

Meeting of the Board of Trustees

August 23, 2023



Public Agenda Item #7

Reconvene the Meeting of the Board of Trustees

August 23, 2023

Public Agenda Item #8

*Consideration of Group Benefits Program Update:
Proposed Rates for HealthSelectSM Medicare Advantage PPO Plan
for Calendar Year 2024 – (Action)*

August 23, 2023

Blaise Duran, FSA, Acting Director of Group Benefits

Phil Dial, FSA, Rudd and Wisdom, Inc.

HealthSelect Medicare Advantage PPO



- The HealthSelectSM Medicare Advantage preferred provider organization (HealthSelect MA PPO) is a fully-insured PPO medical plan customized for the Employees Retirement System of Texas (ERS).
- The federal government subsidizes the plan cost resulting in lower retiree cost and reduced program cost.
- Members must have both Medicare Part A and Medicare Part B to be eligible.
- Sierra Health and Life Insurance Company (United), a UnitedHealthcare underwriting entity, became the insurer effective January 1, 2021.

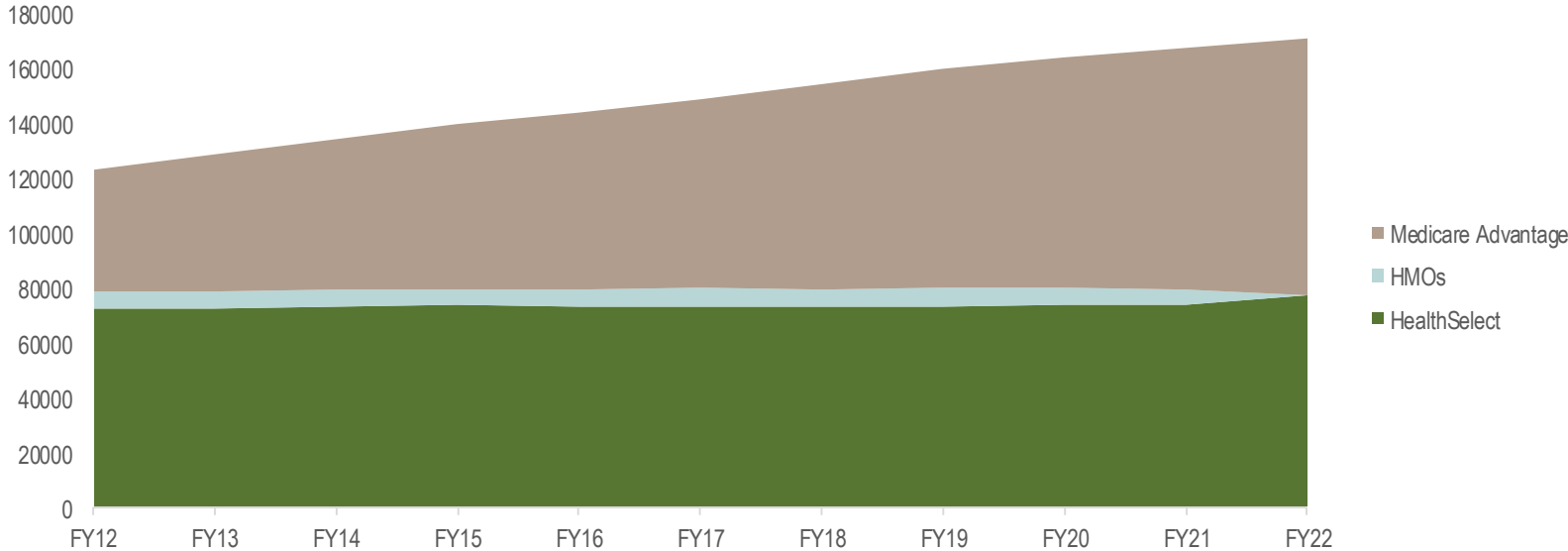
HealthSelect MA PPO



- The HealthSelect MA PPO continues to provide the most cost-effective medical benefits for both the state and eligible enrolled members.
- Those enrolled in the HealthSelect MA PPO receive prescription drug benefits through the self-funded HealthSelectSM Medicare RX plan.
- The HealthSelect MA PPO is a customized plan designed for ERS. It is not the same product offered to the general public.

HealthSelect MA PPO	January 2021	January 2022	January 2023
Members	71,282	76,333	79,880
Dependents	18,590	19,708	20,445
Total Enrolled Participants	89,872	96,041	100,325

GBP retiree health plan enrollment



HealthSelect MA PPO



Requirements: Theoretical Cost Index

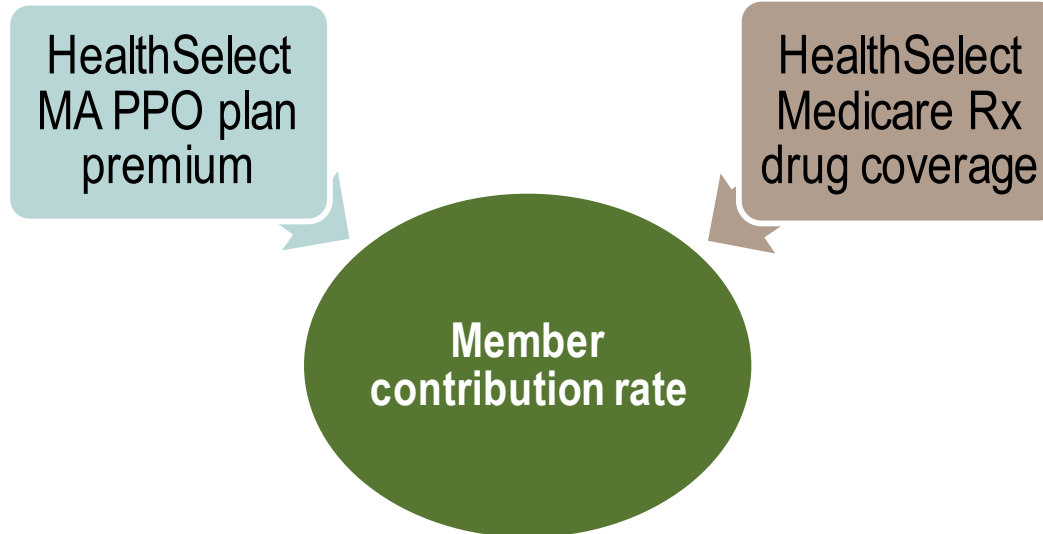
- To ensure the cost effectiveness of the MA PPO plan, the consulting actuary utilizes a theoretical cost index (TCI) model.
- TCI estimates the total cost that would be required to cover HealthSelect MA PPO participants if they were enrolled in HealthSelect of Texas®, the GBP's self-funded health insurance plan.

HealthSelect MA PPO

Member Contribution Rates



- The HealthSelect MA member contribution rate is composed of two elements. The HealthSelect MA PPO plan premium and the projected cost of HealthSelect Medicare Rx drug coverage.



HealthSelect MA PPO

Calendar Year (CY) 2023 Member Contribution Rates



\$ 40.00 Medical coverage fully-insured premium

\$173.32 HealthSelect Medicare Rx prescription drug coverage projected cost

\$213.32 Total CY23 member contribution rate

HealthSelect MA PPO

Calendar Year (CY) 2024 Member Contribution Rates



\$ 46.57 Medical coverage fully-insured premium

\$180.67 HealthSelect Medicare Rx prescription drug coverage projected cost

\$227.24 Total CY24 member contribution rate

HealthSelect MA PPO

Historical Member Contribution Rates



HealthSelect MA PPO	CY20	CY21	CY2	CY23	CY24 (proposed)
Member Only	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
Spouse	\$151.70	\$89.52	\$89.52	\$106.66	\$113.62
Surviving Spouse	\$303.40	\$179.04	\$179.04	\$213.32	\$227.24

HealthSelect MA PPO

Proposed CY24 Monthly Contribution Rates



	Medicare-Primary Spouse	Medicare-Primary Surviving Spouse
Current (CY23) HealthSelect MA PPO Rates	\$ 106.66	\$ 213.32
Proposed CY24 HealthSelect MA PPO Rates	\$ 113.62	\$ 227.24
Change from CY23 Rates	\$6.96	\$13.92

HealthSelect MA PPO

CY24 Savings versus HealthSelect of Texas



	Medicare-Primary Spouse	Medicare-Primary Surviving Spouse
HealthSelect of Texas FY24 Rates	\$ 358.00	\$ 716.00
Proposed CY24 HealthSelect MA PPO Rates	\$ 113.62	\$ 227.24
Retiree Savings through HealthSelect MA PPO <i>(difference in HealthSelect of Texas and HealthSelect MA PPO rates)</i>	\$ 244.38	\$ 488.76

Discussion

Public Agenda Item #9

*Consideration of Fiscal Year 2024 Operating Budget and
Fiscal Year 2024 Capital and Property Management Budget –
(Action)*

August 23, 2023

Porter Wilson, Executive Director
Machelle Pharr, Chief Financial Officer

FY23 Accomplishments



Support our members retirement income security

- Engaged with legislators and policymakers on **pension funding integrity**
 - Elimination of unfunded liabilities for two of the three prefunded plans
 - Full funding of legacy payments and supplemental payments for ERS
 - Normal costs covered for all three prefunded plans
- Issued **\$2.9 billion+** in annuity payments
- Sustained investment operations and management
 - **Trust returns of +5.68%** on a net basis as of 6/30/23
 - **Trust assets of \$35.5 billion** as of 6/30/23

FY23 Accomplishments



Sustain competitive group benefits program

- Engagement with legislators and policymakers resulted in **continued current level state funding** for the employee and retiree health insurance programs
- Member only contribution rates held stable for the **seventh consecutive year** while maintaining competitive benefits
- Executed a new contract for pharmacy benefit management services with **estimated savings of \$2.9 billion** over the life of the contract
- Implemented **Catapult VirtualCheckup[®]** pilot project

FY23 Accomplishments



Engage stakeholders for informed decision making

- Developed **communications** on the cash balance benefit for Group 4 employees
- Educated participants about the **State of Texas Vision**SM third-party administrator change
- Partnered with a local not-for-profit for an education campaign on the federal **public service loan forgiveness** program

FY23 Accomplishments



Engage stakeholders for informed decision making

- Held 177 in-person and virtual member events with **total attendance greater than 10,400**
- Published 45 editions of newsletters and Board meeting recaps distributed to more than **355,000 unique recipients**
- Engaged with members and employers through a variety of media
 - Members: **448,000 phone calls and 23,100 emails**
 - Employers: **10,000 emails and 10,000 requests for assistance**

FY23 Accomplishments



Enhance agency performance and accountability

- Implemented **Recruit**, a module in the HR system, to facilitate submission of job applications
- **Reduced internal job vacancy rate by approximately 50%**, and lowered turnover rate
- Significantly **improved survivor benefit processing** and call answer times

FY23 Accomplishments



Enhance agency performance and accountability

- Selected vendor, completed contract, and began work on the **Retirement Insurance System Enhancement (RISE)** software project to replace the current pension and insurance system
- Enhanced the **Investment Policy Statement** to match best practices and created Investment Implementation Policy to guide and document investment operations
- Contracted for the first office tenant for **1836 San Jacinto**

FY24 Initiatives



Support Our Members' Retirement Income Security

- **Implement legislation** passed by the 88th Legislative Session
 - Cash balance benefit for judiciary entering the plan on or after September 1, 2024
 - Additional annuity option for Group 1- 3 employees
 - Service purchases for Group 4
- If applicable, make **first gain sharing** deposits to Group 4 accounts
- Implement provisions of federal **SECURE 2.0 Act**
- Complete the Request for Qualifications process to provide a **comprehensive suite of investment services** at competitive prices

FY24 Initiatives

Sustain Competitive Group Benefits Program



- Evaluate, select and implement a contract for the **third-party administrator for HealthSelect of Texas[®]**
- **Implement the pharmacy benefit management** contract effective January 1, 2024
- Review the **disability and life insurance** benefit programs

FY24 Initiatives



Sustain Competitive Group Benefits Program

- Enhance participant wellbeing by implementing a **new wellness initiative** designed to engage Group Benefits Program participants
- Review the **state wellness statute** for potential enhancements to improve the wellness opportunities for all state agencies

FY24 Initiatives

Engage Stakeholders for Informed Decision Making



- **Redesign ERS public website** improving navigation and usability, including a translation tool
- Develop a **participant satisfaction** survey for HealthSelect plan participants
- **Communicate with members** regarding changes resulting from legislation

FY24 Initiatives

Enhance Agency Performance and Accountability



- Complete appropriate milestones in the **implementation of RISE**
 - Functional and technical fit/gap analysis
 - Data conversion planning and activities
- Complete the **Investment Practices Review** as required by statute
- **Launch internship program** and continue efforts to strengthen recruitment and retention
- Complete **automation of select financial processes** using robotics and other new technologies

Proposed Fiscal Year 2024 Operating Budget



Budget drivers and initiatives

The proposed FY24 budget reflects an increase of \$10 million (10.6%) to carry out the mission and objectives of the agency

- *Salary-related costs comprise 62% of the total budget*
- *\$3 million is related to the 5% across-the-board pay increase.*

	FY23	FY24*
Salary-related	\$58.6 M	\$65.7 M
Non-salary-related	\$37.3 M	\$40.3 M
Total budget	\$95.9 M	\$106.0 M
FTEs	436	440

**Additional \$8.2 M in contingency.*

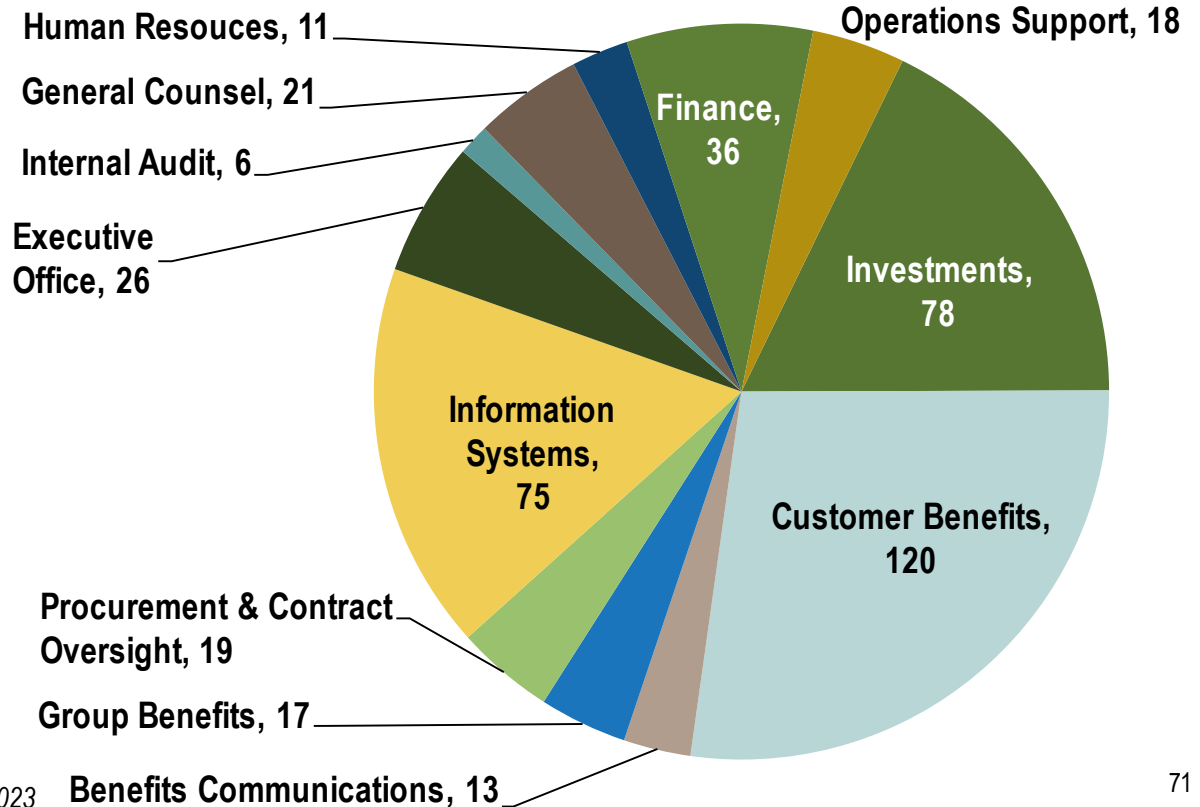
Unspent funds remain in the Trust

Proposed Fiscal Year 2024 Operating Budget



Proposed FY24 FTEs

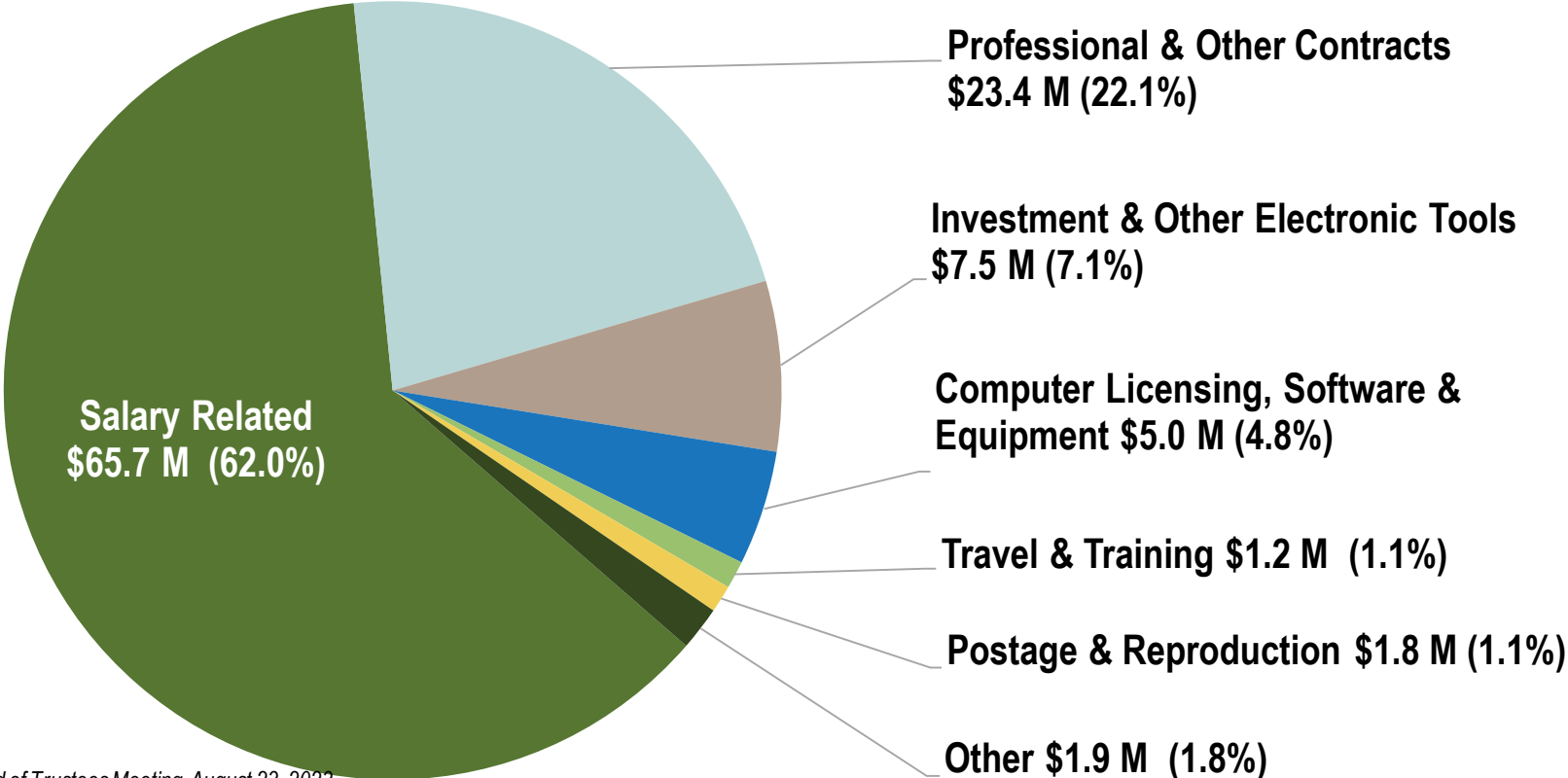
Proposed New FTEs	
Customer Benefits	3
Benefit Communications	1
Total	4



Proposed Fiscal Year 2024 Operating Budget



All categories

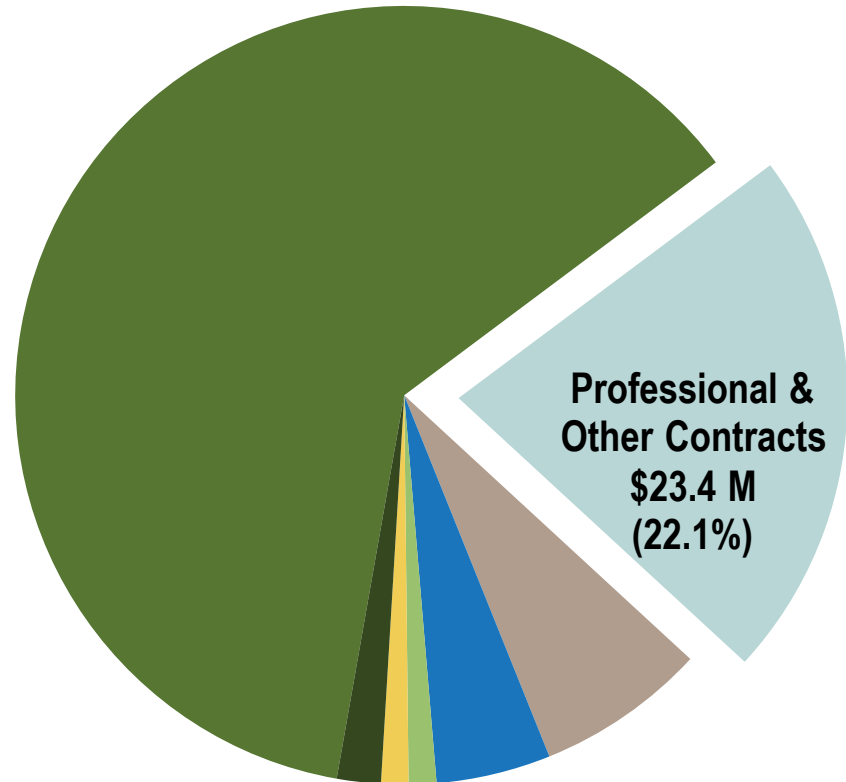


Proposed Fiscal Year 2024 Operating Budget



Key drivers - Professional & Other Contracts

- **Reduction of customer wait times**
 - Group O expansion
- **System modernization and maintenance**
 - Accommodate new benefit designs
 - Upgrades/enhancements
 - Automation of manual processes
- **Data quality and security**
- **Investment consultants**
- **Outside legal services**
- **Actuarial services**
 - Pension
 - Group Benefits

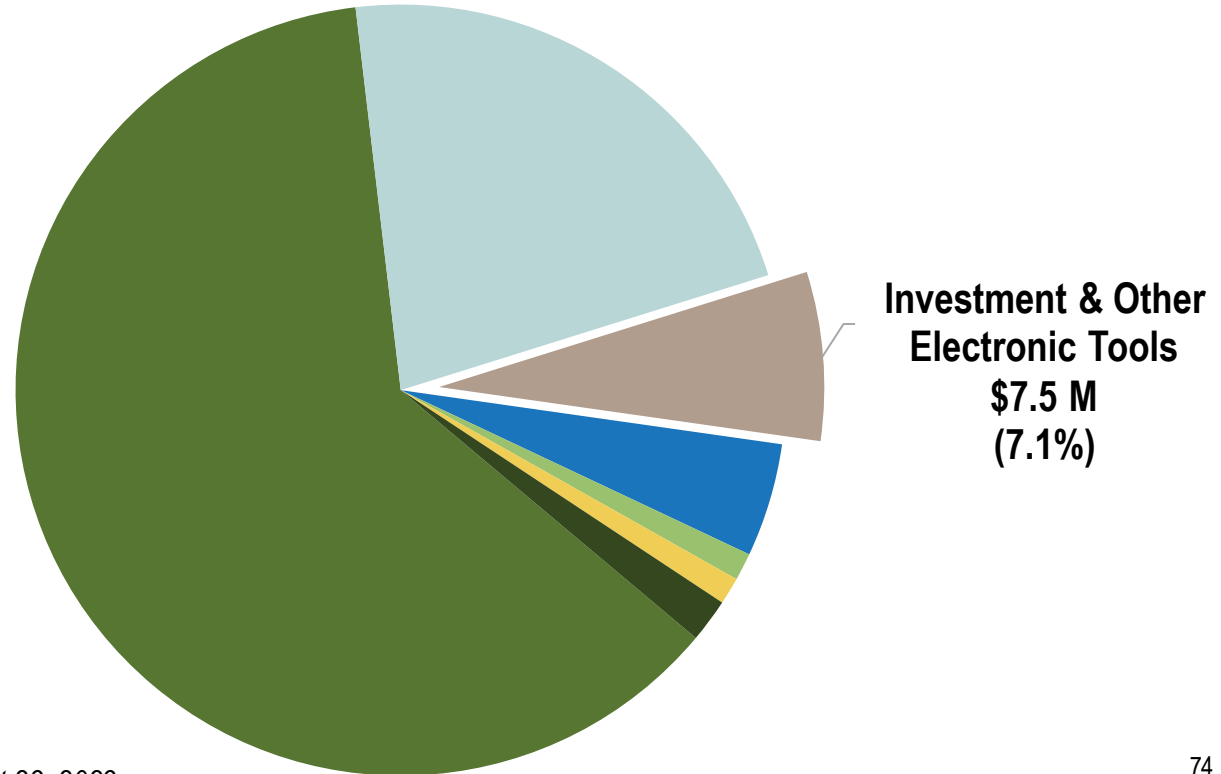


Proposed Fiscal Year 2024 Operating Budget



Key drivers - Investment & other electronic tools

- Subscriptions to investment research services and tools

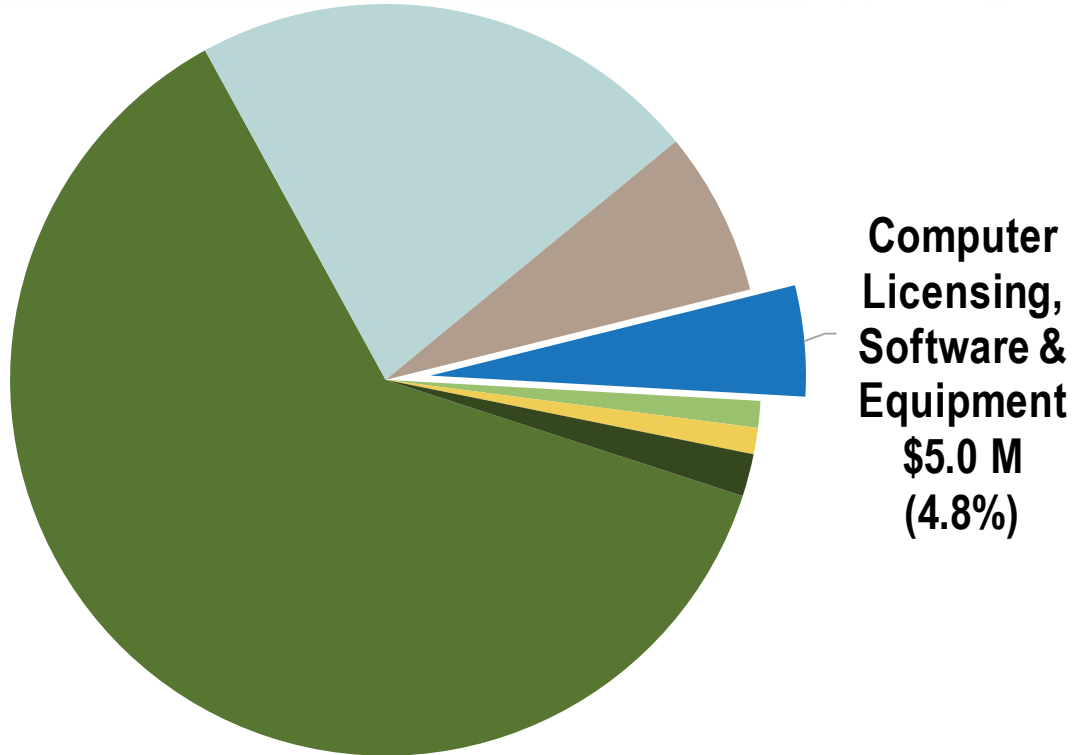


Proposed Fiscal Year 2024 Operating Budget



Key drivers - Computer licensing, software & equipment

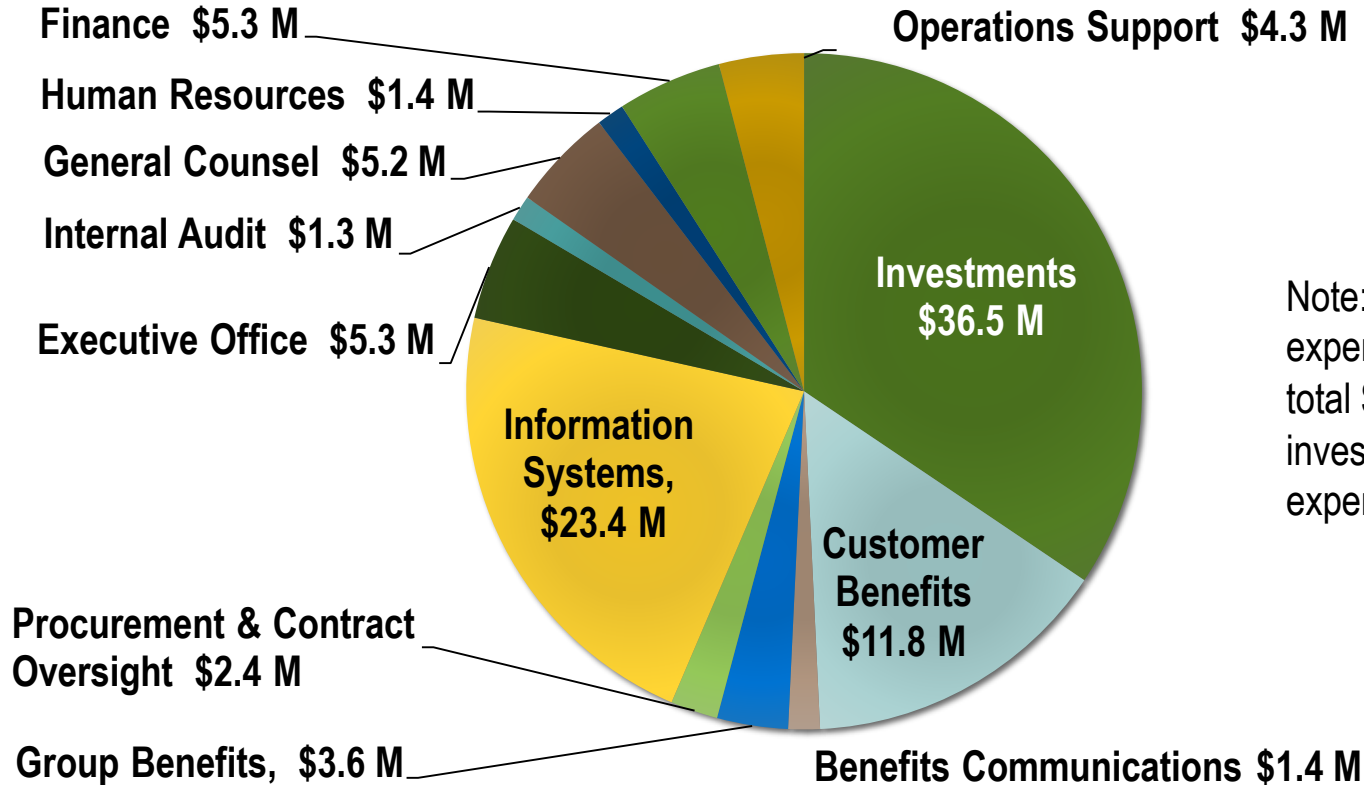
- 70+ computer software applications
- Lease and procurement of computer and telecommunications equipment



Proposed Fiscal Year 2024 Operating Budget



By division



Note: Investment-related expenses in other divisions total \$4.2 M, for total direct investment-related expenses of \$40.7 M.

Performance Measures



Associated with Retirement and Competitive Benefit Goals

	FY23 Estimated	FY24 Target
Percent of ERS Retirees Expressing Satisfaction with Member Benefit Services	97.0%	97.0%
Multiplier on Investment Manager Expenses	2.5 x	2.0 x
Multiplier on Internal Investment Manager Expenses	16.8 x	14.6 x
Percent of HealthSelect of Texas Funded by Members	25.0%	25.0%
Participants Enrolled in Optional Plans	77.7%	78.0%

Performance Measures



Associated with Stakeholder Engagement and Agency Performance

	FY23 Estimated	FY24 Target
Benefit Coordinator Community Group Visits	15,000	17,500
Average Attendance at In-person Benefits Education Sessions	54	74
Inbound Call Service Level	51.7%	70.0%
ERS Online Uptime	99.0%	99.0%
Annuity Payment Audited	100%	100%
Percent of Audit Plan Completed	80.0%	90.0%

Customer Trends



	2012	2017	2022	2023
ERS				<i>(as of June 30th)</i>
Active members	132,669	141,629	133,751	138,477
Inactive members	90,190	112,192	155,148	159,249
Retirees and beneficiaries	87,799	107,530	122,720	120,043
LECOS				
Active members	37,404	38,306	31,075	30,926
Inactive members	7,129	17,100	32,371	33,321
Retirees and beneficiaries	8,477	12,248	15,923	16,280
GBP Participants				
	507,571	515,068	511,164	496,370

Proposed Fiscal Year 2024



Capital and Property Management Budget

Property Management

- Increase reflects brokerage services

Capital

- Tenant improvements
- Reflect projects that span multiple fiscal years

	FY23	FY24
Property Management	\$2.3 M	\$4.2 M
Capital	\$150.0 M	\$4.0 M
Total	\$152.3 M	\$8.2 M

Proposed FY24 Budgets



Exhibit B: Contracts and other costs notes

- Professional and other contracted services – Executive Director authorized to contract on behalf of ERS
- Notes are referenced in division budget
- Investment advisor fees are presented in detail in Exhibit B – Note 3

Discussion
Action Item

Public Agenda Item #10

Agency Update

August 23, 2023

Porter Wilson, Executive Director

Agency Update

Board of Trustees Election



- Congratulations to retiree Dr. Stuart Greenfield of Austin
- Six-year term begins September 1, 2023

Candidate	Votes	% of Total
Stuart Greenfield	11,244	31%
Ilesa Daniels	8,500	23%
Jimmy Jackson	7,483	21%
Suzy Whittenton	4,559	13%
Chris Nelson	4,514	12%
Total	36,300	100%

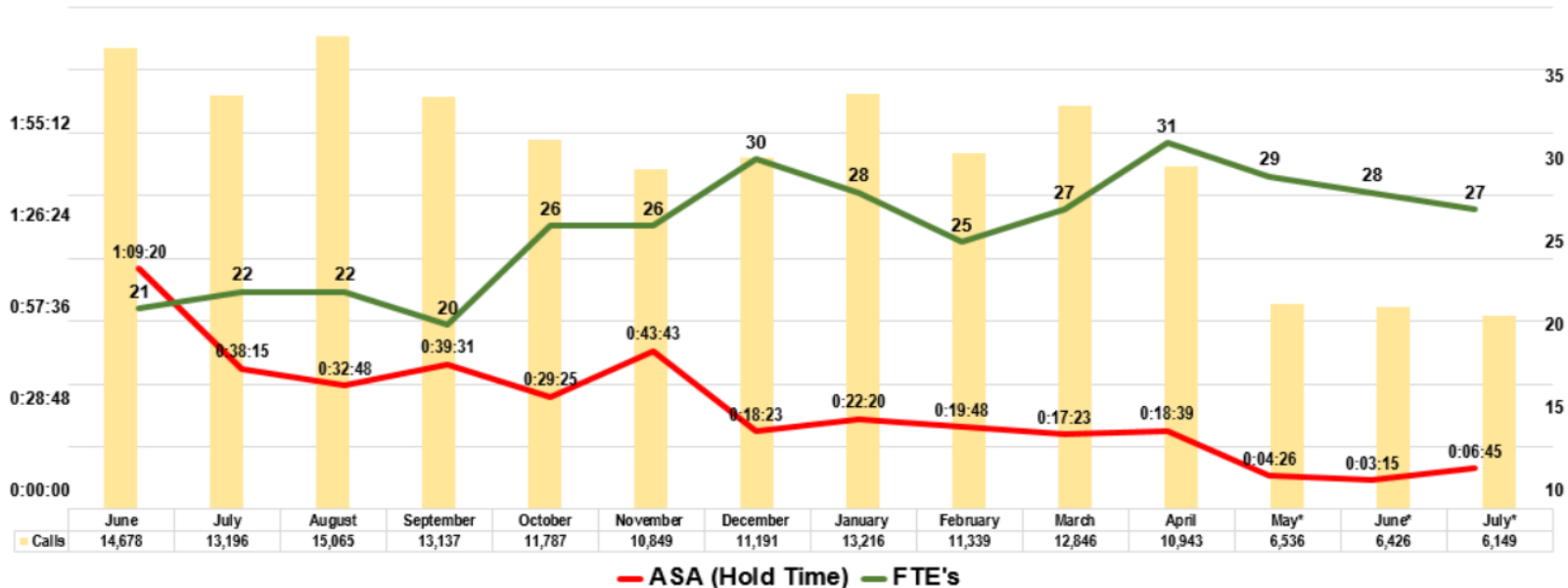
Customer Benefits “Action Beyond the Call”

- **Contact Center:**
 - Fully staffed with additional resources.
 - New hire training class started this week and internal training continues.
 - Call answer times stabilizing.
- **Outsource Contact Center (Group O):**
 - Insurance calls (excluding Medicare) will be fully outsourced 9-1-2023.
- **Survivor Benefits:**
 - Fully staffed as of this month.
 - Processing times significantly improved.

Benefit Counseling Data



Benefits Counseling Center FY 22-23



*Insurance Queue has been handled by both ERS and Group O since May 2023. Stats for that queue are being reported independently since May.

May:

Calls: 4,983

ASA: 10:34

June:

Calls: 4,684

ASA: 4:25

July:

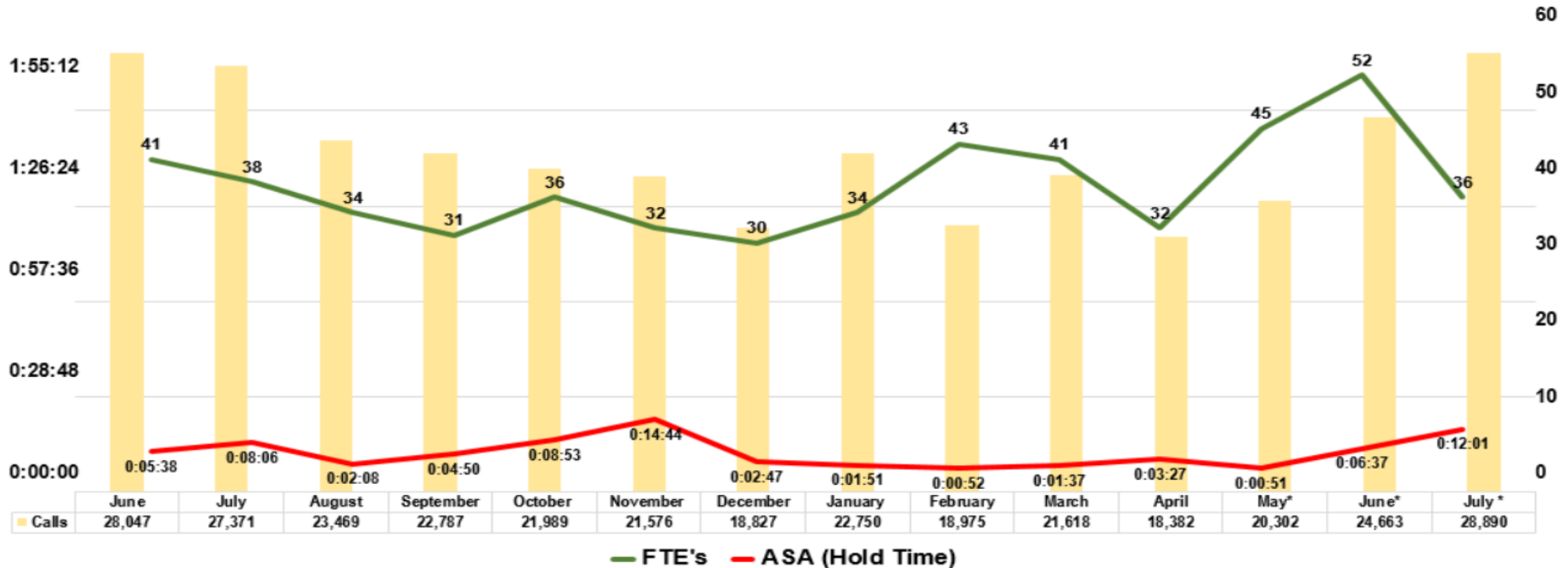
Calls: 4,666

ASA: 3:59

Outsource Call Center Data



Outsource Call Center (Group O) FY 22-23

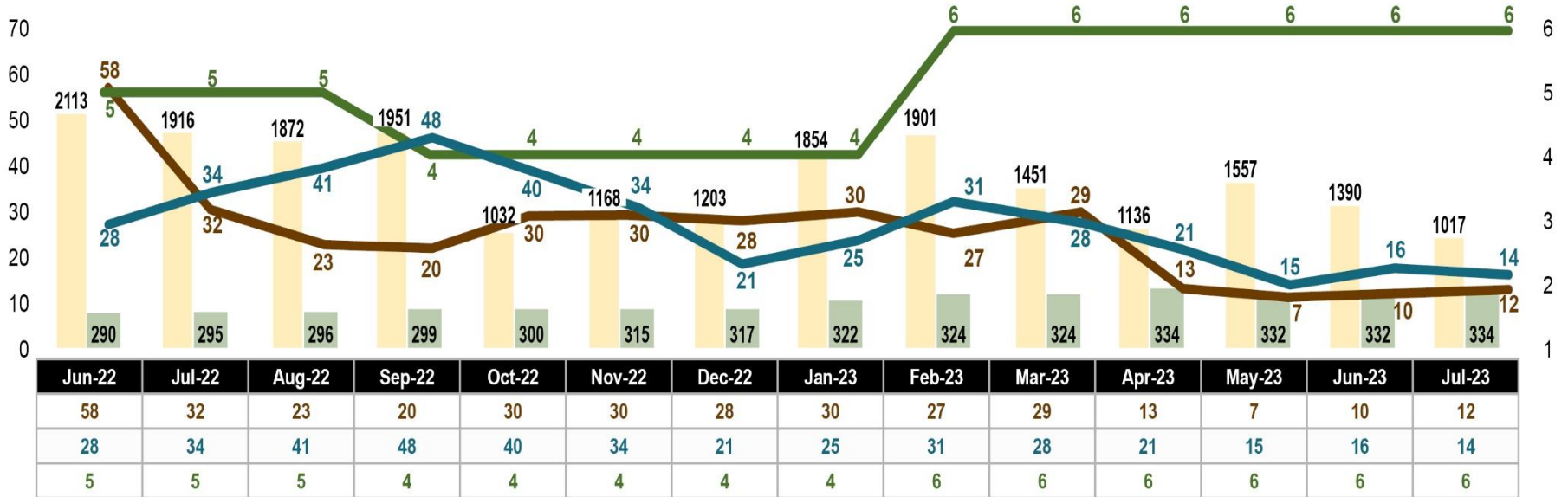


Survivor Benefits Data



Survivor Benefits / Death Processing

Worklist Chapter 615



Regular session adjourned on May 29, 2023

- Focus on strategies to further improve ERS pension plan funding
- Address funding issues for LECOS and JRS2 pension plans
- Continued funding for health plan benefits and policy changes that benefit health plan members

88th Legislative Session Update

State Employee Group Benefits Program



Budget:

- **HB 1** -- maintained funding levels at over \$2B in each year of the biennium

Legislation:

- **HB 916** - 12 month contraceptive supply
- **SB 989** - requires coverage for biomarker testing
- **HB 755** - places limitation on prior authorizations for certain autoimmune diseases
- **HB 4990** - creates the Texas Pharmaceutical Initiative
 - Goal to establish a cost-effective statewide prescription drug program
 - ERS will serve on the advisory council
 - Initial business plan due in October 2024

88th Legislative Session Update



HB 90 - extends Government Code, Chapter 615 line-of-duty death benefits to members of the Texas Military Department

- Applies to deaths which occurred while on state active duty
- Working with the Texas Military Department on implementation

HB 1393 - creates a new option for an increasing annuity in retirement

- 2% annual increase
- Applies only to ERS plan Groups 1, 2 and 3
- Required to be actuarially neutral to the plan
- Retirements after 9/1/2024

88th Legislative Session Update

Judicial Cash Balance



- **SB 1245** creates cash balance benefit for judges elected after 9/1/2024
- Same cash balance benefit and contribution structure as ERS Group 4
 - Contribute **6% of monthly pay**
 - Guaranteed **annual 4% interest**
 - Potential for up to **3% annual gain share** interest payment
 - At retirement, account balance is **matched at 150%** to calculate **guaranteed lifetime annuity**
 - Gain share increases **continue in retirement**

88th Legislative Session Update

State Employee Pension Plans - status as of 8/31/22



Funded Status	ERS	LECOS	JRS 2
Unfunded Liability	\$14.2 B	\$715 M	\$89 M
Funded Ratio	68.9%	58.6%	86.2%
Projected Depletion Date	None	2045	2069

	Meets ERS Funding Policy Guidelines & Priorities		
Cover Normal Cost	✓	✗	✗
Avoid Trust Fund Depletion	✓	✗	✗
Meet Statutory Funding Period	8/31/24	✗	✗
Address Unfunded Liability	LEGACY PAYMENTS \$510m per year	✗	✗
Meet Additional Funding Standards	Fully Funded by 2054	✗	✗

88th Legislative Session Update

State Employee Pension Plans – House Bill 1 (88R)



	Meets ERS Funding Policy Guidelines and Priorities		
	ERS	LECOS	JRS 2
Cover Normal Cost	✓	+1.25% ✓	+3.587 ✓
Avoid Trust Fund Depletion	✓	✓	✓
Meet Statutory Funding Period	8/31/2024	✓	✓
Address Unfunded Liability	<p>LEGACY PAYMENTS \$165.6m FY 23 settle-up + \$510m per year (FY 24-25)</p> <div style="border: 1px solid black; padding: 5px; display: inline-block;"> <p>\$900m one-time payment</p> </div>	<p><u>ELIMINATE LIABILITY</u> \$772m one-time payment</p>	<p><u>ELIMINATE LIABILITY</u> \$99m one-time payment</p>
Meet Additional Funding Standards	Fully funded by 2054	✓	✓

88th Legislative Session Update

Summary



- Maintained or increased current state contributions for all plans
- Eliminated unfunded liabilities for LECOS and JRS2
- Addressed ERS liabilities
 - \$510 M Legacy Payment
 - One-time \$900 M supplemental payment to further reduce unfunded liabilities
 - Projected to avoid \$5.1 B in future state payments

This level of funding and ongoing commitment by the Legislature, positions the plan to fulfill the state mandated cost-of-living adjustment for certain retirees following the August 2024 valuation.

Discussion

Public Agenda Item #11
Executive Session

August 23, 2023

Executive Session



In accordance with Section 551.074, Texas Government Code, the Board will meet in executive session to deliberate the employment, evaluation, and duties of the Executive Director. Thereafter, the Board may consider appropriate action in open session.

Public Agenda Item #12

Recess of the Board of Trustees

Following a temporary recess, the Board of Trustees will reconvene to take up the remaining agenda items posted on the agenda.

August 23, 2023