

March ERS Board meeting highlights

The Employees Retirement System of Texas (ERS) Board of Trustees and Investment Advisory Committee (IAC) met March 9, 2022.

Of note:

- The ERS Trust Fund's assets increased from \$30.87 billion to \$36.20 billion in the past calendar year. In Calendar Year 2021, the Trust outperformed the policy benchmark by 6.1% and ranked in the 5th percentile among its peers. That is, ERS outperformed 95% of its peers during this period.
- Having made a commitment not to profit from the COVID-19 pandemic, Delta Dental refunded almost \$1 million to the Texas Employees Group Benefits Program, representing approximately one month of total plan premiums, from the DeltaCare® USA dental health maintenance organization (DHMO) to the Texas Employee' Group Benefits Plan (GBP). ERS will apply the money to premium rates for the DHMO plan.

A recap of the meetings follows. You can find more information on the ERS March 2022 Board meeting page.

The next joint meeting of the ERS Board and IAC is scheduled for Wednesday, May 11.

Audit Committee Meeting

External Audit Reports

A representative of CliftonLarsonAllen LLP (ERS' independent accounting auditor), joined staff of ERS Internal Audit to present results of ERS' Fiscal Year 2021 Annual Comprehensive Financial Report audit. The audit was unqualified or "clean": the audit found no weaknesses or deficiencies; ERS' financial statements were presented in accordance with accounting generally accepted principles.

A representative of Bolton (ERS' independent pension actuary auditor) joined ERS staff to present results of the Pension Forecasting Audit. The audit found the actuarial

liabilities are reasonable and the methods and assumptions are correctly applied. The audit also found that actuarial valuation reports meet actuarial standards. The actuarial auditors did suggest some improvements to the disclosures of the valuation report. A consultant at Gabriel, Roeder, Smith & Company stated that GRS would consider the audit recommendations when it performs the fiscal year-end actuarial valuations.

Internal Audit Reports

ERS staff updated the Board on the status of audit recommendations. According to managers in the relevant ERS divisions, all recommendations by Internal Audit had been implemented or partially implemented.

ERS staff also presented the Internal Audit Charter and Audit Committee Charter for the Board's consideration. No changes or updates were identified for either charter.

Joint Board and IAC meeting

Investment Advisory Committee appointments

The Board approved new appointments to the Investment Advisory Committee. Ryan Bailey and Ruby Muñoz Dang began their three-year terms at the meeting. Their terms end March 31, 2025.

Investment compliance updates

Kurt Cressotti, investment compliance officer at ERS, presented the annual investment compliance report. He reported that ERS had no significant compliance risks in 2021. Further, ERS' compliance policies and procedures are working effectively to help prevent, detect and correct violations of applicable laws, regulations and policies.

IAC members' eligibility

Cressotti also reported on the eligibility status review of IAC members. All current Committee members met eligibility requirements, based on their ability to fully discharge duties, record of attendance for scheduled Board meetings and lack of potential conflicts of interest.

Investment updates

ERS' Chief Investment Officer David Veal gave the quarterly investment report, which showed that returns for the ERS Trust Fund, overall, were above the policy benchmarks across the one, three, five and 10-year timeframes. By outperforming its benchmark, the Trust added \$2 billion of value over the last year.

Veal noted that priorities for 2022 include:

- updating key policies and procedures,
- addressing consultant and audit recommendations,
- assessing organizational structure and
- completing the asset/liability study.

Veal was joined by a representative of NEPC (ERS' general investments consultant) to present ERS' investment performance for the last quarter of CY21. In CY21, the Trust outperformed the policy benchmark by 6.1%. This performance put ERS in the top 5%, performing better than 95% of its peers during this period.

Challenges for 2022

Carlos Chujoy, director of Risk Management & Applied Research at ERS, presented the quarterly risk review. Overall, three main drivers added to risk in the last quarter:

- the omicron variant of COVID-19, a major source of uncertainty,
- higher inflation expectations and lower economic projections, and
- rising geopolitical tensions.
- On the positive side, omicron proved to be less severe than expected and there are signs of supply-chain improvements that could help with inflation.

Chujoy also outlined the challenges that investors will face in the rest of 2022, including how lower economic growth and inflation will affect returns. However, while the amount of risk borne by the Trust has been rising, investment returns have tolerated and should continue to tolerate that risk.

Annual review of capital market assumptions

John McCaffrey, portfolio manager for Risk Management & Applied Research at ERS, joined Veal to discuss the outlook for capital markets over the medium term. He noted several key themes that will help guide ERS' investment strategy, including:

- the broadly changing, global economic backdrop marked by significant and persistent inflation,

- the diversification benefits of inflation-oriented assets, such as Treasury Inflation Protected Securities (TIPS) and commodities,
- a continued move away from globalism toward nationalism,
- the potential for improved productivity due to tight labor markets and rising wages,
- increased personal savings and reduced debt levels of consumers and
- the outlook on China.

Fixed income review

Leighton Shantz, ERS' director of Fixed Income, joined Veal to discuss the Fixed Income Program. This program is comprised of two separate portfolios, each with a distinct purpose:

- The rates portfolio, which has an 11% target allocation, provides short-term liquidity for the Trust. In CY21, the rates portfolio yield was 1.17%
- The credit portfolio, with a 13% target allocation, produces risk-adjusted returns and generates cash without selling its underlying assets. The credit portfolio yield was 4.22% for CY21.

ERS continues to believe that the dual portfolio structure within fixed income is the best strategic approach for the Trust, as it serves to reduce risk and generate returns. ERS is not currently recommending any changes within this asset class.

Securities lending program

Shantz reported that the securities lending program earned \$2.0 million in FY21. In FY22 thus far, net revenue is \$773,000 and is expected to grow, thanks to the increase in short-term interest rates and higher demand for borrowing. Since its inception in FY12, the program has netted \$50.2 million.

Board of Trustees meeting

Texas Employees Group Benefits Program (GBP) update

ERS staff provided the following updates:

The HealthSelect of Texas® plans are expected to experience the highest COVID-19 pandemic costs to date during PY22, projected at an estimated \$110 million. This includes testing and vaccine administration costs.

- Early in the pandemic, Delta Dental committed to not profiting from the pandemic. With few people visiting dentists for several months, the plan realized savings of more than \$980,000—equivalent to about one month of

total plan premiums—which Delta Dental refunded to ERS. The refund will be included in the rate recommendations at the May 11 Board meeting.

- They also reviewed the annual non-financial performance measures for self-funded HealthSelect plans. These HealthSelect plans met all performances measures. Overall satisfaction with the HealthSelect of Texas and Consumer Directed HealthSelect medical plans was at 86.4%, up from 84.9% in the prior period and beating the benchmark of 85%.
- Updates were also provided on the Assess, Manage and Prevent (AMP) wellness program, and the State of Texas Dental Choice Plan:
 - AMP measures were up, with more participants completing health assessments and more engaging in weight management programs. Preventive health visits were up from 38.9% to 44.1%, although the relatively low percentage for the previous period was probably due to the pandemic.
 - The State of Texas Dental Choice PPO met the standard for participants' access to services. Participants making a preventive dental visit was up from 45.1% to 47.2%.

Approval for tenant construction projects

After some discussion, the Board approved a motion to delegate to ERS the authority to approve “job order” construction projects that exceed \$500,000. This will help expedite construction of space for leasing tenants in ERS' 1836 San Jacinto building.

Agency update

ERS' Executive Director Porter Wilson reported on the agency's activities in the first quarter of CY22, including the following:

- ERS initiative “Action Beyond the Call” tries to increase customer service staff and improve the member experience for those who contact ERS.
- Implementation of the Group 4 cash balance retirement benefit is on schedule for the September 1 start date.
- ERS published the FY21 GBP Annual Report in February.
- ERS celebrates its 75th Anniversary this year. Pensioners are invited to share an ERS memory at the anniversary webpage (<https://ers.texas.gov/About-ERS/75th-anniversary-project>).
- Employees around the agency will be engaged in strategic planning.

Staying Engaged/Connected Events

ERS has scheduled two biennial Staying Connected retiree events:

Dates: April 26 and April 27

Time: 11:00 a.m. to 2:00 p.m.

Location: ERS Headquarters Building,
1836 San Jacinto Blvd, Austin

Speakers: Informative presenters will make presentations at 11:30 a.m. and 12:45 p.m.

Exhibitors: Visit with Texas Employees Group Benefits Program plan administrators. You can sign up for door prizes and take home free giveaways.

RSEA: Your Retired State Employees Association of Texas board members will be meeting with attendees and discussing our organization.

Registration: You do not need to register to attend either of these days.

Parking: Free parking is available in the 1836 parking garage, with the entrance on East 18th Street.

Masking: Masks are welcome, especially for attendees at high risk for certain illnesses or not fully vaccinated against COVID-19.

Other visitors: If possible, ERS asks that you not bring additional attendees since space for this event is limited.

Other Locations:

Due to the complications of booking venues during the pandemic, there will not be events in Houston or the Dallas-Fort Worth area this year. However, ERS hopes to be back in those regions in 2023.

Recruitment message
from ERS

"Like many employers across the nation, ERS is in search of great employees for a variety of positions. If you know someone seeking employment with an organization that works to support all state employee benefits, please refer them to the ERS Careers page."

www.ers.texas.gov/careers

Time to renew your
membership with RSEA?

You should receive a statement just prior to the month of expiration. The website (www.RSEAoftx.org) has a link to "join or renew."

If you have misplaced your statement and want to pay by check, please call the office (512-451-0087) and leave a message so we can send you a duplicate.

Your membership is important to make sure your voice is being heard!

Thanks to AMBA and all
our Sponsors

We were most fortunate to have the following sponsors of the RSEA 2021 Annual Meeting:

- Association Member Benefits Advisors (AMBA),
- BlueCross & BlueShield of Texas,
- United Healthcare,
- Delta Dental, and
- Superior Vision.

We very much appreciate their support. AMBA was especially helpful providing tremendous technical support expertise we needed to host and coordinate the Annual Meeting.

***Interested in getting more benefits? Information details are available at
www.myambabenefits.info/rsea-of-texas.***