

Texas Employees Group Benefits Program Policy and Guidelines

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EMPLOYEES RETIREMENT SYSTEM OF TEXAS

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Texas Employees Group Benefits Program Policy and Guidelines

Purpose of this GBP Policy

This Texas Employees Group Benefits Program (GBP) Policy applies to the basic term life and health insurance program funded through the legislative appropriation process. Currently this includes the GBP Basic Term Life and Health Plans and does not include optional benefit plans.

The GBP Health Plans are dynamic by nature. The scope and cost of health plan coverage continuously increases as a result of increases in the utilization and cost of health care as well as the development of new and generally more expensive treatments, procedures, services, supplies and drug therapies. The GBP Policy presented in this document provides a framework for the dynamic plan management, which the Employees Retirement System of Texas (ERS) must exercise to keep pace with these developments.

ERS will use this document to (i) assist in the determination of funding requests and plan design, (ii) guide operational decision making, and (iii) educate stakeholders about these plans.

The purpose of this GBP Policy is to:

- formalize the Policy Goal and establish guidelines to assist in effectively setting contribution rates and managing the plans for GBP Participants, including guidelines for consideration of increases and reductions in Member Cost Share (MCS),
- establish priorities to guide the development of the GBP Legislative Appropriation Request (LAR) and
- provide legislators, elected officials and other stakeholders with clear and accurate information concerning the impact that proposed legislation and/or policy initiatives would have on GBP costs and operations.

Background

On September 1, 1976, the Uniform Group Insurance Program (UGIP) for state employees (Article 3.50-2, Tex. Ins. Code) began operation. In 2001, the UGIP was replaced by the GBP, later codified in 2003 as Chapter 1551 of the Texas Insurance Code [Texas Employees Group Benefits Act (the Act)]. The purposes of the Act are specified under Section 1551.002:

(1) provide uniformity in life, accident, and health benefit coverages for all state officers and employees and their dependents,

- (2) 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,*
- (3) foster, promote, and encourage employment by and service to the state as a career profession for individuals of high standards of competence and ability,*
- (4) recognize and protect the state's investment in each permanent employee by promoting and preserving economic security and good health among employees and their dependents,*
- (5) foster and develop high standards of employer-employee relationships between the state and its employees,*
- (6) recognize the long and faithful service and dedication of state officers and employees and encourage them to remain in state service until eligible for retirement by providing health benefits for them and their dependents, and*
- (7) recognize the service to the state by employees and retired employees of community supervision and corrections departments by extending to them and their dependents the same life, accident, and health benefit coverages as those provided under this chapter to state employees, retired state employees, and their dependents.*

GBP Funding

Prior to each Legislative Session, ERS requests appropriations for the GBP Basic Term Life and Health Plans and makes funding recommendations to the Legislature in its biennial Legislative Appropriations Request. Through the General Appropriations Act (GAA), the Legislature specifies the amount of funding available and the State Contribution Strategy for the GBP Basic Term Life and Health Plans for the next biennium.

Scope of Board Authority

GBP Structure and Administration

The Act establishes the GBP structure, scope, eligibility and participation provisions, and certain mandatory benefits.

Section 1551.051 of the Act vests sole authority in the ERS Board of Trustees (Board) for the administration and implementation of the GBP. Section 1551.055 enumerates the general powers of the Board including:

- *develop health benefit plans that permit access to high-quality, cost-effective health care;*
- *design, implement, and monitor health benefit plan features intended to discourage excessive utilization, promote efficiency, and contain costs;*

- *develop and refine, on an ongoing basis, a health benefit strategy consistent with evolving benefit delivery systems; and*
- *develop a funding strategy that efficiently uses employer contributions to achieve the purposes of this chapter and that is reasonable and ensures participants a fair choice among health benefit plans.*

GBP Policy Goal

The goal of the GBP Policy is to offer competitive benefits at a reasonable cost. The goal of this policy is to preserve the sustainability and financial integrity of the GBP Basic Term Life and Health Plans and to:

- promote the health and wellbeing of GBP participants;
- provide benefits that current and future Members value; and
- develop, implement, and maintain innovative health benefit plan strategies that contribute to plan value.

Guidelines for Achievement of this GBP Policy Goal

The following guidelines provide a framework for achieving the GBP Policy Goal.

- Comply with the Act, including Section 1551.002 of the Texas Insurance Code, which details the purposes of the Act.
- Maintain current basic term life and health benefits and State Contribution Strategy for GBP Members, subject to legislative funding.
- Maintain a Contingency Reserve Fund equal to 60 days of average expenditures for the self-funded health, accident, and life plans in accordance with Section 1551.211, Tex. Ins. Code (Statutory Reserve Requirement), subject to state funding.
- Operate the program in an efficient and cost effective manner by examining, adopting and implementing initiatives to control cost without diminishing quality.
- Construct a benefits package that considers the total compensation package for state employees, including salary levels as an important factor that should not be overlooked.
- Minimize expenses not related to direct benefits (e.g. vendor administrative fees), and maximize federal subsidies and manufacturer revenue, avoiding taxes where possible.
- Consider use of contingency funds in excess of the Statutory Reserve Requirement to:

- offset future legislative appropriations requests and related contribution increases. Apply such rating subsidies over multiple biennia in order to avoid requesting double-digit rate increases when the excess is exhausted.
- fund benefit design changes and/or implement programs with low, reliably predictable costs (e.g., an increase in the basic term life insurance benefit amount) which are not expected to necessitate requests for additional state funding in subsequent years.
- Carefully examine proposed benefit and/or administrative changes in order to identify and avoid unintended consequences that could have a negative impact on plan performance (e.g., increased cost due to unforeseen increases in utilization of benefits).
- Protect the integrity of the GBP risk pool by limiting the participation of fully insured health plan options in the GBP to those that offer both provider access not otherwise available and cost savings to the GBP.
- Recognize that the Basic Term Life and Health Plans are subject to biennial appropriation and funded on a pay-as-you-go basis, limiting the effect of Other Post Employment Benefit (OPEB) liability on GBP decision-making.

Policy Statements

Funding

ERS submits its Legislative Appropriations Request (LAR) prior to each regular Legislative session in accordance with instructions from the Legislative Budget Board (LBB) and the Governor's Office of Budget, and Policy (GOBP).

1. Unless otherwise directed by the LBB and GOBP, ERS will include in its Base Request amounts required to:
 - a. maintain benefits under the GBP Basic Term Life and Health Plans at current levels (including all state and federally mandated benefits) through the next biennium, and
 - b. maintain the existing State Contribution Strategy.
2. ERS will request Exceptional Item funding in order to maintain the Contingency Reserve Fund at the level required to satisfy the Statutory Reserve Requirement.
3. ERS will consider including Exceptional Request amounts required to:
 - a. reduce Member Cost Share (MCS) consistent with this Policy, and/or

- b. increase basic term life insurance consistent with the requirements of this Policy, and/or
- c. encourage behavior changes which have the potential to reduce or mitigate health care cost trends.

The staff will brief and seek input from the Board members prior to the biennial submission of the LAR.

Contribution Rates

Annually, ERS will establish contribution rates for the GBP Basic Term Life and Health Plans in accordance with the funding and State Contribution Strategy provided under the GAA and in a manner “that is reasonable and ensures participants a fair choice among health benefit plans” as specified in Section 1551.051 (15) of the Act.

Member Cost Share (MCS)

Section 1551.055 grants authority to the Board to “design, implement, and monitor health benefit plan features intended to discourage excessive utilization, promote efficiency, and contain costs” (including MCS design features such as out of pocket copayment and coinsurance costs) , and the Board does so within limitations established by state and federal statutes and available funding.

The dynamic nature of the GBP Health Plans creates continuous increases in health benefits and their corresponding value to Participants due to the collective impact of the following factors.

- The utilization and cost of health care consistently increase over time.
- As the utilization and cost of health care increases, the largely fixed dollar nature of MCS reduces the proportion of the cost borne by the Member thereby increasing the proportion of the cost borne by the plan.

The persistence of these factors effectively creates continuous increases in the value of member benefits even in the absence of explicit changes in MCS.

Therefore, in order to appropriately maintain the GBP Health Plan’s solvency and protect the financial stability and sustainability of the GBP Health Plans, changes in MCS, (other than those required by or to maintain consistency with state or federal statutes and regulations, including inflationary adjustments thereto), should be made sparingly and will be considered in accordance with the following criteria:

1. Criteria for the Consideration of a Reduction in MCS for the GBP Health Plans

Prior to each Legislative Session, the Board will evaluate any potential need for a reduction in MCS that would be required to be implemented at the beginning of the next

biennium in order to achieve the purpose of the GBP as specified in Section 1551.002 (2) of the Act. The specifics of the MCS amounts that would be necessary to achieve that purpose will be determined by the Board. In order to monitor compliance with Section 1551.002 (2) of the Act, the staff will (a) provide information to the Board annually concerning MCS as a percentage of total covered health care expenditures and (b) will conduct and present to the Board periodic benchmark information regarding life, accident and health benefit coverage provided in Texas private industry.

2. Criteria for Consideration of Increases in MCS

The Board will consider an increase in MCS at the beginning of any fiscal year if such increase would be necessary to maintain a projected Contingency Reserve Fund balance of at least 15 days of expenditures for self-funded plans at the end the biennium for which the Legislature has appropriated funding.

3. General Criteria for Changes in MCS

The Board may consider changes in MCS at such other times if, in its judgment, such changes would be necessary to carry out the purposes of the Act.

If the Board determines that a reduction in MCS is required under the criteria enumerated above, such reduction will be implemented in accordance with the following process:

- ERS will include the projected cost of the MCS reduction as an Exceptional Request in its LAR for the next biennium. The Exceptional Request will provide detailed rationale and support for the reduction in MCS.
- A reduction in MCS for which the Legislature has provided funding through the GAA will be implemented at the beginning of the next biennium (or as otherwise provided for in the legislation) for which the funding has been provided.

Measuring and Monitoring the GBP Policy

Periodically, ERS staff will report to the Board on the status of the GBP Policy. ERS staff will consider the purposes of the GBP, the guidelines and policy statements contained herein, the financial condition of the GBP and industry trends and best practices when monitoring the GBP Policy.

The Board will update the GBP Policy, as needed, to reflect significant changes in funding, benefits, and methodologies used to monitor funding progress or shifts in Board goals, policies, or direction.

Key Terms

- **Contingency Reserve Fund:** The fund specified in Section 1551.211 of the Act.
- **ERS Board of Trustees (Board):** The board of trustees established under Chapter 815 of the Texas Government Code to administer the Employees Retirement System of Texas.
- **GBP Basic Term Life and Health Plans:** The basic term life and health benefits funded through the General Appropriations Act.
- **Member Cost Share:** Describes all copayments, coinsurance and deductibles applicable to the GBP Health Plans.
- **Member:** a An employee, retiree or other person eligible to participate in the GBP as provided under Chapter 1551, Tex. Ins. Code, and who is not a dependent.
- **Other Post Employment Benefits (OPEB):** Basic term life and health benefits provided to retirees under the GBP.
- **Participant:** An individual eligible to receive benefits under the GBP as provided under Chapter 1551, Tex. Ins. Code, and enrolled in GBP coverage. Participants include Members and their dependents.
- **State Contribution Strategy:** Specifies the manner in which the Legislature intends for the cost of the GBP Basic Term Life and Health Plans to be distributed between the State/employers and the Members. Under the current contribution strategy, the State pays 100% of the cost of full-time employee coverage and 50% of the cost of dependent coverage. The state contribution for a retiree varies based on the retiree's length of service at retirement.
- **Statutory Reserve Requirement:** An amount equal to the estimate of 60-days of average expenditures for self-funded GBP plans during the biennium, considering projected claims and administrative expenses for those plans as specified under Section 1551.211 of the Act.
- **Texas Employees Group Benefits Act (the Act):** Chapter 1551, Tex. Ins. Code.