

PUBLIC AGENDA ITEM - #8

8. Review, Discussion and Consideration of Proposed Operating Budget for the Employees Retirement System of Texas for the Fiscal Year Ending August 31, 2010

August 25, 2009

**BACKGROUND:**

The Employees Retirement System of Texas (ERS) administrative costs are financed from the trust funds maintained for the insurance and retirement programs, annual fees of \$3.00 paid by each member, and fees paid by participants of programs such as Social Security and deferred compensation. ERS operational costs are paid from the ERS expense account in accordance to §815.208 of the Texas Government Code and as approved by the ERS Board of Trustees (Board). ERS allocates administrative costs to reflect the costs that should be borne by each funding source.

The following table compares each ERS division's approved operating budget for FY 2009, estimated expenditures for FY 2009 and the proposed FY 2010 budget.

|  | <b>Approved<br/>Budget<br/>FY 2009</b> | <b>Estimated<br/>Expenditures<br/>FY 2009</b> | <b>Requested<br/>Budget<br/>FY 2010</b> |
|--|--|---|---|
|  | \$                                     | \$  | \$                                      |
| <b>Executive</b>                         | 1,387,257                              | 1,042,825                                     | 985,242                                 |
| <b>Legal Services</b>                    | 3,199,033                              | 2,512,539                                     | 3,046,722                               |
| <b>Internal Audit</b>                    | 667,588                                | 673,030                                       | 858,619                                 |
| <b>Governmental Relations</b>            | 382,360                                | 416,150                                       | 400,096                                 |
| <b>Human Resources</b>                   | 530,650                                | 458,408                                       | 458,813                                 |
| <b>Communications &amp; Research</b>     | 1,650,519                              | 1,183,425                                     | 1,476,357                               |
| <b>Investments</b>                       | 16,575,813                             | 12,842,652                                    | 15,512,575                              |
| <b>Benefit Contracts</b>                 | 3,190,672                              | 3,089,711                                     | 2,950,704                               |
| <b>Customer Benefits</b>                 | 5,860,026                              | 5,948,969                                     | 6,131,877                               |
| <b>Finance</b>                           | 3,929,794                              | 3,590,447                                     | 3,337,469                               |
| <b>Information Systems</b>               | 10,341,732                             | 9,957,730                                     | 10,482,638                              |
| <b>Operations Support</b>                | 4,808,772                              | 5,361,617                                     | 4,615,444                               |
| <b>Grand Total</b>                       | <b>52,524,216</b>                      | <b>47,077,503</b>                             | <b>50,256,556</b>                       |
| <b>Full Time Equivalent Staff (FTEs)</b> | 340                                    | 340   | 340                                     |

**Highlights of the FY 2010 Proposed Operating Budget Cost Drivers:**

The ERS Proposed Operating Budget for fiscal year 2010 is attached as Exhibit A. Highlights are as follows:

***Salaries and Other Salary Costs*** – Salary costs make up approximately 59 percent of the total budget. The proposed 2010 salary budget (\$29.7 million) is close to the same amount budgeted

for FY 2009 salaries (\$29.8 million), and full-time equivalent (FTE) staffing remains the same at 340 FTEs.

***Investment Program*** – The FY 2010 operating budget includes additional software tools for analyzing external advisors, risk monitoring and reporting for fixed income, and tracking and sharing contacts, research and analyses across all asset types and users. Outside legal services is included to assist with private equity and real estate investment transactions planned for FY 2010.

***Technology to Support Business Objectives*** – The technology budget provides for Enterprise Content Management, process/workflow automation, enhancing new web technology development, and continuing web enablement of additional ERS OnLine functionality. Infrastructure improvements are also included to upgrade enterprise database management toolsets, refresh enterprise server equipment and increase data storage capacity.

***Legislative and Cyclical Items*** – The budget includes funds for computer services needed to support the implementation of legislation passed in the 81<sup>st</sup> Legislative Session; however, actuarial costs are lower due to FY 2010 being a non-legislative year. FY 2009 trustee election related costs for third party administration and postage were not carried into the FY 2010 budget.

***Building Renovation Project*** – The final phase of the agency-wide space optimization project will be completed in FY 2010. The first floor, including the training room, and the third floor housing the Information Systems (IS) division and data center, are included in the final phase.

#### **Highlights of the FY 2009 Accomplishments:**

FY 2009 accomplishments are detailed on pages six and seven of the budget document. Highlights include enhancing retirement security by implementing actuarial factor changes and other legislative directives, and successfully completing the transition to the new pharmacy benefit manager. The final phase of the three-year investment enhancement plan as approved by the Board in 2006 was completed, and new service contracts for the Texa\$aver deferred compensation program were executed. In relation to the Texas Employees Group Benefits Program (GBP), ERS was able to clarify and strengthen dependent eligibility rules, and improve dental indemnity plan benefits through benefit design changes and elimination of tiered benefits based on years of participation. Additionally, health insurance cost containment initiatives resulted in reducing expenditures from billed charges by \$5.4 billion for FY 2008.

Communications to ERS members and stakeholders were significantly improved during FY 2009 with the formation of a Communications and Research division and consolidation and enhancement of multiple ERS communication efforts. Strides toward meeting ERS' strategic direction to enhance agency performance and accountability were made through better technology system security for ERS OnLine customer data; identification of opportunities to align staff training for organizational improvements; implementation of a temporary-to-hire process that allows on-the-job evaluation for permanent position candidates; update of the ERS Business Resumption Plan and Disaster Recovery Plan; and automation of financial and accounting reconciliations.

#### **Highlights of FY 2010 Initiatives:**

Major FY 2010 initiatives are summarized on page eight of the budget document and detailed within each program area. The Investments division will continue to expand asset classes as determined by the asset allocation adopted by the Board in August 2008. A coordinated effort across all ERS divisions will continue through FY 2010 to implement legislation passed during the 81<sup>st</sup> Legislative Session, which will include various communication campaigns related to eligibility requirements for new employees. In relation to changes to the laws related to dependent eligibility within the GBP, Benefit Contracts staff will be reviewing and implementing enhancements for a dependent eligibility audit program.

In addition to ongoing information technology support, the IS division will expand the Enterprise Content Management solution to several divisions. The training room and the IS offices and data center located on the third floor of the ERS building are included in the final phase of the agency-wide space optimization project.

ERS will continue to recruit talented candidates to fill existing and potential future vacancies and dedicate training and resources in FY 2010 to further financial, customer service, and automation goals. The establishment of an agency organization development program by the Human Resources division will assist in this effort.

**Explanation of Variances:**

The ERS Proposed Operating Budget for FY 2010 of \$50.26 million reflects a \$2.27 million decrease from the FY 2009 approved operating budget, but an increase of \$3.18 million from the FY 2009 forecast. The budgeted amount above the FY 2009 forecast is related to salaries and other salary costs due to full staffing during FY 2010. The FY 2010 budget total for all other expense categories equals FY 2009 forecast levels. A detailed breakdown of each variance by budget category is on pages 10 and 11 of the budget document.

**Contracts Notes:**

The various proposed FY 2010 budget items related to contracts are explained on pages 49 and 50 and include information on contracts for the Investment Advisory and Medical Board, investment advisors, actuarial services, third party audits and employee training.

**STAFF RECOMMENDATION:**

The ERS staff recommends the following motion:

I move the Board of Trustees of the Employees Retirement System of Texas approve the Proposed Operating Budget for the Employees Retirement System of Texas for the fiscal year ending August 31, 2010 (as presented or amended); authorize the Executive Director to administer the operating budget as necessary for the efficient and effective administration of the System; and authorize the transfer of interest from the Interest Account as required to fund the operating budget.

ATTACHMENT – 1

Exhibit A – Proposed Operating Budget for Fiscal Year 2010. (Attached under separate cover)