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12.1 Recess of the Board of Trustees – The Board of Trustees will reconvene as a committee of the whole on Wednesday, December 12, 2018 at 8:00 a.m. with the Investment Advisory Committee to take up the remaining agenda items. 23

**BOARD OF TRUSTEES MEETING
EMPLOYEES RETIREMENT SYSTEM OF TEXAS
December 11, 2018
Board Room, E513
Teacher Retirement System Building
1000 Red River Street
Austin, Texas 78701**

TRUSTEES PRESENT

I. Craig Hester, Board Chair
Ilesa Daniels, Board Vice Chair
Doug Danzeiser, Member
Cydney Donnell, Member
Catherine Melvin, Member
Jeanie Wyatt, Member (*Via Video Conference*)

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
Diana Kongevick, Director of Group Benefits
Wendy McAdams, Director of Operations Services
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
Chuck Turner, Chief Information Officer
Keith Yawn, Director of Strategic Initiatives
Nora Alvarado, Group Benefits
Georgina Bouton, Group Benefits
Kelley Davenport, Executive Office
Juli Davila, Investments
Christi Davis, Customer Benefits
D'Ann DeLeon, Group Benefits
Blaise Duran, Group Benefits
Leah Erard, Strategic Initiatives
Sharmila Kassam, Investments
Aris Oglesby, Investments
Susie Ramirez, Executive Office
Tanna Ridgway, Investments
Lauren Russell, Group Benefits
Cheryl Scott Ryan, Office of General Counsel
Robert Sessa, Investments
Angelica Torres, Group Benefits
Mary Jane Wardlow, Executive Office

ALSO PRESENT

Patricia Armstrong, Reed Group
Nick Arnold, Humana
John Barksdale, CBRE
Janet Bezner, Group Benefits Advisory Committee
Mitchell Bilbe, Rudd & Wisdom, Inc.
Joe Braley, Blue Cross and Blue Shield of Texas
Trenalyn Campbell, Reed Group
David DeLeon, Blue Cross and Blue Shield of Texas
Phil Dial, Rudd & Wisdom, Inc.
Katy Fallon-Brown, Legislative Budget Board
Lynn Gordon, Securian
Brian Hausam, Ryan Companies
Peter Jansen, CBRE
Rick Johnson, Broaddus
Patricia Kolodzey, Blue Cross and Blue Shield of Texas
Louellen Lowe, Legislative Budget Board
Colleen McGlamry, UnitedHealthcare
Chris Paxton, Optum Rx
Tim Pellowski, STG Design
Nadine Phillipots, Comptroller of Public Accounts
Jennifer Skeeters, Reed Group
John Thompson, UnitedHealthcare

Meeting of the ERS Board of Trustees

1. CALL TO ORDER

1.1 Call Meeting of the ERS Board of Trustees to Order

Mr. Craig Hester, 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 10:04 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 3:53 p.m. on Monday, December 3, 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.

Mr. Hester expressed his appreciation from the whole board and the staff at ERS to the Teacher Retirement System of Texas for their hospitality and their kindness in opening up their boardroom while the ERS auditorium is unavailable. Mr. Hester then thanked the TRS and ERS staff for the work and effort that was made to make the transition to an offsite location run so smoothly.

2. MINUTES

2.1 Review and Approval of the minutes to the August 29, 2018 meeting of the ERS Board of Trustees (ACTION)

Mr. Hester 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 29, 2018.

Motion by Doug Danzeiser, second by Ilesa Daniels

Final Resolution: Motion Carries

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

3. EXECUTIVE SESSION

3.1 Executive Session – In accordance with section 551.074, Texas Government Code, the ERS 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. Hester stated it was 10:08 a.m. on December 11, 2018 and 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. Hester stated it was 11:02 a.m. on December 11, 2018 and the Board is now in Open Session. No action, decision, or vote was taken by the board while in the Executive Session. Mr. Hester further stated he would entertain any motions from members of the board.

Motion made to move that the Board of Trustees of the Employees Retirement System of Texas award a 4.5% merit to the Internal Audit Director's current salary effective January 1, 2019.

Motion by Catherine Melvin, seconded by Cydney Donnell.

Final Resolution: Motion Carries

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

4. SUNSET

4.1 Review and Discussion of Sunset Implementation and Evaluation Project Updates

Mr. Keith Yawn, Director of Strategic Initiatives, presented the next agenda item on the Sunset Implementation and Evaluation project updates. He first provided his appreciation as the project manager for everyone who has been working on this project.

Mr. Yawn reminded the Board that there were 19 total individual implementation projects that were a result of the Sunset requirements through Senate Bill 301 and adopted by the Sunset Commission in management actions. There were 10 management actions, with eight of those fully completed and two that are ongoing. There were also nine statutory changes as part of Senate Bill 201 during the 2017 legislative session with eight completed and one in progress.

Recommendation 3.1 required the agency to develop and implement a process allowing members to participate directly in the insurance appeal process. This is a statutory requirement that is partially implemented. ERS approved a new process and policy in October 2018 that is currently being implemented which allows participants to record a statement in support of their appeal. The recording will be available to members of the Grievance Review Committee. The process is anticipated to be fully implemented before the end of 2018.

Recommendation 3.2 of the Grievance and Appeals program project established a precedent manual for the insurance appeal process. This document was a statutory requirement that has been materially implemented. The manual was published on the ERS website in October 2018. It is divided into two sections. The first section provides an educational overview of the full appeals process. The second section provides examples of appeals and information on how ERS reviews them.

Recommendation 3.4 requires balanced representation of division staff on the Grievance Review Committee. This was a management action directive and is fully implemented. The committee membership at the time of the Sunset review was primarily from the Group Benefits division. The committee membership was expanded and re-balanced in October 2016. There are now three voting members from the Group Benefits division, three members from Customer Benefits, one member from the Office of the General Counsel, and one member from the Executive Office.

Recommendation 3.6 was a requirement to comprehensively track and analyze benefit application decision and appeals data. Mr. Yawn stated that this recommendation and requirement applied agency-wide but primarily to Group Benefits and Customer Benefits operations. Some examples of what have been done in this area include expanding collection and division reporting of appeals data, executive level reporting of benefit application trends, and working to enhance data collected and reported by vendor programs.

Recommendation 5.1 required alternative dispute resolution and negotiated rulemaking policies. This statutory requirement is fully implemented. Mr. Yawn reported that ERS adopted internal operational policies defining the applicability and use of both alternative dispute resolution and negotiated rulemaking within ERS operations. The Board adopted related Administrative Rule, Chapter 67 in August 2018 to appropriately acknowledge the alternative dispute resolution policy.

Mr. Yawn informed the board that the final step in the Sunset review process is the external evaluation of the implementation of these projects. The State Auditor's Office conducted their review of management directive implementations from August through October 2018 based on a self-evaluation report that ERS submitted detailing the agency's actions to implement the requirements. ERS reported completion of 7 requirements with 2 projects in progress.

The Sunset Advisory Commission (Sunset) evaluated ERS' implementation of statutory requirements beginning in October 2018. The Sunset review was still in progress at the time of the presentation. ERS provided Sunset with a self-evaluation report including completion of 7 requirements

with 2 projects in progress. Sunset staff will report their findings to the Sunset Advisory Commission during a public meeting in January 2019.

Mr. Yawn then informed the Board that staff updated the required Trustee training manual that was part of the original Sunset implementation and statutory requirements. The manual is broken into three parts. The first part contains general information, organizational information, policies and procedures of the agency. The second part contains the agency's governing statutes, rules, and administrative code, along with information about the state's open records process and the Public Information Act. The third part of the training manual provides the agency's financial statements and actuarial valuations.

In response to a question from Mr. Hester, Mr. Yawn said that the committee meets as necessary based on the appeals that come in, and there is a standing weekly meeting as the need arises. Mr. Yawn staff is continuing to look at ways to improve the participant experience with the process.

Mr. Wilson stated that the Sunset-evaluation process has been great for the organization of ERS and thanked staff for all their hard work. Mr. Hester thanked Keith for the work on getting the Sunset recommendations implemented.

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

5. GROUP BENEFITS PROGRAM ADVISORY COMMITTEE

5.1 Report of the Group Benefits Advisory Committee Activities

Mr. Bernie Hajovsky, Director of Enterprise Planning, reminded the Board that staff put out notices for applications to serve on the Group Benefits Advisory Committee in the fall of 2017. More than 40 applications were received, and the Board appointed the initial 11 members to serve on the committee at the December 2017 and March 2018 meetings. Mr. Hajovsky reported that all but one of the committee members are participants in the Group Benefits Program (GBP). Each year the committee will do an annual report to the Board.

Mr. Hajovsky then introduced Dr. Janet Bezner, Chair of the Group Benefits Advisory Committee. Dr. Bezner is a professor in the Department of Physical Therapy at Texas State University and represents the Four-Year Institution of Higher Education category on the committee.

Dr. Bezner stated the committee first met on March 26, 2018. Staff provided comprehensive overviews of GBP offerings, eligibility, and costs. The committee received privacy training and discussed proposed topics for future discussion which included high-level comparisons of health plans offered by other states and private sector firms, a general review of benefit design and incentives, and evaluating participant perceptions of GBP programs.

During the October 3, 2018 meeting, the committee was provided a review of the private sector and public sector health plan comparison, GBP participant satisfaction, GBP cost management practices, and health and wellness offerings. The committee proposed topics for future discussion which included the opioid epidemic and its impact to the GBP, a financial review of diabetes prevention programs, and how incentives impact participation in wellness programs.

In looking ahead to 2019, staff will look to the committee to assist with developing content for a benefits survey and possible wellness incentives.

Discussion was brought up amongst Trustees about communications to ERS membership. Ms. Kathryn Tesar, Director of Benefits Communications, stated that her team continuously looks at communications and tries to understand if they are meeting the members' needs and is always looking for ways to improve communication to members.

Mr. Hester thanked Dr. Bezner for her willingness to serve on this committee and her leadership as chair.

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

6.1 TEXAS EMPLOYEES GROUP BENEFITS PROGRAM

6.1 Health Insurance Financial Status Update for Fiscal Year 2018 and Outlook for Fiscal Year 2019

Ms. Diana Kongevick, Director of Group Benefits, introduced Blaise Duran, ERS Actuary, Actuarial & Reporting Services in the Group Benefits division, and Phil Dial with Rudd and Wisdom.

Mr. Duran reported that the self-funded HealthSelect programs saw favorable experience in FY18 and the medical trend was low. The total combined medical and pharmacy trend for FY18 was (negative) -9.9%. Mr. Duran reported that the negative trend was due to a reset from the previous year of lower prices. Going forward into FY19 the trend will become positive albeit on a lower baseline.

As a result of the transition to a new third-party administrator (TPA), FY18 medical utilization was low in early FY18. FY19 medical trend is expected to be higher as utilization returns to normal levels. Mr. Duran reported that FY19 pharmacy trend is projected to return to a normal trend of 12%. The FY19 average contribution increase for all GBP health plans was 0.71%. Due to the reduction in FY18 costs, Mr. Duran reported that the contingency fund is expected to grow in FY19 despite the higher trend.

In FY18 the Texas Employees Group Benefits Program (GBP) FY18 health plan revenue totaled \$3.8 billion with \$3.17 billion in expenditures for a net gain of \$654.1 million. The GBP finished the Plan Year with \$1.45 billion in the contingency fund. The contingency fund will continue to grow for a few years and then it will begin to deplete as it is spent down assuming no increase in state appropriations through this biennium and the next.

Mr. Duran then reviewed Riders from the 85th Legislative Session. Rider 15 required ERS to reduce out-of-network Free Standing Emergency Room (FSER) costs. Rider 18 required ERS to work with Health Related Institutions (HRIs) to achieve savings during the biennium. Article IX, Section 10.06 requires the Health and Human Services Commission to coordinate with ERS and other state agencies to develop a plan for an integrated health care information system. Article IX, Section 10.07 required ERS to participate in an ongoing collaboration with certain other state agencies on quality based initiatives. Riders 14 and 16 required ERS to analyze Consumer Directed HealthSelect and to develop alternative, cost-neutral plan design options for legislative consideration. And lastly, Rider 17 allowed ERS to operate or contract with an onsite or near site clinic.

Ms. Kongevick informed the board in regards to Rider 17 that a six-month pilot project is targeted for January 2019 with Texas Tech University Health Science Center. This project is for an onsite telemedicine program at the John T. Montford unit for employees and family members that work at the unit. In regards to Rider 18, Ms. Kongevick informed the board about the ERS M.D. Anderson breast cancer preventive screening program that will start in January 2019. The M.D. Anderson mobile unit will be at targeted locations in the Houston area to perform breast cancerscreenings for employees and others who qualify for the preventive screening. This particular program will be at no cost to the member or ERS.

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

6.2 Group Health Benefits Update and Compliance Information

Ms. Kongevick provided the board with an update on the Opioid Project, now referred to as "Changing the Script." It's intended to drive a unified benefit plan solution among HealthSelect vendors, administrators and health plan experts. It's also intended to demonstrate support of participants, their loved ones and our communities. The comprehensive health plan strategy is to help prevent dependency before it starts, stop progression to opioid misuse, abuse and addiction, treat and support chronic utilizers on the path to recovery and promote savings and quality of care.

ERS created a project group that engages regularly to share ideas, actions, data and solutions, including HealthSelect medical, pharmacy and behavioral health experts. Ms. Kongevick reported that the

overprescribing of opioids remains a concern and HealthSelect adopted CDC guidelines quickly through the Pharmacy Benefits Manager (PBM) opioid risk management program. She also stated that member education is a critical part of the program. The plan design was adjusted to allow open access to all medication-assisted therapies (MATs) without prior authorization or other obstacles. This was a key component because there are certain medications such as methadone or suboxone that, together with behavioral health therapy and other treatment, have proven to be very effective in reducing dependency on opioids. Behavioral health access expanded on September 1, 2018, with the ability to schedule virtual mental health visit appointments through Doctor on Demand and MD Live. These visits are pre-scheduled and are subject to a copay and coinsurance.

Ms. Kongevick reviewed preliminary results in opioid utilizers for year-over-year January – October 2018 when compared to 2017. The total number of utilizers decreased 59.8% with the biggest impact in the new-to-therapy population, reflecting a 92.5% reduction. Compliance with CDC Prescribing Guidelines also increased during the same period. To illustrate, compliance reached 96.5% for prescribed short-acting opioid medications.

Ms. Kongevick then proceeded to provide a brief overview of the Group Health Benefits Programs managed at ERS (active employee plans, retiree plans and optional add on benefits) as well as enrollment for each of those programs.

Blue Cross and Blue Shield of Texas (BCBSTX) administers the HealthSelect plans. Ms. Kongevick reported implementation of several Plan Year 2018 initiatives and the addition of a second diabetes prevention program. The medical virtual visit copay was reduced to zero and a separate out-of-state plan for HealthSelect members was created. In FY17 there were 438,741 members enrolled in the HealthSelect plan.

At the beginning of FY19, there are now more than 2,000 participants enrolled in the Consumer Directed HealthSelect plan. This plan is a high deductible health plan administered by BCBSTX with a health savings account administered by OptumHealth Financial Services, Inc. Enrollment in the Consumer Directed HealthSelect is low but continues to grow.

ERS and Optum Bank launched a campaign to increase FY18 Health Savings Account (HSA) enrollment. As a result, contributions to the HSAs increased year-over-year by 77%. Year-over-year distributions from the HSAs increased by 130%. Ms. Kongevick reported that the total HSA plan assets increased by 151%.

Ms. Kongevick provided an overview of contract monitoring and explained the role of the Plan Manager. A certified Texas Contract Manager (CTCM) manages each plan and works with the vendors on a daily basis. Monitoring vendor performance is a key function to ensure that vendors are meeting the terms of each contract. Ms. Kongevick went on to report that performance guarantee misses are managed by members of the Group Benefits Division and the Office of Procurement and Contract Oversight for Executive Office review.

The performance guarantee (PG) is connected to a business-critical service function identified throughout the contract period. The metrics are formulated from regulatory standards and industry best practices. Each PG is then risk-rated using risk assessment modeling and given a PG severity level. There are four severity levels: Severity 1: Emergency, Severity 2: Critical, Severity 3: Moderate, and Severity 4: Minor. Ms. Kongevick announced that no GBP health plan had a Severity 1 or Severity 2 performance guarantee miss.

Ms. Kongevick provided basic information about the HealthSelect Plans, administered by BCBSTX, the new HealthSelect TPA effective September 1, 2017 (FY18). The contract is effective through August 31, 2023. The TPA transition included development of the new HealthSelect provider network. During FY18, the TPA paid approximately 5.24M medical claims. Ms. Kongevick reviewed the plan performance, including performance guarantees and assessments.

Blue Cross and Blue Shield of Texas, HealthSelect Plan - Performance Guarantee Assessments FY19

Performance guarantees were *met* for Emergency (severity level 1) and Critical (severity level 2) and assessments did not apply.

Performance guarantees were *not met* for Moderate (severity level 3) and Minor (severity level 4) and assessments did apply.

Severity Level	PG Category	Vendor Performance Results	PG Assessments	PG Requirement	PG Actual
3	Moderate PG	17 Moderate PGs Missed	Financial Accuracy Rate of Claims 7 PGs assessed (7 of 12 months)	99% rate each month	Range 90.75% - 98.54%
			Pre-Service Appeal Processing 1 PG assessed (1 of 12 months)	15 day turnaround 95% of the time	93.30%
			Post-Service Appeal Processing 1 PG assessed (1 of 12 months)	30 day turnaround 95% of the time	92.31%
			Rate of Claims Processed Timely 7 PGs assessed (7 of 12 months) Waived: 1 PG waived (October 2017)	98% of claims processed in 22 business days or less each month	Range 87.96% - 92.76% 97.93%

Severity Level	PG Category	Vendor Performance Results	PG Assessments	PG Requirement	PG Actual
4	Minor PG	90 Minor PGs Missed	Communication Materials 76 PGs assessed (7 of 12 months) <i>Waived: 9 minor communication material PGs waived September 2017</i>	100% of communication materials pre-approved by ERS and reflect quality and accuracy. PGs missed are measured by exception, per occurrence or incident	<100% of communication materials were approved before being mailed to participants
			Reporting Requirements 4 PGs assessed (4 of 12 months)	100% timely receipt required	50% - 90.91% timely
			Participant Satisfaction Survey 1 PG assessment pending (FY2018)	85% participation satisfaction	77.7% participant satisfaction

Ms. Lauren Russell of the Group Benefits division provided basic information about each plan listed below, and followed with a review of each plan’s performance, including performance guarantees and assessments.

She advised the board that the Texas Employees Group Benefits Program (GBP) offers three fully insured regional HMO plans. This includes the Community First Health Plan, which is available in the San Antonio region, KelseyCare powered by Community Health Choice available in the Houston area, and the Scott & White Health Plan (SWHP) through Baylor Scott & White, which is available in the Central Texas region. The HMOs are required to provide coverage at a cost lower than that of the HealthSelect Plans.

As with the other GBP plans, the HMOs are required to adhere to performance guarantee standards. Failure to meet performance standards may result in performance assessments. HMO participant satisfaction rates remained positive. SWHP achieved a 90.4% satisfaction rate. KelseyCare powered by Community had a 92% participant satisfaction rate. Ms. Russell noted that Community First is not required to conduct a participant satisfaction survey due to the plan’s enrollment, although discussion is underway to perform satisfaction surveys in the future.

Ms. Russell continued by discussing the two fully-insured plans available to Medicare-enrolled retirees, HealthSelect Medicare Advantage Preferred Provider Organization (HealthSelect MA PPO) with a participant satisfaction rate of 94% and the KelseyCare Advantage Medicare Health Maintenance Organization (MA HMO) with a participant satisfaction rate of 91.6%. Ms. Russell provided enrollment statistics for the HealthSelect MA PPO, with more than 77,000 participants enrolled for calendar year 2018. Of the 77,000 participants, 79% are members and 21% are dependents. Calendar year MA HMO enrollment was just over 1,500 participants. Of the 1,500 participants, 83% are members and 18% are dependents.

MA PPO - Performance Guarantee Assessments CY17

Performance guarantees were *met* for Emergency (severity level 1) and Critical (severity level 2) and assessments did not apply.

Performance guarantees were *not met* for Moderate (severity level 3) and Minor (severity level 4) and assessments did apply.

Severity Level	PG Category	Vendor Performance Results	PG Assessments	PG Requirement	PG Actual
3	Moderate PG	Moderate PG Missed	File Transfer Error Notification PG assessed (1 of 12 months)	100% file error notification within 4 hours required	92.3% notification within 4 hours
4	Minor PG	1 Minor PG Missed	Reporting Requirements <i>Waived: 1 PG waived with actual rate of 88.9% (May 2017)</i>	100% timely receipt required	88.9% timely

MA HMO - Performance Guarantee Assessments CY17

Performance guarantees were *met* for Emergency (severity level 1), Critical (severity level 2) and Moderate (severity level 3) and assessments did not apply.

Performance guarantees were *not met* for Minor (severity level 4) and assessments did apply.

Severity Level	PG Category	Vendor Performance Results	PG Assessments	PG Requirement	PG Actual
4	Minor PG	1 Minor PG Missed	Reporting Requirements 1 PG assessed (1 of 12 months)	100% timely receipt required	<100% timely delivery

The HealthSelect Prescription Drug Plan is administered by UnitedHealthcare Services Inc. (OptumRx). It's a self-funded, comprehensive prescription drug program that is available to active employees, non-Medicare eligible retirees, and their eligible dependents. Ms. Russell reported that Plan Year 2018 included several initiatives, including Pre-check My Script and vaccines available at the retail pharmacy. Pre-check My Script technology integrates with the provider's electronic medical records system and shows formulary options to the prescriber before writing the prescription. The second initiative allows administration and coverage of preventive vaccines through the pharmacy plan. An overall participant satisfaction with the HealthSelect Prescription Drug Program is at 92% for fiscal year 2018.

HealthSelect Prescription Drug Plan - Performance Guarantee Assessments FY18

Performance guarantees were *met* for Emergency (severity level 1) and Critical (severity level 2) and assessments did not apply.

Performance guarantees were *not met* for Moderate (severity level 3) and Minor (severity level 4) and assessments did apply.

Severity Level	PG Category	Vendor Performance Results	PG Assessments	PG Requirement	PG Actual
3	Moderate PG	2 Moderate PG's Missed	Timely Processing of Participant Paper Claims 2 PGs assessed (2 of 12 months)	100% in 5 business days required	68% - 79% were timely
4	Minor PG	4 Minor PG's Missed	Reporting Requirements 4 PGs assessed (4 of 12 months)	100% timely receipt required	<100% timely delivery

Ms. Russell announced that the HealthSelect Medicare Rx plan, the Employer Group Waiver Plan (EGWP) + Wrap is administered by UnitedHealthcare Services, Inc. It is a self-funded plan with a participant satisfaction rate of 97% for Calendar Year 2017.

HealthSelect Medicare Rx Plan - Performance Guarantee Assessments CY17

Performance guarantees were *met* for Emergency (severity level 1), Critical (severity level 2) and Moderate (severity level 3) and assessments did not apply.

Performance guarantees were *not met* for Minor (severity level 4) and assessments did apply.

Severity Level	PG Category	Vendor Performance Results	PG Assessments	PG Requirement	PG Actual
4	Minor PG	12 Minor PGs Missed	Reporting Requirements 12 PGs assessed (12 of 12 months)	100% timely receipt required	<100% Timely Delivery

The above table is updated with corrected information from that presented at the Board of Trustees meeting. Information was initially reported as 8 minor PGs missed resulting in 8 PGs assessed.

Ms. Russell then presented information about GBP optional plans. There are two dental insurance plans available. The State of Texas Dental Choice Plan is a preferred provider organization. Administered by HumanaDental Insurance Company, this plan is available nationally. The fully insured HumanaDental DHMO plan is available within the state of Texas. Administered by DentiCare, Inc., an affiliate of HumanaDental Insurance Company, this plan requires the selection of a primary care dentist. FY18 participation rates with both dental plans were high. The Dental Choice Plan has a 99% participant satisfaction rate, and HumanaDental DHMO has a 100% participant satisfaction rate. There were over 400,000 total participants enrolled in the dental plans for FY18, of which 74% were enrolled in the Dental Choice Plan and 26% enrolled in the DHMO.

The State of Texas Vision Plan is a self-funded plan that is available nationwide. It provides comprehensive coverage for vision services, including an annual eye exam and allowances for contact lenses or glasses throughout a plan year. This plan is administered by Superior Vision. Participant satisfaction for FY18 is at 93%. There are over 200,000 participants enrolled in the Vision Plan for FY19.

State of Texas Vision – Performance Guarantee Assessments FY18

Performance guarantees were *met* for Emergency (severity level 1) and (severity level 2) and assessments did not apply.

Performance guarantees were *not met* for Moderate (severity level 3) and Minor (severity level 4) and assessments did apply.

Severity Level	PG Category	Vendor Performance Results	PG Assessments	PG Requirement	PG Actual
3	Moderate PG	13 Moderate PGs Missed	Adjudication Rate of Clean Claims 10 PGs assessed (10 of 12 months) Rate of Claims Processed Timely 2 PGs assessed (2 of 12 months) <i>1 PG assessment pending with actual rate of 93.08% (June 2018)</i>	100% adjudication rate within 15 business days 98% claims processed within 30 days	Range from 92.68% to 99.91%; one outlier month at 43.57% Range from 75.89% to 93.51%
4	Minor PG	2 Minor PGs Missed	Reporting Requirements 1 PG assessed (1 of 12 months) <i>1 PG assessment pending (August 2018)</i>	100% timely receipt required	75% Timely Delivery 67% Timely Delivery

Optional Life and Accidental Death and Dismemberment (AD&D) plans are administered by Minnesota Life Insurance Company. Participants pay the full cost of coverage. Optional Term Life benefits are available in amounts up to four times an employee’s annual salary. For the AD&D plan, coverage up to \$200,000 is available. For the dependent term life (including AD&D), \$5,000 coverage can be selected for each eligible dependent. Ms. Russell noted there were over 214,000 participants enrolled in optional life insurance, followed by 129,000 in AD&D coverage and 107,000 in dependent AD&D coverage. For FY18, the life insurance plans provided over a total of \$39.58 billion of benefits to GBP participants.

Optional Term Life & AD&D – Performance Guarantee Assessments FY18

Performance guarantees were *met* for Emergency (severity level 1), Critical (severity level 2) and Moderate (severity level 3) and assessments did not apply.

Performance guarantees were *not met* for Minor (severity level 4) and assessments did apply.

	PG Category	Vendor Performance Results	PG Assessments	PG Requirement	PG Actual
4	Minor PG	2 Minor PGs Missed	<p>Communication Materials 1 PG assessed – non-approved communication posted to Website (Sept 2017)</p> <p>Reporting Requirements 1 PG assessed (1 of 12 months)</p>	<p>100% of communication materials pre-approved by ERS and reflect quality and accuracy. PGs missed are measured by exception, per occurrence or incident</p> <p>100% timely receipt required</p>	<p><100% of communication materials were approved before being mailed to participants</p> <p><100% delivered timely</p>

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

6.3 TexFlex, Texas Income Protection Plan (TIPP) and TexaSaver Update and Compliance Information

Georgina Bouton, Assistant Director of the Group Benefits division, introduced Nora Alvarado who provides oversight of the voluntary income plans within the division. This presentation will provide program updates and compliance information for the TexFlex and Texas Income Protection Plans, voluntary benefits available under the Group Benefits Program, and the TexaSaver Program.

Ms. Bouton informed the board that a CTCM manages each plan. The division has formulated a comprehensive strategy for monitoring vendor compliance. The underlying activities, as well as the level and frequency of performance monitoring strategy, are scalable based on the scope and risk of the contract. The overall scope and critical objectives of the monitoring strategy are the same for all contracts and seek to ensure that contractual requirements are satisfied, services are performed timely, and the program’s financial interests are protected. Performance assessments are documented and reviewed through a formal process that involves representatives from the general counsel’s office, the office of procurement and contract oversight and executive office.

Ms. Bouton reported that the PGs are based on the scope of services defined within each of the contracts. The PG metrics are formulated from regulatory standards, industry best practices, and ERS business needs. A risk assessment is performed for each PG and a severity level is assigned based on the risk assessment. The severity levels 1 through 4 are associated with a dollar amount placed at risk. The design of the severity levels, the level definitions, and the applicable assessment percentages are consistent among the division’s contracts.

Ms. Alvarado provided an overview of the optional coverage and benefits available to employees, program enrollment and vendor performance. Those benefits include the State of Texas employees' Flexible Benefits program known as TexFlex, the short and long-term disability insurance, and the deferred compensation plans.

The TexFlex Program offers several options for participants, including a Flexible Spending Account (FSA) which is available to employees and allows payment or reimbursement of eligible out-of-pocket health care and daycare expenses tax-free. Employees may enroll in one or more of the TexFlex options, except for premium conversion which is automatic. WageWorks is the third party administrator. Ms. Alvarado announced the results from the FY18 participant satisfaction survey are being finalized; however, the results for FY17 survey were 83.7%, which is slightly below the required rate of 85%.

All GBP enrollees are automatically enrolled in TexFlex premium conversion which allows them to pay any of their out-of-pocket expenses for the GBP premiums for health, dental and life insurance coverage on a pre-tax basis. The premium conversion lowers the amount of FICA taxes that the state pays for its workforce. In FY18, the state of Texas had \$38.6 million in FICA tax savings due to premium conversion.

There are three types of TexFlex FSA options -- health care FSA, limited FSA, and dependent care FSA. The health care FSA maximum tax deferred contribution amount is currently set at \$2,650. Beginning September 1, employees can carry over to the next plan year up to \$500 of unused amounts remaining in the FSA. There is also a run out period from September 1 – December 31 and any remaining funds in excess of the \$500 carryover amount that are not used by the end of the next plan year are forfeited to TexFlex.

The limited purpose FSA is available only to those participants enrolled in the Consumer Directed HealthSelect plan. The limited purpose FSA is designed to provide payment or reimbursement for eligible out-of-pocket dental and vision expenses only and does not allow reimbursement of medical expenses.

The TexFlex dependent care FSA provides payment or reimbursement for eligible dependent care expenses for children under the age of 13 or qualifying adults. The annual maximum is currently at \$5,000. The grace period begins after August 31. Ms. Alvarado reported that remaining funds from a prior plan year can be used to pay for dependent care claims incurred during the grace period. Unused funds not used by the end of the grace period are forfeited under the plan. The overall program participation has had a slight decrease from the previous year.

Ms. Bouton provided an update on the Commuter Spending Account (CSA). The CSA is the newest TexFlex program and was approved by the Board in February 2015. This is a qualified transportation benefit that operates as an optional benefit made available to active employees. This plan is governed under section 132(f) of the Internal Revenue Code. It is designed to provide employee's payment or reimbursement for qualified expenses associated with parking and commuting costs, provided these costs are connected to the commute to/from work.

The two TexFlex CSA benefit options include qualified parking and transit. Participants pay a monthly administrative fee for CSA enrollment. The maximum annual parking and transit contribution are each at \$260. Employees can elect to contribute to one or both plans subject to eligibility requirements. Contributions are not subject to "use or lose it" while the employee is actively employed. The qualified parking benefit allows reimbursement of eligible incurred parking expenses. Employees make monthly pre-tax contributions, and can either use their TexFlex debit card or opt to submit paper claims for reimbursement. Enrollment was low in FY17 with an average of 46 enrollees per month. Monthly contributions have been relatively steady for the last two years at \$60-\$63 on average.

The qualified transit benefit allows for the payment of eligible mass transit and vanpool expenses. Participants can only use the TexFlex-branded debit card at point of sale to access pre-tax funds. Paper claims are not permitted for reimbursement. Enrollment increased to 255 participants in FY17, but declined in FY18 to 67 participants on average per month.

Ms. Alvarado reported that for FY18, ERS assessed five moderate and one minor performance guarantees on WageWorks. This was related to accurate and timely processing, written notice of change, communication materials, and written correspondence rate.

WageWorks, Inc.
 TexFlex Flexible Spending Accounts
 Vendor Performance Overview
 Fiscal Year 2018

PG Severity	PG Category	Vendor Performance Results	PG Review Period	PG Performance Assessment Determination
1	Emergency Performance Guarantees (PG)	No missed Emergency PG	N/A	N/A
2	Critical PG	No missed Critical PGs	N/A	N/A
3	Moderate PG	4 Moderate PGs assessments	09/2017	Monthly Timely Processing 42% processing rate in 3 days vs. 98% processing rate in 3 days, as required
			10/2017	Monthly Timely Processing 86% processing rate in 3 days vs. 98% processing rate in 3 days, as required
			03/2018	Written Notice of Change Failed to notify ERS prior to changing its encryption key for FSA file exchanges
			03/2018	Written Notice of Change* Failed to notify ERS prior to changing its encryption key for CSA file exchanges
		1 Moderate PG assessed	Q4 2018	Quarterly Written Correspondence Rate Resolution rate > 5 days, on average vs. rate ≤ 5 days, on average, as required
4	Minor PG	1 Minor PG assessed	08/2018	Communication Materials* 34,000 FSA debit card kit mailings included CSA information in error

*Frequency of PG measurement is done by exception, per occurrence or incident.

Ms. Alvarado then reported on the, the optional short-term and long-term disability insurance coverage offered under the GBP, known as the Texas Income Protection Plan (TIPP). Ms. Alvarado provided an overview on the role of disability insurance within an individual's financial planning as part of income protection planning. Enrollment in TIPP coverage is voluntary and is fully funded by plan participants. This coverage can increase an employee's financial security, and assist an employee or his/her family through a period when an employee is unable to earn a salary due to disability. TIPP is administered by Reed Group Management, LLC (Reed Group). Ms. Alvarado reported that results from the FY18 participant satisfaction survey are being finalized.

Short-term disability provides enrolled employee with a monthly benefit equal to 66% of his or her covered monthly salary or \$6,600, whichever is less. The monthly benefit payment is coordinated with other benefits, but will not be less than 10% of his/her monthly salary when combined with all applicable resources. The benefit period will not exceed five months. Ms. Alvarado reported that overall, program participation remains steady year over year at approximately 112,000 participants with the annual covered payroll totaling \$469.4 million for FY19.

Long-term disability benefits provides the enrolled employee with a monthly benefit equal to 60% of his/her covered monthly salary, or \$6,000, whichever is less. The monthly benefit payment is coordinated with other benefits. The benefit payments will not be less than 10% of his/her monthly salary when combined with all applicable resources. Overall, program participation has remained steady with approximately 86,000 participants with the annual covered payroll totaling \$381.2 million in FY19.

Ms. Alvarado reported that Reed Group's performance reporting for FY18 included one moderate and one minor PG assessment, which was related to financial and quarterly interval service levels.

Reed Group
Texas Income Protection Plan
Vendor Performance Overview
Fiscal Year 2018*

PG Severity	PG Category	Vendor Performance Results	PG Review Period	PG Performance Assessment Determination
1	Emergency Performance Guarantees (PG)	No missed Emergency PG	N/A	N/A
2	Critical PG	No missed Critical PGs	N/A	N/A
3	Moderate PG	1 Moderate PG assessed	Q1 2018	Quarterly Claims Processing: Financial Accuracy Rate 97.29% financial claims accuracy rate vs. 98% accuracy rate, as required
4	Minor PG	1 Minor PG assessed	Q2 2018	Quarterly Interval Service Level 83.88% of calls were answered within 30 seconds vs. 85% rate, as required

*Period begins January 1, 2018

Ms. Bouton provided an overview of Texa\$aver as a key component of retirement preparation for state of Texas employees. The goal of Texa\$aver is to provide participants with investment choices that are diversified across a range of risk levels, asset classes, and investment strategies to design personalized investment portfolios that meet individual financial goals and mitigate a potential retirement income deficit. Ms. Bouton stated that Texa\$aver is comprised of 2 distinct plans, 401(k) and a 457 plan. Great-West Life Insurance and Annuity/Empower Retirement (Empower) is the program administrator. In CY17, Empower achieved a participant satisfaction rate of 92%, exceeding the 90% requirement.

Ms. Bouton provided the board with an overview of key statistics for the 401(k) plan. This plan is available to state agencies employees only. The plan features flexible contributions options by offering both traditional pre-tax contributions and Roth (post tax) contributions, as well as making contributions available to participants as a fixed dollar amount or as a percentage of salary. The plan implemented the automatic enrollment feature on January 1, 2008 in compliance with Texas statute. With automatic enrollment, newly hired state employees are enrolled in the Texa\$aver 401(k) plan at 1% of their monthly salary. Employees can elect to make a higher contribution election or can opt-out of participating. Since inception through August 31, 2018, there have been 233,610 auto-enrolled participants for an auto-enrollment retention rate of 85.9%. Ms. Bouton then covered the 401(k) plan's growth rate in assets under management, number of participating (active) accounts, and average participant balances from FY16 through FY18, making particular note that the plan assets were \$2.45 billion as of FY18.

**TexaSaver program
Key Statistics**
As of August 31, 2018

	401(k) Plan		457 Plan	
Current assets (<i>in millions</i>)	\$2,449		\$869	
Participant balance, average	\$11,852		\$25,534	
Participant balance, median	766		2,678	
Monthly Deferral, average	\$116		\$265	
Monthly deferral, median	37		56	
Total eligible to participate	158,180 ¹		264,616 ²	
Participants with a balance	206,617		34,023	
Accounts, active contributions	95,392	46%	18,591	55%
Accounts, non-active contributions	111,225	54%	15,432	45%

Chairman Hester inquired as to data on the number of participants who increase their contributions. From January 1, 2008 through August 31, 2018, 72,984 participants increased deferrals above the default deferral rate of 1%.

Ms. Bouton explained that the 457 plan is available to employees of state agencies and participating institutions of higher education. It too offers both the Roth and traditional contributions, as well as fixed dollar and percentage of salary contributions. Ms. Bouton then covered the 457 plan's assets under management, number of participating (active) accounts, and average participant balances from FY16 through FY18, making particular note that the plan assets were \$869 million as of FY18. She also pointed out that the average 457 account balance for FY18 was approximately \$25,530; the average monthly contributions at \$265.

The TexaSaver program offers a diversified assortment of mutual funds, collective investment trust funds, as well as a self-directed brokerage account. The qualified default investment option is a series of target date funds. Participants who don't make an active investment choice are placed into a target date fund based on their current age and anticipated retirement date. The funds that are offered within the plan are institutionally priced funds. Ms. Bouton reported that \$1.7 million in 12b-1 fee reimbursements were paid back to participants through the third quarter of 2018. She also reported that the program uses a Product Review Committee (PRC) to advise on investment options, fund managers and investment advisory services. The PRC is made up of three members of the Investment Advisory Committee (IAC) and six members of the ERS staff including representatives from the investments division. Ms. Bouton noted that the board adopted a charter for the PRC, as well as the investment policy for the TexaSaver program. The TexaSaver program has earned many awards for participant engagement in innovation and communications.

Ms. Alvarado reported that the Employees Retirement System of Texas collaborated with Empower during the summer enrollment period beginning June 2018 to launch the Texas Two-Step campaign. This campaign focused on almost 40,000 participants across the 401(k) and 457 plans. Several communication tactics were used including email (46%) or postcard (54%) mailings, interactive BrainShark education video, web messaging, and social media posts. The campaign was successful with 43% of the emailed participants and 10% of the postcard participants increasing their contributions above the minimum contribution amount. This particular campaign earned awards for bringing awareness to the state of Texas employees when it comes to saving for retirement.

¹ Includes state employees only

² Includes both state and higher education employees

Ms. Alvarado stated that Empower's performance reporting for FY18 included two critical and one minor PG assessment, which was related to notification of file transfer error and resolution and reporting requirements.

TexaSaver program
Vendor Performance Overview
Fiscal Year 2018

PG Severity	PG Category	Vendor Performance Results	PG Review Period	PG Performance Assessment Determination
1	Emergency Performance Guarantees (PG)	No missed Emergency PGs	N/A	N/A
2	Critical PG	2 Critical PGs assessed	09/2017	Notification of File Transfer Errors* Empower failed to notify ERS within 4 hours of September 1, 2017 data and file transmission errors, as required. Notified ERS on September 8, 2017.
			09/2017	Resolution of File Transfer Errors* Empower failed to resolve the errors within 1 business day, as required. Resolution processing was completed September 22, 2017.
3	Moderate PG	No missed Moderate PGs	N/A	N/A
4	Minor PG	1 Minor PG assessed	01/2018	Reporting Requirements File sent from Empower contained empty data fields which impacted 34,000 participant Statement of Retirement Benefits (SRBs)

*Frequency of PG measurement is done by exception, per occurrence or incident.

In a response to a question by Ms. Daniels regarding the Commuter Spending Account if an employee terminates service, Ms. Alvarado explained that if an employee leaves employment or retires and has a balance in their CSA, they have until the last day of employment to use their TexFlex debit card. If a CSA-enrollee pays out of pocket for any eligible parking expenses and then subsequently leaves state employment, then the CSA participant has 180 days from the date the parking expense was incurred to submit the parking expense to WageWorks for reimbursement.

In response to a question by Mr. Danzeiser, Ms. Bouton responded that the overall 12 month return rate for participants in TexaSaver was 12.31%.

In response to a query posed by Ms. Melvin, Ms. Alvarado provided an overview of the strategic planning process for communication to increase awareness on retirement preparedness, TexaSaver participation, and overall retirement planning. Ms. Alvarado explained that targeted communication campaigns are strategically scheduled based on a desired result (e.g. increase contribution, increase participation, investment diversification).

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

7. GROUP BENEFITS PROGRAM FUNDING

7.1 Review and Discussion of the Texas Employees Group Benefits Program Funding Policy Document

Blaise Duran, Group Benefits Division, reminded the Board that it had directed staff to develop a Group Benefits Program Funding Priorities and Guidelines document, similar to the one developed for the pension program. The intent is to establish goals and guidelines for the GBP, ensure contemplated benefit changes comply with forming goals and guidelines, and establish priorities when developing the Legislative Appropriation Request. This policy encompasses only those programs funded through legislative appropriation and currently, this includes GBP health plans and basic life plans for active employees and retirees. ERS will use this document to guide operational decision making, determine appropriate funding requests and educate stakeholders about the program. Staff will report to the Board regarding progress of meeting the goals and guidelines established in the document.

Mr. Duran reported on the draft goals and stated that staff is seeking input from the Board. The first goal is to comply with Section 1551.002 of the Texas Insurance Code, which details the purpose of the Group Benefits Act, which includes *“enable the state to attract and retain competent and able employees by providing employees and their dependents with life, accident, and health benefit coverages at least equal to those commonly provided in private industry.”* The second goal is to maintain current health benefits for active employees, early retirees, and Medicare-primary retirees, subject to legislative funding. The last goal is to comply with Section 1551.211 of the Texas Insurance Code, which requires the Board to maintain a contingency fund (in excess of reserves) equal to 60 days of expenditures for health, accident, and life plans.

Mr. Duran advised that a draft outline is available in Board materials, and indicated staff is seeking feedback and direction from the Board, or acknowledgement to proceed as presented. Ms. Donnell suggested that the goals be more aspirational. Following discussion, Mr. Duran advised that ERS staff would develop a draft document for the Board’s review.

This agenda item was presented for information and discussion purposes only. No further discussion occurred or questions asked, and no action was taken.

8. ACTUARIAL VALUATION RETIREE HEALTH INSURANCE BENEFITS

8.1 Review and Discussion of the Texas Employees Group Benefits Program: Actuarial Valuation of Retiree Health Insurance Benefits as of August 31, 2018

Machelle Pharr, Chief Financial Officer, introduced Phil Dial and Mitchell Bilbe of Rudd and Wisdom, consulting actuaries, to assist with presenting the Actuarial Valuation of Retiree Health Insurance Benefits as of August 31, 2018. She noted that this information is included in ERS’s 2018 Comprehensive Annual Financial Report (CAFR) and will be used by the state of Texas and certain other employers in their 2019 financial statements

Ms. Pharr said that the purpose of the OPEB valuation is to project liabilities associated with these benefits. Mr. Dial reported that the Group Benefit Program (GBP) provides Other Post-Employment Benefits (OPEB) to the retirees of state agencies, higher education institutions and other employers. OPEB does not include or account for the liabilities associated with retirement benefits.

The OPEB provided through the GBP includes health and basic life benefits. The OPEB does not include optional benefits available to retirees under the GBP which include dental, vision, life insurance and disability benefits. Those are fully funded by the member contributions.

Mr. Dial reported that actuarial valuations of the GBP OPEB were prepared annually from FY07 through FY17 under the reporting standards established by GASB Statement No. 43 (GASB 43). Prior to 2017, the GASB 43 information was used by ERS in the preparation of its financial statements contained in the CAFR. The Comptroller used the GASB 43 information along with similar information provided by TRS to meet the reporting requirements of GASB 45 in preparation of the State’s CAFR. Mr. Dial reported that GASB 45 did not require the Comptroller to report OPEB expense and liability information on the financial statements, but instead the state was required to disclose certain information in the notes to the financial statements.

Mr. Dial noted that GASB 74, which replaced GASB 43 effective for FY17, required significant changes in the valuation, most importantly, to the assumed discount rate used in valuing the liabilities and establishing expenses. GASB 74 requires the use of a discount rate assumption based on yields of 20-

year tax exempt general obligation municipal bonds with an average rating of AA/Aa or higher. As a result, the discount rate assumption under GASB 74 is significantly lower than the discount rate assumption that was used for purposes of GASB 43 valuations. GASB 74 also requires an analysis of the sensitivity of the Net OPEB liability to $\pm 1\%$ changes in the discount rate assumption and the healthcare trend rate assumption.

Mr. Dial stated that GASB 75 replaces GASB 45 for FY18 reporting for the State. GASB 75 also requires some GBP participating employers to report proportionate shares of the Net OPEB liability and the OPEB expense. This requirement applies to community colleges and a few state agencies that prepare their own audited financial statements, such as the Texas Department of Transportation.

Mr. Bilbe then proceeded to discuss the actuarial cost method and assumptions. The actuarial cost method is the same method that has been used since the inception of GASB for OPEB reporting purposes. It is also the same method that ERS uses for the retirement plan valuation. The actuarial cost method is used to develop normal cost and 30-year amortization amounts as level percentages of pay. The actuarial assumptions include demographic and pay-related assumptions which are the same as those used in valuing the retirement plans.

Demographic assumptions include rates of mortality, disability, termination, and retirement. The demographic assumptions used for state agency employees and retirees are the same as those utilized by ERS for its FY18 retirement plan valuation. The demographic assumptions used for higher education employees and retirees are the same as those utilized by TRS for its FY18 retirement plan valuation.

Mr. Bilbe reported that the economic assumptions include inflation, payroll growth and inflationary salary increases, and salary increases for merit, promotion and longevity. For state agency employees and retirees the economic assumptions are the same as those utilized by ERS for the FY18 retirement plan valuation. For higher education employees and retirees, the economic assumptions are the same as those utilized by TRS for its FY18 retirement plan valuation.

Since OPEB benefits provided under the GBP are funded on a pay as you go or PAYGO basis, GASB 74 requires the Discount Rate assumption to be based on yields of 20-year tax exempt municipal bonds with average ratings of AA/Aa or higher. The assumed Discount Rate for FY18 is 3.96% based on the August 31, 2018 Bond Buyer Index of general obligation bonds with 20 years to maturity with an average credit quality that is roughly equivalent to Moody's Investors Service's Aa2 rating and Standard & Poor's Corp.'s AA rating. Due to the requirements of GASB 74, the Discount Rate will change each year potentially causing significant volatility in the valuation results. The rate for FY17 was 3.51%.

Mr. Dial reported that with the defined benefit retirement plans, the values of projected retirement benefits are based on salary and length of service. The OPEB valuation is based on projected Per Capita Health Benefit Costs for FY19 by gender and age. Since the addition of the Medicare Advantage PPO option effective January 2012, it has been necessary to use two sets of Per Capita Health Benefit Costs, one for HealthSelect participants and another for HealthSelect Medicare Advantage participants.

The Per Capita Health Benefit Costs for HealthSelect (medical and prescription drug) are based on a great deal of credible historical cost data which allows for the examination of both current cost as well as evolving cost trends. For HealthSelect Medicare Advantage participants per capita medical costs are based on the premium rates for the plan, while per capita prescription drug costs are the same as those applicable to HealthSelect participants since their prescription drug coverage is the same.

The Health Benefit Cost Trend is a select and ultimate trend assumption which begins at the levels the actuaries are using for the current biennium. The trends have been revised to reflect updated projections for FY20 – FY27. The HealthSelect trend is expected to be 7.3% in FY20, 7.4% in FY21 and then decline over the next six years to a "sustainable" ultimate level. The assumed rates of trend for FY20 and FY21 are consistent with rates used in developing the legislative appropriations request for FY20-21. The ultimate level is 200 basis points in excess of the assumed rate of inflation ($4.5\% = 2.5\% + 2.0\%$).

Mr. Bilbe reported on the GBP membership included in the valuation which is presented in the following table.

	Members	Covered Spouses	Covered Dependent Children	Total
Actives	231,911 ¹	40,144 ²	124,544 ²	396,596 ²
Deferred Vesteds	11,564	0 ²	0 ²	11,564 ²
Retirees and Nominees	122,350 ³	30,562	10,499	163,522
Total	365,825	70,706	135,040	571,571

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 4,161 retirees who receive the Opt-Out Credit in lieu of health benefits

The results of the GBP OPEB actuarial valuation for FY18 are summarized in the following table:

\$ Millions

Actuarial Valuation Date	Total OPEB Liability (Unfunded Actuarial Accrued Liability)	Normal Cost	Amortization	Actuarial Determined Contribution
August 31, 2018	\$30,018	\$1,206	\$1,127	\$2,333
August 31, 2017	\$34,783	\$1,496	\$1,219	\$2,715
Change	(\$4,765)	(\$290)	(\$92)	(\$382)

The total employer and nonemployer contributions for FY 2018 were \$325 million. In FY 2018, the employer contributions equaled 13.9 % of the Actuarial Determined Contribution

The certified results of the GBP's FY 2018 OPEB valuation will be included in ERS FY 2018 Comprehensive Annual Financial Report and submitted to the Texas Comptroller for use in preparation of the FY 2018 State of Texas Comprehensive Annual Report.

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

9. ERS' ANNEX REDEVELOPMENT PROJECT (ACTION)

9.1 Discussion and Consideration of ERS Building

Porter Wilson, Executive Director, introduced Wendy McAdams, Director of Operations Support, to present an update on the ERS building. Ms. McAdams informed the board that planning to meet ERS' projected future space needs began in the summer of 2014. ERS sought respected experts to help with the planning process. The initial space planning project procurement was awarded to CBRE and Gensler.

Ms. McAdams reviewed the space planning multi-year process timeline which provides a quick overview of the intensive planning over the past four years. Months of research in 2015 and 2016 led staff to the current recommendation to leverage the real estate by constructing an office building on the location of the smaller 'annex' building with enough space to meet ERS' long-term needs and lease to tenants. Work was done in 2015 to assess the property assets relative to space needs in both the near and distant future. Staff learned that there is a pressing need for more space. While ERS' main building has many more years of usefulness it's configuration is not sufficient for current needs. Staff has presented the Board with multiple scenarios for addressing the needs and fully leveraging the property ERS occupies. Staff analyzed timing and identified opportunities and risks associated with each scenario.

In 2016, there was additional research to the real estate community to gauge market interest in a new office building on site. Staff also surveyed the Board whose insights and opinions helped to hone in on the recommendation to replace the annex with the new building and to keep all ERS staff on site during construction. The geotechnical and structural analysis showed that the site can accommodate the planned changes.

In 2017 and early 2018, ERS contracted with three consultants (CBRE, Broaddus & Associates, and Ryan Companies) to begin the key activities of the projects. Ms. McAdams noted that each firm brings specific expertise to this complex project. In addition to the design of the new building, reconfiguration of space was made in the first and third floors of the ERS building to accommodate staff from the annex while construction begins.

Ms. McAdams then introduced Mr. Rick Johnson with Broaddus & Associates to discuss the design phase. Mr. Johnson informed the Board that one of the first things they did when they came on board with this project was meet with the ERS executive team and several department heads to receive feedback and define goals. Broaddus and Associates reviewed different ways to approach the project, including public-private partnerships, traditional construction bidding and design-build projects. Ultimately, they recommended that ERS procure a design build firm. ERS issued an RFP which generated bids from nine design build firms. ERS selected Ryan Companies, along with their design partner STG. The firm began the design process. During the design process, it was determined that the site could accommodate a larger footprint and an additional floor. CBRE who was selected as the broker for the space confirmed that the Austin commercial office market would be attracted to the larger leasable space. During a schematic design phase cost estimates were developed by the design build firm and by Broaddus & Associates doing independent estimates and analysis. The final design is for a nine story building above grade, with one level of retail on the ground floor, parking on floors two through four, and five levels of office space, with one level of below grade parking. The majority of the building will be leased out with 10,000 square feet for ERS offices and another 10,000 square feet for a conference center for ERS and building tenants. The conference center could also potentially generate revenue from non-tenants. Once the design was approved, Ryan Companies began work to develop a guaranteed maximum price (GMP) for the Board to consider.

There was no further discussion or questions and no action was taken. The Board then headed into Executive Session.

9.2 Executive Session – In accordance with Section 551.072 Texas Government Code, the ERS Board of Trustees will meet in executive session to deliberate the purchase, exchange, lease, or value of Real property and ERS Building. Thereafter, the Board may consider appropriate action in open session.

Mr. Hester stated it was 3:27 p.m. on December 11, 2018. The Board of Trustees will meet in executive session in accordance with Section 551.072, Texas Government Code to deliberate the purchase, exchange, lease, or value of real property in the ERS building. Thereafter, the board may consider appropriate action in open session.

Upon returning from executive session, Mr. Hester announced it was 4:35 p.m. on December 11, 2018 and the Board is now in open session. No action, decision, or vote was taken while the board was in executive session. Mr. Hester then stated he will entertain any motion from members of the Board at this time.

Ms. Donnell stated that based on information presented to the Board of Trustees, the Board has received sufficient information regarding the purchase, exchange, lease, or value of ERS' real property to determine whether to authorize the executive director to negotiate and execute a guaranteed maximum price with Ryan Companies and to negotiate and execute leases with tenants for available space.

Ms. Donnell then moved that the Board of Trustees of the Employees Retirement System of Texas authorize the executive director to negotiate and execute a guaranteed maximum price amendment with Ryan Companies for construction of a new building on the ERS real property in an amount consistent with the amounts and value presented to the Board of Trustees with terms that must be fully acceptable to ERS. The executive director is further authorized to administer the contract with Ryan Companies as agreed to by the parties and in accordance with its terms as amended by the guaranteed maximum price amendment.

Further move that the executive director is authorized to negotiate and execute leases with tenants for available space in the constructed building. Further move that the executive director increase the Fiscal Year 2019 capital budget by the amount of the guaranteed maximum price amendment and related ancillary expenses executed by the executive director as authorized herein.

Motion by Cydney Donnell, seconded by Ilesa Daniels.

Final Resolution: Motion Carries

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

10. EXECUTIVE DIRECTOR REPORT

10.1 Executive Director Agency Update

Legislative Update- *Legislative Appropriations Request for Fiscal Years 2020-2021* - The 2020 – 2021 Legislative Appropriations Request (LAR) was based on the August 31, 2017 actuarial valuation and was submitted August 24, 2018. ERS has presented the LAR to the Governor's Office and the Legislative Budget Board. Staff will be revising the LAR based on updated valuations as they move into the legislative session.

Retirement – ERS requested exceptional item funding for all of the retirement programs in order to bring them to actuarial soundness. Mr. Wilson noted that the actuarial valuation will be updated through the end of February 28, 2019 and revisions will be made to the request. Staff will request funding to comply with the Pension Funding Priorities and Guidelines Policy.

Insurance – ERS did not submit any request for exceptional item funding for Insurance. Benefits for the employees will be able to remain at the same level of cost at the base level funding for FY19. ERS asked for GBP funding at the 2019 level for 2020 and 2021.

Senate Finance Hearing – On September 11, 2018, Mr. Wilson testified on the Senate Finance Committee interim hearing related to health care costs and interagency data sharing projects. ERS testified jointly with the Health and Human Services Commission, Texas Department of Criminal Justice, and the Teacher Retirement System of Texas to provide information on how the sharing of health care data is being utilized between the various agencies' programs and services that they administer to better manage cost.

Pensions Committee Hearing – On October 12, 2018, Mr. Wilson testified at the House Pensions Committee interim hearing on the funding status for the State of Texas pension plans administered by ERS to talk about the pension program. Mr. Wilson stressed the importance to the state of getting the required actuarial contribution for all of the state' retirement programs. Currently, both the main fund and the LECOS fund are depleting.

Benefits Administration Services (BAS) Project – ERS implemented an Oracle PeopleSoft system, known as ERS OnLine, in 2001 that is used for managing benefits administration including the eligibility, enrollment and related processing for all GBP programs. ERS OnLine is used by state and higher education employees and retirees and benefit coordinators, as well as internal staff at ERS.

The current system was implemented in September 2001 and the last upgrade was in 2009. The system is highly customized, and system changes are difficult to make. Although the system continues to be modified, there are still many manual work processes. At the time of its development, the GBP had many unique features of insurance eligibility that made it difficult to use standard software systems. Since that time, the Affordable Care Act standardized eligibility and enrollment rules which allows ERS to take advantage of products and services that are available and being utilized in the marketplace.

ERS issued a request for proposal for benefit administration services (BAS) last spring. Goals for the benefits project is to maintain high customer service while improving the member experience, simplifying processes, serving members in ways they want to receive service, improving the quality of information to make the self-service processes easier to navigate, eliminating manual processes, and providing employers with more responsive and proactive tools and information.

ERS staff expects to bring a recommendation for the BAS project to the March 2019 board meeting.

Plan year 2019 Fall Enrollment – ERS mailed out 91,000 Personal Benefits Enrollment Statements to Medicare enrolled participants as part of the fall enrollment campaign. There were around 5,500 changes made to member and dependent coverages during the open enrollment period. ERS offered in person fairs and webinars to provide information about enrollment and met with members in person at the ERS office, as well as through the contact center.

State Employee Charitable Campaign – ERS launched the State Employee Charitable Campaign on September 1, 2018 with almost 90% of employees in the agency participating in some way or another by making donations to a charity of their choice. There were several divisions who had 100% participation. ERS raised over \$53,000 this year.

11. CALENDAR

11.1 Set 2019 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

The Board of Trustees approved the dates for the 2019 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. They are as follows:

Approved 2019 Meeting Dates:

Wednesday, March 6, 2019

Wednesday, May 22, 2019

Wednesday, August 21, 2019

2-Day Workshop:

Tuesday-Wednesday, December 10-11, 2019

12. RECESS

12.1 Recess of the Board of Trustees – The Board of Trustees will reconvene as a committee of the whole on Wednesday, December 12, 2018 at 8:00 a.m. with the Investment Advisory Committee to take up the remaining agenda items.

The Board of Trustees concluded the agenda items and recessed at 5:03 p.m. on Tuesday, December 11, 2018. The Board of Trustees will reconvene as a committee of the whole on Wednesday, December 12, 2018 with the Investment Advisory Committee to take up the investment agenda items.