

LEGISLATIVE RECAP

Porter Wilson

Executive Director

Employees Retirement System of Texas



Questions? Use Q&A in the toolbar!



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Jennifer Chambers

Director of Government Relations

Employees Retirement System of Texas



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Legislative and Benefits Update
Retired State Employees Association
Annual Meeting

Porter Wilson, Executive Director

September 29, 2021



ERS offers competitive benefits
to enhance the lives of its members.



Important ERS Information and Updates

Whaddaya Know?



On average, approximately how many calls did ERS' Contact Center take per month in Fiscal Year 2021?

- A. 26,500
- B. 18,000
- C. 12,500



Whaddaya Know?



On average, approximately how many calls did ERS' Contact Center take per month in Fiscal Year 2021?

A. 26,500

Our Customer Benefits team also answered an average of almost 2,300 emails per month.

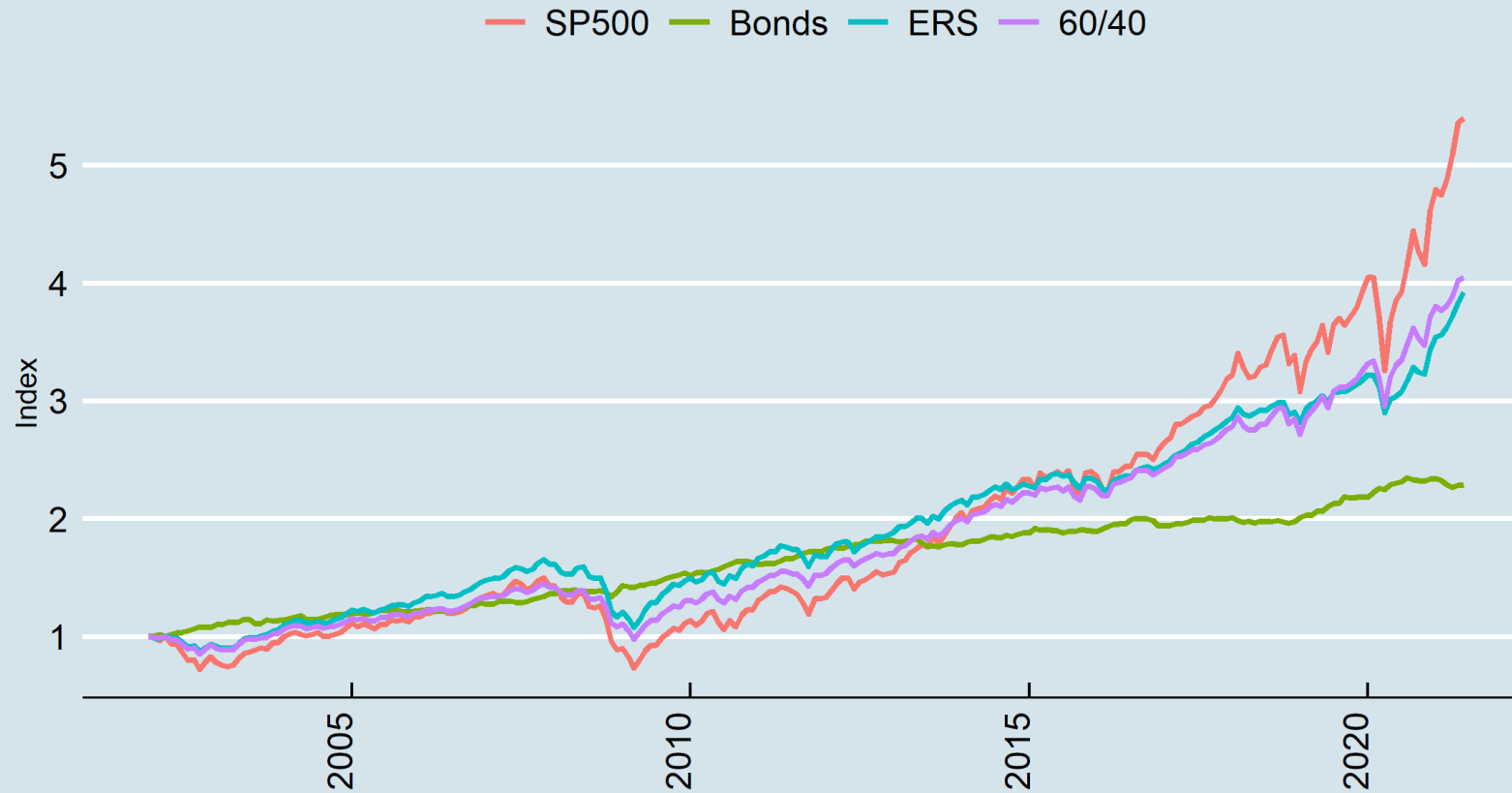
Investment Diversification

Growth of the Trust's assets



Historical Returns

S&P500, Bonds, 60/40 and ERS



Source: ERS, Bloomberg

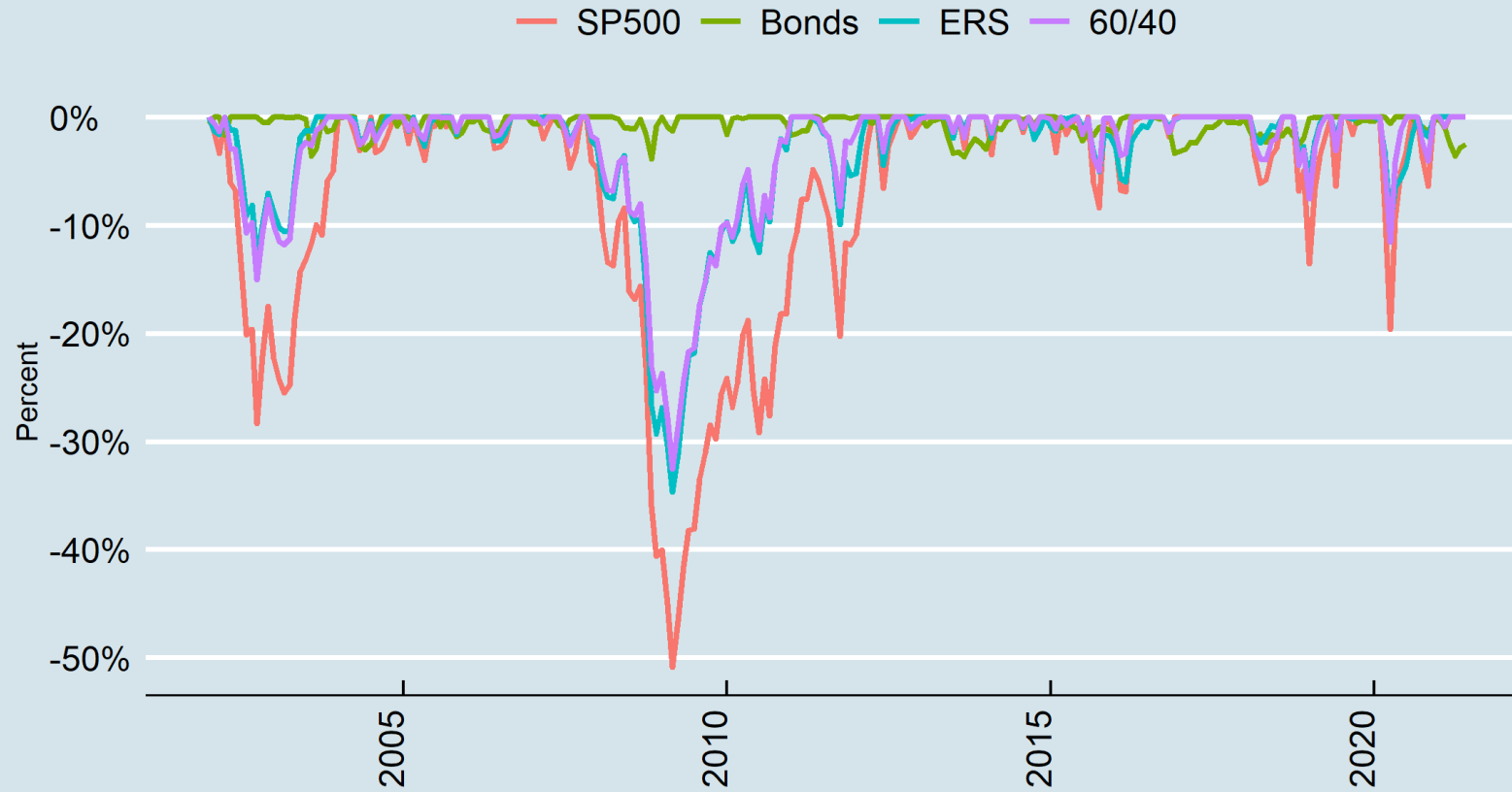
Investment Diversification

Protection of the Trust's assets



Drawdown

S&P500, Bonds, 60/40 and ERS



Source: ERS, Bloomberg

ERS Is a Long-term Investor



Investment Returns

as of August 31, 2020

	30 Year	20 Year	10 Year	5 Year	3 Year	1 Year
Net Return	Unknown*	5.70%	8.12%	7.30%	6.42%	6.82%
Gross Return	7.84	5.79%	8.22%	7.34%	6.46%	6.85%

**Not available due to custodian data transfer issue.*

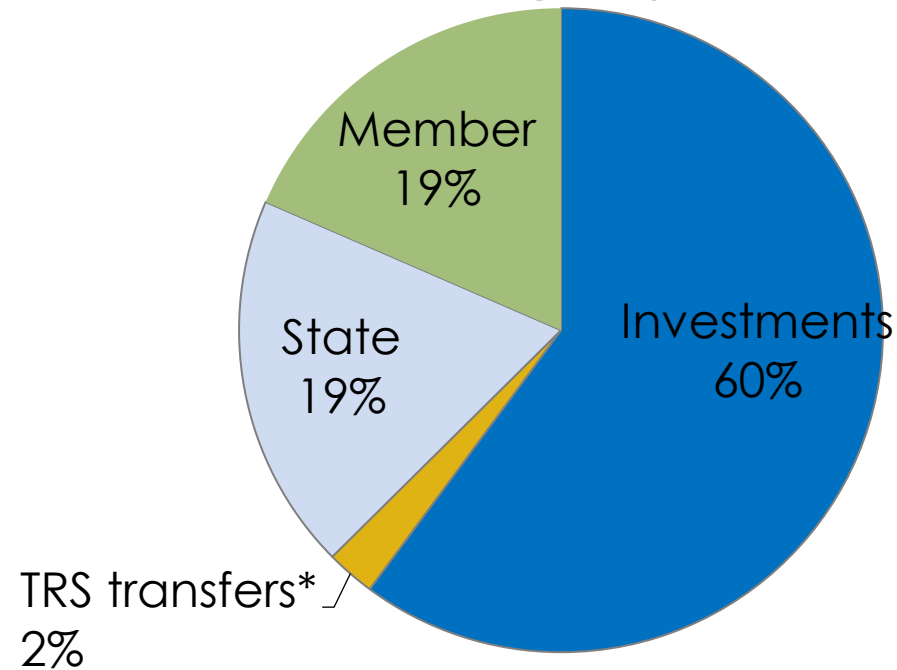
Actuarial assumed rate of return = 7% (based on net return)

**FY21
Return:
25.46%
(preliminary)**

Investment Returns Pay Most Benefits



ERS Retirement Trust Assets by Revenue Source FY98-20



*Payments from Teacher Retirement System of Texas cover a portion of annuity payments for members who chose to retire from ERS.

New Chief Investment Officer



- David Veal became ERS' chief investment officer in early August.
- Veal worked for ERS before and most recently served as CIO for City of Austin Employees Retirement System.
- Tom Tull, ERS' CIO since 2012, retired in August.



New Trustee



- Neika Clark of Health and Human Services joined the ERS Board earlier this month.
- ERS certified Clark after no other potential candidate gathered enough signatures to get on the ballot.
- Ilesa Daniels, who held the seat since 2015, chose not to run again.



87th Legislative Session – Trustee Eligibility



- Passage of HB 917 allows one elected trustee to be a retired state employee.
- Legislation went into effect September 1, 2021.
- Spring 2023 election will be the first in which a retiree can run.
- All candidates must complete and submit a nomination petition with 300 signatures to be on the ballot.
- ERS now has an electronic signature process, in addition to a traditional paper petition form for nomination petitions.

Retirement

Whaddaya Know?



How many ERS retirement groups, with different levels of retirement benefits, currently exist for “regular” state agency employees?

- A. Two
- B. Three
- C. Four



Whaddaya Know?



How many ERS retirement groups, with different levels of retirement benefits, currently exist for “regular” state agency employees?

B. Three

Under new legislation, a fourth group will start in Fiscal Year 2023. Each group has different retirement eligibility requirements and annuity calculations.

- Group 1 – Hired before Sept. 1, 2009
- Group 2 – Hired Sept. 1, 2009 - Aug. 31, 2013
- Group 3 – Hired Sept. 1, 2013 – Aug. 31, 2022
- Group 4 – Hired on/after Sept. 1, 2022

2020: Grim Outlook for Funding



- Going into the 87th session, **all funds were projected to run out of money.**
- If funds deplete, the plans convert to pay-as-you-go status that is much more expensive for the state—expected to be 4x more.

Actuarial Valuation Results as of August 31, 2020			
	ERS	LECOSRF	JRS 2
Actuarial Accrued Liability	\$43.2 B	\$1.61 B	\$591 M
Actuarial Value of Assets	\$28.5 B	\$968 M	\$487 M
Unfunded Accrued Liability	\$14.7 B	\$642 M	\$104 M
Funded Ratio	66.0%	60.1%	82.3%
Funding Period (Years)	Never	Never	Never
Projected Depletion Date	~2061	~2041	~2059

“The current financial outlook for ERS is very poor. It is important to understand that the currently scheduled contributions are not expected to accumulate sufficient assets in order to pay all of the currently scheduled benefits when due.” - Gabriel Roeder Smith & Company, consulting actuaries, Dec. 2, 2020

SB 321

Historic legislation



Two critical parts protect the ERS pension plan for all employees and retirees.

- **Legacy payments** stabilize all current and future ERS plan retirement benefits.
 - An annual, actuarially determined payment schedule that fully pays down the current unfunded liability within 33 years
- **Cash balance benefit structure** mitigates future unfunded liabilities and modernizes state pension benefit.
 - New benefit for state agency employees starting on/after September 1, 2022

SB 321 Legacy Payments



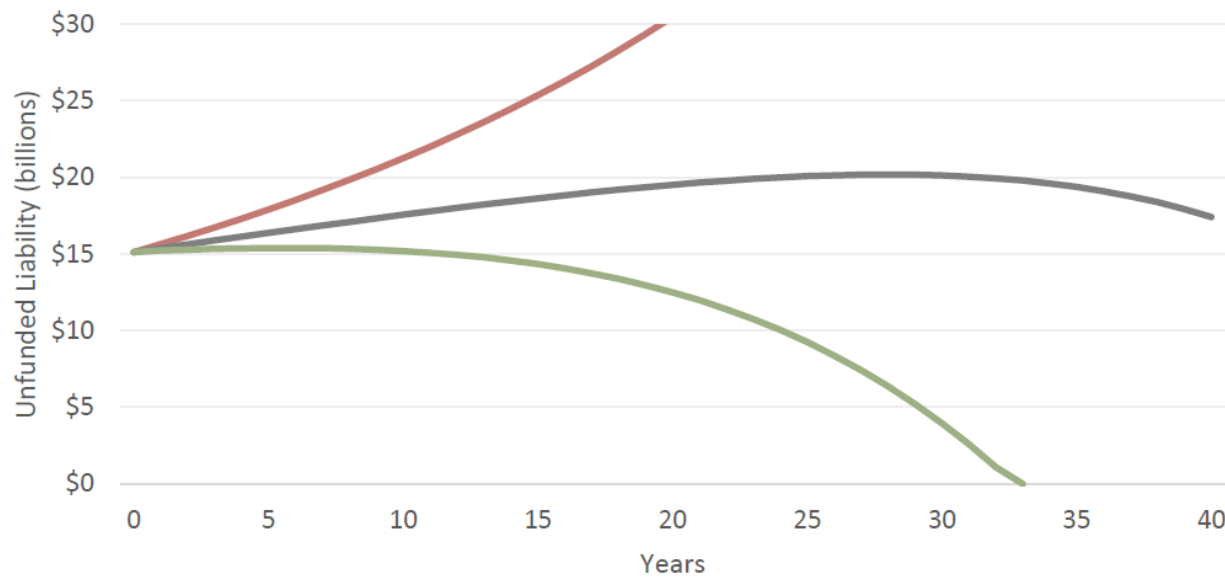
- Schedule of state payments to address the current unfunded liabilities by FY54 at the latest.
 - In addition to current state contributions (10% of payroll)
 - Before each session, ERS retirement actuaries will determine payment levels for upcoming biennium
- FY23–24 payment level = \$510 million each year
 - Full funding included in HB 2, Supplemental Appropriations bill

SB 321 Legacy Payments

Impact



State Amortization Schedule with Group 4 Cash Balance



Annual payments of \$100 million will result in asset depletion in 56 years

Annual payments of \$350 million results in UAAL eliminated in 54 years and State will pay **\$62 billion** in interest on UAAL

Annual payments of \$510 million results in UAAL eliminated in 33 years and State will save **\$34 billion** in interest compared to the \$350 million scenario

— \$100 million every year — \$350 million for 54 years — \$510 million for 33 years



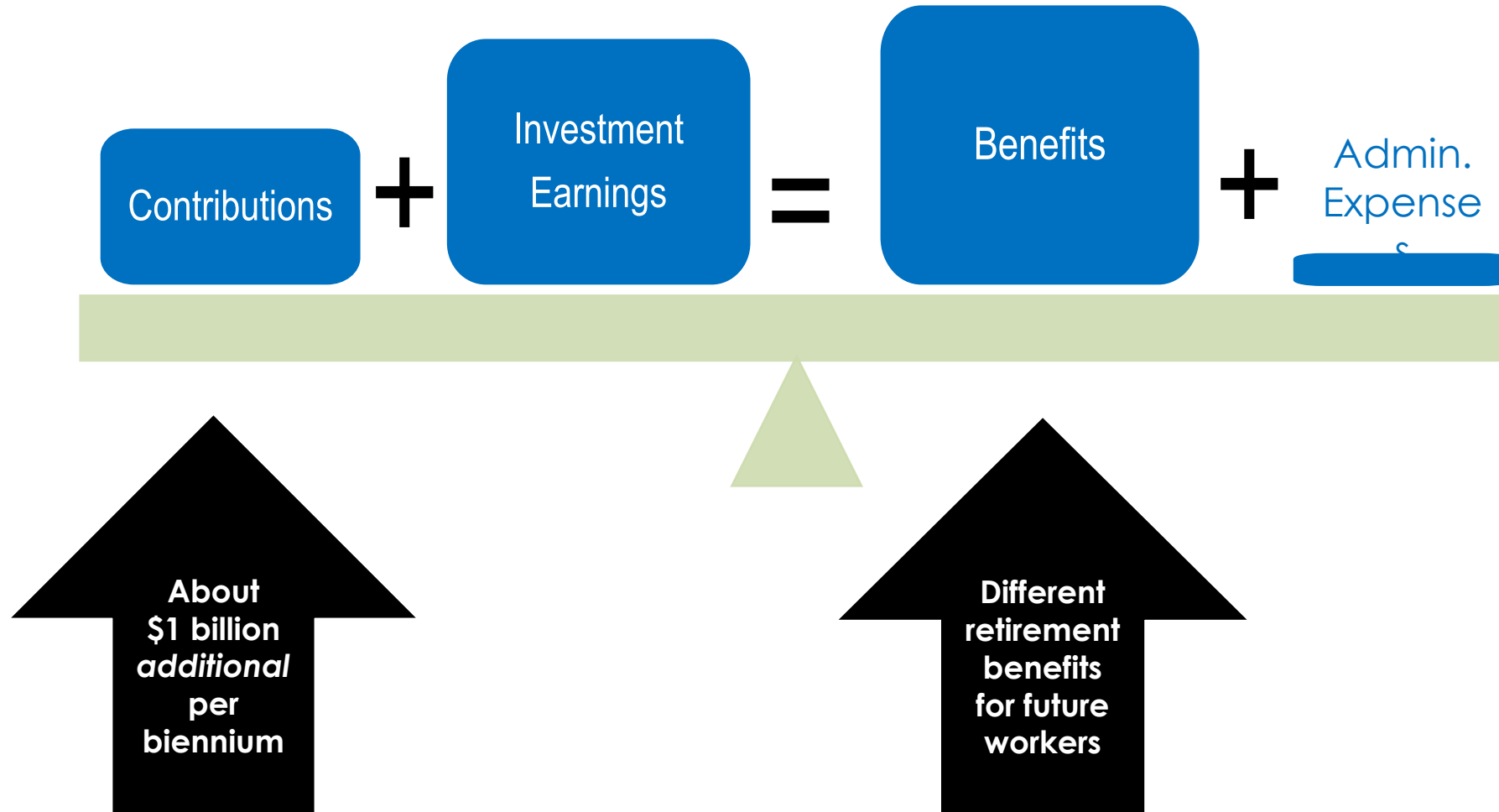
SB 321 Cash Balance Benefit

“Group 4”



- New retirement group for state employees starting on or after September 1, 2022
- They will be enrolled in a different type of defined benefit retirement structure, a cash balance benefit

SB 321 Will Restore Balance



Health Care

Whaddaya Know?

Which of the following Extra Benefits does UnitedHealthcare offer HealthSelectSM Medicare Advantage Plan PPO participants?

- A.** SilverSneakers[®] no-cost gym access
- B.** No-cost transportation to non-emergency health services
- C.** Reimbursement allowance for over-the-counter health purchases
- D.** Personal Emergency Response System in-home monitoring at no cost to participants



Whaddaya Know?



Which of the following Extra Benefits does UnitedHealthcare offer to HealthSelect MA PPO participants?

- A. SilverSneakers no-cost gym access
- B. No-cost transportation to non-emergency health services
- C. Reimbursement allowance for over-the-counter health purchases
- D. Personal Emergency Response System in-home monitoring at no cost to participants
- E. And many more

Learn more at **HealthSelect-MAPPO.com** or by calling
(855) 853-0453.

87th Legislative Session – Health Care



- ERS health insurance program remains financially strong.
- The Legislature again fully funded Texas Employees Group Benefits Program (GBP) health plans.
- Thanks to cost management initiatives and competitive contracting, ERS did not have to request appropriations above base funding levels.

Health Insurance Changes



- HMO plans no longer available through ERS
 - Smooth transition for most participants
 - Continued support for those who need new providers
- HealthSelect of Texas and HealthSelect Secondary – mental health Virtual Visits through Doctor on Demand[®] and MDLIVE[®] now covered at 100%, same as medical Virtual Visits
- HealthSelect Secondary and Consumer Directed HealthSelect – no deductible for in-network diagnostic hemoglobin A1c testing for those diagnosed with diabetes; coinsurance still applies

Effective January 1 for Medicare retirees:

- No deductible for formulary insulin at in-network pharmacies; copays still apply
- HealthSelect Medicare Advantage – Healthy at Home: additional transportation, in-home personal care and meals after inpatient hospital or skilled nursing stay

Fall Enrollment



- November 1 -19
- Opportunity for Medicare-eligible retirees to make benefits changes
- Expect your packets in a few weeks
- Join us for informational webinars
 - No in-person fairs planned, due to COVID

Questions?

SB 321 Overview

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Jennifer Chambers

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87th Legislative Update

Legislation Impacting ERS Retirement Programs



- **SB 321 is historic legislation that protects the long-term stability of the ERS pension plan for all employees and retirees and addresses the state's unfunded pension liabilities**
- Two critical parts to SB 321:
 - **Stabilizes all current and future ERS plan retirement benefits**
 - Establishes an annual, actuarially determined **Legacy Payment Schedule** that fully pays down the current unfunded liability within 33 years
 - **Mitigates future unfunded liabilities and modernizes state pension benefit**
 - Creates a **Group 4 Cash Balance** benefit structure for new state employees starting on/after 9/1/2022

87th Legislative Update

SB 321 – Legacy Payments



- SB 321 established a state payment schedule to address the current unfunded liabilities by at least Fiscal Year 2054
- This is in addition to the current 10% of payroll state contributions
- Prior to each legislative session, ERS retirement actuaries will calculate the actuarially determined payments levels for the next biennium
- The FY 2023 – 2024 payment level was \$510m each year of the biennium
- The full funding was included in HB 2, Supplemental Appropriations bill

87th Legislative Update

SB 321 – Group 4 Cash Balance Benefit



- Establishes a new group for state employees beginning their employment on or after September 1, 2022
- These future employees will be enrolled in a different type of defined benefit retirement structure known as a cash balance benefit which will be referred to as “Group 4”

87th Legislative Update

SB 321 - Group 4 Cash Balance Benefit



- Guarantees a lifetime annuity in retirement
- Lower active employee contribution (6% of pay vs 9.5%)
- Five-year vesting period (vs current 10 year)
- Retirement eligibility
 - Rule of 80 or
 - 65 years of age with 5 years of service
- Maintains enhanced Law Enforcement and Custodial Officers benefit
- Provides death benefits
- Provides disability benefits
- Maintains Proportionate Retirement Program

87th Legislative Update

SB 321 - Group 4 Cash Balance Benefit



- **Annual Interest**

- Guaranteed 4% annual interest on member account

- **Gain Share**

- In years when the ERS Trust Fund has investment earnings greater than 4% over a five-year average, half is shared with members and retirees through gain share
 - Not less than 0% and capped at 3%
 - Gain share credited to member account annually
 - Future Group 4 retirees may receive annual annuity increase based on gain share

87th Legislative Update

SB 321 - Group 4 Cash Balance Benefit



- **State Match**

- For every \$1 in the employee's cash balance account, the state matches \$1.50 to be set aside until retirement

- **Annuity**

- The total accumulated member account -- contributions, interest, gain sharing and state match - - is used to determine the member's lifetime annuity

Questions?