in Fiscal Years 2017-2018 and Reported to LBB Contracts Database[1]

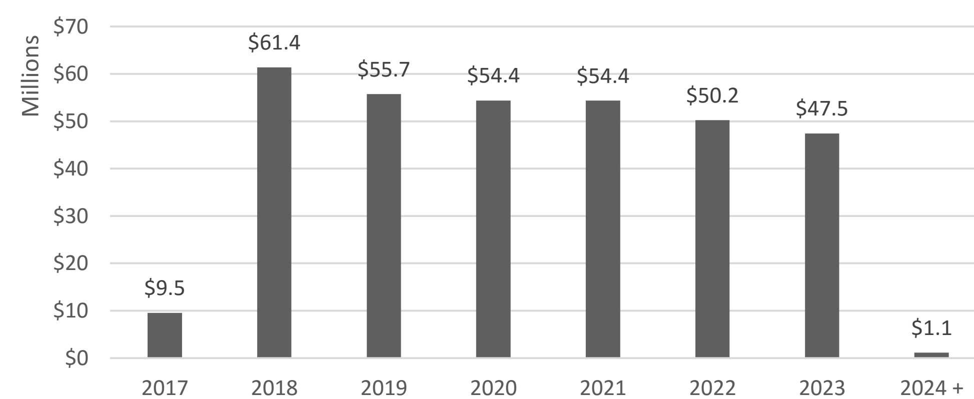
(Dollar values rounded to the nearest tenth of a million)

	Number	Total Value	Average Value	% of total
Procurement Contracts	112	$ 335.4	$ 3.0	100%
Award Method				
Total Competitive Contracts	100	$ 331.5	$ 3.3	98.8%
Total Non-Competitive	12	$ 3.9	$ 0.3	1.2%
Sole Source	*10*	*$ 3.4*	$ 0.3	1.0%
Interagency Agreement	*2*	*$ 0.5*	$ 0.3	0.2%
Procurement Category				
Other Services	71	$ 323.4	$ 4.6	96.4%
Information Technology	31	$ 4.9	$ 0.2	1.5%
Construction	1	$ 3.1	$ 3.1	0.9%
Consulting	4	$ 2.7	$ 0.7	0.8%
Professional Services	4	$ 1.2	$ 0.3	0.4%
Goods	1	$ 0.1	$ 0.1	0.0%
Revenue Generating Contracts	0	$ -	$ -	0%

Contracts Awarded By Fiscal Year



Funds Obligated by Contracts Awarded in FY 17-18 By Fiscal Year



[1] These figures reflect the total value of reported contracts awarded in FY 17-18 and reported to the LBB contracts database. Values can include planned expenditures for subsequent years and represent the amounts contracted which may include funds from sources other than appropriated or General Revenue Funds.

Employees Retirement System
Contracting Highlights - House

(Dollar values rounded to the nearest tenth of a million)

Largest Active Contracts from Previous Fiscal Years	Award Method	Total Value	% Change*	Award Date	Length	Renewals	Vendor
1 Medicare Advantage Services	Competitive	$ 358.0	54.1%	09/02/11	8 years	1	Humana Insurance
2 Health Maintenance Organization Services	Competitive	$ 50.7	37.2%	08/27/12	7 years	1	Scott and White Health Plan
3 EGWP PBM Services	Competitive	$ 47.0	0.0%	05/17/16	6 years	0	United Healthcare Services
4 Life Insurance Administration Services/AD&D	Competitive	$ 32.2	30.2%	11/02/11	9 years	1	Minnesota Life Insurance
5 Health Maintenance Organization Services	Competitive	$ 19.0	38.0%	08/29/13	6 years	1	Community First Health Plans
Largest Competitive Contracts Awarded in FY 17-18							
1 Healthcare Third Party Admin. Services	Competitive	$ 281.2	0.0%	12/02/16	7 years	0	Blue Cross Blue Shield of Texas
2 Admin. Services for Long/Short Term Disability	Competitive	$ 24.4	0.0%	05/17/17	4 years	0	Reed Group Management LLC
3 Design-Build Services	Competitive	$ 3.1	0.0%	03/19/18	2 years	0	Ryan Companies US Inc
4 Data Center Colocation Services	Competitive	$ 2.4	0.0%	03/10/17	10 years	0	Fibertown Bryan
5 Real Estate Consulting Services	Competitive	$ 2.4	0.0%	12/13/17	6 years	0	Pension Consulting Alliance LLC
Largest Non-Competitive Contracts Awarded in FY 17-18							
1 License for Equity Research Portfolio Analysis	Sole Source	$ 1.9	0.0%	03/14/17	1 year	0	FACTSET
2 Postage Reserve Account	Sole Source	$ 0.3	0.0%	09/07/17	1 year	0	Postmaster
3 Audit Comprehensive Annual Financial Report	Interagency	$ 0.3	0.0%	03/16/17	5 months	0	Texas State Auditor's Office
4 Auditing Services	Interagency	$ 0.3	0.0%	03/17/17	6 months	1	Texas State Auditor's Office
5 Postage	Sole Source	$ 0.3	0.0%	09/07/17	1 year	0	Postmaster

*Note: The percent change is the difference in contract value between initial the award amount and the current contract value. This calculation includes contract amendments and renewals.

Employees Retirement System
Rider Highlights - House

Modification of Existing Riders

2. **Informational Listing of Appropriated Funds.** Revise rider to reflect benefit recommendations for 2020-21.

13. **Notification of Contracts Greater than $10 Million.** Recommendations simplify the rider to require the agency to submit specific details of Requests for Proposals only when changes are made. Recommendations eliminate reporting requirements that are redundant to updated language in Article IX, Section 7.12.

18. **Health Related Institution Savings** (now Rider 15). Recommendations remove the directive that ERS save $35 million in All Funds in the 2018-19 biennium in contracted provider rates or value-based design models with Health Related Institutions. The recommended rider continues both contracted provider rate negotiations and value-based initiatives.

Deleted Riders

14. **Consumer Directed HealthSelect Data Analysis.** Recommendations remove this rider as a related report was completed in August 2018.

15. **Freestanding Emergency Rooms.** Recommendations remove this rider as increased copays and reimbursement mechanism changes were implemented in fiscal year 2018.

16. **High Deductible Health Plan.** Recommendations remove this rider as the report was completed in August 2018.

Employees Retirement System
Items Not Included in Recommendations - House

		2020-21 Biennial Total					
		GR & GR-D	All Funds	FTEs	Information Technology Involved?	Contracting Involved?	Estimated Continued Cost 2022-23
Agency Exceptional Items - In Priority Order							
1)	ERS Actuarially Sound Level. Funding request would increase the state's contribution to 13.14 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 23.14 percent of payroll. The Constitution limits the state's contribution to ten percent of compensation.	$360,907,004	$503,116,827	0.0	No	No	$503,116,827
2)	LECOS Actuarially Sound Level. Funding request would increase the state's contribution to 2.58 percent from the current 0.5 percent. This contribution rate, combined with the 0.5 percent member contributions, would equal the ASC rate of 3.08 percent without including court fees.	$69,830,916	$70,291,986	0.0	No	No	$70,291,986
3)	JRS 2 Actuarially Sound Level. Funding request would increase the state's contribution to 16.83 percent from the current 15.663 percent. This increased state contribution rate, along with the member contribution, would equal the ASC rate of 24.29 percent.	$1,428,308	$2,051,420	0.0	No	No	$2,051,420
TOTAL Items Not Included in Recommendations		**$432,166,228**	**$575,460,233**	**0.0**			**$575,460,233**

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	2018-19 Base	2020-21 Recommended	Biennial Change	% Change	Comments
ERS RETIREMENT PROGRAM A.1.1	$1,291,059,324	$1,313,928,840	$22,869,516	1.8%	Recommendations reflect an increase of $22.9 million in All Funds over the 2018-19 biennium based upon the following assumptions: - Continued state contribution of 9.5 percent of salary; - 0.5 percent annual payroll growth in fiscal years 2019, 2020, and 2021; - FTE growth at the Health and Human Services Commission, the Texas Education Agency, the Teacher Retirement System, the Department of Public Safety, and the Railroad Commission; - Method of finance adjustments at the Historical Commission and the Railroad Commission; and - Ten percent salary increase for District Attorneys.
LECOS RETIREMENT PROGRAM A.1.2	$16,897,112	$16,897,112	$0	0.0%	Recommendations reflect no change from the 2018-19 biennium as the number of active members and their salaries are assumed to remain the same.
JUDICIAL RETIREMENT PROGRAM-PLAN 2 A.1.3	$25,030,292	$27,533,322	$2,503,030	10.0%	Recommendations reflect a ten percent judicial salary increase.
JUDICIAL RETIREMENT PROGRAM-PLAN 1 A.1.4	$46,598,156	$46,598,156	$0	0.0%	Recommendations reflect no change from the 2018-19 biennium. This a pay-as-you-go retirement plan with 7 active members in 2018.
PUBLIC SAFETY DEATH BENEFITS A.1.5	$28,818,048	$27,572,616	($1,245,432)	(4.3%)	Recommendations reflect a decrease of $1.2 million over the 2018-19 biennium. This maintains the anticipated fiscal year 2019 funding level in fiscal years 2020-21. A high number of claims was processed in fiscal year 2018.
RETIREE DEATH BENEFITS A.1.6	$27,191,741	$27,500,000	$308,259	1.1%	Recommendations reflect an increase of $0.3 million over the 2018-19 biennium due to the aging member population. ERS processed 2,604 claims in fiscal year 2018 and assumes a five percent increase per year.
Total, Goal A, EMPLOYEES RETIREMENT SYSTEM	**$1,435,594,673**	**$1,460,030,046**	**$24,435,373**	**1.7%**	

Employees Retirement System

Funding Changes and Recommendations - House, by Strategy -- ALL FUNDS

Strategy/Goal	2018-19 Base	2020-21 Recommended	Biennial Change	% Change	Comments
GROUP BENEFITS PROGRAM B.1.1	$3,816,561,261	$3,993,206,031	$176,644,770	4.6%	Recommendations reflect an increase of $176.6 million from the 2018-19 biennium based upon the following assumptions: - State contribution increase of 0.8 percent in fiscal year 2019 and no increases in fiscal years 2020 and 2021, which provide the full cost of member-only coverage and 50 percent of family coverage; - 4.7 percent member growth among retirees in fiscal year 2019 and 4.5 percent retiree growth in fiscal years 2020 and 2021; - FTE growth at the Health and Human Services Commission, the Texas Education Agency, the Teacher Retirement System, the Department of Public Safety, and the Railroad Commission; - Method of finance adjustments at the Historical Commission and the Railroad Commission; and - Shifting obligations for certain retirees from the Department of State Health Services to the Health and Human Services Commission.
PROBATION HEALTH INSURANCE B.1.2	$139,117,180	$143,136,883	$4,019,703	2.9%	Recommendations reflect an increase of $4.0 million from the 2018-19 biennium based upon a state contribution increase of 0.8 percent in fiscal year 2019 and retiree growth. This appropriation was previously at the Texas Department of Criminal Justice and was moved to ERS beginning in fiscal year 2018.
Total, Goal B, EMPLOYEES RETIREMENT SYSTEM	**$3,955,678,441**	**$4,136,342,914**	**$180,664,473**	**4.6%**	
Grand Total, All Strategies	**$5,391,273,114**	**$5,596,372,960**	**$205,099,846**	**3.8%**	

Full-Time-Equivalent Positions	Expended 2017	Estimated 2018	Budgeted 2019	Recommended 2020	Recommended 2021
Cap	365.0	395.0	395.0	408.5	408.5
Actual/Budgeted	374.3	383.4	387.0	NA	NA

In August 2018, the ERS Board of Trustees adopted an operating budget with 408.5 FTEs beginning in fiscal year 2019 and the Board also adopted the LAR which included an FTE cap request of 395.0 in fiscal years 2020-21. The agency expects the latter amount will reflect their actual FTE levels when considering turnover and vacancies, and this aligns with the 2018-19 cap. Recommendations increase the FTE cap for the 2020-21 biennium to that of the current internal operating budget for transparency.

Schedule of Exempt Positions (Cap)					
Executive Director	$357,120	$357,120	$357,120	$357,120	$357,120
Director of Investments	$416,401	$416,401	$416,401	$416,401	$416,401

The State Auditor's Office Report, *Executive Compensation at State Agencies* (Report 18-705, August 2018), indicates a market average salary of $299,079 for the Executive Director position at the Employees Retirement System and does not indicate a market average for the Director of Investments position. The agency is not requesting any changes to its exempt positions. See Section 3 for additional information about the salaries, including incentive compensation pay, for these positions.

Incentive and Executive Compensation

In its responsibilities for the general administration and operation of the retirement system, the ERS Board of Trustees approves the incentive compensation plan for investment-related positions, which began in December 2006. The plan is funded by dollars generated through trust fund performance and is based on qualitative (25 percent) and quantitative (75 percent) performance goals. In plan year 2017, 71 employees received incentive compensation totaling $5.3 million and ranging from $618 to $283,246. The past five years of incentive compensation are depicted on the right.

The Board also approved an executive performance incentive plan for the Executive Director, effective September 2015, which is based upon trust performance (50 percent) and qualitative components (50 percent). The Director's incentive payment was $89,636 in 2016 and $247,179 in 2017.