



Board of Trustees Meeting

May 17, 2017



Presented for Review and Approval

August 23, 2017

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BOARD OF TRUSTEES MEETING

EMPLOYEES RETIREMENT SYSTEM OF TEXAS

May 17, 2017

ERS Board Room

ERS Building – 200 E. 18th Street

Austin, Texas 78701

TRUSTEES PRESENT

I. Craig Hester, Chair
Doug Danzeiser, Vice-Chair
Ilesa Daniels, Member
Cydney Donnell, Member
Brian Ragland, Member
Jeanie Wyatt, Member

ERS STAFF PRESENT

Porter Wilson, Executive Director
Catherine Terrell, Deputy Executive Director
Paula A. Jones, Deputy Executive Director and General Counsel
William Nail, Director of Governmental Relations
Tony Chavez, Internal Auditor
Bernie Hajovsky, Director of Enterprise Planning Office
Jordan Hajovsky, Co-Director of Operations Support
Robin Hardaway, Director of Customer Benefits
Robert Kukla, Director of Benefit Contracts
Wendy McAdams, Co-Director of Operations Support
Machelle Pharr, Chief Financial Officer
DeeDee Sterns, Director of Human Resources
Gabrielle Stokes, Director of the Office of Procurement & Contract Oversight
Kathryn Tesar, Director of Benefits Communications
Tom Tull, Chief Investments Officer
Chuck Turner, Chief Information Officer
Keith Yawn, Director of Strategic Initiatives
Nora Alvarado, Benefit Contracts
Brannon Andrews, Office of General Counsel
Adriana Ballard, Investments
Georgina Bouton, Acting Director of Benefit Contracts
Amanda Burleigh, Office of General Counsel
Amy Chamberlain, Executive Office
Leena Chaphekar, Office of General Counsel
Kyla Cloutier, Benefit Contracts
Chloe Conner, Office of Procurement and Contract Oversight
Kelley Davenport, Executive Office
Christi Davis, Customer Benefits
D'Ann DeLeon, Benefit Contracts
Brian Dowdy, Finance
Blaise Duran, Benefit Contracts
Peter Ehret, Investments
Leah Erard, Governmental Affairs

Dana Fine, Office of Procurement and Contract Oversight
Liz Geise, Benefits Communications
Beth Gilbert, Internal Audit
Wesley Gipson, Investments
Gunther Goetz, Office of General Counsel
Ginger Grissom, Office of Procurement and Contract Oversight
Megan Hunter, Benefit Contracts
Jennifer Jones, Office of Strategic Initiatives
Sharmila Kassam, Deputy Chief Investment Officer
Carla Lawrence, Customer Benefits
Deborah Legg, Enterprise Planning Office
Ricard Lyra, Investments
Nick Maffeo, Investments
Betty Martin, Investments
Pamela Maas, Benefit Contracts
Sylvia Montemayor, Information Systems
Roger Nooner, Benefits Communications
Davis Peacock, Investments
Jonathan Puckett, Internal Audit
Susie Ramirez, Executive Office
Tanna Ridgway, Investments
Lauren Russell, Benefit Contracts
Robert Sessa, Investments
Michael Shoop, Investments
Pablo de la Sierra Perez, Investments
Michelle Sneed, Enterprise Planning Office
Bernely Tharp, Benefit Contracts
Angelica Torres, Benefit Contracts
Martha Zottarelli, Office of Procurement and Contract Oversight

ALSO PRESENT

Nick Arnold, Humana
John Barksdale, CBRE
Merritt Brooks, BoardDocs
Krystal Clarkson, Select Account
Phil Dial, Rudd and Wisdom
Mark Emerick, CBRE
Elaine Fowler, AFSCME Retirees
Lynn Gordon, Securian Minnesota Life
Bill Hamilton, Retired State Employee Association
Patricia Ingram, Optum
Peter Jansen, CBRE
Richard Klesnman, LaSalle Investment Management
Diana Kongevick, Public Employees Benefit Cooperative
Antonio Lewis, AFSCME Retirees
Suzanne Martinez, LaSalle Investment Management
Michael McCormick, Aon Hewitt
Colleen McGlamry, United Healthcare
Catherine Melvin, Department of Public Safety
Chris Paxton, Optum RX
Laura Pinkard, Humana
Mallory Sumner, BCBSTX
Cyrus Walker, BCBSTX
Tamra Yale, Reed Group

Members present: Brian Ragland, Craig Hester, Cydney Donnell, Doug Danzeiser, Ilesa Daniels, and Jeanie Wyatt

1. Call to Order

1.1 Call Meeting to Order

At 12:53 p.m. Mr. Craig Hester, Chair of the Board of Trustees, reconvened the meeting, after a temporary recess, to take up the remaining Board of Trustees agenda items. Mr. Porter Wilson, ERS Executive Director, introduced the new Benefit Contracts Director, Ms. Diana Kongevick, currently serving as the Executive Director of the Public Employees Benefit Cooperative.

2. Minutes

2.1 Approval of the Minutes to the February 22, 2017 Meeting of the Board of Trustees - (Action)

Move that the Board of Trustees of the Employees Retirement System of Texas approve the minutes to the meeting held on February 22, 2017.

Board of Trustee Chair, Mr. Craig Hester opened the floor for a motion on the approval of the minutes to the Board of Trustees Meeting held on May 17, 2017.

Motion by Cydney Donnell, second by Ilesa Daniels.

Final Resolution: Motion Carries

Aye: Brian Ragland, Craig Hester, Cydney Donnell, Doug Danzeiser, Ilesa Daniels, Jeanie Wyatt

3. Group Benefits Program Update

3.1 Consideration of Contract Award Recommendation for Health Savings Account Administrator of the Texas Employees Group Benefits Program - (Action)

Presenters: Gabrielle Stokes, Director of Procurement and Contract Oversight
Georgina Bouton, Acting Director of Benefit Contracts
Blaise Duran, ASA, MAAA and Manager of Underwriting, Data Analysis and Reporting

Ms. Georgina Bouton, Acting Director of Benefit Contracts, introduced Mr. Blaise Duran, Benefit Contracts, and Ms. Gabrielle Stokes, Director of Procurement and Contract Oversight. HealthSelect of Texas expanded to include Consumer Directed HealthSelect effective September 1, 2016. The advantages of the program were reviewed. Ms. Bouton also noted current enrollment and IRS regulations. In February, 2016, the Board approved United Healthcare Services (UHC) as the HSA administrator, with a contract extended through December 31, 2017. Ms. Stokes reviewed the Request for Proposal (RFP) for the GBP Health Savings Account (HSA) and the evaluation process. OptumHealth Financial Services, Inc. (Optum), PayFlex Systems USA, Inc. (PayFlex) and Mill Life, Inc. d.b.a. SelectAccount (SelectAccount) responded to the RFP. All three moved to the next evaluation phase. Ms. Bouton reviewed the operational capabilities and services of the RFP respondents. After a clarification process, the respondents all had the services necessary. Mr. Duran reviewed the evaluation of the total cost to provide administration. Optum and Select Account were selected as finalists. Both received the same score on the administrative fees category. Staff recommendation was based on the finalist evaluation scores and best value. Optum was selected as the best candidate. Mr. Doug Danzeiser, Board member, asked several questions regarding future planning and potential growth in the program.

Based on the information provided to ERS in response to the Request for Proposals, the evaluation process and results presented to the Board at this meeting, the Board has received sufficient information to determine the Health Savings Account Administrator to provide services in the best interest of GBP participants.

The Board then took the following action:

Move that the Board of Trustees of the Employees Retirement System of Texas award the contract to: Optum Health Financial Services, Inc. to act as the Health Savings Accounts Administrator for Consumer Directed HealthSelect under the Texas Employees Group Benefits Program pursuant to a contract which will cover a four year term beginning January 1, 2018 through December 31, 2021.

Further move that the Board of Trustees of the Employees Retirement System of Texas authorize the Executive Director to negotiate and execute a contract with Optum Health Financial Services, Inc. with terms that are fully acceptable to ERS, and to authorize the Executive Director to thereafter administer the contract agreed to by the parties.

In the event that a contract fully satisfactory to ERS is not timely executed with Optum Health Financial Services, Inc., or if it appears to the Executive Director during the term of the contract that Optum Health Financial Services, Inc. will not be capable of performing the required Health Savings Account administrative services to ERS' satisfaction, then the Board authorizes the Executive Director to resume any necessary due diligence process and contract negotiations with the next top-ranked qualified Respondent, and to negotiate and execute contract terms with the next top-ranked qualified Respondent that are fully acceptable to ERS, and to authorize the Executive Director to thereafter administer the contract agreed to by the parties.

Motion by Cydney Donnell, second by Jeanie Wyatt.

Final Resolution: Motion Carries

Aye: Brian Ragland, Craig Hester, Cydney Donnell, Doug Danzeiser, Ilesa Daniels, Jeanie Wyatt

3.2 Consideration of Contract Award Recommendation for the Texas Income Protection Plan (TIPP) of the Texas Employees Group Benefits Program - (Action)

Presenters: Gabrielle Stokes, Director of Procurement and Contract Oversight
Philip S. Dial, Rudd & Wisdom, Inc.
Georgina Bouton, Acting Director of Benefit Contracts
Blaise Duran, ASA, MAAA and Manager of Underwriting, Data Analysis and Reporting

Mr. Phil Dial, consulting actuary Rudd & Wisdom, joined the Benefit Contracts team for the Texas Income Protection Plan (TIPP) third party administrator. Ms. Bouton explained that Aon Hewitt has served as the Administrator since February, 2013. In December, 2015 the Reed Group purchased Aon Hewitt. An RFP was issued in January, 2017. Broadspire Services Inc. and Reed Group Management, LLC (Reed Group) were the finalists. Broadspire's proposal did not comply with the requirements of the RFP. Reed Group's proposal was passed to the next phase. Proposal evaluation was based on 60% Operational capabilities and services and 40% based on price proposal. Ms. Bouton reviewed the facets of the Operational Capabilities and services evaluation. Reed Group is currently meeting all the reporting requirements - showing a positive reporting trend. Mr. Duran and Mr. Dial reviewed the price proposal assuring adherence to all the requirements. Ms. Stokes followed up with additional information on the finalist evaluation. Reed Group reduced their administrative fees and demonstrated a commitment to contract compliance. The Board asked questions concerning the performance history of the Reed Group. To address past performance shortfalls, Ms. Bouton confirmed the Reed Group has committed to serve the TIPP membership using state-of-the-art technology which should support a positive performance trend and address contract compliance issues.

Mr. Danzeiser asked about contract provisions for problems in the future. Standard contract provisions such as liquidated damages were discussed by Ms. Paula Jones, General Counsel. A discussion of the program ensued, specifically on the appeals process and litigation issues and fully insured versus self-insured comparisons. Mr. Dial spoke to the advantages of the current self-insured ERS position.

Staff recommends the following motion to the Board of Trustees for the Third-Party Administrator for the Texas Income Protection Plan available under the Texas Employees Group Benefits Program (GBP):

Based on the information provided to ERS in response to the Request for Proposals, the evaluation process and results presented to the Board at this meeting, the Board has received sufficient information to determine the third-party administrator to provide services for the GBP's Texas Income Protection Plan in the best interest of ERS, the GBP and Texas Income Protection Plan participants.

The Board then took the following action:

Move that the Board of Trustees of the Employees Retirement System of Texas award the contract to the Reed Group Management LLC to act as the third-party administrator for the Texas Income Protection Plan under the Texas Employees Group Benefits Program pursuant to a contract which will cover a four year term beginning January 1, 2018 through December 31, 2021.

Further move that the Board of Trustees of the Employees Retirement System of Texas authorize the Executive Director to negotiate and execute a contract with Reed Group Management LLC with terms that are fully acceptable to ERS, and to authorize the Executive Director to thereafter administer the contract agreed to by the parties.

Motion by Doug Danzeiser, second by Cydney Donnell.

Final Resolution: Motion Carries

Aye: Brian Ragland, Craig Hester, Cydney Donnell, Doug Danzeiser, Ilesa Daniels, Jeanie Wyatt

3.3 Consideration of TexFlex Program Proposed Fees and Rates of the Texas Employees Group Benefits Program for Fiscal Year 2018 - (Action)

Presenter: Blaise Duran, ASA, MAAA and Manager of Underwriting, Data Analysis and Reporting

Mr. Duran reviewed the TexFlex Program noting the program is funded with pre-tax salary contributions from active employees. TexFlex reimburses participants for qualified expenses, and four benefit options are available. Options include the flexible spending health care reimbursement, the flexible spending limited reimbursement, the flexible spending dependent care reimbursement, and the commuter spending account plan (CSA). Mr. Duran noted the enrollment is slightly up and contribution elections in 2016 and 2017 have declined. Currently there is no administrative cost to the participant and premium conversion generated approximately \$42 million in FICA tax savings to the State of Texas for FY16. There are adequate funds to cover the TexFlex program administrative costs and staff recommends a fee holiday for TexFlex participants for FY18 with the exception of the commuter spending account plan. As a new offering, CSA does not have any fund balances to offset the administrative cost of the CSA program. Staff recommends that participants continue to pay a monthly administrative fee of \$3.

Mr. Danzeiser asked about the forfeiture rate. Ms. Bouton and Mr. Danzeiser discussed possible large employer discounts for state employees and the ongoing dialog with Cap Metro in Austin. Pre-tax dollars are a problem for Cap Metro to accept in payment for CSA benefit.

The Board then took the following action:

Move that the Board of Trustees of the Employees Retirement System of Texas approve an administrative fee holiday for the TexFlex program for Fiscal Year 2018 for the Flexible Spending Health Care Reimbursement and Dependent Care Reimbursement plans.

Further move that the Board of Trustees approve the proposed rates for Fiscal Year 2018 for the Commuter Spending Account as presented in this agenda item effective September 1, 2017.

Motion by Doug Danzeiser, second by Brian Ragland.

Final Resolution: Motion Carries

Aye: Brian Ragland, Craig Hester, Cydney Donnell, Doug Danzeiser, Ilesa Daniels, Jeanie Wyatt

Prior to taking up Agenda item #3.4, Mr. Hester introduced the ERS new board member-elect, Catherine Melvin, Chief Auditor with the Texas Department of Public Safety, whose term begins September 1, 2017.

3.4 Consideration of Basic and Optional Term Life, Accidental Death and Dismemberment Proposed Rates of the Texas Employees Group Benefits Program for Fiscal Year 2018 - (Action)

Presenters: Blaise Duran, ASA, MAAA and Manager of Underwriting, Data Analysis and Reporting
Philip S. Dial, Rudd & Wisdom, Inc.

Mr. Duran and Mr. Dial reviewed the GBP Life and AD&D contribution rate funding and enrollment. Benefits are funded through member contributions with the exception of basic term life, which is funded by the State. Contribution rates are set by the Board. Over 300,000 members are enrolled in optional life, an exceptional level for a voluntary plan. Mr. Duran reviewed the FY18 rate analysis and financial experience. Life rates were developed based on a reasonable expectation of future claims, anticipated claim patterns, expected investment income, and the maximum claim rate's administrative fees including the Securian contract. We have a minimum premium arrangement and pay an administrative fee to Securian and then fund a claim up to the maximum allowed. Should the claim exceed the maximum amount then thereafter Securian pays the claim difference. Based on this analysis, member contribution rates currently in effect for FY17 for all life coverages are appropriate for continued use in FY18. And the AD&D member contribution rates are based on the guaranteed premium rates and have been stable since September 1, 2007, and they will remain at the current levels under the contract. Mr. Danzeiser asked about funding. Mr. Dial explained that the program is predominately self-funded. Mr. Dial noted that there are tax disadvantages to participants if the plan is fully insured. Ms. Cydney Donnell, Board member, asked about administrative costs and the actual full cost to the program. Mr. Duran explained calculation of the total costs of administering the GBP and apportioning the estimated administrative costs to each plan.

The Board Then took the following action:

Move that the Board of Trustees of the Employees Retirement System of Texas approve the proposed Fiscal Year 2018 member contribution rates for the Basic Life, Optional Life, and Accidental Death and Dismemberment plans as presented in this agenda item effective September 1, 2017.

Motion by Cydney Donnell, second by Jeanie Wyatt.

Final Resolution: Motion Carries

Aye: Brian Ragland, Craig Hester, Cydney Donnell, Doug Danzeiser, Ilesa Daniels, Jeanie Wyatt

3.5 Consideration of Proposed Rates for the Texas Income Protection Plan (TIPP) of the Texas Employees Group Benefits Program for Fiscal Year 2018 - (Action)

Presenters: Blaise Duran, ASA, MAAA and Manager of Underwriting, Data Analysis and Reporting
Philip S. Dial, Rudd & Wisdom, Inc.

Mr. Duran and Mr. Dial reviewed their analysis of rates for the Texas Income Protection Plan (TIPP) with the Reed Group. Benefits are funded through member contributions, contribution rates are set by the Board and the GBP retains risk for the self-funded plan. Enrollment is 117,000 for the short-term disability and 90,000 for long-term disability. In January of 2016, the ReedGroup announced the acquisition of the absent management administration business of Aon Hewitt, and has served as the TIPP administrator for the duration of the contract period. ReedGroup is a wholly owned subsidiary of the Guardian Life Insurance Company. The initial four-year term is up December 31, 2017, and the Board just

awarded ReedGroup the continued business. Member contribution rates for disability plans were developed based on reasonable expectations of future claims, anticipated claim payment patterns, expected investment incomes, and the administrative fee associated with the benefit administration.

Based on this year's rate analysis and financial experience, the FY18 rates for both long-term and short-term disability remains almost the same. The proposed rates for short-term disability are 26 cents per \$100 of covered payroll which is a 4 cent decrease. For long-term disability the proposed rate for long-term disability remains the same at 63 cents per \$100 of covered payroll. Mr. Duran will monitor the trends and a possible rate reduction may be planned for the future.

The Board then took the following action:

Move that the Board of Trustees of the Employees Retirement System of Texas approve the proposed Fiscal Year 2018 member contribution rates for the Texas Income Protection Plan Proposed Rates as presented in this agenda item and effective September 1, 2017.

Motion by Cydney Donnell, second by Doug Danzeiser.

Final Resolution: Motion Carries

Aye: Brian Ragland, Craig Hester, Cydney Donnell, Doug Danzeiser, Ilesa Daniels, Jeanie Wyatt

3.6 Consideration of State of Texas Dental Choice, Dental Health Maintenance Organization (HMO) and Dental Discount Plan Proposed Rates of the Texas Employees Group Benefits Program for FY18 - (Action)

Presenters: Blaise Duran, ASA, MAAA and Manager of Underwriting, Data Analysis and Reporting
Philip S. Dial, Rudd & Wisdom, Inc.

Mr. Duran reviewed the Dental Care Plans participation, claims experience and financial projects. The three plan options are:

- The State of Texas Dental Choice plan, which is a self-funded dental preferred provider organization plan administered by Humana Dental Insurance Company.
- The Dental Health Maintenance Organization plan, which is a fully insured DHMO insured by DentiCare, Inc., a wholly owned subsidiary of Humana and
- The State of Texas Dental Discount Plan. This is a not insurance, just a discount plan, and it is administered by Carrington International.

Trends indicate the current rate for the Dental Choice Plan is not sufficient and a 3% rate increase is recommended. For the Dental HMO plan, recommended rates are the same. The State of Texas Dental Discount Plan is not insurance but a discount program. Participating dentists agree to participate at a discounted rate, and they accept that as payment in full. There are no dental claims to file and no explanation of benefits provided to participants. The administration fees are covered by the participants. The administrative fee rate is dependent upon the number of participants enrolled at the close of annual enrollment. Current enrollment is 6,000 members. This is an increase over last year. However, in order to see a fee reduction we would need 25,000 participants enrolled. The rates are expected to remain the same. Mr. Danzeiser asked about the contract term and if any changes are planned. Staff responded that the Dental Plans are optional plans with high rates of participation (70%) and the administration of the plans has been satisfactory with no planned changes.

The Board then took the following action:

Move that the Board of Trustees of the Employees Retirement System of Texas approve the proposed member contribution rates for Fiscal Year 2018 for the State of Texas Dental Choice plan, the Dental Health Maintenance Organization plan, and the Dental Discount program as presented in this agenda item effective September 1, 2017.

Motion by Doug Danzeiser, second by Cydney Donnell.

Final Resolution: Motion Carries

Aye: Brian Ragland, Craig Hester, Cydney Donnell, Doug Danzeiser, Ilesa Daniels, Jeanie Wyatt

3.7 Consideration of Proposed Rates for the State of Texas Vision Plan of the Texas Employees Group Benefits Program for Fiscal Year 2018 - (Action)

Presenters: Blaise Duran, ASA, MAAA, Manager of Underwriting, Data Analysis and Reporting (UDAR) and Philip S. Dial, Rudd & Wisdom, Inc.

On September 1, 2016, the GBP began offering members and dependents a vision plan. This plan provides services beyond what is provided in the medical plans, and has a nationwide network that provides access in all 50 states including major resale stores, internet-based providers, and Lasix services. The contract was awarded in May 2016 to Superior Vision Services and continues through August 31, 2020. Approximately 22% of eligible GBP members and their dependents enrolled in the first year for a total participation at 132,669. The Plan is self-funded and the GBP assumes the risk. The contributions are based on the following: claims experience through March, estimated trends in benefit costs, projected provider reimbursement rates, and contractually guaranteed administrative fees. The limited experience would indicate that the rates should remain the same in FY18.

Ms. Donnell and Mr. Danzeiser commented on the quality of the benefit and complemented staff and the actuaries on setting this new program's rates on target from the beginning.

The Board then took the following action:

Move that the Board of Trustees of the Employees Retirement System of Texas approve the proposed Fiscal Year 2018 member contribution rates for the State of Texas Vision Plan Proposed Rates as presented in this agenda item effective September 1, 2017.

Motion by Brian Ragland, second by Jeanie Wyatt.

Final Resolution: Motion Carries

Aye: Brian Ragland, Craig Hester, Cydney Donnell, Doug Danzeiser, Ilesa Daniels, Jeanie Wyatt

3.8 Consideration of GBP Financial Status and Rate Proposals for HealthSelect of Texas and Consumer Directed HealthSelect of the Texas Employees Group Benefits Program for Fiscal Year 2018 - (Action)

Presenters: Blaise Duran, ASA, MAAA and Manager of Underwriting, Data Analysis and Reporting Philip S. Dial, Rudd & Wisdom, Inc.

Mr. Duran discussed the GBP HealthSelect Plan's financial status. The proposed rates were reviewed by Mr. Duran. HealthSelect is funded by member/employer contributions where the employer pays 100% of the employee and retiree contribution and the employer pays 50% of dependent coverage. And the member shares costs through co-payments, deductibles, and coinsurance. Currently 78% of GBP members are enrolled in HealthSelect. Current participating enrollment is about 436,000 in total. Member only is the largest category, but HealthSelect covers 260,000 members and 177,000 dependents.

Beginning September 1, 2017, the third-party administrator will change from UnitedHealthcare to Blue Cross/Blue Shield of Texas (BCBSTX), which is estimated to save approximately \$100 million in FY18.

A HealthSelect out-of-state plan has been established. Benefits are the same as under the in-area plan but no PCP selection is required. Previously the GBP basically had an indemnity plan for the out-of-state participants with a deductible and 70% coinsurance.

The GBP will now cover virtual visits at 100% with no participant out-of-pocket expense. This is an opportunity for members to avoid unnecessary visits to urgent care clinics or the ER. The total cost at \$40 is less expensive than an office visit and should help control utilization of services.

Currently there are seven clinically integrated patient-centered medical homes (PCMH). The expectation is these will remain in force with BCBSTX as of September 1. And we're also looking at expanding the list to include some other PCMHs that BCBSTX suggested. In FY16 the gross savings for these programs was \$12 million. We shared \$3.4 million of that savings with the participating clinics for a net savings of \$8.6 million.

As a result of HB 966 the GBP began offering a high deductible health plan, Consumer Directed HealthSelect (CDHP) on September 1, 2016. The benefit here is a \$2100 in-network individual deductible and a \$4,200 in-network family deductible, including both medical and pharmacy benefits. After the deductible is met the CDHP pays 80% of in-network services up to the out-of-pocket maximum. Preventive services are not subject to a deductible and are covered at 100% when in-network. CDHP has about 920 participants, with 500 members currently enrolled.

Mr. Brian Ragland, Board member, noted the rates have gone up much more in the past and members should be pleased with the modest potential increase in rates of not more than 2%. Health care industry inflation rates were discussed. Mr. Wilson reviewed the legislative directed draw down of the contingency fund. Mr. Danzeiser asked about the 60 days fund balance requirement for the contingency fund and current projections. Mr. Duran stated that at the end of FY19 the projected requirement for the contingency fund would be \$830 million. The Board and staff discussed the contingency fund balance and the legislative appropriation. The rates will not be finalized until the State's budget is signed. Mr. Hester noted the good management of the contingency fund by staff. Rate sheets were available.

The Board then took the following action:

Move that the Board of Trustees of the Employees Retirement System of Texas approve the proposed HealthSelect of Texas and Consumer Directed HealthSelect "not to exceed" (NTE) contribution rates for Fiscal Year 2018 as presented in this agenda item effective September 1, 2017.

Further move that the Board of Trustees authorize the ERS Executive Director to execute and administer the HealthSelect program in accordance with the appropriation set by the legislature and in the event the final legislative appropriation for Fiscal Year 2018 is not sufficient to fund the state's portion of the NTE contribution rates or the Executive Director determines that the contingency fund should be used to supplement the contribution rates, the Executive Director is authorized to implement rates that are lower than the NTE rates.

Motion by Cydney Donnell, second by Brian Ragland.

Final Resolution: Motion Carries

Aye: Brian Ragland, Craig Hester, Cydney Donnell, Doug Danzeiser, Ilesa Daniels, Jeanie Wyatt

3.9 Consideration of Health Maintenance Organization Proposed Rates of the Texas Employees Group Benefits Program for Fiscal Year 2018 - (Action)

Presenters: Blaise Duran, ASA, MAAA and Manager of Underwriting, Data Analysis and Reporting
Philip S. Dial, Rudd & Wisdom, Inc.

Mr. Duran reviewed the Health Maintenance Organizations (HMOs) background, coverages and enrollment by members and dependents. The incumbent carriers were provided a renewal option for FY18. The renewal rates requirements were noted. ERS also asked the HMOs to not increase their rates due to uncertainty of funding by the legislature. HMOs are not available in all Texas counties, and there are no out-of-network benefits except for emergencies. The HMO's are Community First for the San Antonio region of eight counties, Scott & White for central Texas reduced their region to 30 counties from 45, and KelseyCare in the Houston region with five counties. All rates are recommended to remain the same for FY18.

The Board then took the following action:

Move that the Board of Trustees of the Employees Retirement System of Texas approve the extension of the incumbent HMO Carrier plans and set contribution rates as presented in this agenda item for participation in the Texas Employees Benefits Program in Fiscal Year 2018 beginning September 1, 2017 and ending August 31, 2018:

- Community First Health Plans, Inc. to provide services in the application area of San Antonio which includes the counties indicated in Exhibit A-1 of this agenda item.
- Scott and White Health Plan to provide services in the application areas of Austin, San Angelo, Temple and Waco which include the counties indicated in Exhibit A-2 of this agenda item.
- KelseyCare powered by CHC to provide services in the application areas of Houston which include the counties indicated in Exhibit A-3 of this agenda item.

Motion by Doug Danzeiser, second by Cydney Donnell.

Final Resolution: Motion Carries

Aye: Brian Ragland, Craig Hester, Cydney Donnell, Doug Danzeiser, Ilesa Daniels, Jeanie Wyatt

Before agenda item 4.1 Review of Incentive Compensation plan, Mr. Hester asked about public comments from last meeting. Ms. Lauren Russell, Benefit Contracts, stated the members' specific issues raised during public comment were resolved and the Board and participant concerns about pre-authorization complaints had been addressed. Ms. Russell explained Benefit Contracts continues to monitor complaints and appeals related to prior authorization issues.

4. Incentive Compensation Plan

4.1 Review of Incentive Compensation Plan (ICP)

Presenter: Chineque "DeeDee" Sterns, Director of Human Resources

Ms. Chineque "DeeDee" Sterns, Director of Human Resources explained best practices and the need for an annual review and consideration by the Board. The ICP was last amended and approved by the Board during the August 16, 2016 meeting. Staff reviewed the Incentive Compensation Plan and no recommended changes were identified.

Some highlights of the plan were noted. The ICP awards are determined based on quantitative and qualitative performance. Each participant has a 25% qualitative performance goal and of the remaining 75%, 25% minimum is based on total Trust performance. No payments are made in years where the total fund does not have a positive performance. Those payments can be deferred during non-positive years. Any awarded incentive compensation is based on net of fees. The awards are calculated based on a weighted salary.

ERS pays out the awards over a three-year period, meaning that an employee would have to remain employed in an active eligible status for three years in order to receive the full amount that's awarded. ERS pays 50% in the first year, 25% each following year. There is a claw back provision, meaning that all payments are subject to claw back. If a payment is made in error the employee must reimburse ERS for that payment even if they're no longer working for us.

The draft plan document has been submitted for Board review, to be finalized at the August meeting. Mr. Porter Wilson, Executive Director, asked the Board to review the ICP and raise any issues or questions they may have prior to the August meeting.

There were no further questions or discussion and no action was required on this item

5. Legislative Update

5.1 Discussion of Sunset Update, Legislative Update and Group Benefits Program Advisory Structure

Presenters: Keith Yawn, Director of Strategic Initiatives
William "Shack" Nail, Director of Governmental Relations
Machelle Pharr, Chief Financial Officer
Michael Ewing, Office of the General Counsel

Mr. Shack Nail, Director of Governmental Relations, introduced the presenters and outlined the agenda items' topics.

Sunset Update and Group Benefits Program (GBP) Advisory Committee Structure - Mr. Keith Yawn, Director of Strategic Initiatives, presented an update of the agency's Sunset Review. Specific Sunset recommendations were approved for changes to Board member training, requirements for alternative rulemaking and dispute resolution activities, adoption of the experience study and actuarial tables at least every 4 years, expansion of financial reporting for alternative investments, and limitations on staff approval of alternative investment above 1% of total trust value. Changes to the GBP Annual Report due date and increased health programs data collection were also recommended. ERS is required to increase member involvement in the appeals process and expand documentation of enrollment and claims appeals processes and precedents to assist with member education.

An approved Sunset management directive requires ERS to establish a GBP advisory committee to obtain regular stakeholder and expert input on employee benefits. The implementation of the advisory committee doesn't require legislative action. ERS is working on implementation, committee structuring, membership, and operation parameters. A committee charter will be brought to the Board at the August meeting. A slate for committee membership will be brought to the December Board meeting. Advisory Committee meetings are expected to begin in calendar year 2018. Staff and the Board discussed the makeup of the committee and potential practices and operations. Mr. Nail was with ERS when a previous advisory committee was in place and he mentioned some issues to consider in structuring the new committee. Mr. Danzeiser asked about the Committee make-up. Mr. Wilson explained a rationale for committee member selection. Chairman Hester requested that staff provide Board members with a draft of the committee's governance charter for review around the time of the July Board meeting.

Pertaining to pending legislation, Ms. Donnell voiced concern about the use of a percentage of alternative asset allocations versus a percentage of the total fund to determine a staff approval cap. The total fund value is more readily and easily tracked and reported than the fluctuating value of a subset of a specific allocation class. Mr. Wilson believes the legislature will ultimately use the percentage of the total Trust in crafting the requirement. Mr. Hester agreed that the percentage of the total fund is a much better measure.

Ms. Donnell asked about committee ethics and compliance training.

Ms. Gabrielle Stokes, Director of the Office of Procurement and Contract Oversight, spoke to non-compliance requirements and how they might affect the GBP Advisory Committee. Mr. Danzeiser asked about communication between the GBP Advisory Committee and the Board. Mr. Wilson stated that ERS and the Board communicate regularly with stakeholders. The three elected Board members represent the ERS membership directly and can be contacted with concerns or ideas. Mr. Hester noted the Board will be voting on the GBP Advisory Committee Charter in August.

Legislative Update- ERS staff provided the Board with an update of the status of pertinent legislation that would impact one or more state employee benefit programs or the administrative operations of the agency, including the state budget for Fiscal Years 2018-2019 (Senate Bill 1). Ms. Machelle Pharr, Chief Financial Officer, spoke to legislative funding from both House and Senate bills. The recommended appropriations fall short of actuarially sound funding of the Pension Funds. The current versions of the bill maintain funding for the three prefunded retirement Trust funds at the current levels. These amounts are short of the actuarially sound contribution rates. For the ERS Fund, the agency requested \$92 million to bring the fund to 20.17% and achieve an actuarially sound contribution rate. For LECOS the agency requested \$52 million, to reach a 2.44% actuarially sound contribution rate. The agency also requested \$1.0 million dollars for JRS-2 to achieve an actuarially sound

contribution rate of 23.77%. At this time, no action has been taken to provide funding for the exceptional items requests. The legislature has not fully funded the agency request for the Group Benefits Program in the budget. Both versions of the bill make use of greater draw-downs of the agency's insurance contingency fund to make up reductions in new funding.

Mr. Mike Ewing, office of the General Counsel, reviewed the *Filed Legislation affecting the Employees Retirement System of Texas Report* (Board report). The Legislative Analysis Group (LAG) tracked 300 bills. ERS staff analyzed almost half of those bills. He presented an overview of the specific bills included in the bill tracking document (Exhibit B). Mr. Nail added that many of the bills involve design changes for ERS employees, law enforcement and judges, many of which would have a negative impact on the Trust fund. Under the Texas Constitution and state law, ERS has three funds that are actuarially unsound and therefore benefits cannot be increased. None of these bills were expected to move farther through the legislative process this session and are unlikely to become law. The health insurance bills that have passed, or may pass, do not have a significant impact on the health plan in terms of cost. Mr. Nail expressed concern with investment bills that restrict investments. Looking at the big picture, including both Sunset legislation and the biennial budget, ERS has had a successful legislative session. Mr. Wilson commended the team effort used to advance the Sunset legislation and conduct policy and fiscal analysis of filed legislation. Mr. Hester also expressed appreciation for participation of Board members in supporting the agency's legislative activities.

There were no questions or further discussion and no action was required on this item.

6. Executive Director Report

6.1 Executive Director Agency Update

Presenter: Mr. Porter Wilson, ERS Executive Director

- New Trustee Elected to Board
- Summer Enrollment for Plan Year 2018
- 2017 Everything's Fitter in Texas Challenge
- State Employee Charitable Campaign

Mr. Porter Wilson, Executive Director, presented an agency update. Mr. Wilson recognized the newly elected ERS board member, Catherine Melvin. Ms. Melvin, Chief Auditor at the Texas Department of Public Safety, has more than 26 years of state service. Voter participation for the Trustee election increased. Implementation of a new technology which enables voting through an email link made it easier for more members to participate in the election. Mr. Wilson thanked Bernie Hajovsky, James Wehmeyer and the election team for their successful management of the election.

Mr. Wilson said that Summer Enrollment is June 26 to July 28, 2017 for employees and non-Medicare enrolled retirees. Enrollment Fairs will take place around the state, plus numerous webinars. The transition to the new HealthSelect TPA, Blue Cross and Blue Shield of Texas will be presented at Summer Enrollment events.

The "*Everything is Fitter in Texas Challenge 2017*" had a record 20,994 participants, a 26% increase. 285 ERS employees logged an impressive 685,228 combined minutes of physical activity over 10 weeks. ERS placed 2nd in our agency size category.

State Employee Charitable Campaign (SECC) - ERS employees generously contributed \$56,100, won the highest participation with 314 donors or a 90% participation rate and the largest per capita gift of \$145.77. Mr. Wilson recognized Carla Lawrence's leadership for this year's campaign along with Beth Gilbert, past chair, and the committee for all their hard work and success. Mr. Wilson will serve as one of the honorary chairs of the entire campaign next year. Mr. Hester congratulated Mr. Wilson on having such a healthy and generous staff.

There were no questions or further discussion and no action was required on this item

7. Executive Session

7.1 Executive Session: In accordance with Sections 551.072 and 551.074, Texas Government Code, the Board of Trustees will meet in executive session to deliberate the purchase, exchange, lease, or value of the ERS building and to evaluate the duties and performance of the Executive Director of the Employees Retirement System of Texas. Thereafter, the Board may consider appropriate action in open session.

Mr. Craig Hester stated it was 3:05 p.m., on May 17, 2017. The Board of Trustees will meet in executive session in accordance with Sections 551.072 and 551.074, Texas Government Code, the Board of Trustees will meet in executive session to deliberate the purchase, exchange, lease, or value of the ERS building and to evaluate the duties and performance of the Executive Director of the Employees Retirement System of Texas. Thereafter, the Board may consider appropriate action in open session.

After the executive session, Mr. Hester stated it was 5:18 p.m., on May 17, 2017. The Board was now in Open Session. No action, decision, or vote was taken by the Board while in Executive Session.

There were no questions or further discussion, and no action was taken on this item.

8. Calendar

8.1 Set Date for the Next Joint Meeting of the ERS Board of Trustees and Investment Advisory Committee, the Next Meeting of the Board of Trustees and the Next Meeting of the Audit Committee

Mr. Hester reminded the Board there is a working session on July 10, 2017 and the next regularly scheduled Board meeting on August 23, 2017. Mr. Wilson asked that the Board complete and return the survey to Jen Jones.

9. Adjournment

9.1 ADJOURNMENT OF THE BOARD OF TRUSTEES

The Board of Trustees adjourned at 5:20 p.m. on May 17, 2017.