

**EMPLOYEES RETIREMENT SYSTEM OF TEXAS
WORKFORCE ANALYSIS AND PLAN
June 2009**

I. Current Workforce Profile (Supply Analysis)

Critical Workforce Skills

There are several critical skills that are important to ERS' ability to operate. Without these skills, ERS could not provide basic benefit and retirement services. The skills are listed below:

- Ability to interpret legislation;
- Ability to communicate detailed information;
- Ability to write guidelines and procedures for a targeted audience;
- Ability to use automated benefit systems;
- Ability to transition business processes from manual systems to web-based investment systems;
- Ability to develop long-term and short-term goals for the investment program;
- Ability to manage alternative asset classes;
- Risk management skills;
- Quality assurance skills;
- Ability to effectively and efficiently manage projects;
- Ability to identify and implement strategic technology and business responses to address issues and opportunities; and
- Ability to develop and monitor complex contract plans.

In addition, ERS needs highly skilled and knowledgeable Investments staff to administer comprehensive and actuarially sound retirement programs.

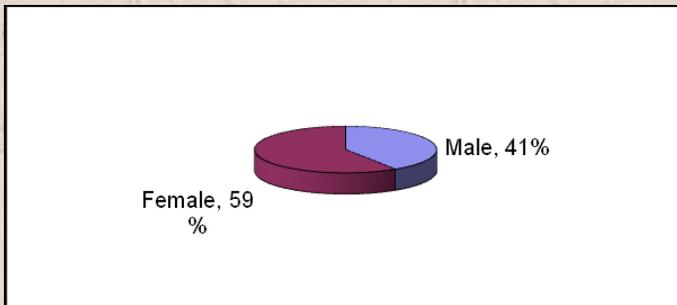
Workforce Demographics

As of May 31, 2009, the Employees Retirement System had 316 employees, including part-time and full-time staff, to carry out the mission of the agency. The mission is to enhance the lives of our customers through the efficient delivery of high quality benefits at the lowest practical cost. The following three pie charts illustrate the demographic make-up of ERS' workforce.

WORKFORCE BREAKDOWN

Gender

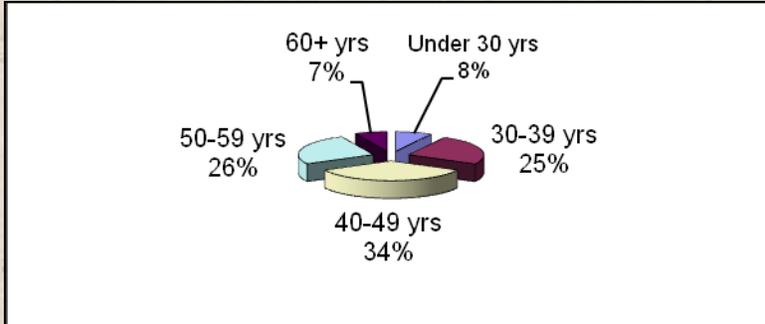
ERS' workforce is comprised of 41 percent males and 59 percent females.



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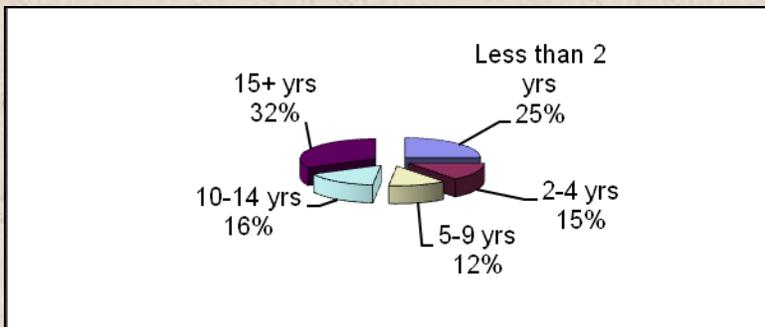
Age

More than 67 percent of the agency's employees are over the age of 40.



Agency Tenure

Over 60 percent of ERS' workforce has five years or more of state service.



Agency Minority Workforce

The following table compares the percentage of minority workers at ERS as of May 31, 2008 to the statewide civilian workforce.

Job Category	African-American		Hispanic-American		Females	
	ERS %	State %	ERS %	State %	ERS %	State %
Officials, Administration	0%	4%	7%	10%	50%	30%
Professional	4%	9%	12%	9%	50%	46%
Technical	7%	13%	11%	16%	51%	40%
Para-professional	13%	23%	23%	29%	77%	56%
Administrative Support	14%	19%	43%	22%	79%	81%
Skilled Craft	0%	10%	100%	24%	0%	17%
Service and Maintenance	0%	29%	50%	36%	0%	21%
Total Percentage	8%	14%	17%	17%	62%	51%

Source Document for State percentage: Civilian Workforce Comparison Chart, EEOC National Employment Summary EEO-4 2001 and EEO-1 2002

There are five categories of zero-represented classes within ERS. These are African-American: Officials/Administration, Skilled Craft, and Service and Maintenance; and Female: Skilled Craft, Service and Maintenance. ERS does not utilize Skilled Craft

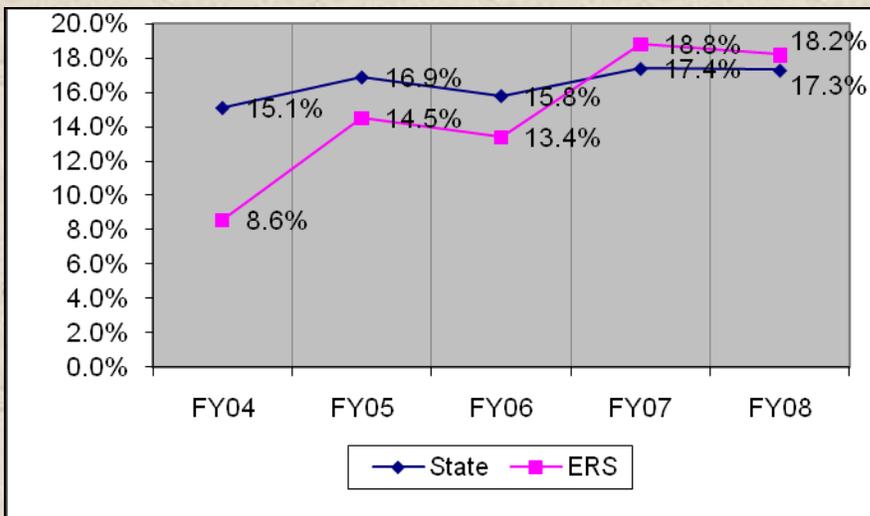
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positions and only employs 9 staff in Operation and Maintenance Services which explains the under-representation in this category.

Employee Turnover

The following graph compares the average ERS turnover to that of the State for fiscal years 2004 through 2008. During this time period, ERS' turnover rate was below the statewide turnover rate except in fiscal year 2007-08 when ERS experienced some departmental reorganization that resulted in a limited reduction in force.

As of May 31, 2009 the agency turnover rate is 5.3 percent. Annualizing this figure gives ERS a projected turnover rate for fiscal year 2009 of 7.06 percent.



Turnover by length of service is one indicator for how effective an agency's recruitment and selection process is in matching the employee to the job. Below is a chart showing the percentage of turnover by length of service for the State and for ERS during fiscal year 2007.

Turnover by Length of Service

Length of State Service	ERS Turnover % by Service FY 2008	State Turnover % by Service FY 2008
Less than 2 years	6.3%	40%
2 to 4.99 years	4.2%	20%
5 to 9.99 years	2.4%	11%
10 to 14.99 years	2.1%	9%
15 years and over	3.1%	10%
Overall Turnover	18.2%	17.3%

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The highest percentage of turnover for state employees continues to be for those who have less than two years of service. Although the percentage of ERS employees who leave with less than two years of service is significantly lower than the state's percentage, it is the highest percentage rate within this category. ERS makes every effort to minimize turnover in this category by carefully selecting job candidates and by using competitive salaries. The higher rate of turnover for ERS employees with 15 years or more of service is primarily due to retirements.

Turnover by Age

Turnover by age reflects the make-up of the agency workforce. Those age groups with the highest representation at ERS are also the age groups with the highest turnover. Below is a chart showing the percentage of turnover by age.

Turnover by Age

	ERS Turnover % by Age FY 2007	State Turnover % by age FY 2008
Under 30 years	40.0%	39.8%
30 to 39 years	25.8%	17.2%
40 to 49 years	14.7%	9.8%
50 to 59 years	12.5%	11.8%
60 years and over	16.0%	18.62%
Overall Turnover	18.2%	17.3%

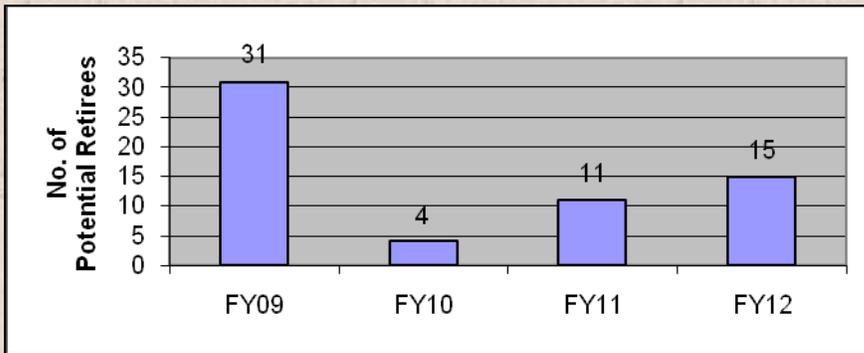
During fiscal year 2008, employees in the Under 30 and 30-39 age groups had the highest level of turnover at ERS. The agency recognizes that these age groups represent approximately 33% of agency's workforce and the importance of retaining the younger workforce within state government.

Turnover from Potential Retirements

Based on limited data available, the agency projects that during the next three fiscal years, approximately 10 percent of ERS' workforce will be eligible to retire, taking with them institutional knowledge and expertise. ERS continues to prepare for the retirement of employees in key positions through succession planning, cross training, and employee development.

The following chart illustrates the potential loss of ERS employees due to retirement between now and fiscal year 2012.

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III. Future Workforce Profile (Demand Analysis)

ERS is the end of a three-year period of designing and implementing systems to meet the challenges of six vision elements. The vision elements include:

- A financially secure pension program
- An innovative use of enabling technology
- A rewarding work environment
- Well informed stakeholders
- Modeling customer service
- High quality, innovative and affordable benefits

Critical Functions

To address the challenges for our agency, ERS needs a workforce who can accomplish the following strategic directions:

- Increase retirement security
- Optimize health benefits
- Engage stakeholders
- Enhance agency performance and accountability

Expected Workforce Changes

ERS employees will need to align technology with business needs. Supervisors at ERS will require the ability to re-engineer business processes and to lead a team through the transition to new and more complex systems, as well as effectively communicate the new processes to agency staff. Staff in the Investments Division will require experience in additional investment asset classes.

Anticipated Increase/Decrease in Number of Employees Needed to Do the Work

ERS does not anticipate a significant increase to the agency's FTE count.

Critical Functions Required in Achieving the Strategic Plan

The strategic directions identified under the critical functions subheading will continue to be necessary and important over the next several years. ERS customers will continue to demand more, faster, and easier access to their benefit information, more innovative products, and the lowest possible costs of those services and products. ERS will be required to offer and deliver more complex services. As a result, the skills to deliver the complex services will have to be acquired or developed by the agency workforce.

Staff training will become increasingly critical to the success and development of agency employees. It is vital to the health of the agency that we have a well-trained, highly-skilled and flexible workforce to respond to the needs of both our customers and program changes resulting from federal and state legislation. Employees will require training and re-training continuously to maintain employment with the department.

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Future Workforce Skills Needed

To administer effectively and efficiently the benefit and retirement services and products under ERS' jurisdiction, the agency relies on a competent and knowledgeable staff. Additionally, the following skills and abilities will be essential for the workforce to attain the six vision elements:

- leadership, management and supervision skills;
- improved written and verbal communications between all staff;
- investment;
- ability to develop long-term and short-term goals for the investment program;
- ability to manage alternative asset classes, private real estate, private equity, and hedge funds;
- project management;
- web-based technology;
- contract management;
- change management;
- process analysis;
- strategic planning; and
- risk management skills.

IV. Gap Analysis

Anticipated Surplus or Shortage of Workers and Skills

After analyzing the agency workforce information, ERS has determined that there are four main gaps between the agency's workforce supply and demand that must be addressed.

1. Current employees lack critical skills
 - Required skill sets for employees involved in process changes that can be better identified before major projects begin.
 - Employees can be given better training to thoroughly master new skills before performing new functions.
 - Employees can be given the opportunity to update their skills when jobs are re-engineered.
 - Legislation that changes or adds to agency programs may require new and more complex skills and knowledge from the workforce.

Based on training requests, feedback and Survey of Organizational Excellence results, ERS management identified the skills that will be priorities for employees to have over the next five years. These skills are listed in the table below, rated on a scale from 1-4 to determine the current proficiency level and desired proficiency levels. The rates in the "Have" and "Need" columns represent a composite of all of ERS departments. The ratings of individual departments will differ from the composite below. The job categories used in this table, Officials/Administration, Professional, Technical, and Administrative Support are the groupings used and defined by the Equal Employment Opportunity Commission for the EEOC Form (EEO-4).

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Gap Analysis of Critical Workforce Skills

Skill	Officials/Admin			Professional			Technical			Admin Support		
	Have	Need	Gap	Have	Need	Gap	Have	Need	Gap	Have	Need	Gap
Leadership, management and supervision skills	3	4	1	2	3	1	1	2	1	0	0	0
Written and Verbal Communication	3	4	1	2	3	1	1	2	1	1	2	1
Project management	3	4	1	2	3	1	2	3	1	1	2	1
Web-based technology	3	3	0	3	3	0	3	4	1	1	1	0
Change Management	3	4	1	2	3	1	2	3	1	1	1	0
Process Analysis	3	4	1	3	4	1	2	4	2	0	1	1
Strategic Planning	2	4	2	2	3	1	1	2	1	1	1	0

Legend
Have = Average competency level for incumbents of targeted job categories
Need = Average competency levels needed for future employees in targeted categories
Gap = Difference in skill level between current and future competency levels
0 = No knowledge
1 = Minimal knowledge, familiarity with skill
2 = Working knowledge, proficiency in skill
3 = Professional level, mastery of skill
4 = Acknowledged expert in skill, able to mentor and train other employees

2. ERS needs a succession plan for key positions.
 - ERS has identified all key positions.
 - High potential candidates have been identified to fill key positions.
 - ERS has not defined future job requirements for some positions, thus reducing internal candidates' opportunity to acquire the skill sets.

3. ERS needs to attract and retain workers with Investment experience, including diversified portfolio management skills.
 - As the economy continues to recover, the agency will be competing with private sector companies for Investment applicants with critically necessary skill sets.
 - State workforce trends indicate there will be an increasing annual turnover rate and a skills gap in the workforce.
 - The Investments classification series, Portfolio Manager, Trader, and Investment Analyst, need to be more competitive with private sector pay plans.

The following chart illustrates the potential gap in workforce staffing the agency anticipates experiencing in the next four years. If the agency trends of turnover and retirement eligibility continue, ERS will need to hire 156 new employees through fiscal year 2012.

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Gap Analysis	FY 09	FY 10	FY 11	FY 12
FTE Count	340	340	340	340
Annual Turnover (average rate of 7.6 percent)	26	26	26	26
Estimated FTE Supply (total FTEs minus adjusted turnover)	314	314	314	314
Anticipated Demand	340	340	340	340
Gap between Projected Supply and Anticipated Demand	-26	-26	-26	-26
Four-year total in gap	-104FTEs			

V. Strategy Development

In order to address the deficits between the current workforce and the future demands of positions at ERS, the agency has developed two action plans for the current workforce plan. These action plans are based on input from the 2008 Strategic Planning Team.

Gap (Strategic Direction)	Enhancing agency performance and accountability
Goal (Accomplishment)	Establish an agency organization development program
Rationale (Objective)	To develop a comprehensive process that incorporates training, coaching, succession planning and other organizational development strategies.
Action Steps	<ul style="list-style-type: none"> • Conduct an organizational needs assessment – building on information from SOE, off-site data, and training survey.
	<ul style="list-style-type: none"> • Determine department training and development needs
	<ul style="list-style-type: none"> • Custom design a core organizational development program
	<ul style="list-style-type: none"> • Use evaluation process to reinforce performance expectations and instill accountability throughout agency
	<ul style="list-style-type: none"> • Provide training and coaching for agency
	<ul style="list-style-type: none"> • Track, measure and review progress

Gap (Strategic Direction)	Enhancing agency performance and accountability
Goal (Accomplishment)	HR serves as the coordinator for all training
Rationale (Objective)	To insure training is aligned with performance goals, credited to the employee's training record, and maintenance of an up-to-date training log
Action Steps	<ul style="list-style-type: none"> • Review all performance plans/goals
	<ul style="list-style-type: none"> • Maintain continuous communication with divisions
	<ul style="list-style-type: none"> • Leverage group training rates when possible

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Survey of Organizational Excellence Results and Utilization Plans

ERS has participated in the Survey of Organizational Excellence since the 1994 survey. The survey is used as a means of assessing employee attitudes toward the agency, identifying employee perceptions of the strengths and weaknesses of the agency, and identifying areas that could be improved.

I. Findings 2007-2008

The employees identified the strengths of the agency as:

1. Continuous improvement and customer service are a part of the organizational to deliver quality services.
2. Seeking out and working with relevant external entities that play a role in defining the agency's mission, philosophy, and principles.
3. A safe work environment and overall positive perception of the total work atmosphere.
4. The role of the benefits package plays an important role in attracting and retaining employees in the agency and state government.
5. Believing that information flows into and out of the agency to external constituents appropriately.

ERS is organizationally strong. Nineteen of the twenty constructs had a score of 340 or higher. Only one construct (Fair Pay) scored below 300, but gained 19 points from 2005 to 2007. No matter how high a score, ERS believes that there is always room for improvement. ERS will work towards improving any areas that need improving.

II. Benchmark Comparisons

A. Statewide

Employees responded to the Survey of Organizational Excellence, via a secure web-based interface. Out of the 291 employees who were invited to take the survey, 198 (68%) responded. ERS' response rate is considered high and is a testimony to the level of commitment staff to improve the agency. ERS scored higher than the statewide average in all 20 constructs (broad agency profiles).

B. Similar Size

ERS scored higher than similar sized agencies on all 20 constructs. The greatest positive differences were observed in fair pay, benefits, employment development, strategic, and quality.

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III. Plans for Continued Improvement

Survey results were made available to all employees via the agency's intranet and signage in the building to continue the process of improving internal communications. The agency is committed to improving the two areas that employees perceived as worsening since the last survey, e.g., physical environment and job satisfaction.

IV. Conclusion

ERS management considers the agency's participation in the survey as a valuable tool for improving agency operations. ERS will participate in future surveys with a goal to increase participation and improve key indicators related to employee morale. Comparison of future results with these goals, as well as with the benchmarks, will enable ERS to further define methods for addressing the needs of the agency and its employees.