



## Board of Trustees Meeting

March 7, 2018



Presented for Review and Approval

May 23, 2018

## Table of Contents

<b>1.</b>	<b>CALL TO ORDER</b>	
1.1	Call Meeting of the ERS Board of Trustees to Order.....	2
<b>2.</b>	<b>MINUTES</b>	
2.1	Approval of the minutes to the December 13, 2017 ERS meeting of the Board of Trustees - (Action).....	2
<b>3.</b>	<b>ACTUARIAL FACTOR TABLES</b>	
3.1	Review and Consideration of Retirement Actuarial Factor Tables – (Action).....	2
<b>4.</b>	<b>RULES OF THE BOARD OF TRUSTEES</b>	
4.1	Review and Consideration of the Rules of the Board of Trustees, Texas Administrative Code, Title 34, Part IV, Chapter 71 (Creditable Service), Chapter 73 (Benefits), and Chapter 77 (Judicial Retirement) – (Action).....	4
4.2	Review and Consideration of the Rules of the Board of Trustees, Texas Administrative Code, Title 34, Part IV, Chapter 81 (Insurance) – (Action).....	5
<b>5.</b>	<b>PENSION FUNDING AND GUIDELINES</b>	
5.1	Review of Pension Funding Priorities and Guidelines Policy.....	5
<b>6.</b>	<b>SUNSET</b>	
6.1	Review and Discussion of the Sunset Implementation Project Updates.....	6
<b>7.</b>	<b>GROUP BENEFITS PROGRAM ADVISORY COMMITTEE</b>	
7.1	Review and Consideration of Appointment of Group Benefits Advisory Committee Member - (Action).....	8
<b>8.</b>	<b>TEXAS EMPLOYEES GROUP BENEFITS PROGRAM</b>	
8.1	Review and Discussion of the Group Benefits Program Update.....	8
<b>9.</b>	<b>EXECUTIVE DIRECTOR REPORT</b>	
9.1	Executive Director Agency Update.....	10
<b>10.</b>	<b>EXECUTIVE SESSION</b>	
10.1	Executive Session – In accordance with section 551.072 and 551.076 Texas Government Code, the ERS Board of Trustees will meet in executive session to deliberate (1) the purchase, lease, or value of Real property and the ERS building; and (2) the deployment, or specific occasions for implementation of security personnel or devices or a security audit. Thereafter, the Board may consider appropriate action in open session.....	11
<b>11.</b>	<b>RECESS</b>	
11.1	Recess of the ERS Board of Trustees. Following a temporary recess, the Board of Trustees will reconvene with the Investment Advisory Committee to take up the remaining agenda items.....	12

**BOARD OF TRUSTEES MEETING  
EMPLOYEES RETIREMENT SYSTEM OF TEXAS  
March 7, 2018  
ERS Board Room  
ERS Building – 200 E. 18th Street  
Austin, Texas 78701**

**TRUSTEES PRESENT**

Doug Danzeiser, Board Chair  
Cydneyn Donnell, Board Vice Chair  
Ilesa Daniels, Member  
I. Craig Hester, Member  
Catherine Melvin, Member  
Jeanie Wyatt, Member

**ERS STAFF PRESENT**

Porter Wilson, Executive Director  
Cathy Terrell, Deputy Executive Director  
Paula A. Jones, Deputy Executive Director & General Counsel  
William Nail, Special Projects & Policy Advisor  
Jennifer Chambers, Director of Government Relations  
Tony Chavez, Director of Internal Audit  
Bernie Hajovsky, Director of Enterprise Planning  
Robin Hardaway, Director of Customer Benefits  
Sharmila Kassam, Deputy Chief Investment Officer  
Diana Kongevick, Director of Benefit Contracts  
Wendy McAdams, Director of Operations Support  
Machelle Pharr, Chief Financial Officer  
Gabrielle Schreiber, Director of Procurement and Contract Oversight  
Chineque “DeeDee” Sterns, Director of Human Resources  
Kathryn Tesar, Director of Benefits Communications  
Chuck Turner, Chief Information Officer  
Tom Tull, Chief Investment Officer  
Keith Yawn, Director of Strategic Initiatives  
Michelle Barron, Benefit Contracts  
Kelley Davenport, Executive Office  
Christi Davis, Customer Benefits  
Blaise Duran, Benefit Contracts  
Leah Erard, Strategic Initiatives  
Beth Gilbert, Internal Audit  
Megan Hunter, Benefit Contracts  
Aaron Ismail, Internal Audit  
Dana Jepson, Enterprise Planning Office  
Jennifer Jones, Strategic Initiatives  
Steven Kinney, Information Systems  
Stephen Kneuper, Information Systems  
David Lacy, Office of General Counsel  
Michael Limon, Information Systems  
Nancy Lippa, Office of General Counsel  
Panayiotis Lambropoulos, Investments  
Betty Martin, Investments  
Dennis Martin, Information Systems  
Karen Norman, Internal Audit  
Travis Olson, Investments  
Jonathan Puckett, Internal Audit  
Michael Shoop, Investments  
Kathleen West, Information Systems  
Kent Wick, Information Systems

## **ALSO PRESENT**

Nick Arnold, Humana  
John Barksdale, CBRE  
Bill Dally, Retired State Employees Association  
Phil Dial, Rudd & Wisdom, Inc.  
Mark Emerich, CBRE  
Katy Fallon, Legislative Budget Board  
Lynn Gordon, Securian  
Patricia Kolodzey, Blue Cross and Blue Shield of Texas  
Erika Lacey, Texas House of Representatives  
Kirk Lavallee, Delta Dental  
Michael McCormick, Aon  
Colleen McGlamry, UnitedHealthcare  
Chris Paxton, Optum Rx  
Mallory Sumner, Blue Cross and Blue Shield of Texas  
Steve Voss, Aon  
Cyrus Walker, Blue Cross and Blue Shield of Texas  
Jordan Williford, Office of Attorney General

## **Meeting of the ERS Board of Trustees**

### **1. CALL TO ORDER**

#### **1.1 Call Meeting of the Board of Trustees to Order**

Mr. Doug Danzeiser, Chairman of the Board of Trustees of the Employees Retirement System of Texas (ERS), noting a quorum was present, called the meeting to order at 8:55 a.m. and read the following statement:

“A public notice of the ERS Board of Trustees meeting containing all items on the proposed agenda was filed with the Office of the Secretary of State at 11:03 a.m. on Monday, February 26, 2018, as required by Chapter 551 Texas Government Code, referred to as the Open Meetings Law.”

The Board of Trustees convened as a committee of the whole to consider the following Board agenda items.

### **2. MINUTES**

#### **2.1 Approval of the minutes to the December 13, 2017 Meeting of the Board of Trustees (ACTION)**

Mr. Danzeiser opened the floor for a motion on the approval of the minutes.

**Move** that the ERS Board of Trustees of the Employees Retirement System of Texas approve the minutes to its meeting held on December 13, 2017.

**Motion** by Craig Hester, second by Cydney Donnell

Final Resolution: Motion Carries

Aye: Craig Hester, Cydney Donnell, Doug Danzeiser, Ilesa Daniels, Jeanie Wyatt, Catherine Melvin

### **3. ACTUARIAL FACTOR TABLES**

#### **3.1 Review and Consideration of Retirement Actuarial Factor Tables (ACTION)**

Ms. Robin Hardaway, Director of Customer Benefits, introduced Ms. Jennifer Jones, Senior Retirement Policy Analyst and Ms. Christi Davis, Assistant Director of Customer Benefits, to present on the Retirement Actuarial Factor Tables. Ms. Jones informed the Board that the factors are used to calculate annuity reductions for non-standard retirement payment options and service purchases. The factors are supposed to reflect the actuarial assumptions that are used to calculate the plan's liability.

This includes the demographic and the economic assumptions, as well as the current plan benefit provisions. She stated that new factor tables are generally adopted after the adoption of a plan experience study.

Ms. Davis reported that the actuarial factors affect how retirement and death benefits are calculated. Factors are used to reduce annuities when members select a beneficiary option (partial lump sum option, qualify for non-occupational disability retirement, pass away as an active contributing employee, or retire under LECOS early retirement provision option).

In fiscal year 2017, approximately 5,649 ERS members retired, and of those, about 1,400 (or 25%) selected a partial lump sum option. For the partial lump sum option, a retiring employee can elect to have 1-36 months of their standard annuity paid to them in a single lump sum at retirement. If they choose a partial lump sum option, they agree to a permanent reduction in their monthly annuity for the remainder of their lifetime.

For the beneficiary options, 60% of members select a standard annuity option. A standard option does not pay any benefit to a designated beneficiary who survives the retiree. In addition to the standard option, there are five payment options that will pay scheduled payments to a designated survivor. The annuity payments are reduced according to factors based on the type of payment option selected, and the age of the survivor for Option 1, 2 and 3. For fiscal year 2017, 25% of members elected option one, which reduces the annuity payment to both the retiree and the survivor so that the annuity payment remains the same before and after death. Ms. Davis noted that for beneficiary options one, two and five, the retiree is going to have a reduced annuity over their lifetime. The beneficiary options are as follows:

- Option 1 – 100% payment to survivor
- Option 2 – 50% payment to survivor
- Option 3 – Five years of payments to survivor
- Option 4 – 10 years of payments to survivor
- Option 5 – 75% payment to survivor

Ms. Davis reported that actuarial factors also impact the cost of purchasing additional service credit (ASC) and waiting period service. For ASC, members can purchase up to three years if they have more than 10 years of ERS earned service credit, not including military or unused sick and annual leave time. Members who had a waiting period between their first day of employment and the day they started contributing to the retirement system, can purchase that waiting period service. Members usually have about 90 days they can purchase. Ms. Davis stated that for fiscal year 2017, there were 400 members that purchased the waiting period and about 674 that purchased ASC. The cost to buy both of these types of service must not be subsidized by the plan and is calculated using actuarial cost factors.

Ms. Jones reminded the Board that adjustments to some demographic assumptions were adopted in 2017 to reflect the plan's recent experience study. From the 2017 study, the trend saw longer life expectancy for retirees, fewer retirements and disability retirements than expected, and more employees leaving state employment.

On the retirement payment options for the annuities for survivors, the factor table updates were modest and mostly favorable to the members. Changes to payment options were primarily due to improvements in mortality for the actual retiree. Survivor benefits cost less under the assumption that the actual retiree is living longer than previously expected.

Service purchase factors increased generally 5-12% for regular class and law enforcement custodial office members. These costs are increasing due to the interest rate assumption change, as well as the increased longevity.

Ms. Davis reported the overall impact to the retirement and benefit option calculations is favorable and provided examples of the impact of the proposed annuity factors.

Ms. Davis discussed system implementation of actuarial factors and reported that the formulas were provided by the consulting pension actuary Gabriel Roeder Smith & Company (GRS) and staff loaded the formulas into ERS' online system where they will be used to perform calculations. Annuity actuarial factor tables were produced internally from the program formulas. GRS closely examined and

validated the system-generated factors and certified their accuracy and consistency with the actuarial assumptions that were adopted at the August 23, 2017 Board meeting. Once the board adopts the factor tables they'll be ready and in the system by June 1, 2018 for retirements beginning September 1, 2018.

GRS developed actuarial factor tables for ASC and the waiting period, following approval, those tables are loaded into the ERS system to be used for service purchases that will occur on September 1, 2018.

There being no further discussion or questions, Mr. Danzeiser opened the floor for a motion.

**Move** that the ERS Board of Trustees of the Employees Retirement System of Texas adopt the actuarial retirement and service purchase factor tables for the ERS, LECOS, JRS 1 and JRS 2 plans as certified by ERS' independent actuary Gabriel Roeder Smith & Company on January 19, 2018.

These factors, updated to reflect the pension experience study changes adopted by the Board on August 23, 2017, will be applied to members retiring on or after September 1, 2018.

**Motion** by Cydney Donnell, second by Catherine Melvin

Final Resolution: Motion Carries

Aye: Craig Hester, Cydney Donnell, Doug Danzeiser, Ilesa Daniels, Jeanie Wyatt, Catherine Melvin

#### **4. RULES OF THE BOARD OF TRUSTEES**

##### 4.1 Review and Consideration of the Rules of the Board of Trustees, Texas Administrative Code, Title 34 Part IV, Chapter 71 (Creditable Service), Chapter 73 (Benefits), and Chapter 77 (Judicial Retirement) (ACTION)

Ms. Christi Davis, Assistant Director of Customer Benefits, told the board that Senate Bill 301 (85<sup>th</sup> Texas Legislature) was amended for Chapter 815.105 of the Texas Government Code to require ERS Board of Trustees to adopt new actuarial factors at least once every four years. This change in law was based on a recommendation from the Texas Sunset Advisory Commission following the Sunset review of ERS.

Ms. Davis explained to the board that every time factor tables are adopted, ERS has to update the rule, so staff is proposing to eliminate having to update the rule each time the factor tables change. Instead the proposal is to adjust the rule to say that "ERS members will be subject to the factor tables, as adjusted from time to time." Ms. Davis also noted that Sections 73.21 and 77.11 are amended to include the current street address of ERS.

Ms. Robin Hardaway, Director of Customer Benefits told the board that the proposed amendments to Chapters 71 and 77 concern payments to establish and reestablish service credit. Currently, purchasing service through payroll deductions are not allowed, and the rules are not in alignment with current practice. ERS moved away from doing payroll deductions for service purchases when federal law changed which allows members to rollover balances from a tax qualified account to purchase service. This approach allows members to get a better tax advantage when purchasing service in a qualified pension plan, such as ERS. Ms. Hardaway reported that the notice of the proposed amendments were published in the January 19, 2018 Texas Register (43TexReg 327,329, and 331). The deadline to receive comments was Monday, February 19, 2018 and there were no comments received.

There being no further discussion or questions, Mr. Danzeiser opened the floor for a motion.

**Move** that the Board of Trustees of the Employees Retirement System of Texas adopt the proposed amendments to the sections of the Trustee Rules, 34 Texas Administrative Code (TAC), as described and incorporated in this agenda and as set forth in § 71.14 (Payments to Establish or Reestablish Service Credit), § 71.29 (Purchase of Additional Service Credit), and § 71.31 (Credit Purchase Option for Certain Waiting Period Service), § 73.21 (Reduction Factor for Age and Retirement Option), § 77.1 (Reduction Factors for Death before Age 65), § 77.11

(Reduction Factors for Age and Retirement Options--Judicial Retirement System of Texas Plan One (JRS-1) and Judicial Retirement System of Texas Plan Two (JRS-2)), § 77.15 (Payments To Establish or Reestablish Service Credit), and § 77.21 (Purchase of Additional Service Credit).

The amendments are presented in Exhibits A, B and C and incorporated into this agenda item and are proposed under the Texas Government Code §§ 815.102, 815.105, 835.002, 840.002, and 840.005 which provide authorization for the ERS Board of Trustees to adopt mortality, service and other tables necessary for the retirement system and to adopt rules for the retirement system.

**Motion by** Catherine Melvin, second by Craig Hester.

Final Resolution: Motion Carries

Aye: Craig Hester, Cydney Donnell, Doug Danzeiser, Ilesa Daniels, Jeanie Wyatt, Catherine Melvin

4.2 Review and Consideration of the Rules of the Board of Trustees, Texas Administrative Code, Title 34, Part IV, Chapter 81 (Insurance), (ACTION)

Ms. Robin Hardaway, Director of Customer Benefits, told the board that the first proposed amendment on Section 81.1, concerning Definitions, is to clarify the amount of compensation that's used in determining the optional term life insurance and the disability income limitations for non-salary elected and appointed officials.

For Section 81.8, concerning Waiver of Health Coverage, the amendment allows the member the option of receiving an incentive credit or opt-out credit to apply towards the State of Texas Vision plan within the Group Benefits Program. Section 81.9 (Grievance Procedures) would include the State of Texas Vision plan in the grievance process.

Ms. Hardaway reported that the notice of the proposed amendments to Chapter 81 was published in the January 19, 2018 issue of the *Texas Register*. Deadline to receive comments was Monday, February 19, 2018 and no comments were received.

There being no further discussions or questions, Mr. Danzeiser opened the floor for a motion.

**Move** that the Board of Trustees of the Employees Retirement System of Texas adopt the proposed amendments to the sections of the Trustee Rules, 34 Texas Administrative Code (TAC), as described and incorporated in this agenda and as set forth in § 81.1 (Definitions), § 81.8 (Waiver of Health Coverage) and § 81.9 (Grievance Procedures).

The amendments are presented in Exhibit A and incorporated into this agenda item and are proposed under the Texas Insurance Code, § 1551.052 which provides authorization for the ERS Board of Trustees to adopt rules necessary to carry out its statutory duties and responsibilities.

**Motion by** Craig Hester, Cydney Donnell

Final Resolution: Motion Carries

Aye: Craig Hester, Cydney Donnell, Doug Danzeiser, Ilesa Daniels, Jeanie Wyatt, Catherine Melvin

**5. PENSION FUNDING AND GUIDELINES**

5.1 Review of Pension Funding Priorities and Guidelines Policy

Ms. Jennifer Jones, Retirement Policy Analyst, presented an overview of pension funding policies. Funding policies are formal policies adopted by a retirement system board that include a set of procedures to assist an actuary in determining the contribution rates needed to meet funding goals and address gains and losses. Policies typically include three key topics: actuarial cost method; asset smoothing method; and funding period policy. The board could use a formal document to expand the

definition of organizational goals over what currently exists in other formats. Absent a stated board policy, the only defined goal related to paying off the plan's unfunded liabilities is Government Code 811.006, which is based on a 31-year open amortization period.

Ms. Jones stated that funding policies are not new; however accounting requirements stated in the Governmental Accounting Standards Board (GASB) 67/68 developed a new calculation methodology for determining liabilities that must be reported on a system's financial statements. This created two sets of reports and many systems chose to develop a customized policy to define what they believed should be used to measure and report fund liabilities. A number of state and local plans have funding policies, including the City of Austin Employees Retirement System, Texas County and District Retirement System, and Texas Municipal Retirement System. ERS began discussing developing a funding policy and decided to wait until after the 2017 experience study was completed. Ms. Jones stated that since the ERS board does not have control over contributions and most benefit design decisions, a policy could document the board's goals and priorities, and would likely be most useful as a communication tool for future discussions with the legislature and other stakeholders about funding needs and structures.

Mr. Danzeiser asked how a funding policy would be used and if there was any other format in which the board could make a statement about funding goals. Ms. Jones responded that the board could use the administrator statement of the biennial Legislative Appropriations Request as an alternative communication tool. Ms. Donnell and Mr. Hester discussed the potential for unintended consequences of the board adopting a policy, but both trustees commented that they believed the potential advantages outweighed concerns. Mr. Hester stated an interest in having the policy reference best practice standards set by external groups. Ms. Donnell expressed interest in having a more explicit reference to Texas Pension Review Board standards in the document or an appendix.

Mr. Danzeiser suggested that the board could adopt a one-time statement as opposed to an ongoing document. Mr. Danzeiser also asked whether the board's document could conflict with a directive from the Legislature. Ms. Jones said that future conflict was possible but the board could commit to updating the policy on a regular basis to address such emerging situations. Mr. Hester supported reviewing the policy regularly.

Ms. Wyatt asked about increasing the frequency of the experience study earlier than every four years. Ms. Donnell stated she thought more frequent reviews were unnecessary. Mr. Wilson stated that if an individual assumption needs to be addressed more frequently because of an evolving best practice or standard change, that specific review or change can be done without having to complete the full study more frequently, as with the currently planned two year review of the assumed rate of return metric.

Ms. Donnell, Mr. Hester, and Ms. Melvin expressed support for developing a policy that would be updated on a regular basis. The board directed staff to move forward with a draft, seek feedback from individual trustees, and bring a revised draft back to the board for the May 23 meeting. Ms. Melvin also requested that staff seek stakeholder feedback.

This agenda item was provided for information and discussion purposes only. There was no further discussion or questions.

## **6. SUNSET**

### 6.1 Review and Discussion of the Sunset Implementation Project Updates

Mr. Keith Yawn, Director of Strategic Initiatives, presented updates on the Sunset Implementation Project and stated that staff's review process began in September 2015. The Sunset staff review was completed with the release of the staff report in April 2016. Mr. Yawn reported that the Sunset Commission adopted final recommendations on November 10, 2016. A total of 19 recommendation requirements were issued across five areas, including 10 management directives and 9 statutory changes passed as part of Senate Bill 301 during the 2017 Legislative Session.

Mr. Yawn stated that 15 of the 19 requirements are fully or substantially completed, including one that is considered ongoing related to communication efforts with stakeholders and members. There are an additional four projects that remain in progress, either in planning and development stages, or in the middle of implementation.



There were three management action recommendations that were adopted by the Commission in the area of contract management and administration. The first related to the agency's implementation and addition of the Office of Procurement and Contract Management (OPCO). Mr. Yawn reported that, while compliant with Sunset recommendations, the agency initiated changes to the procurement process beginning in August 2015, several months before the release of the Sunset Report.

The OPCO division was created in April 2016 with the transfer of existing agency staff from multiple divisions to centralize and oversee the agency's contract operations from the beginning of procurement solicitations through the contract monitoring processes. The division also ensures the use of standardized and consistent policies in contracting practices.

The second contracting related recommendation was the continuation of the consolidation of the procurement and contracting staff into OPCO. Mr. Yawn noted that after the creation of OPCO, all purchasing staff and functions were consolidated within OPCO on September 1, 2016. OPCO now serves as the central area of responsibility for procurement, including purchasing and competitive bidding, and contract oversight for the agency.

Mr. Yawn reported that the third contracting related recommendation was to direct ERS to implement standard contract term dates in agency contracts, except in limited circumstances. The Contract Management Guide provides state guidelines for standard state contract terms. The agency has created consistent agency-wide policies for the review and approval of any contracts that move beyond those guidelines, and requires that any extension has justification and meets standards. This process was put in place on July 22, 2016. Mr. Yawn also noted an agency-wide policy related to the approval of sole-source purchases was put in place on August 15, 2016.

Mr. Yawn reported on Group Benefits Program (GBP) reporting requirements and noted there were two statutory Sunset recommendations passed as part of Senate Bill 301. The first recommendation was to require ERS to develop and regularly update a comprehensive annual report on the GBP. For 2016 reporting, the Cost Management and Fraud Report was renamed and updated to reflect most of the Sunset content requirements. For 2017 reporting, the GBP Annual Report addresses the statutory content requirements including claims and administrative expense amounts by plan, the summary of benefit design and a summary of any plan administrative changes that were evaluated in the year. New statutory requirements which ask ERS to identify potential statutory changes will be included for the first time in the FY19 report, and thereafter in odd numbered years to align with the legislative cycle and hopefully make them more relevant.

The second GBP reporting recommendation was to extend the due date for the GBP Comprehensive Annual Report and continue the agency's other reports. Mr. Yawn informed the board that Senate Bill 301 changed the annual reporting due date from January 1 to February 1 so that the report could include a complete year of claims information in the report's analysis. The 2017 GBP Comprehensive Annual Report was published on February 1, 2018 and distributed to required state leadership offices.

Mr. Yawn reported that there were three recommendations related to Investment Operations and Reporting. One recommendation was adopted by the Commission requiring ERS to track and report profit-sharing amounts related to alternative investments. This was a statutory requirement and was fully implemented in the 2017 CAFR, which was released and published in December 2017. The second statutory requirement was for the Board to directly approve individual alternative investments exceeding 0.6% of the Trust's total market value. Mr. Yawn noted that this is an active requirement and agency policy is being implemented and revised within all relevant policy documents. The valuation that is used to determine the 0.6% trigger amounts is the value reported in the CAFR and Mr. Yawn noted this trigger value will change in December of every year for the following calendar year period. The first investment to trigger the new policy will occur at this meeting of the Board.

Mr. Hester asked if the trigger level stays constant if the value of the Trust goes up or down. Mr. Yawn replied that the trigger level is tied to the valuation reported in the CAFR each year. It does not change based on market fluctuations as they occur between the annual audited financial reports.

The final recommendation was to direct ERS to consider best practices in investment decision-making processes and report findings to the Legislature. This management action was completed on

February 22, 2017. ERS Internal Audit presented a report and findings that resulted in multiple governance improvements, including the creation of the investment compliance officer position, the expansion of internal investment committees to include Investment Advisory Committee members, and the adoption of governance charters for the asset class investment committees themselves.

This agenda item was provided for information and discussion purposes only. There was no further discussion or questions.

## **7. GROUP BENEFITS PROGRAM ADVISORY COMMITTEE**

### 7.1 Review and Consideration of Appointment of Group Benefits Advisory Committee member (ACTION)

Mr. Bernie Hajovsky, Director of Enterprise Planning presented to the board on the appointment of Group Benefits Advisory Committee (GBAC) members and reminded the Board they appointed the 10 inaugural members of the GBAC at the December 13, 2017 meeting. The 10 appointees represented all but one of the stakeholder groups (the benefit consultant or professional category).

Mr. Hajovsky reported that although the governance charter does not require representation from all the stakeholder groups, staff committed to seek out qualified candidates to fill the benefit consultant or professional category. Mr. Hajovsky then presented the staff recommendation to appoint Mr. Tom Lussier to the GBAC. Mr. Lussier is the President of The Lussier Group, a governmental affairs consulting firm that is focused on public employee health and pension benefits. For the past 15 years, Mr. Lussier and his firm have managed the Public Health Care Roundtable, the National Coalition of Public Sector Health Care Purchasers that convenes to discuss best practices and federal legislation affecting the healthcare industry.

He continued by stating that based on Mr. Lussier's knowledge and experience in the employee benefits field, staff find that Mr. Lussier is a suitable and appropriate candidate to represent the GBAC.

There being no further discussion or questions, Mr. Danzeiser opened the floor for a motion.

**Move** that the Board of Trustees of the Employees Retirement System of Texas appoint Mr. Tom Lussier to the Group Benefits Advisory Committee effective March 7, 2018.

**Motion** by Jeanie Wyatt, second by Catherine Melvin.

Final Resolution: Motion Carries

Aye: Craig Hester, Cydney Donnell, Doug Danzeiser, Ilesa Daniels, Jeanie Wyatt, Catherine Melvin

## **8. TEXAS EMPLOYEES GROUP BENEFITS PROGRAM**

### 8.1 Review and Discussion of the Group Benefits Program Update

Ms. Diana Kongevick, Director of Benefit Contracts, introduced Mr. Blaise Duran, Manager of Underwriting Data Analysis and Reporting, and Mr. Phil Dial with Rudd & Wisdom, Inc. to help provide the Group Benefits Program updates. Ms. Kongevick turned the presentation over to Mr. Duran to speak about the Pharmacy Benefit Manager (PBM) results.

The new PBM contracts with OptumRx and UnitedHealthcare became effective January 1, 2017. Savings from the new PBM contracts exceeded expectations in the first year due to increased generic dispensing rate and rebates, and a decrease in ingredient cost largely due to the new PBM contract.

While Calendar Year (CY) 2017 savings were projected at \$150 million, the actual savings are estimated at \$190 million, exceeding expectations by approximately \$40 million. Mr. Duran reported that CY17 incurred claims decreased by 6.3% on a Per Participant Per Month (PPPM) basis when compared to CY16. These factors contributed to a decrease in net plan cost of approximately 20.8%.

Ms. Kongevick continued the presentation and discussed cost control initiatives. Ms. Kongevick acknowledged Ms. Dana Jepson, Enterprise Planning Office, for her work in helping staff assemble the

Texas Employees Group Benefits Program Annual Report in its new format. As a result of the managed care practices that are undertaken at ERS, the plan paid \$2.7 billion in net benefits instead of \$10.5 billion in potential cost. The FY17 Annual Report was provided to state leaders on February 1, 2018 and is available online at [www.ers.texas.gov](http://www.ers.texas.gov).

Ms. Kongevick reported to the board that ERS eliminated copays for virtual visits on September 1, 2017. Virtual visits continue to increase and convenience is a key factor. She stated there were more than 4,600 virtual visits in FY17, and in the first four months of FY18 there have been more than 6,600 visits. The HealthSelect virtual visit providers are Doctor on Demand, with MD Live added September 1, 2017.

Ms. Kongevick informed the board that Doctor on Demand had a satisfaction rating of 4.9 stars out of a 5 star system and the most recent six-month trend showed more people had visited a virtual visit provider during the week than on weekends. The greatest usage is between 8:00 a.m. and 8:00 p.m. Monday-Friday. Ms. Kongevick stated that Monday through Friday utilization is closely divided.

The top three reasons for a virtual visit are upper respiratory infection, viral infection, and urinary tract infection. Ms. Kongevick referred to the chart below to compare ERS plan cost based on the visit access point.

	Emergency Room	PCP	Urgent Care	Convenience Care	Virtual Visit*
Upper Respiratory Infection	\$1,015	\$83	\$67	\$64	\$30
Viral Infection	\$1,901	\$78	\$71	\$59	\$29
Urinary Tract Infection (UTI)	\$1,097	\$86	\$68	\$48	\$30

*\*Data Shown is for FY17, when there was a \$10 virtual visit copay. Effective September 1, 2017, members pay no copay for a virtual visit.*

Mr. Danzeiser asked if staff have seen a decline in the in-person visits due to the extensive use of virtual visits. Ms. Kongevick said that there has not been a decline at this time and oftentimes there is a follow-up with the member's PCP after a virtual visit.

Ms. Donnell questioned if patients will be seeing more options for virtual visits from their own doctors and Ms. Kongevick responded that staff is seeing more PCP groups and clinics that are offering their own level of virtual visit. She also noted that this is not intended to replace going to see a doctor in person, but the virtual visit is becoming more available if patients want to use it.

Mr. Duran talked about the GBP's Patient Centered Medical Homes (PCMH) program which focuses on developing an ongoing relationship between the patient and their primary care physician. The practices use evidence-based medical and clinical decision-support tools and provide enhanced access such as open scheduling and expanded hours on nights and weekends.

In fiscal year 2017, there were seven PCMHs with approximately \$6.9 million total in savings. Three of the seven clinics earned a shared-savings payment by meeting certain quality and cost measures. Ms. Kongevick reported that Kelsey-Seybold transitioned from a PCMH to a capitated payment arrangement and is expected to continue to generate savings for the program. She continued by stating that for fiscal year 2018, three new clinics bring the total number of PCMHs to nine.

Ms. Kongevick presented on lifestyle intervention programs that are available to members. On April 1, 2016, the Real Appeal program, an online pre-diabetes lifestyle intervention program, was implemented and has exceeded performance expectations.

- 22,873 participants enrolled
- 90% of participants were medically at risk (obese or pre-diabetic)
- The participants lost a total of 115,802 pounds
- 4.85 out of 5 average satisfaction rating

On September 21, 2017, the Naturally Slim program was added, which takes a different approach to the same weight loss goal. Participants can now choose either program at no cost.

Ms. Kongevick talked to the board about a new initiative relating opioids. The negative impact of opioid abuse is well-documented. The number of accidental deaths from drug overdose in the United States now exceeds those caused by motor vehicle accidents and firearms. She noted that in 2016, nearly 2,799 Texans died due to drug overdose. Opioid misuse affects Texas youth and young adults at alarming rates. In 2016, 9% of Texas students in grades 7-12 misused codeine cough syrup and 4% misused other opioids. Texas college students misused 4% of opioids including codeine.

ERS is focusing on how a health plan can address this from a holistic benefit plan perspective. ERS is working with all of its health related vendors to address the devastating impact of the opioid crisis. Ms. Kongevick reported that from September through December, nearly 4% of prescription claims at ERS are for an opioid, and of that 4%, nearly a fourth of them are high utilizers. More than 60% of this amount is short-acting opioids. ERS is uniquely positioned to address this type of activity and work together with all of the health related vendors to address the impact of this crisis on membership and the state. Ms. Kongevick stated that the unified benefit plan approach is one that can serve as a model to other employer groups.

The ERS focus is on a comprehensive health plan strategy with pharmacy, medical and behavioral health providers working together to prevent dependency before it starts, stop the progression to avoid opioid misuse, abuse and addiction, treat and support chronic utilizers on a path to recovery, and promote savings and quality care. Ms. Kongevick said that an ERS participant may be the addicted individual, or a family member or colleague and the ERS project will demonstrate support of ERS participants and their loved ones. She also noted that this project requires a shared passion and a dedication to work in this area in order to sustain impact going forward.

Ms. Donnell applauded ERS for working with all the different vendors in sharing of information in hopes of helping patients.

This agenda item was provided for information and discussion purposes only. There was no further discussion or questions.

## **9. EXECUTIVE DIRECTOR REPORT**

### 9.1 Executive Director Agency Update –

Public Law No. 115-97 –Tax Cuts and Jobs Act (TCJA) - Mr. Porter Wilson, Executive Director, said that the federal tax bill, known as the Tax Cuts and Jobs Act passed. The final passed bill did not include the provision that would have extended the Unrelated Business Income Tax (UBIT) to state pension plans. Although it was not included in this bill, Congress continues to consider legislation relating to technical tax corrections bills that could include UBIT provisions relating to state governmental pension plans.

The other provision that had been in an earlier version of the bill that could have had an impact on ERS members would have changed some of the 401(k) and 457 plan features. ERS administers both of these plans within the Texa\$aver plan. None of those provisions were included in the final bill.

Initial Group Benefits Advisory Committee Meeting –The first GBAC meeting is scheduled for March 26, 2018 and some of the topics included in this meeting are an overview of GBP structure and programs, HIPAA training, topics of interest for future meetings and to determine committee member initial term lengths. GBAC members serve staggered six-year terms.

Data Center Project – Mr. Chuck Turner, Chief Information Officer, reported on a successfully completed project to move the ERS data center to a secure location off site. ERS had hosted a data center on-site since 2004, and the data centers have increased dramatically in sophistication and security. He noted that ERS' first attempt at centralizing and consolidating the management around the systems did not have a whole lot of virtualization in place during that time; it was primarily supported by PeopleSoft. In 2009, ERS had its own on-premise data center which had all the typical controls, but it was not a full tier-three or tier-four data center. It did not have redundant power or internet connections. ERS decided the best choice was to locate the ERS center in a facility whose sole purpose is to house and secure data centers. Planning work on the massive project began in 2015. ERS secured a location through a competitive bidding process with extensive due diligence. Following several months of

planning which involved numerous logistical challenges, the data center was moved over a weekend in order to minimize any business disruption for ERS, employers, members and vendors.

On Friday, December 15, 2017, the system shut down all applications at noon so that the physical move of equipment could take place. The Texas Department of Public Safety (DPS) provided security for the move from move-out to move-in, including a full escort to the new facility. By 5 p.m. Saturday, December 16, 2017, most of the data center services were in place. The project required support from staff throughout ERS, including many staff members who tested applications on Saturday and Sunday to make sure all systems were working properly.

Mr. Wilson acknowledged and thanked the ERS Information System team for their efforts in planning and executing the move. The new center increases the security of ERS data and provides additional features, such as back-up power, beyond what ERS was able to provide at an on-site center. The new center has 24-hour monitoring by on-site staff, biometric screening security protocol and the ability for ERS to remotely monitor servers and other equipment. Mr. Danzeiser stated he was very impressed and congratulated the team.

200 B Project – Eleven design build firms submitted proposals for the development project of the annex and eastern half of the ERS lot. After the December 2017 Board meeting, three finalists were identified. All three finalists presented to a team of ERS staffers and Broaddus Associates, ERS' owner's representative on the project. Each firm answered questions related to their vision for the project, their construction and design expertise and project management structure, among other factors. ERS staff checked references and visited current project locations. ERS is currently working to negotiate terms to finalize a decision on the ultimate contract award. The architectural services that will be delivered by the design build firm include pre-construction logistics and pricing. The process has continued to move forward and a decision on the ultimate contract award will be presented at a future meeting date.

2018 Get Fit Texas State Agency Challenge – The 2018 Get Fit Texas State Agency Challenge was launched on January 22, 2018 and concludes on April 1, 2018. The challenge is designed to encourage participants to have 30 minutes of physical activity for five days or 150 minutes a week. It is a 10 week challenge and in order to be considered successful to complete the challenge, staff will need to complete six of the ten weeks. ERS has set a goal of eight weeks of completion instead of the six weeks.

Mr. Wilson noted that ERS has been very successful in completing challenges and has taken first or second place over the last several years.

Legislative Update - ERS has been requested to testify at the Senate Health and Human Services Committee on March 21, 2018 on value-based plan designs and what is planned for the future. Mr. Wilson noted that staff will keep the Board posted on opportunities that ERS may be asked to testify at future legislative hearings.

State Employee Charitable Giving Campaign – The State Employee Charitable Giving Campaign has concluded and the Capital Area Campaign, for the Austin area raised over \$1.8 million. There were 90 state agencies contributing to charities within the area. ERS was recognized as having the highest percentage of participants for an agency of 300-500 state employees. ERS earned the top prize in our size category with 77% of employees participating in the campaign for a total of just over \$57,000.

## **10. EXECUTIVE SESSION**

10.1 Executive Session – In accordance with section 551.072 and 551.076 Texas Government Code, the ERS Board of Trustees will meet in executive session to deliberate (1) the purchase, exchange, lease, or value of Real property and the ERS building; and (2) the deployment, or specific occasions for implementation of security personnel or devices or a security audit. Thereafter, the Board may consider appropriate action in open session

Mr. Danzeiser stated it was 11:00 a.m. on March 7, 2018. The Board of Trustees will meet in executive session in accordance with Section 551.072 and 551.076, Texas Government Code, to deliberate (1) the purchase, lease, or value of Real property and the ERS building; and (2) the deployment, or specific occasions for implementation of security personnel or devices or a security audit. Thereafter, the Board may consider appropriate action in open session.

After the executive session, Mr. Danzeiser stated it was 12:20 p.m. on March 7, 2018 and the Board is 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.

## **11. RECESS**

*11.1 Recess of the ERS Board of Trustees. Following a temporary recess, the Board of Trustees will reconvene with the Investment Advisory Committee to take up the remaining agenda items.*