



Board of Trustees Meeting

December 13, 2017



Presented for Review and Approval

March 7, 2018

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**BOARD OF TRUSTEES MEETING
EMPLOYEES RETIREMENT SYSTEM OF TEXAS
December 13, 2017
ERS Board Room
ERS Building – 200 E. 18th Street
Austin, Texas 78701**

TRUSTEES PRESENT

Doug Danzeiser, Board Chair
Cydney 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
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
Tom Tull, Chief Investment Officer
Keith Yawn, Director of Strategic Initiatives
Nora Alvarado, Benefit Contracts
Michelle Barron, Benefit Contracts
Georgina Bouton, Benefit Contracts
Amy Chamberlain, Strategic Initiatives
Kelley Davenport, Executive Office
Juli Davila, Investments
Christi Davis, Customer Benefits
D’Ann DeLeon, Benefit Contracts
Blaise Duran, Benefit Contracts
Leah Erard, Strategic Initiatives
Beth Gilbert, Internal Audit
Megan Hunter, Benefit Contracts
Dana Jepson, Enterprise Planning Office
Jennifer Jones, Strategic Initiatives
Nancy Lippa, Office of General Counsel
Betty Martin, Investments
Karen Norman, Internal Audit
Jonathan Puckett, Internal Audit
Susie Ramirez, Executive Office
Tanna Ridgway, Investments
Lauren Russell, Benefit Contracts
Robert Sessa, Investments
Leighton Shantz, Investments
Bernely Tharp, Benefit Contracts
Angelica Torres, Benefit Contracts

ALSO PRESENT

Steve Alexander, UnitedHealthcare
Patty Armstrong, Reed Group
Nick Arnold, Humana
Keith Barnes, Blue Cross and Blue Shield of Texas
Mitchell Bilbe, Rudd & Wisdom, Inc.
Trena Campbell, Reed Group
Michael Clayton, State Auditors Office
Bruce Dale, Empower Retirement
Phil Dial, Rudd & Wisdom, Inc.
Katy Fallon, Legislative Budget Board
Darci Falsioni, Nixon Peebody
Lynn Gordon, Securian
Tom Griebel, Retired State Employees Association (RSEA)
Dawn Heitman, Texas State Soil & Water Conservation Board
Rick Johnson, Broaddus & Associates
Cynthia Jumper, Texas Tech University Health Science Center
Megan Lavoie, Office of Court Administration (OCA)
Colleen McGlamry, UnitedHealthcare
Kim McLeod, UnitedHealthcare
Chris Paxton, Optum Rx
Sarah Puerdo, State Auditors Office
Avery Saxe, Legislative Budget Board
Lee Spangler, Blue Cross and Blue Shield of Texas
Mallory Sumner, Blue Cross and Blue Shield of Texas
Cyrus Walker, Blue Cross and Blue Shield of Texas

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 9:50 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 10:21 a.m. on Friday, December 1, 2017, 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 August 23, 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 August 23, 2017.

Motion by Cydney Donnell, second by Ilesa Daniels.
Final Resolution: Motion Carries

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

3. EXECUTIVE SESSION

3.1 Executive Session – In accordance with section 551.074, Texas Government Code, the Board of Trustees will meet in executive session to evaluate the duties, performance and compensation of the Internal Auditor of the Employees Retirement System of Texas. Thereafter, the Board may consider appropriate action in open session

Mr. Danzeiser stated it was 9:51 a.m. on December 13, 2017. The Board of Trustees will meet in executive session in accordance with Section 551.074, Texas Government Code, to evaluate the duties, performance and compensation of the Internal Auditor of the Employees Retirement System of Texas. Thereafter, the Board may consider appropriate action in open session.

After executive session, Mr. Danzeiser stated it was 10:45 a.m. on December 13, 2017 and the Board is now in Open Session. No action, decision, or vote was taken by the Board while in Executive Session. Mr. Danzeiser further stated he would entertain any motions from members of the board.

Motion made to promote Internal Audit Director, Tony Chavez, to a Director IV with a salary increase of 4% effective January 1, 2018.

Motion by Cydney Donnell, seconded by Craig Hester.

Final Resolution: Motion Carries

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

4. TRAINING

4.1 Training Regarding the Health Insurance Portability and Accountability Act of 1996 (HIPAA)

The Health Insurance Portability and Accountability Act of 1996 (HIPAA) provides requirements for maintaining the privacy and security of protected health information. As the administrator of the Texas Employees Group Benefits Program (GBP) health plans, ERS is a “covered entity” under HIPAA and is subject to its privacy and security requirements.

ERS provides HIPAA training to each new trustee, employee and contractor, and provides ongoing periodic HIPAA training to its entire workforce. Although members of the Board of Trustees are not expected to receive protected health information (PHI), health plan participants may occasionally contact Board members regarding health plan-related issues. Because these communications can involve transmission of confidential information and could ultimately result in an administrative appeal within the Board’s jurisdiction, Board members are being provided additional HIPAA training.

Ms. Nancy Lippa, ERS’ Assistant General Counsel and HIPAA Privacy Officer, introduced Ms. Darcie Falsioni, Counsel, from Nixon Peabody LLC, an international law firm, to present to the board and staff general education on HIPAA as it relates to ERS and its business associates.

This agenda item was presented for discussion and informational purposes only. No action was taken.

5. RULES OF THE BOARD OF TRUSTEES

5.1 Discussion and Consideration of the Rules of the Board of Trustees, Texas Administrative Code, Title 34, Part IV, Required Rule Review of Chapter 79 (Social Security), (ACTION)

Ms. Paula A. Jones, Deputy Executive Director and General Counsel, presented the required rule review of Chapter 79, (Social Security) and reminded the board that every four years ERS is required to review rules to determine if there is a continued reason to have them.

Under Texas Government Code, Chapter 606, ERS is responsible for administering Social Security for state and local governmental employees in Texas under both state and federal law. Government employees are covered under Social Security by agreement between the state and federal government under Section 218 of the Social Security Act. The Texas agreement was effective in January of 1951. Federal regulations require a state to have an official to administer the program, and ERS acts as a liaison with the Social Security Administration, which oversees modifications of the Section 218 Agreement and maintains modifications and historical referendums. The Texas Governor has appointed ERS employee James Sawyer, of the Benefit Contracts division, to this position.

In a response to several questions asked by Mr. Danzeiser and Mr. Hester, Ms. Jones noted that Section 218 of the Social Security Act provides the mechanism to allow a state, county, or political subdivision to participate in Social Security. There are three counties in Texas now that are not covered by Social Security, and if one of those counties decided that it wanted to participate in Social Security, it would contact ERS to help facilitate its ability to cover its employees under Social Security. ERS is not responsible for administration of Social Security benefits.

Ms. Jones informed the board that the rules were reviewed and staff did not see a need for any changes, only readoption. Ms. Jones noted the notice of rule review was published in the December 2, 2016, issue of the *Texas Register* and no comments were received by ERS.

There being no further discussion, the Board then took the following action.

Move that the Board of Trustees of the Employees Retirement System of Texas readopt Chapter 79 of the Rules of the Board of Trustees because the reasons to adopt the rules in this chapter continue to exist.

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

5.2 Discussion and Consideration of the Rules of the Board of Trustees, Texas Administrative Code, Title 34, Part IV Adoption of Amendments to Chapter 63 (Rule 63.17 GBAC), (ACTION)

Mr. Keith Yawn, Director of Strategic Initiatives, reminded the board that during the August 2017 meeting, they adopted the Group Benefits Advisory Committee governance charter to implement a recommendation of the Sunset Commission. The GBAC is designed for ERS to more formally receive and incorporate direct stakeholder feedback into the agency benefit design and decision making processes. The notice of rule amendment was published in the October 20, 2017 issue of the *Texas Register* and no comments were received by ERS.

Mr. Danzeiser asked if there is a Government code statute that requires committees to be created, Mr. Yawn stated that in this case there is not. The Sunset provision was passed under the Board's existing statutory authority to create advisory committees at its own discretion and was not a part of the Sunset legislation; the recommendation was a management directive because the board already had the statutory authority to do so.

There being no further discussion, the Board then took the following action.

Move that the Board of Trustees of the Employees Retirement System of Texas adopt the proposed amendment to Chapter 63, Advisory Committees, §63.17 (c) of the Rules of the Board of Trustees related to administration of the Group Benefits Advisory Committee as presented in this agenda item.

Motion by Craig Hester, second by Ilesa Daniels.

Final Resolution: Motion Carries

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

6.1 GROUP BENEFITS ADVISORY COMMITTEE

6.1 Discussion and Consideration of the Group Benefits Advisory Committee Appointments (ACTION)

Mr. Keith Yawn, Director of Strategic Initiatives, and Mr. Bernie Hajovsky, Director of Enterprise Planning, presented the Group Benefits Advisory Committee (GBAC) appointment recommendations. Mr. Yawn reminded the board that the membership of the committee is made up of stakeholder representatives of various groups intended to provide a diverse range of the agency's membership population and industry stakeholders, and can include up to 11 members. The majority of the member seats require a minimum of one year of group benefits program enrollment and the support of their employer to participate in the committee. Ultimately members will serve three-year staggered terms, but the initial appointees will serve inaugural terms of two to four years to establish the staggered schedule. ERS staff solicited and reviewed applications to come up with the membership recommendation. Mr. Yawn noted that appointees serve at the will of the Board. The membership structure is made up of nine stakeholder groups, with large state agencies and mid-size state agencies represented by up to two appointees each. Mr. Yawn turned over the presentation to Mr. Hajovsky to present the application and nomination process.

Mr. Hajovsky informed the board that ERS announced the initial application period for the committee on September 13, 2017. ERS posted notices and announcements on the ERS website and social media sites, in member newsletters, and to benefits coordinators. Forty-two applications were received by the October 15, 2017 deadline and each applicant was categorized into the appropriate stakeholder group, with his/her credentials verified by ERS staff. Executive Office staff evaluated the qualifications and skill sets of applicants, and put forth recommendations on the most qualified applicant(s) in each of the groups.

Mr. Yawn reminded the board that the provisions of the governance charter do not require 11 total members and does not have any minimum requirements for any individual category. A recommendation for a representative for the industry category was not made as part of the initial slate. Mr. Hajovsky said that ERS would continue to recruit potential members for that slot. Mr. Hajovsky then presented the nominees:

Large State Agency – Harsh Zadoo, Department of Transportation
Charlene Maresh, Department of Criminal Justice
Mid-Size State Agency – Gene Snelson, Animal Health Commission
Megan LaVoie, Office of Court Administration
Small State Agency – Dawn Heitman, State Soil and Water Conservation Board
Four-year Institution of Higher Education – Dr. Janet Bezner, Texas State University
Two-Year Institution of Higher Education – Missy Kittner, McLennan Community College
Retirees – Gary White (Austin) and James Dobbins (Garland)
Health-related Institution – Dr. Cynthia Jumper, Texas Tech University Health Sciences Center

Mr. Hajovsky then thanked all applicants for their interest in serving on this board. Mr. Danzeiser agreed and stated that he really appreciated everyone applying.

Mr. Danzeiser asked for clarification on the process as it relates to stakeholders who may have missed the initial opportunity to apply or would like to apply in the future. Mr. Yawn stated that ERS will have regular open application enrollments that will be publicized and targeted for specific stakeholder groups for which an open seat may be available in the future.

Mr. Hester appreciated the due diligence of staff providing the résumés to the board and Ms. Donnell agreed that it is a diverse group with various experiences to support the committee's work.

There being no further discussion, the Board then took the following action.

Move that the Board of Trustees of the Employees Retirement System of Texas accept the nominations made by agency staff as listed in Exhibit A as appointees to the ERS Group Benefits Advisory Committee.

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

7 TEXAS EMPLOYEES GROUP BENEFITS PROGRAM

7.1 Health Insurance Financial Status Update for Fiscal Year 2017 and Outlook for Fiscal Year 2018, with Network Comment

Ms. Diana Kongevick, Director of Benefit Contracts, introduced Mr. Blaise Duran, Manager of Underwriting, Data Analysis and Reporting, and Mr. Phil Dial of Rudd and Wisdom, Inc. to present the Health Insurance Financial Status for Fiscal Year 2017.

Mr. Duran stated that 81% of Group Benefits Program (GBP) participants are enrolled in the self-funded HealthSelectSM of Texas (HealthSelect) plan, and the rest are enrolled in either the Consumer Directed HealthSelect plan, an HMO plan or a Medicare Advantage (MA) plan. The HealthSelect pharmacy benefits are provided through the self-funded HealthSelect Rx plan. Mr. Duran noted that self-funded retiree pharmacy benefits are provided through HealthSelect Medicare RX (EGWP) to Medicare primary participants enrolled in HealthSelect and those enrolled in the MA plans.

Mr. Duran provided a brief overview of the GBP fiscal year 2017 financial performance, noting that the plan achieved just under \$3.8 Billion in revenue and just under \$3.5 Billion in expenses, for a net gain of \$298.8 million. The GBP finished the plan year with \$797.7 million in the contingency fund.

Mr. Duran stated that the fund is required by statute to keep enough funds to cover 60 days of self-funded plan expenditures. At the end of the biennium, that amount was \$613 million.

The self-funded HealthSelect program saw favorable experience in fiscal year 2017. The combined medical and pharmacy trend was 7.3% in fiscal year 2015 and 8.9% in fiscal year 2016. In fiscal year 2017 trend was lowered by 3.7%, largely due to the change in the pharmacy contract. The pharmacy trends are expected to return to normal levels in the coming year.

Mr. Duran reported the plan saw a 2% increase in the generic dispensing rate with the January 1, 2017 switch Optum Rx. Mr. Dial chimed in and stated that the experience provided even greater savings from the ingredient cost discount associated with generic drugs.

Mr. Duran discussed initiatives to reduce cost and noted the patient-centered medical homes continue to show success, with nine provider groups in fiscal year 2018. A virtual visit option, which allows HealthSelect members to have a doctor's visit using their phone or computer with a camera, was offered in January 2017. In September 2017, copays for those visits were eliminated. As a result, October 2017 saw the highest virtual visit utilization since inception.

Effective September 2017, a \$300 copay applies to non-network free standing emergency room (FSER) visits. Beginning January 1, 2018, an out-of-network FSER is no longer reimbursed billed charges. Mr. Duran explained the reason the reimbursement change became effective in January was to conform with the timing of a January 1 change in Texas law regarding the availability of mediation rights. The new law now provides that a member who is balance billed as a result of receiving emergency care and/or care at certain facilities will have recourse through mediation to address it.

Ms. Kongevick reported that the transition to the new HealthSelect third party administrator, Blue Cross and Blue Shield of Texas (BCBSTX), on September 1, 2017 was successful. There was a commitment to consistent, accurate and fresh messaging. There were a lot of communications from various sources through multiple channels to make sure that people knew what to expect. The consistent message throughout reflected a commitment to fair outcomes.

When changing administrators, provider networks never match exactly. Ms. Kongevick noted that ERS network access standards are rigorous. ERS works closely with the TPA, with an initial focus on

primary care physicians (PCP). A side benefit of the transition was having a higher percentage of members select a PCP. Ms. Kongevick presented a three month snapshot showing the comparison numbers for members who typically select a PCP and those who generally do not choose a PCP. In August 2017, 82.5% of plan enrolled members generally selected a PCP and that number increased to 84.5% by December 2017. Those who typically do not choose a PCP decreased from 17.5% in August 2017 to 15.5% by December 2017. This indicates more participants are selecting PCPs than before.

Ms. Kongevick further explained that, of the 84.5% who typically select a PCP, 96.6% of the PCPs are in-network as of December 2017 (up from 87.7% in August 2017). A PCP contingency plan is in place that allows participants to continue to see their current PCP until December 31, provided that the PCP is in network with any BCBSTX plan. When that provision ends, there is potential PCP disruption of 1.7% for those whose PCP has yet to contract during the PCP contingency plan period, and an additional potential 1.7% PCP disruption for other reasons.

Regarding in-network PCPs, a commitment was made initially that the HealthSelect network would represent approximately 90% of BCBSTX PPO network. BCBSTX met that commitment, with more than 99% of BCBSTX PPO PCPs participating in the HealthSelect network by December. Ms. Kongevick noted that removing the copay for virtual visits was particularly helpful during this transition period.

ERS made sure that prior authorizations issued before September 1, 2017 were honored through the earlier of the established expiration date or December 2, 2017. There are also transition of care benefits that allow in network benefits for certain types of care already in process.

Mr. Danzeiser asked if ERS tracks complaints regarding network access. Ms. Kongevick said that BCBSTX tracks calls and there is a process in place for complaints regarding provider participation. Ms. Robin Hardaway, Director of Customer Benefits, explained that there is a centralized complaint tracking system used throughout ERS that also tracks complaints that come to ERS.

Mr. Hester noted that staff has done a great job of looking for ways to reduce the cost trend, such as through patient centered medical homes and virtual visits and asked if ERS has other opportunities to try to mitigate the cost trend. Ms. Kongevick responded that ERS is always researching opportunities in the marketplace, and among our peers, to reduce costs.

This agenda item was presented for discussion and informational purposes only. No action was taken.

7.2 Review and Discussion of Program Updates and Compliance Overview: HealthSelect Plans; Medicare Advantage Plans; Dental Plans; Vision Plan; Basic and Optional Term Life; Accidental Death and Dismemberment Plans; Disability Plans

Ms. Diana Kongevick, Director of Benefit Contracts, introduced Program Account Managers Lauren Russell, Megan Hunter, D'Ann DeLeon and Bernely Tharp.

Ms. Lauren Russell, account manager for HealthSelectSM of Texas (HealthSelect), explained that it is a self-funded health plan that includes both medical and prescription drug coverage. HealthSelect is the default plan for active employees, non-Medicare retirees and their eligible dependents. Eligible members can choose to enroll in the Consumer Directed HealthSelect plan, which is a high deductible health plan with a health savings account (HSA), or an HMO if available.

Ms. Russell reported that approximately 81% of eligible GBP participants are enrolled in the HealthSelect plan. On September 1, 2017, the HealthSelect Out-of-State plan was launched. This plan is available to active employees and retirees under age 65 who live or work outside of the State of Texas. The benefits match those of the in-area plan, with the exception that the Out-of-State plan does not require referrals or designation of a primary care physician.

The board awarded a six-year contract to Blue Cross and Blue Shield of Texas (BCBSTX) for administration of the HealthSelect plans starting on September 1, 2017. UnitedHealthcare Services served as the third party administrator for HealthSelect from FY12 through FY17.

Ms. Russell provided a heat map summary on the performance of UnitedHealthcare Services, Inc. for fiscal year 2017. Over the course of plan year 2017, UnitedHealthcare missed a total of four performance guarantees; one in October 2016 and one in December 2016 where UnitedHealthcare sent communication materials to incorrect participant populations, which later was corrected.

September 1, 2016 ERS offered the Consumer Directed HealthSelect plan, which is a high deductible health plan and a tax-free HSA. Ms. Russell explained that this plan has a deductible that the participant must pay before any in-network and out-of-network services are paid by the plan. Preventive care is provided at no charge to the participant. The state or employer makes monthly contributions to the HSA and participants can also contribute to their HSA to pay for qualified medical expenses. Due to IRS requirements, Medicare enrolled members are not eligible to contribute to the HSA or receive HSA contributions. Ms. Russell stated that initial enrollment in this program has been low, but it continues to grow steadily. As of September 1, 2017, there are an estimated 800 members and 650 dependents enrolled in the plan.

Mr. Danzeiser asked what ERS would want the legislature to know about this program. Ms. Russell stated there is a requirement within the enabling legislation that ERS review program performance and that information will be brought to the legislature in a couple of years.

Account manager Ms. Megan Hunter then presented the HealthSelect Prescription Drug program, advising the board that this is a self-funded comprehensive prescription drug plan administered by OptumRx beginning January 1, 2017. For fiscal year 2018, enrollment exceeded 411,000 participants. Participants must meet a \$50 annual calendar year deductible and then copayments apply. Copayment amounts depend on the type of drug and its formulary tier, days' supply and method of delivery.

Ms. Hunter reported that Caremark met all of their metrics from September 2016 through December 2016. The OptumRx heat map runs from January 2017 through August 2017 and most of their metrics were met. There was a performance guarantee miss in February 2017, when information was sent in a mailing that was not approved by ERS. In May 2017, there was a missed performance guarantee connected to paper claims processing, where OptumRx failed to comply with the five business day time frame when processing paper claims.

Account Manager Ms. D'Ann DeLeon presented an overview on the Medicare Advantage plans and the State of Texas Dental Choice Plan and HumanaDental DHMO. HealthSelect Medicare Advantage is a fully insured statewide medical plan for the GBP Medicare population. The plan continues to provide the most cost-effective medical benefits for Medicare primary GBP participants. Enrollment continues to grow for calendar year 2017 with total enrollment of members and dependents at 71,430. The plan offers a lower premium for eligible dependents when compared to the HealthSelect of Texas plan. A member can save approximately \$195 on the monthly premium if covering an eligible spouse. This plan is administered by Humana Insurance Company.

Ms. DeLeon reported that Humana met most of their metrics. Humana had two missed metrics which were the result of transaction errors and notification of transaction errors. This was due to a processing error with a file. This was corrected and additional preventive measures have been put in place going forward.

Ms. DeLeon reported that KelseyCare Advantage is a fully-insured Medicare Advantage HMO medical-only benefit plan offered in eight counties in the Houston area. Enrollment continues to grow for calendar year 2017. Total member and dependent enrollment is 1,406.

The HealthSelect Medicare Rx plan is a self-funded prescription drug benefit plan paired with the Medicare Advantage retiree group medical plans. The HealthSelect Medicare Rx plan continues to provide the most cost-effective prescription drug coverage for Medicare GBP participants. Ms. DeLeon reported that for calendar year 2017, total enrollment was 93,184. Beginning January 1, 2017, the plan is administered by UnitedHealthcare Services, Inc.

Ms. DeLeon discussed the calendar year 2016 heat map for Silver Scripts Insurance Company. She noted that Silver Scripts was the administrator during this time for the HealthSelect Medicare Rx plan. Silver Scripts met most of their metrics.

Ms. DeLeon reported that the State of Texas Dental Choice Plan is a preferred provider organization (PPO) plan which is self-funded and provides the highest level of benefits to participants who go to in-network providers. The annual maximum is \$1,500 with an additional 40% benefit for in-network and out-of-network services. Ms. DeLeon informed the board that enrollment for the plan continues to grow and the total enrollment for fiscal year 2018 was 316,715. Humana Dental is the administrator for this plan. Ms. DeLeon stated that Humana Dental met all of their metrics for fiscal year 2017.

Humana Dental HMO is fully-insured coverage available in Texas service areas only. Participants must live in or work in the Texas service area and must select a primary dentist from the approved list of providers. Ms. DeLeon reported that total enrollment for fiscal year 2018 was 119,991. The Dental HMO is administered by DentaCare, Inc. which is an affiliate of Humana Dental Insurance Company. Humana Dental met all their metrics for fiscal year 2017.

Ms. Hunter informed the board that the State of Texas Vision plan became available September 1, 2016. The plan provides comprehensive vision and eyewear benefits. She noted that participants receive the highest level of benefits when using in-network providers. The network is nationwide and benefits can be accessed through retail and internet-based optical stores. There were over 168,000 participants enrolled in fiscal year 2018, which is an estimated 44% increase from fiscal year 2017. The State of Texas Vision plan is administered by Superior Vision.

Ms. Hunter reported on the Optional Life and Accidental Death and Dismemberment coverage (AD&D) with coverage administered by Minnesota Life Insurance Company. Employees enrolled in GBP health coverage are automatically enrolled in \$5,000 basic group term life and \$5,000 AD&D coverage. Participants may purchase additional optional term life I coverage up to four times an employee's annual salary. Voluntary AD&D coverage is available up to \$200,000. Dependent term life including AD&D is available at \$5,000 coverage for each eligible dependent.

Account manager Ms. Bernely Tharp reported information on the Texas Income Protection Plan (TIPP) which is a self-funded benefit available to active employees only. Active employees have the choice to enroll in either the short-term disability plan, the long-term disability plan, or both. The short-term disability plan covers 66% of an employee's monthly salary, and the long-term disability plan covers 60% of an employee's monthly salary. Reed Group Management, LLC is the plan administrator beginning January 1, 2018 through December 31, 2021.

Ms. Tharp discussed the TIPP heat map with the board and stated there were three performance guarantees that were missed within the first and second quarter of the plan year 2017.

Mr. Danzeiser asked how ERS responded to participants affected by Hurricane Harvey. Ms. Kongevick responded that ERS worked closely with each of the program vendors to put contingency plans in place, such as authorizing early prescription refills for participants in affected areas who had lost prescriptions. Ms. Robin Hardaway, Director of Customer Benefits, reported that ERS worked closely with affected participants, giving extensions to retirees who weren't able to get retirement forms submitted, and making alternative annuity payment arrangements for a few affected participants .

This agenda item was presented for discussion and informational purposes only. No action was taken.

8. **TEXFLEX**

8.1 *TexFlexSM Review and Discussion of Plan Updates and Compliance Overview*

Ms. Lauren Russell reported that TexFlex is an IRS regulated program where eligible participants can pay out-of-pocket premium costs and make tax-free contributions into a flexible spending account (FSA). The feature of the program that allows premium costs to be paid tax-free is known as premium conversion. FSA funds can be used to pay for eligible out-of-pocket medical expenses through the Health Care Reimbursement Account. Expenses used to pay for eligible dependent children or adults, such as day care, can be paid through the Dependent Care Reimbursement Account. The TexFlex program saves money for the participants and for the State of Texas money by reducing the amount of an employee's

taxable income. Ms. Russell informed the board that in plan year 2017, the program saved the State of Texas \$44.6 million in FICA tax savings, of which \$38.6 million is attributed to premium conversion. The TexFlex program is administered by WageWorks, LLC.

With the Health Care Reimbursement account, employees can elect pre-tax salary contributions to go into an account to pay for eligible out-of-pocket expenses. For those enrolled in the Consumer Directed HealthSelect plan, a Limited Purposed Health Care account is available to pay for eligible vision and dental expenses. The Dependent Care Reimbursement account allows employees to contribute funds to pay for qualified day care or child care expenses.

The newest program is the Commuter Spending Account which can be used to pay for qualified parking or transit expenses.

Ms. Russell reported that the Health Care Reimbursement account has the largest enrollment with the Commuter Spending Account being the lowest. Ms. Russell presented the heat map for WageWorks for plan year 2017 and reported there were a total of six performance guarantees missed.

Mr. Craig Hester asked if ERS is required to offer the Commuter Spending account. Ms. Russell responded that legislation does not require the program to be offered. ERS is evaluating the program to determine if it remains viable, given the low enrollment numbers. As of September 1, 2017, there were a total of 327 participants in the Commuter Spending Account program.

This agenda item was presented for discussion and informational purposes only. No action was taken.

9. TEXA\$AVER

9.1 TexaSaver 401(k)/457 Program Review and Discussion of Program Updates and Compliance Overview

Ms. Georgina Bouton, Assistant Director of Benefit Contracts, introduced Nora Alvarado, Manager of the Account Management Team, and Angelica Torres, Program Account Manager, who are joining her in presenting an overview of the TexaSaver 401(k)/457 program updates and compliance overview.

Ms. Bouton noted that the TexaSaver Program is a voluntary supplemental retirement plan developed to help state and eligible higher education employees with their personal retirement savings through elective payroll contributions. The program is made up of two distinct plans: a 401(k) plan available to employees of state agencies; the 457 plan that is available to employees of state agencies and institutions of higher education. The program is administered by Empower Retirement.

The 401(k) plan was established in 1985. As of August 31, 2017, the plan had over 195,000 participant accounts with assets of approximately \$2.2 billion. The 457 program was established in 1974 with over 33,000 participant accounts and assets of \$759 million.

Ms. Nora Alvarado provided the Board with an overview of the automatic enrollment feature of the 401(k) plan that was implemented on January 1, 2008. With the automatic enrollment feature, new employees have been automatically enrolled into the plan at 1% of salary. Of these enrollees, approximately 64,000 have increased their deferral over 1%. However, there are 72,000 participants that still remain at the 1% deferral which is about 34% of participants in the program. The current retention rate is at 87%.

The 401(k) has experienced an increase in accounts and in assets since last fiscal year, although the average monthly contribution amount is slightly less than the prior year, due to the low contribution rates of the automatically enrolled. Although there is an increase in the number of non-contributing accounts and a decrease in the average monthly contribution amount, the assets in the 401(k) plan are still growing.

Ms. Alvarado reported the 457 plan also has experienced an increase in accounts and in assets since last fiscal year. She stated the plan is driven by participant choices since it does not have automatic enrollment. It has experienced an increase in monthly contributions and a strong growth in the number of accounts.

Ms. Alvarado reported that the Roth IRA has been in place across both plans since January 2012 and has a total balance of approximately \$40 million. The TexaSaver program offers investment products that are competitively priced compared to many retail mutual funds. Ms. Alvarado noted the plan gives all fund fee reimbursements to the participants who invest in those funds at the end of each quarter. This lowers the fee that participants pay. A total of \$2.4 million has been given back to those participants as of the third quarter of 2017.

Ms. Angelica Torres reported that TexaSaver is 100% funded by participants and does not receive state appropriated funds. The administrative fees cover the record-keeping services. Fees are assessed separately to both the 401(k) and the 457 plans. Ms. Torres reported that every year ERS' Underwriting, Data Analysis and Reporting team performs a review of the fee stratification tiers and proposes adjustments on the current TexaSaver enrollment figures. Based on this analysis, the fees for the TexaSaver Program for calendar year 2018 will remain the same. Ms. Torres presented the Monthly Monitoring Report Heat Map Summary for fiscal year 2017 that shows Empower has met all of its performance metrics.

Ms. Torres turned the presentation over to Mr. Bruce Dale who is with Empower Retirement to discuss some highlights of the TexaSaver program. Mr. Dale provided some background on Empower Retirement and noted that Empower has served as the TexaSaver third party administrator since 2008, and was part of the automatic enrollment implementation.

Mr. Dale noted that the TexaSaver Program is well recognized in the industry and complimented the ERS team for their dedication, commitment and talent. ERS' recognition that TexaSaver is an integral part of retirement planning for state and higher education employees is important to the program's success. TexaSaver has implemented industry best practices, including a robust annual strategic planning process. The outcome of focused planning has been effective participant communication campaigns. So far this year, the program has earned 25 awards, including Pension & Investment's Award of Excellence. Mr. Dale reported that out of 50 submissions, there were only seven awards given by P&I.

Mr. Dale informed the Board that as the program's record-keeper, they partner with ERS to keep fees low and promote the program throughout the state to encourage participants to save.

In a response to a question asked by Mr. Danzeiser regarding enrollees investment earnings, Ms. Alvarado responded there is an 11% return rate overall for the program.

Mr. Dale said that there are representatives throughout the state that can assist with group meetings and individual one-on-one meetings. TexaSaver also offers financial advice services at three levels: online tools and guidance advice gives you general investment information but will not provide specifics; guidance advice where you can talk with a counselor over the phone to specifically invest your money, and managed-account services where the account is fully managed for you based on your specific criteria. Comprehensive account reviews are also available by a licensed professional. Participants pay only for the managed account service; the other two service levels are provided for free.

Mr. Dale then proceeded to inform the board of the new TexaSaver website that will be coming live and some of the enhancements regarding retirement income panels that individual participants will be able to use.

Mr. Danzeiser encouraged ERS to continue to advertise services that are available and congratulated staff on their efforts to get those messages sent out.

This agenda item was presented for discussion and informational purposes only. No action was taken.

10. ACTUARIAL VALUATION RETIREE HEALTH INSURANCE BENEFITS

10.1 Review and Discussion of the Texas Employees Group Benefits Program: Actuarial Valuation of Retiree Health Insurance Benefits as of August 31, 2017

Ms. Mabelle Pharr, Chief Financial Officer, introduced Mr. Phil Dial and Mr. Mitchell Bilbe of Rudd & Wisdom, Inc. to present the Actuarial Valuation of Retiree Health Insurance Benefits.

Mr. Dial reported that the Group Benefits Program (GBP) provides Other Post-Employment Benefits (OPEB) to the retirees of state agencies and certain higher education institutions. OPEB benefits provided through the GBP include health and basic life insurance. Mr. Dial noted that optional benefits that are available to retirees under the GBP, include dental, vision, and optional life insurance, are not included in OPEB calculations since those benefits are fully funded by member contributions.

Actuarial valuations of the OPEB under the GBP have been prepared since fiscal year 2007 in order to satisfy the requirements of Governmental Accounting Standards Board Statement (GASB) No. 43. ERS provides information to the Texas Comptroller of Public Accounts which is used to prepare their information under GASB 45. Mr. Dial pointed out that currently under GASB 45 the Comptroller does not report OPEB expense and liability information in financial statements in the statewide Comprehensive Annual Financial Report, instead the information is include in the notes to the financial statements. He indicated that the GBP is a cost-sharing multiple employer plan, including many non-state employers, specifically community colleges, and GASB 45 requires only minimal reporting by those participating employers.

Mr. Dial informed the board that GASB 74 is replacing GASB 43 effective for fiscal year 2017. GASB 74 requires significant changes in the OPEB valuation. The discount rate prescribed under GASB 74 for a pay-as-you-go plan (PAYGO), such as the GBP, is based on yields of 20-year tax-exempt general obligation municipal bonds with an average rating of AA/Aa or higher. In addition, Mr. Dial reported that the note disclosures and supplementary information required under GASB 74 are more extensive than what was required under GASB 43. GASB 74 requires an analysis of the sensitivity to +/- 1% change in the Discount Rate assumption and the health care trend rate assumption. GASB 74/75 will require increased reporting by GBP participating employers.

Mr. Dial spoke on the impact of SB 1459, adopted by the 83rd Texas Legislature, which provides for the state's contribution rate for retiree insurance to vary based on length of service at retirement.

Mr. Bilbe reported that the actuarial cost method used to determine the OPEB cost and liability is the entry age normal method. This is the same method used for the ERS retirement plan valuation. Mr. Bilbe noted that the demographic assumptions used in the valuation include mortality, disability, termination, and retirement. For state agency employees and retirees, the demographic assumptions are the same as those utilized by ERS in its retirement plan valuation for fiscal year 2017. For higher education employees and retirees, the demographic assumptions are the same as those utilized by Teacher Retirement System for its retirement plan valuation for fiscal year 2017.

Economic assumptions used in the valuation include inflation, payroll growth, inflationary salary increases, and salary increases for merit, promotion and longevity. Mr. Bilbe stated that the economic assumptions used for the valuation are the same as those used by ERS for the retirement plan valuation for fiscal year 2017. Since OPEB benefits provided under the GBP are funded on a PAYGO basis, GASB 74 requires the Discount Rate assumption to be based on yields of 20-year tax exempt general obligation municipal bonds with an average rating of AA/Aa or higher. That rate as of August 31, 2017, is 3.51%. This rate is significantly lower than the 5.5% rate used in prior years for the GASB 43 valuation.

Mr. Dial noted the OPEB valuation is based on projected per capita health benefit costs for fiscal year 2018 which are determined by gender and age. Since the addition of the HealthSelect Medicare Advantage Plan (effective January 1, 2012), it has been necessary to have two sets of per capita health benefit costs: one for HealthSelect participants and the other for HealthSelect Medicare Advantage participants.

Under the select and ultimate health benefit trend assumption used for the valuation, the trend assumption is expected to be 8.5% through fiscal year 2019 and then decline over the next eight years to a sustainable ultimate level. The ultimate level is 200 basis points in excess of the assumed rate of inflation. This is 100 basis points below what has been used in the previous OPEB valuation.

Mr. Bilbe provided GBP membership data for actives, deferred vested, and retirees. He stated that in the past the membership has grown from year to year, however, a hiring freeze that took effect in the middle of fiscal year 2017 resulted in a decline in the active membership during the year.

Summary of Valuation Results – The results of the GBP OPEB actuarial valuation for fiscal year 2017 are summarized in the following tables:

	Members	Covered Spouses	Covered Dependent Children	Total
Actives	230,199 ¹	40,910 ²	125,356 ²	396,465 ²
Deferred Vesteds	11,557	0 ²	0 ²	11,557 ²
Retirees and Nominees	117,880 ³	29,767	10,113	157,760
Total	359,636	70,677	135,469	565,782

¹ Includes return-to-work retirees and employees who have not yet satisfied the waiting period.

² Rather than use current spouse/dependent child coverage information, actuarial assumptions are used to estimate the future number of spouses and dependent children that will be covered at retirement.

³ Includes 4,248 retirees who receive the Opt-Out Credit in lieu of health benefits

\$ Millions

Actuarial Valuation Date	Total OPEB Liability (Unfunded Actuarial Accrued Liability)	Normal Cost	Amortization	Actuarial Determined Contribution
August 31, 2017	\$34,783	\$1,496	\$1,219	\$2,715
August 31, 2016	\$27,091	\$1,123	\$1,176	\$2,299
Change	\$7,692	\$373	\$46	\$419

The total employer and nonemployer contributions for FY 2017 were \$937 million. In FY 2017, the employer contributions equaled 34.5 % of the Actuarial Determined Contribution

In response to Ms. Melvin’s request for clarification on the role of the State Auditor’s Office, Ms. Pharr stated that under GASB 75, the employer will be required to report its share of the liability and the State Auditors will audit the employer allocation schedules ERS staff are currently preparing.

This agenda item was presented for discussion and informational purposes only. No action was taken.

11. EXECUTIVE DIRECTOR REPORT

11.1 Executive Director Agency Update

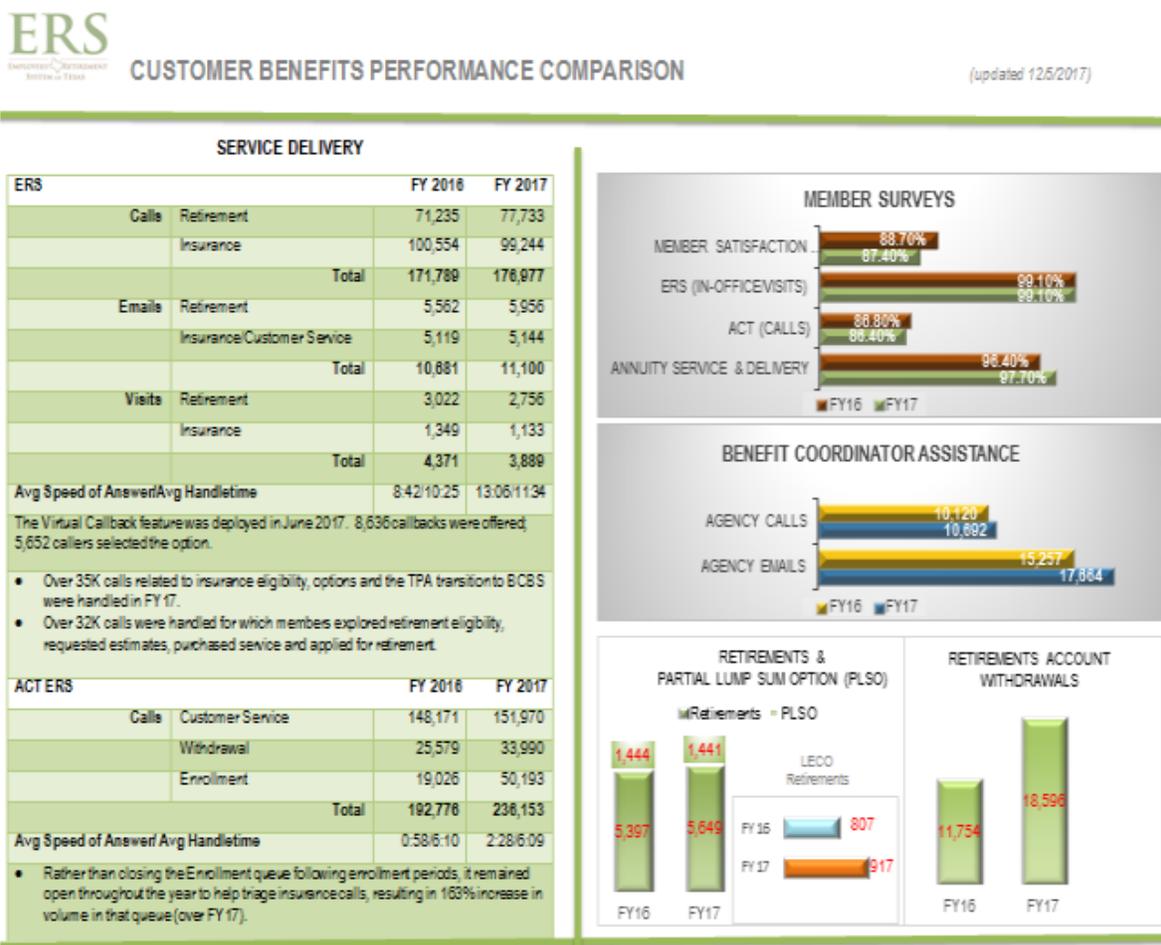
Sunset Implementation: Board Training Requirements - Sunset staff maintains a list of standard recommendations for all reviewed agencies in an attempt to standardize certain government administrative functions statewide. The board member training requirements require trustees to receive training as well as clearly establish the type of information to be included in the training. The legislative language implementing the training recommendation requires the agency to create and distribute a training manual to each member of the board of trustees annually. Contents of the board training manual include the following: orientation briefing book, ERS Laws and Rules book, Operating Budget, Investment Policy, Audit information, and Open Meeting and Public Information Acts training. Trustees must acknowledge receipt of the trainings in order to vote or be counted as a member.

Federal Tax Bill Update – The U.S. House and Senate had their own versions of the bill. On the House side there is a provision to collect the unrelated business income tax which is an income tax related to income generated through certain investments. The provision in the house bill would remove that exemption and would subject some of that to a tax. Previously, public sector funds like ERS have been exempted from paying this tax. On the Senate side of the bill there are potential changes to 401(k) and 457 contributions. ERS will continue to monitor issues as the bill moves through the Congress.

Plan Year 2018 Fall Enrollment – Fall enrollment for retirees enrolled in Medicare and their dependents is complete. ERS mailed 85,828 packets, had 3,775 members who made coverage changes, 42 people visited ERS in person, and ERS and ACT handled a total of 2,418 calls. There were 190 people who attended 9 fairs across Texas, 10 people participated in two webinars and the fall enrollment webpages had more than 3,100 views.

Customer Benefits Performance and Data – Customer Benefits primary focus is providing quality service to ERS members on all of their benefits. A primary service point is the ERS contact center and the overflow call center, ACT. ACT handles most calls related to enrollment and general customer service questions and serves as an overflow vendor during high call volume periods. ERS handles more complex calls, including individual retirement counseling. Currently ERS has 28 contact center employees on site and 16 staff members at ACT. During enrollment periods, ACT expands the number of staff answering calls from GBP members to 40 or 50 given it is a high volume time of year. This calendar year, ERS incorporated a call-back feature which allows callers to provide a convenient number for ERS to use to call them back when wait times exceed certain levels.

The chart bellows shows the Customer Benefits Performance and Data Comparison:



Review of ERS Publications – ERS is working with an outside consulting group, Texas Creative, a San Antonio-based communications and creative services firm. The objective of contracting with Texas Creative was to evaluate and recommend improvements to the following ERS publications:

- Annual enrollment guides
- *New Employee Benefits Guide*
- *News About Your Benefits* monthly e-newsletter for active employees
- *Your ERS Connection* quarterly newsletter for retirees
- *Coordinator's Update-express* biweekly e-newsletter for agency/institution benefits coordinators

Texas Creative has interviewed staff at ERS on how they perceive the publications and opportunities for improvements. They developed evaluation criteria, surveyed audiences of randomly selected members, 1,000 active employees and 1,000 retirees. In February 2018 Texas Creative will produce a report of their findings and recommendations. The ultimate goal is to ensure that ERS' publications function well for audiences to open, scan, click through and read, stay subscribed, use the ERS website and take the right actions with regard to their benefits.

State Employee Charitable Campaign - The State Employee Charitable Campaign (SECC) is a statutorily authorized workplace campaign that provides state employees with a convenient and efficient way to make voluntary contributions to charities. ERS exceeded our 2017 fundraising goal again this year by raising over \$57,000. Beth Gilbert of Internal Audit served as the agency's SECC Campaign chair.

12. CALENDAR

12.1 Set 2018 Meeting Dates for the Joint Meeting of the ERS Board of Trustees and Investment Advisory Committee, the Meeting of the Board of Trustees, and the Meeting of the Audit Committee

Proposed 2018 Meeting Dates:

Wednesday, March 7, 2018

Wednesday, May 23, 2018

Wednesday, August 29, 2018

2 Day Workshop:

Tuesday - Wednesday, December 11-12, 2018

13. ADJOURNMENT

13.1 Adjournment of the ERS Board of Trustees

The ERS Board of Trustees adjourned at 3:20 p.m.