Meeting of the Board of Trustees

December 4, 2015

ERS
Employees Retirement System of Texas

Presented for Review and Approval

February 23, 2016

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BOARD OF TRUSTEES MEETING
EMPLOYEES RETIREMENT SYSTEM OF TEXAS

December 4, 2015
ERS Board Room
ERS Building – 200 E. 18th Street
Austin, Texas 78701

TRUSTEES PRESENT
I. Craig Hester, Chair
Doug Danzeiser, Vice-Chair
Cydney Donnell, Member
Brian Ragland, Member

TRUSTEES NOT PRESENT
Ilesa Daniels, Member*
Frederick E. Rowe, Jr., Member

ERS STAFF PRESENT
Porter Wilson, Executive Director
Catherine Terrell, Deputy Executive Director
Shack Nail, Special Projects and Policy Advisor
Paula A. Jones, General Counsel and Chief Compliance Officer
Tony Chavez, Internal Auditor
Bernie Hajovsky, Director Enterprise Planning Office
Robin Hardaway, Director of Customer Benefits
Robert Kukla, Director of Benefit Contracts
Machelle Pharr, Interim Chief Financial Officer
Ralph Salinas, Director of Human Resources
Kathryn Tesar, Director of Benefits Communications
Tom Tull, Chief Investment Officer
Charles Turner, Chief Information Officer
Nora Alvarado, Benefit Contracts
Georgina Bouton, Benefit Contracts
Lisa Caffarate, Benefit Contracts
Kelley Davenport, Executive Office
Christi Davis, Customer Benefits
D'Ann Deleon, Benefit Contracts
Blaise Duran, Benefit Contracts
Leah Erard, Governmental Affairs
Beth Gilbert, Internal Audit
Gunther Goetz, Legal Services
Ginger Grissom, Benefit Contracts
Adrianne Henderson, Benefit Contracts
Megan Hunter, Benefit Contracts
Michael Keith, Customer Benefits
Pamela Maas, Benefit Contracts
Michelle Moore, Benefit Contracts
Lauren Russell, Benefit Contracts
Chineque Sterns, Human Resources
Gabriella Stokes, Legal Services
Bernely Tharp, Benefit Contracts
Angelica Torres, Benefit Contracts

**Footnote: Absence excused by vote of the Board upon convening of the Board of Trustees*

Mary Jane Wardlow, Governmental Affairs
Serena Zetina, Benefits Communications

ALSO PRESENT
Steve Alexander, UnitedHealthcare
Patty Armstrong, Aon Hewitt
Nick Arnold, Humana
Mitchell Bilbe, Rudd & Wisdom, Inc.
Bruce Dale, Empower Retirement
Bill Dally, Retiree
Phil Dial, Rudd & Wisdom, Inc.
Krystal Duran, Sunset
Kris Hefner, CVS/Caremark
Emily Johnson, Sunset
Jennifer Jones, Sunset
John Kuhl, Cox, Castle & Nicholson
Brittany McCollum, CVS/Caremark
Kim McLeod, UnitedHealthcare
Jennifer Modrea, Minnesota Life
Daniella Nasar, Sunset
Pallav Tatapudi, CVS/Caremark
Amy Wells, Cox, Castle & Nicholson
Skylar Wilke, Sunset

Mr. Craig Hester, Chairman of the Board of Trustees of the Employees Retirement System of Texas (ERS), called the meeting to order and read the following statement:

"A public notice of the Board of Trustees meeting containing all items on the proposed agenda was filed with the Office of the Secretary of State at 1:33 p.m. on Monday, November 23, 2015 as required by Chapter 551, Texas Government Code, referred to as "The Open Meetings Law."

Upon adjournment of the Audit Committee, the Board of Trustees convened as a committee of the whole to consider the following Board agenda items. Minutes to the August 18, 2015 Audit Committee Meeting are located under the Audit Committee agenda minutes.

XV. EXECUTIVE SESSION – IN ACCORDANCE WITH SECTION 551.074, TEXAS GOVERNMENT CODE, THE BOARD OF TRUSTEES WILL MEET IN EXECUTIVE SESSION TO EVALUATE THE DUTIES, PERFORMANCE AND COMPENSATION OF THE INTERNAL AUDITOR OF THE EMPLOYEES RETIREMENT SYSTEM OF TEXAS. IN ACCORDANCE WITH SECTION 551.071, TEXAS GOVERNMENT CODE, THE BOARD OF TRUSTEES WILL ALSO MEET IN EXECUTIVE SESSION TO SEEK THE ADVICE OF ITS ATTORNEYS ABOUT PENDING OR CONTEMPLATED LITIGATION OR ON A MATTER IN WHICH THE DUTY OF THE ATTORNEYS TO THE GOVERNMENTAL BODY UNDER THE DISCIPLINARY RULES OF PROFESSIONAL CONDUCT OF THE STATE BAR OF TEXAS CLEARLY CONFLICTS WITH CHAPTER 551. THEREAFTER THE BOARD MAY CONSIDER APPROPRIATE ACTION IN OPEN SESSION.

At 9:20 a.m. on Friday, December 4, 2015, Mr. Craig Hester, ERS Board of Trustees Chair, announced the ERS Board of Trustees would be going into executive session in accordance with Texas Government Code §551.074, to evaluate the duties, performance and compensation of the Internal Auditor of the Employees Retirement System of Texas. In accordance with Texas Government Code §551.071, the Board of Trustees will also meet in executive session to seek the advice of its attorneys about pending or contemplated litigation or on a matter in which the duty of the attorneys to the governmental body under the Disciplinary Rules of Professional Conduct of the State Bar of Texas clearly conflicts with Chapter 551. Thereafter the board may consider appropriate action in open session.

A certified agenda was kept while in executive session.

At 11:20 a.m. on Friday, December 4, 2015, the Board of Trustees returned to open session and Mr. Hester announced that no action, decision, or vote was taken by the Board while in Executive Session. Mr. Hester further stated he would entertain any motions from members of the board.

MOTION made by Ms. Cydney Donnell, seconded by Mr. Brian Ragland and carried unanimously by the present members of the Board of Trustees of the Employees Retirement System of Texas that, in recognition of Internal Auditor Tony Chavez' outstanding job performance during calendar year 2015, and recognizing that his performance has routinely exceeded the board's expectations and has been distinguished, moves that the Board of Trustees promote Mr. Chavez to Director III and receive a promotion increase to his salary of 10.74%, effective January 1, 2016.

Mr. Craig Hester then congratulated Mr. Chavez on the performance of ERS' auditing department.

The foregoing is a true and accurate statement of the action taken by the Board of Trustees at the December 4, 2015 Board of Trustees meeting.

XVI. REVIEW AND APPROVAL OF THE MINUTES TO THE AUGUST 18, 2015 MEETING OF THE BOARD OF TRUSTEES

Board of Trustee Chair, Craig Hester opened the floor for a motion on the approval of the minutes to the Board of Trustees Meeting held on August 18, 2015.

MOTION made by Ms. Cydney Donnell, seconded by Mr. Brian Ragland and carried unanimously by the present members of the Board of Trustees of the Employees Retirement System of Texas to approve the minutes held on August 18, 2015.

XVII. DISABILITY RETIREMENT REVIEW, APPEALS PROCESS AND STATISTICAL INFORMATION

ERS staff in the Legal Services and Customer Benefits divisions presented information to the board concerning ERS' administration of occupational and nonoccupational disability retirement benefits. Ms. Paula A. Jones, General Counsel and Chief Compliance Officer, noted these benefits were established by the legislature for state employees who become permanently disabled during their employment. Occupational disability retirement benefits are different from workers' compensation benefits because, in order to receive disability benefits through an occupational or nonoccupational disability retirement, a member must meet specific statutory requirements, including proof that he or she is permanently incapacitated from employment.

Ms. Robin Hardaway, Director of Customer Benefits, introduced Michael Keith, a Disability Specialist in the Customer Benefits Division, who presented information on the application and medical review processes for disability retirement. Ms. Jones introduced Gunther Goetz, an Assistant General Counsel in the Legal Services Division, who handles a significant number of ERS' administrative appeals, collections, and subrogation. Mr. Goetz presented an overview of the disability retirement appeals process. Since disability retirees receive retirement annuities and other benefits earlier than service retirees, ERS has a rigorous review and medical certification process to determine eligibility for disability retirement benefits. A retirement application packet is first received and reviewed by ERS Customer Benefits staff. If the packet is complete, the file is sent to the ERS Medical Board for review. All approvals and initial denials for disability retirement benefits are then reviewed by the General Counsel, with final approval being made by the Director of Customer Benefits pursuant to delegation by the Executive Director. Members whose applications for disability retirement are denied by ERS may appeal the denial to the State Office of Administrative Hearings (SOAH). The Executive Director, who has been delegated the authority by the Board pursuant to §815.511(d) of the Texas Government Code, makes the final agency determination once SOAH has issued its final proposal for decision. ERS' final decision may be further appealed by the member to the Travis County district court.

Mr. Keith concluded this presentation by providing the board with historical statistics related to disability retirement.

Mr. Hester asked if there are conditions where a peace officer has been disabled and is receiving disability from the Social Security Administration, where we might deny his application for benefits. Ms. Hardaway confirmed there was one such situation, where the officer was given the opportunity to provide additional information that was not received. Ms. Jones noted that there would be a denial of enhanced disability retirement benefits if the reason for the officer's social security disability was not due to the illness/injury that was the cause of the occupational disability.

Mr. Hester commented that a number of years ago, the Board delegated the authority to the Executive Director to make a final determination on these cases. Mr. Hester asked if there was anything else the Board needs to do from an oversight perspective as it relates to disability cases. Ms. Jones responded that the Board delegated authority to the Executive Director in 2006 to make final determinations in appeals, and the Board is provided a summary of all cases decided by the Executive Director on an annual basis. The Board remains informed of case decisions, whether or not SOAH's recommendations are adopted, and how appeals are administered. In Ms. Jones' opinion, the Board is maintaining oversight over the appeals.

Ms. Donnell asked if ERS has the ability to track wage information for persons no longer working for a state agency, and Ms. Hardaway confirmed that ERS receives reports of wages earned by disability annuitants who earn reported wages in Texas.

Mr. Danzeiser asked how common it is for a denial to be reversed at SOAH or in court. Ms. Jones responded that such situation would be very rare, and could only remember one reversal in the last four or five years on an occupational disability.

This agenda item was for informational purposes, and no action was required on this item.

XVIII. REVIEW, DISCUSSION AND CONSIDERATION OF THE RULES OF THE BOARD OF TRUSTEES, 34 TEXAS ADMINISTRATIVE CODE, PART IV: REQUIRED RULE REVIEW AND AMENDMENTS TO CHAPTER 67 (HEARINGS ON DISPUTED CLAIMS) AND AMENDMENTS TO CHAPTER 71 (CREDITABLE SERVICE)

Ms. Paula A. Jones, General Counsel and Chief Compliance Officer, presented the required rule review and proposed amendments, repeals and addition of a new rule to Chapter 67 (Hearings on Disputed Claims) and proposed amendments to Chapter 71 (Creditable Service).

Chapter 67 was proposed to be amended to include the following, as more fully set forth in the agenda item:

- clarify and update the rules: eliminate redundant, unnecessary and undefined terms; correct minor typographical errors;
- incorporate and consolidate statutory definitions: revise defined terms and include a definition of "good cause;"
- require an appellant to sign and file a release authorizing admission of relevant confidential information in order to properly and efficiently adjudicate an appeal;
- assure standards are the same as provided in ERS' statutes;
- include email as a proper method of service;
- clarify grounds for extension of deadlines when agreed to by the parties;
- include ERS Administering Firms and Insurers as interested parties who may request to intervene in a proceeding;

- include a provision to permit a party to record nonprivileged discussion during the hearing without need to request leave from the Examiner;
- Provide consistency with new legislation.

Sections 67.17, 67.95 and 67.97 were proposed to be repealed as unnecessary, redundant or inconsistent with new legislation.

New rule §67.201 was proposed to codify ERS' bid protest procedures available to a vendor aggrieved by the solicitation, evaluation or award of a contract by ERS. The proposed rule also provides that, in certain circumstances, a bond may be required to be posted when a protest is filed if ERS utilized professional actuarial services in connection with any recommendation to award a contract to a vendor. Posting of bond in these instances is in the best interest of ERS' trust funds and is necessary to limit or prevent the filing of protests that are frivolous, filed in bad faith, for the purposes of delay of the bid and award process or for other reasons not supported by applicable law and facts.

Chapter 71 (Creditable Service) was proposed to be amended to eliminate the 90-day waiting period for membership in the retirement system effective September 1, 2015. The amendment conforms to new legislation, Chapter 331 (H.B. 9), Acts of the 84th Legislature, Regular Session, 2015, amending §812.003, Texas Government Code, while retaining the ability for members to purchase service. Section 71.14 is proposed to be amended to clarify that any interest paid as part of a payment to establish or reestablish service credit is not considered a "penalty," but rather is considered as ordinary interest on amounts required to establish service.

Ms. Jones informed the board that notices of the proposed amendments, repeal and addition of a new rule to Chapter 67 and proposed amendments to Chapter 71 were published in the October 16, 2015 issue of the *Texas Register*, as required by statute. No comments were received on the proposed amendments, repeals or new rule. The Board was also informed that the law requires ERS to review its rules every four years to determine if the reason for adoption still exists. Notice of the intent to review Chapter 67 was published in the May 8, 2015, issue of the *Texas Register*, as required by statute. No comments were received on the proposed rule review.

There being no further questions or discussion, the Board took the following action:

MOTION made by Mr. Doug Danzeiser, seconded by Cydney Donnell, and carried unanimously by the present members of the Board of Trustees of the Employees Retirement System of Texas that the Board takes the following actions with regard to the Rules of the Board of Trustees, promulgated in 34 Texas Administrative Code, Part IV, as set forth in Exhibits A and B, which are attached to and incorporated by reference into the agenda item:

- Adopt the proposed amendments, repeals and addition of a new rule to Chapter 67, concerning Hearings on Disputed Claims, as reflected in the agenda item;
- Readopt Chapter 67, as amended and as provided in the agenda item, because the reasons for initially adopting the chapter continue to exist; and
- Adopt the proposed amendments to Chapter 71, concerning Creditable Service, as reflected in the agenda item.

XIX. REVIEW AND DISCUSSION OF THE TEXA$AVER 401(k) AND 457 PROGRAM AND MONITORING STRATEGY OVERVIEW

Mr. Rob Kukla, Director of Benefit Contracts introduced Nora Alvarado, Manager of the Account Management Team and Certified Texas Contract Manager (CTCM), and Pamela Maas, Program Account Manager and CTCM candidate within the Benefit Contracts division. Ms. Alvarado provided an overview of the contract-monitoring process and reported some of the program contracts that are subject to the enhanced contract and performance monitoring are those contracts related to the administration and delivery of the HealthSelect program, HealthSelect Pharmacy Benefit Manager, HealthSelect Employer Group Waiver plan, HealthSelect Medicare Advantage PPO, and the Dental PPO. The level of frequency of the performance monitoring is dependent on the contract value and is essential for effective contract management.

Ms. Alvarado informed the Board the effective contract management is best represented as a four step process which includes the following activities: Planning, Procurement, Contract Formation/Rate/Price Establishment, and Contract Oversight with consistent monitoring and enforcement of the terms of the contract. Ms. Alvarado stated that ERS contracts with a variety of providers for the administrative services for the various programs offered within the Group Benefits Program (GBP) and the Deferred Compensation program. Each contract assigns the services, products and other deliverables due to ERS, the GBP, and the members. Each contract also sets forth conditions for the vendor's failure to meet the contractual requirements and may result in assessment of a performance guarantee or liquidated damages. Ms. Alvarado stated the purpose of contract oversight is to ensure that the vendor is performing all duties in accordance with the contract, and for the agency to be aware and address any issues.

The account management team is responsible for contract oversight of assigned vendors for contractual compliance, documenting the monitoring activities, and finding and reporting to management on a timely basis. Ms. Alvarado further stated that each account manager reviews vendor performance to regular meetings in additional to operational meetings, quarterly and annual executive meetings regarding the performance of the specific plan operational actions and updates to strategic planning. The Monthly Administrative Performance Report (MAPR) is a component of the overall contract monitoring strategy. The MAPR is the most current statistical report due from the vendor. It reflects specific contract performance areas the vendor is required to report performance levels on an ongoing basis and reviewed by the account management and Benefit Contracts management on a monthly basis to identify trends and performance compliance.

Ms. Alvarado proceeded to provide the Board an overview of the Texa$aver Program (Program) and stated the current third party administrator is Empower Retirement (formerly known as Great-West Retirement Services). The Program is comprised of two plans: the 457 plan and the 401(k) plan. Employees of higher education institutes can participate in the 457 plan; employees of state agencies can participate in either or both plans. The Program has assets totaling approximately $2.4 billion. Ms. Alvarado reported that beginning in January 2016, participants will have the option to either defer a dollar or percentage amount to either plan with a minimum of 1% or $20. She also reported ERS will be implementing in-plan Roth conversion which is scheduled to go live in late spring.

Since January 2008, all newly hired state employees are automatically enrolled into the 401(k) plan at a default contribution rate of 1.0%. Approximately 49,000 of these auto-enrollees have increased their deferrals over the 1.0% default contribution rate. Ms. Alvarado reported the Roth contribution option, which has been available in both the 401(k) and 457 plans since January 2012, has approximately $19.2 million. The Program's overall weighed average fund expense ratio in the third quarter of 2015 was a net of 30 basis points.

Ms. Alvarado reported that every year, staff within the Benefit Contracts division perform a review of the fee stratification tiers and, if necessary, propose adjustments as needed based on actual enrollment figures. A review was performed by the Underwriting Data Analysis and Reporting team. Based on this review, a recommendation has been formulated that the administrative fees paid by the participants should not change for calendar year 2016 and should remain the same.

In a response to a question asked by Chairman Hester questioning if the 30 basis point fee is included in the investment management custody and the administration of the plan, Mr. Kukla stated the only thing that it does not include is the fees charged by the mutual funds for the service.

Ms. Maas informed the Board on the monthly monitoring strategy for the Program's TPA consists of an active review of 53 criteria across four categories. Ms. Maas explained that 19 of these criteria are subject to performance guarantees. Service categories are organized into 4 general components: Account Management, Customer Service, Operations and Systems and Data Management. Ms. Maas reported the account management review includes a monthly review of reports that include information about the loans, enrollment, field activity, account accuracy, fees, and bank statements. The customer service review includes review of emails, call monitoring, written correspondence and accuracy of participant statements. The operations review includes qualified domestic relations orders and mailing of the participant statements. The system and data management includes a review of internet access, enrollment demographic files, and unplanned computer downtime.

Ms. Maas reported on the performance guarantee which consists of four levels of severity. The level of severity determines the amount ERS can impose as a performance guarantee. The risks range from 2% to 50% of the total dollar amount.

There were no questions or further discussion, and no action was required on this item.

XX. <u>REVIEW, DISCUSSION AND CONSIDERATION OF THE TEXAS EMPLOYEES GROUP BENEFITS PROGRAM:</u>

a. Health Insurance Financial Status update for Fiscal Year 2015 and Outlook for Fiscal Year 2016

Mr. Rob Kukla, Director of Benefit Contracts introduced Blaise Duran, Team Lead of Underwriting, Data Analysis and Reporting. Mr. Kukla provided the board with a fiscal year 2015 review and stated ERS ended the year with a net gain of $61.2 million. The GBP ended FY2015 with favorable experience despite increasing prescription drug expenses. The drug trend was over 13.9% due to Hepatitis C treatments which totaled $40.8 million along with topical analgesics exceeding 30% of dermatological spending in FY2015. As far as the medical trend, it was approximately 6.7%. Mr. Kukla stated ERS will end the year with a contingency fund balance of $440.5 million which is significantly higher than what was reported at the August 2015 board meeting.

Mr. Duran reported the results for fiscal year 2015, based on data available through September 2015 indicating an actual gain of $61.2 million, an improvement of $93.6 million over staff's original estimates at the start of fiscal year 2015. This significant improvement is attributable to the factors presented in the following chart:

Analysis of Change in Health Plan Gain/(Loss) for FY2015
($millions)

	Projected as of September 2014	Projected as of September 2015	Change
Experience Loss (excess of claims over contributions)	**($190.2)**	**($168.8)**	**$21.4**
Other Revenue			
Prescription Drug Rebates	$97.1	$118.1	$21.0
EGWP Subsidies	$94.1	$110.6	$16.5
Additional Rebates/Subsidies from Prior Periods	$0.0	$25.4	$25.4
Net Miscellaneous Revenue (excess of misc revenue over misc expenses)	($33.4)	($24.1)	$9.3
TOTAL	**$157.8**	**$230.0**	**$72.2**
GAIN/(LOSS)	**($32.4)**	**$61.2**	**$93.6**

ERS has transparent contracts with its pharmacy benefit manager and receives 100% of all rebates. Payments for rebates can stretch out over many years. As additional information became available for fiscal year 2015, expected rebates were increased by $21 million. Mr. Duran reported the EGWP subsidies had a similar experience emerge, increasing the accrual by $16.5 million. With better transparency and forecasting, $25.4 million in additional rebates from prior periods was attributed to the collection of rebates in fiscal year 2015. Mr. Duran reported that $9.3 million was received in net miscellaneous revenues.

Ms. Donnell then commended Mr. Duran and Mr. Kukla for staying on top of the drug trends.

Mr. Duran reported that ERS continues to have great success with the Patient-Centered Medical Homes and is looking to add new providers. The savings calculations for 2015 will be finalized in January and the initial review shows significant savings for 2015. The dependent eligibility audit saved approximately $14.2 million net of fees in fiscal year 2015. Mr. Duran is anticipating a $6 million in savings for fiscal year 2016.

Mr. Kukla reported on the outlook of fiscal year 2016 with the health plan trend to be around 8%. There will be a reduction in pharmaceutical drug trends if utilization of Hepatitis C drugs continues to stabilize. There was a 7% contribution increase from the Legislature. The GBP is expected to generate a loss of $34.7 million in fiscal year 2016 and the contingency fund balance would be reduced to $405.8 million at end of fiscal year 2016.

David Doctor, senior vice-president with Active Health Management addressed the board with his observation on ERS' overall care and management strategy. Mr. Doctor noted that his company works with a number of states to help mitigate their overall plan cost trends. Active Health Management addressed ERS at the July 15, 2015 Solution Session.

There were no questions or further discussion, and no action was required on this item.

b. Actuarial Valuation of Retiree Health Insurance Benefits as of August 31, 2015

In accordance with Chapter 2264, Texas Government Code, Rudd and Wisdom, Inc., ERS' consulting actuary for insurance, conducted an actuarial valuation of state and higher education retiree insurance benefits, known as Other Post-Employment Benefits (OPEB), under the Texas Employees Group Benefits Program (GBP) for fiscal year ending August 31, 2015. Mr. Phil Dial, Rudd and Wisdom stated that the information that is required under the Governmental Accounting Standards Board Statement Number 43 (GASB 43) is reported by ERS in the notes and supplementary information that is contained in the CAFR. This information is provided to the Comptroller. The Comptroller obtains similar information from Teacher Retirement System. Mr. Dial reported the Comptroller is not required under GASB to report the information directly in the financial statements. GASB 43 requires the disclosure of the Annual Required Contribution (ARC), but the employer is not required to contribute the ARC each year.

Mr. Dial reminded the board that from the 83rd legislative session, Senate Bill 1459 introduced the tiered retirement concept with the amount of state contribution for retiree health insurance dependent upon the length of service at retirement, with 10 years but less than 15 years of service required to get 50% contribution for the retiree and 25% contribution for the dependent. Those with 15 but less than 20 years of service will receive 75% of the state's contribution and finally those with 20 years or more of service will receive 100% of the state's contribution.

Mr. Dial reported that this is the third valuation to reflect the impact of Senate Bill 1459. Senate Bill 1459 has a small impact on the fiscal year 2015 OPEB liabilities and costs since it applies to a small segment of membership with most of them not eligible to retire for many years. Senate Bill 1459 will over time reduce the State's liability and costs for employees who retire with less than 20 years of service and discourage some employees and vested terminated members with less than 20 years of service from enrolling for insurance upon retirement.

Mr. Mitchell Bilbe, of Rudd and Wisdom, announced to the board the way to determine the liability on the plan is to use an actuarial cost method to take the present value of the future benefits and assign a portion of them to past service that becomes a liability. Mr. Bilbe explained the actuarial assumptions and stated the demographic and pay-related assumptions are the same as those used in valuing the retirement plans. The discount rate for a plan funded on a PAYGO basis is based on the rate of return on the employer's assets.

The demographic assumptions include mortality, rates of disability, and retirement. Mr. Bilbe reported that calculation for the state agency employees use the same demographic assumptions used for the retirement plan valuation by ERS in FY14 and FY15. For higher education employees and retirees, the TRS board adopted some new assumptions this year and will be incorporated into this valuation.

Mr. Bilbe reported the economic assumptions include: inflation, payroll growth and inflationary salary increases, and salary increases for merit, promotion and longevity. He stated the same assumptions are used for retirement plan valuations for both ERS and TRS.

Mr. Dial then announced that the OPEB liability for the GBP are funded on a pay-as-you-go basis and under GASB 43 that requires the discount rate be based on the expected yield of assets of the employer because there are no assets in the plan. For the State of Texas, the "*assets of the employer"* are the assets held in the Treasury Pool and managed by the Comptroller. The average annual real rate of return (return in excess of inflation) for the Treasury Pool has been approximately 2.0% over the last 30-years. Based on this analysis and the inflation assumption, an assumed discount rate of 5.5% is used in the OPEB valuation. Mr. Bilbe reported this is the same discount rate used since fiscal year 2008.

Mr. Dial reported the valuation is based on projected per capita health benefit costs for fiscal year 2015 by gender and age. With the addition of the Medicare Advantage PPO effective January 2012, it became necessary to have two sets of per capita health benefit costs, HealthSelect and HealthSelect Medicare Advantage. HealthSelect medical and prescription drug per capita benefit costs are based on the extensive historical database which allows determining both the actual cost as well as the emerging cost trends.

A select and ultimate trend assumption is used which begins at the levels used for the current biennium. The trend is expected to be 8.5% through fiscal year 2017 and then decline over the next six years to a sustainable ultimate level.

Mr. Bilbe informed the board the population used in the valuation is broken down between actives, deferred vested, and retirees. Mr. Bilbe reported that the 230,000 actives that are included differ from the covered population as it includes those who have not yet satisfied the wait period. The deferred vested are the former employees who satisfied the service criteria to be eligible for benefits in the future. And then the 109,000 retirees which includes around 3,700 retirees receiving opt-out credit.

Mr. Dial stated that beginning in fiscal year 2017, GASB is replacing Statement No. 43 with Statement No. 74, which will require significant changes in the valuation for unfunded plans like the GBP. The discount rate will be required to be based on yields of 20-year tax exempt general obligation municipal bonds with an average rating of AA/Aa or higher. If GASB follows the market-to-market approach required for retirement plans under GASB 67 and 68, the expected discount rate for fiscal year 2017 could be lower than the current discount rate depending upon the yield of those bonds going forward.

The net OPEB liability will be equal to the difference between the actual accrued liability, which of course is determined using the new discount rate and the fair value of plan assets, which is currently zero and would be expected to be in 2017 since the plan's PAYGO approach will continue. Mr. Dial stated there will be sensitivity analysis of the Net OPEB liability of 1% changes in either direction for the discount rate and in the trend rate.

GASB 74 may require some changes in the presentation of OPEB expense and liability information. Mr. Bilbe mentioned that the GASB 43 is not shown on the financial statements, but in the notes and supplementary information contained in the CAFR. Mr. Bilbe reported the ERS team is working with the Comptroller as to how GASB 75 affects the presentation for both ERS and for the State as well.

There being no further questions or discussion, the Board took the following action:

MOTION made by Ms. Cydney Donnell, seconded by Doug Danzeiser, and carried unanimously by the members of the Board of Trustees of the Employees Retirement System of Texas accept the actuarial valuation for retiree health benefits under the Texas Employees Group Benefits Program for Fiscal Year 2015 performed by Rudd and Wisdom, Inc.

c. HealthSelect Program and Monitoring Strategy Overview

Mr. Rob Kukla, Director of Benefit Contracts introduced Lauren Russell, Program Account Manager and Certified Texas Contract Manager to present the overview of the HealthSelect Program and Monitoring Strategy. Ms. Russell reported that HealthSelect is a self-funded, managed care, point-of-service health plan comprised of both medical and prescription drug coverage. The United HealthCare Service, Inc. provides medical administrative services and Caremark RX, LLC, provides prescription drug administrative services. The plan is available to active employees, retirees, and other eligible dependents.

Ms. Russell reported that the enrollment in the HealthSelect plan remains steady with 439,390 participants enrolled for fiscal year 2016 which represents approximately 81% total GBP participants. The program is subject to enhanced contract monitoring as required under the Texas Government Code. Monitoring tactics for the program include, but are not limited to, conducting cross-divisional operation meetings, identifying potential performance issues with a Monthly Administrative Performance Report (MAPR), facilitation of strategic planning meetings, and reviewing findings from external compliance audits.

The MAPR is designed to be a comprehensive monitoring tool for the ERS account management team which includes tracking of each performance guarantee under the contract. Within the UnitedHealthcare MAPR, there are 31 specific services which are organized into four major service categories: Account Management; Operations; Customer Service; and Systems and Data Management.

Ms. Russell stated the performance guarantees are formulated during the procurement process and are graded in level of severity from 1 to 4 based on their ability to negatively impact GBP participants and access to care. Ms. Russell continued to give examples of severity levels and noted that a level 1 (emergency) would include loading maintenance eligibility files timely and accurately so members continue to have coverage. A Severity level 2 (critical) would include items like provider network access and resolution of file transaction failures. Severity level 3 (moderate) would include items such as written notice of changes, claims processing accuracy and timeliness. Severity level 4 (minor) would include communication material requirements, average speed of answer, mailing of ID cards timely to purchase events and web site availability rate. Mr. Kukla responded that each one has a percentage associated with it (the amount that is placed at risk) and ERS requires within the RFP process that a third party administrator will put at least 10% of their fee at risk for performance standards.

This section is illustrative of the four (4) severity levels assigned to each business-critical service function listed in Section 1 as reflected below:

Level of Severity	Definition	Allocation of Amount at Risk
Severity 1 – Emergency	Mission critical systems are down; or a substantial loss of service; or business operations have been severely disrupted; or a major milestone has not been met. In each situation, no work-around that is acceptable to ERS is immediately available.	50% of the aggregate annual amount at risk for each occurrence
Severity 2 – Critical	A major functionality is severely impaired. Operations can continue in a restricted fashion; however, client and/or member service(s) are adversely affected.	25% of aggregate annual amount at risk for each occurrence
Severity 3 – Moderate	Business operations have been adversely impaired in a moderate manner. A temporary work-around that is acceptable to ERS is immediately available.	• Occurrence 1 = 3% of aggregate annual amount at risk • Occurrence 2 = 5% of aggregate annual amount at risk • Occurrence 3 = 6% of aggregate annual amount at risk • Occurrence 4 = 9% of aggregate annual amount at risk
Severity 4 – Minor	Business operations have been adversely affected in a limited manner requiring a modification of current policies and/or processes.	2% of aggregate annual amount at risk for each occurrence

Ms. Russell informed the board that Caremark Rx, LLC has been providing prescription drug administrative services for ERS since September 1, 2008. The MAPR for Caremark has 21 services which are organized into the same four major service categories (Account Management, Operations, Customer Service, and Systems and Data Management).

There were no questions or further discussion, and no action was required on this item.

d. GBP Medicare Plans and Monitoring Strategy Overview

Mr. Rob Kukla, Director of Benefit Contracts introduced D'Ann DeLeon, Program Account Manager and Certified Texas Contract Manager to present an overview on the GBP Medicare Plans and the program's monitoring strategy. Ms. DeLeon stated that ERS offers two Medicare options and one Medicare prescription drug plan for GBP Medicare-eligible retirees and Medicare-eligible dependents. Humana Medicare Advantage administers the medical-only branded as HealthSelect^{SM} Medicare Advantage plan. SilverScript administers the prescription drug plan branded as HealthSelect^{SM} Medicare Rx plan, and KelseyCare Advantage is the Medicare HMO medical-only plan in the Houston area.

Ms. DeLeon reported the Medicare Advantage Preferred Provider Organization (MA PPO) plan is statewide and all participants must be eligible for primary coverage under Medicare Part A and B. The MA PPO provides a custom benefit design which provides the most comprehensive benefit to GBP Medicare-eligible participants. All Medicare primary participants are automatically enrolled in the MA PPO. They can choose to opt out of the MA PPO and remain in the HealthSelect program; this opt out strategy to retain prior coverage is not available on the prescription drug program (PDP). Ms. DeLeon informed the Board the contract period administered by Humana, the administrator of the MA PPO program, is from January 1, 2012 through December 31, 2017. The MA PPO continues to provide the most cost effective medical benefits for major primary GBP participants. Ms. DeLeon reported that enrollment for the MA PPO continues to grow for calendar year 2015. As of August 2015, there were 62,843 participants enrolled in the MA PPO plan.

The HealthSelect Medicare Advantage plan is subject to enhanced contract monitoring. The MAPR is a component of the overall contract monitoring strategy utilized. Ms. DeLeon reported that for calendar year 2014, the MAPR reflects 16 services specific to contract oversight; all of the services are subject to performance guarantees. These services are organized into the four categories of Account Management, Operations, Customer Service and Systems and Data Management. Ms. DeLeon stated for the reporting period Humana did not have any performance guarantees assessed.

HealthSelect^{SM} Medicare Rx is the Employer Group Waiver Plan (EGWP); this program is administered by SilverScript. The prescription drug plan is available to Medicare-primary GBP participants. Ms. DeLeon stated that unlike the HealthSelect Medicare Advantage program, if a participant opts out of the HealthSelect Medicare Rx plan, there is no alternate PDP plan to elect. In this instance the participant has opted out of PDP coverage. The contract with SilverScript began January 1, 2013 and continues through December 31, 2016.

Ms. DeLeon then informed the Board that since September 1, 2014, ERS has allowed Medicare primary participants to automatically age into the HealthSelect Medicare Rx when they attain age 65. Participants who became Medicare primary prior to September 2014 were previously held from aging into the HealthSelect Medicare Rx program; however, these participants were moved in to the EGWP PDP as of January 1, 2015. She also reported that the HealthSelect Medicare Rx continues to provide the most cost-effective prescription drug coverage for Medicare primary GBP participants. Enrollment has increased for calendar year 2015; as of August 2015, there are 85,717 participants enrolled.

The MAPR reflects the contract performance areas for SilverScript. For calendar year 2014, the MAPR captures 23 specifics to the contract oversight and 22 services are subject to performance guarantees. These services are organized into four categories of Account Management, Operations, Customer Service and Systems and Data Management. Ms. DeLeon reported that for calendar year 2014, SilverScript did not receive any performance guarantee assessment.

There were no questions or further discussion, and no action was required on this item.

e. Dental Insurance Programs and Monitoring Strategy Overview

Mr. Rob Kukla, Director of Benefit Contracts introduced Ms. Angelica Torres, Program Account Manager and Certified Texas Contract Manager to present an overview of the Dental Insurance Programs and the program's monitoring strategy. Ms. Torres informed the board there are three dental insurance options available to Participants: two insurance programs and a discount dental plan (non-insurance option). The State of Texas Dental Choice Plan is a self-funded dental insurance designed as Preferred Provider Organization (PPO) plan. The Dental PPO plan is administered by HumanaDental Insurance Company under a four-year term contract that began on September 1, 2014 and will run through December 31, 2018. Under this dental insurance option, Participants have the option to choose their dental provider but receive a better benefit from in-network providers.

The second dental insurance option is the Dental Health Maintenance Organization (DHMO) plan. This is a fully-funded dental insurance option which is provided by DentiCare, Inc., a wholly owned subsidiary of Humana, Inc. The DHMO plan is a four year term awarded in September 1, 2014 and extends through August 31, 2018. With this dental insurance option, Participants must see a contract provider to have access to benefits.

The third dental option is a non-insurance option: State of Texas Dental Discount Plan℠. This dental discount plan is administered by Careington International. The contract runs from September 1, 2014 through August 31, 2018. Given that this is a non-dental insurance, the participant receives a discount off of contracted providers' usual charges at the time services are rendered. Since this is not an insurance plan, claims data is not transmitted to the vendor.

Overall, enrollment within the dental options continues to grow at a rate of just over 2.0% annually. The enrollment in the dental options for fiscal year 2016 is over 423,000 participants. Specifically, enrollment in the PPO increased about 5.11% from fiscal year 2015 with over 280,000 participants. Enrollment in the DHMO plan decreased 5.51% for the same reporting period. Ms. Torres stated ERS anticipates a downward trend in the DHMO enrollment due to the inception of the State of Texas Dental Discount Plan. Enrollment in the discount dental option increased to 9,300 participants. This enrollment is up from the prior period's reporting of 6,627 participants; overall, the percentage increase in participation in the dental discount program is 40.33%.

The MAPR is a customized tool for the GBP vendor and the fully ensured PPO plan is subject to enhanced contract monitoring. The MAPR reflects 33 services specific to contract oversight and 22 of those are subject to performance guarantees which are categorized in the four categories of Account Management, Operations, Customer Service and Systems and Data Management.

Ms. Torres reported that the Dental HMO, DentiCare is required to report on 22 services for the fully insured DHMO contract. Of those, 18 are subject to the performance guarantees and are organized in the four categories as the PPO.

There were no questions or further discussion, and no action was required on this item.

f. Basic and Optional Term Life, Accidental Death and Dismemberment Plans

Mr. Rob Kukla, Director of Benefit Contracts introduced Megan Hunter, Program Account Manager and Certified Texas Contract Manager candidate, to present to the board on the Basic and Optional Term Life, Accidental Death and Dismemberment plans. Ms. Hunter informed the Board the Ms. Hunter informed the board the GBP offers basic and optional term life, accidental death and dismemberment, and voluntary accidental death and dismemberment which are offered to employees with state agencies, higher education, and retirees. The plans are funded solely by the programs' Participants with the exception of basic life, which is funded by the State of Texas. Minnesota Life Insurance Company awarded the program administration contract; the contract period extends from January 1, 2012 through August 31, 2016.

The MAPR reflects 25 services specific to contract oversight with 22 of these services are subject to performance guarantees. The review of monitoring objectives is measured in monthly quarterly or yearly intervals and organized into five categories: Account Management; Customer Service; Operations; Systems and Data Management; and Benefit Coding, Set Up and Testing. Ms. Hunter explained that the last service category (Benefit Coding, Set Up and Testing) was exclusive to the transition of the program administration to Minnesota Life Insurance Company.

This section is illustrative of the four severity levels assigned to each business-critical service function listed as reflected in the table below.

Level of Severity	Definition	Allocation of Amount at Risk
Severity 1 – Emergency	Mission critical systems are down; or a substantial loss of service; or business operations have been severely disrupted; or a major milestone has not been met. In each situation, no work-around that is acceptable to ERS is immediately available.	50% of the aggregate annual amount at risk for each occurrence
Severity 2 – Critical	A major functionality is severely impaired. Operations can continue in a restricted fashion; however, client and/or member service(s) are adversely affected.	25% of aggregate annual amount at risk for each occurrence
Severity 3 – Moderate	Business operations have been adversely impaired in a moderate manner. A temporary work-around that is acceptable to ERS is immediately available.	• Occurrence 1 = 3% of aggregate annual amount at risk • Occurrence 2 = 5% of aggregate annual amount at risk • Occurrence 3 = 6% of aggregate annual amount at risk • Occurrence 4 = 9% of aggregate annual amount at risk
Severity 4 – Minor	Business operations have been adversely affected in a limited manner requiring a modification of current policies and/or processes.	2% of aggregate annual amount at risk for each occurrence

Ms. Hunter announced that no performance guarantees were assessed to Minnesota Life during fiscal year 2015. There were no questions or further discussion, and no action was required on this item.

g. Disability Program and Monitoring Strategy Overview

Mr. Rob Kukla, Director of Benefit Contracts introduced Bernely Tharp, Program Account Manager and Certified Texas Contract Manager candidate to present an overview of the Disability Program and program's monitoring strategy. Ms. Tharp noted the Texas Income Protection Plan (TIPP) is an optional insurance program comprised of a short-term disability plan and a long-term disability plan. The program is available to active employees as a means to increase their financial security should they be unable to work due to a medical condition.

The short-term disability plan provides a maximum benefit of 66% of a participant's monthly salary up to a maximum monthly salary of $10,000 for a period of up to five months. Participants will have to complete a 30-day waiting period or exhaust all of their sick leave, extended sick leave, sick leave pool, or donated sick leave, whichever is greater.

The long-term disability plan provides a maximum benefit of 60% above the participant's monthly salary up to a maximum monthly salary of $10,000 for a period ranging for 12 months up to full Social Security retirement age, depending on the participants age at the time of disability. The participant must also complete a waiting period of 180-days or they will have to exhaust all of their sick leave, extended sick leave, sick leave pool, and/or donated sick leave, whichever is greater. Ms. Tharp informed the board the long-term disability percentage is lower than the short-term disability because after 6-months of disability, participants should be eligible for Social Security disability benefits.

Aon Hewitt Absence Management, LLC (Aon Hewitt) is the third party administrator for TIPP; Aon Hewitt was awarded the contract which extends from September 1, 2013 through August 31, 2017. Ms. Tharp reported on the enrollment numbers for end of fiscal year 2015. She cited that 115,557 members are enrolled in the short-term disability plan and 88,683 are enrolled in the long-term disability plan. Ms. Tharp explained that enrollment for the long-term disability plan tends to be lower than that of the short-term disability plan. Ms. Tharp reminded the Board that after 10 years of ERS service credit, participants are eligible to apply for disability retirement, which may explain the lower enrollment numbers in the long-term disability plan. Ms. Tharp reported that overall, the enrollment within the disability plans continues to remain stable year to year and as of September 1, 2015. There are 114,609 participants enrolled in the short-term disability plan.

Ms. Tharp reported the MAPR that is used to in monitoring Aon Hewitt's performance under the contract is organized into four general categories: Account Management; Customer Service; Operations; and Systems and Data Management. She provided an overview of the performance guarantees that were assessed against Aon Hewitt in fiscal year 2015. For missing the short-term claim determination financial accuracy for the first quarter, Aon Hewitt was assessed a total of $30,500, for the second quarter, they were assessed a total of $48,800, for the third and fourth quarters they were assessed a total of $158,600. In total, Aon Hewitt was assessed $237,900 for fiscal year 2015.

Mr. Kukla announced that it is not ERS' goal to have performance assessments act as a revenue stream. Rather, the goal of performance assessments is to ensure that all of the GBP vendors are doing the job required of them according to the provisions stipulated within the Contractual Agreement.

The performance guarantees have a severity ranking determined by the impact that the missed performance will have to the members. The dollar amount of the assessment is based on the severity ranking of the performance guarantees and on the number of occurrences.

This section is illustrative of the four severity levels assigned to each business-critical service function listed in the table below.

Level of Severity	Definition	Allocation of Amount at Risk
Severity 1 – Emergency	Mission critical systems are down; or a substantial loss of service; or business operations have been severely disrupted; or a major milestone has not been met. In each situation, no work-around that is acceptable to ERS is immediately available.	50% of the aggregate annual amount at risk for each occurrence
Severity 2 – Critical	A major functionality is severely impaired. Operations can continue in a restricted fashion; however, client and/or member service(s) are adversely affected.	25% of aggregate annual amount at risk for each occurrence
Severity 3 – Moderate	Business operations have been adversely impaired in a moderate manner. A temporary work-around that is acceptable to ERS is immediately available.	• Occurrence 1 = 3% of aggregate annual amount at risk • Occurrence 2 = 5% of aggregate annual amount at risk • Occurrence 3 = 6% of aggregate annual amount at risk • Occurrence 4 = 9% of aggregate annual amount at risk
Severity 4 – Minor	Business operations have been adversely affected in a limited manner requiring a modification of current policies and/or processes.	2% of aggregate annual amount at risk for each occurrence

There was further discussion on the missed performance standards by Aon Hewitt in the areas of customer service and operations, with a significant focus on the substandard performance specific to claim payments and financial accuracy. No action was required on this item.

XXI. REVIEW AND DISCUSSION OF THE TEXFLEX PROGRAM AND MONITORING STRATEGY OVERVIEW

Ms. Angelica Torres, Program Account Manager and Certified Texas Contract Manager, proceeded to provide the Board with an overview of the TexFlex Program and the program's monitoring strategy. Ms. Torres explained that the TexFlex plan is made available to active employees as a means to help budget and for health and day care expenses. As a flexible spending arrangement, the TexFlex plan is a form of a cafeteria plan benefit that is funded by pre-tax salary contributions that are used to reimburse participants for expenses incurred on certain qualified benefits. TexFlex is comprised of two types of accounts: Health Care Reimbursement Account (HCRA) and the Dependent Care Reimbursement Account (DCRA). The HCRA allows participants to use pre-tax salary contributions to pay for things such as doctor co-pays, some over-the-counter items, as well as prescription drugs. The DCRA is used to pay for planned day care expenses for eligible dependents under the age of 13.

Ms. Torres reported that TexFlex contributions and premium conversion from other GBP programs generated approximately $40 million in FICA tax savings to the State of Texas for plan year 2015. Ms. Torres explained the HCRA includes to a $500 carry over provision that was implemented for Plan Year 2015. Under the carry over provision, participants who had funds remaining in their HCRA at the end of plan year were able to carry these funds (up to a maximum of $500) to the next plan year. The carry over funds can then be used by the participant for eligible plan year 2016 expenses.

Participation in the TexFlex program is voluntary with enrollment available during the summer enrollment period and within 31 days of a qualifying life event. This program offers enrollment where the participant is automatically re-enrolled at the start of the plan year at the same contribution that they had previously. If a participant needs to make changes they have to take action to opt out or change their contribution during summer enrollment.

Ms. Torres also informed the Board that effective September 1, 2015, ADP, LLC has been the Third Party Administrator for the TexFlex program. Unlike the previous vendor (PayFlex), ADP will not charge participants a convenience fee to utilize the debit card feature for this program. The Board enacted an administrative fee holiday so participants will not have to pay the administrative fee associated with enrolling in the program. Enrollment in the program is around 21%.

The TexFlex MAPR reflects 22 services specific to performance guarantees. The services are organized into four categories: Account Management; Customer Service; Operations; and Systems and Data Management.

Ms. Torres provided the board with a brief update on the Qualified Transportation Fringe Benefit that is scheduled to begin March 2016. On January 1, 2016 participants will be able to enroll in the benefit which offers two different account types (transit account and the parking account). Both the transit/commuter account and the parking account use pre-tax salary contributions to allow the participant to pay for expenses incurred while traveling to work. This does not include toll roads or trains.

There were no questions or further discussion, and no action was required on this item.

XXII. REVIEW AND DISCUSSION ON THE GROUP BENEFITS PROGRAM PROCUREMENT PROCESS

Mr. Rob Kukla, Director of Benefit Contracts introduced Ginger Grissom, Manager of Proposal Activity, Certified Texas Contract Manager (CTCM) and Certified Texas Procurement Manager (CTPM) candidate, to present an overview on the Group Benefits Program procurement process utilized by the Benefit Contracts division. Ms. Grissom reported that in accordance with Section 1551, the Board may contract with entities to act for the Board as independent administrators for the coverages, services, and benefits options authorized by the Texas Insurance Code.

Ms. Grissom reported ERS is committed to provide access to high-quality benefits at a reasonable cost and provide best value for participants. Ms. Grissom introduced the proposal activity specialists who assist her in the solicitation process being Lisa Caffarate, CTCM and CTPM candidate; Michelle Moore, CTCM candidate; Adriane Henderson, CTCM candidate; and Randy Schultz, CTCM candidate. Ms. Grissom explained that as part of the planning process, staff prepares a quarterly review to determine not only the necessity of the solicitation, but also the priority of the solicitations. There are, however, several situations that may trigger when a solicitation needs to be put out for bid which includes contract terminations, or vendor performance issues.

Ms. Grissom continued to provide a description of the activities under the procurement planning process. She explained ERS will determine the procurement method; however, a large majority of the time, a Request for Proposal (RFP) is needed due to the solicitation method used when factors other than price is considered. She explained that contracts that are valued over $10 million are sent to the Comptroller’s contract advisory team (CAT) for review. CAT will review a solicitation from the perspective(s) of contract management and best practice. The Attorney General's Office is engaged to review contracts that are valued over $250 million. In the planning process, Ms. Grissom's team will confirm the evaluation team and project timeline. Her team will also finalize the solicitation and provide public notices of the procurement opportunity via the Comptroller's Electronic State Business Daily. Ms. Grissom reported there is also a vendor registration process on the ERS website whereby vendors who are interested in bid solicitation opportunities can sign up to receive notices of upcoming bids. Once a solicitation is complete, Ms. Grissom's team will then provide oversight for the posting of the bid solicitation. As part of the process, the Benefit Contracts Division will host a question-and-answer period in which the vendors are allowed to email questions they may have regarding the published RFP. Answers are formulated for the posed questions; both the questions and answers are then made available to all prospective vendors.

Once bids are received into the agency, the responses are then disseminated to the identified evaluators who carefully review and evaluate the bid responses in a number of areas to include financial considerations, operational capabilities, and services. The identified finalists will undergo a vendor service verification process which may include face-to-face interviews, reference checks, and site visits. Based on the financial considerations, operational capabilities and services, and the vendor service verification, a recommendation is formulated for the Board's consideration. The Director of Procurement confirms that the best value standard has been met before the recommendation is presented to the Board.

There were no questions or further discussion, and no action was required on this item.

XXIII. EXECUTIVE DIRECTOR'S REPORT

Mr. Porter Wilson, Executive Director proceeded with the next agenda item, Executive Director's Report. His report[1] to the Board is included with these minutes.

XXIV. SET 2016 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 dates for the 2016 meetings of the ERS Board of Trustees and Investment Advisory Committee, the Meeting of the Board of Trustees and the Meeting of the Audit Committee are as follow:

Tuesday, February 23, 2016
Tuesday, May 17, 2016
Tuesday, August 16, 2016

2 Day Workshop:
Thursday-Friday, December 1 & 2, 2016

XV. ADJOURNMENT OF THE BOARD OF TRUSTEES

The December 4, 2015 Meeting of the Board of Trustees adjourned at 3:07 p.m.

[1] Exhibit A - Page 19

PUBLIC AGENDA ITEM - # 23

23. Executive Director's Report

December 4, 2015

Sunset Commission Review

The Texas Sunset Commission scheduled the Employees Retirement System of Texas (ERS) for review during the 83rd Regular Legislative Session. The Sunset review process begins with the compilation and submission of the agency's Self-Evaluation Report (SER), containing operational details of the performance of the agency's statutory responsibilities. From June through August, staff from every division throughout the agency worked to produce the SER and we submitted the final report to Sunset staff on August 31, 2015. The report was also posted to the ERS public website.

Following a review of the SER and related supplemental documentation provided by ERS, Sunset staff requested program and operational briefings to discuss ERS processes and policies in more detail. The first series of briefings began with a general agency overview presentation on Thursday, October 15. Nine meetings related to specific programs, divisions, or activities of the agency, including: retirement; health benefit programs; member services and communications; investment operations; budgeting and funding; benefit administration operations; internal audit activities; contracting processes; and governance structures followed the overview. The second series of briefings began on Thursday, October 29 and ended on Tuesday, November 3, these allowed for more detailed discussions on investment operations, pension policies, insurance plan design, non-insurance benefits, budgeting and the flow of trust funds, contracting, and information systems operations. Additional meetings, briefings, staff and stakeholder interviews, information requests, and operational site visits and observations will continue for several more months.

The research stage of the review is scheduled to conclude in April 2016, with a report published at the beginning of May. The Sunset staff report will be presented to the Sunset Commission in a pair of open public meetings during the summer of 2016, when the Commission will also hear public testimony regarding ERS. Sunset Commission members will approve final recommendations related to ERS during the second meeting; these recommendations will primarily make up the contents of legislation that will be prepared for the 85th Regular Legislative Session. In addition, some recommendations may be in the form of management directives to the agency.

Our Sunset staff reviewers are here today at the meeting. As board members, Sunset staff will be reaching out to you as part of the review process.

Interim Charges

In late October and early November, the Lieutenant Governor and the Speaker of the House released their committee interim charges. These directives set forth the issues to be examined by all legislative committees as they work toward the 2017 legislative session.

The Senate State Affairs committee will monitor changes made to state and member retirement contributions, and examine the possibility of delinking legislative annuities from district judge salaries. In addition, the committee will look at the practice of using public funds and employees for the payment and processing of union dues, and examine measures to affirm 1st Amendment religious liberty protections. The Senate Finance Committee will study state debt, including pension liability.

The House Pensions Committee will study investment goals, assumed return rates, asset allocation, and fees. The committee will examine the fiscal and policy impact of structural reforms to increase actuarial soundness. Finally, the committee will look at the impact of GASB 67 and 68 reporting, and the LECOSRF unfunded liability.

The House Appropriations committee will examine the impact of HB 9, as well as issues and costs associated with COLAs or 13th checks. House Insurance will study the cost impact to ERS of a 2013 law which expanded coverage for traumatic brain injury, and House Public Health will look at chronic diseases across the state, including the state health plans like the GBP.

Finally, both chambers will hold hearings on state purchasing and contracting, health care networks and balance billing, and a variety of other topics that may be relevant to ERS.

Status of Contract Procedure Implementation

As previously reported, this past legislative session focused heavily on state contracting processes. The major contracting bill, Senate Bill 20 (SB 20), became effective September 1, 2015. SB 20 requires each affected agency to "adopt rules, processes, and procedures and take the actions necessary to implement" SB 20's requirements "as soon as practicable after [its] effective date." As such, ERS has been working diligently to comply with SB 20's requirements. Actions include drafting numerous new processes and procedures and refining existing processes and procedures.

SB 20's most significant changes included:

- A requirement that the Director of Procurement sign off on all formal solicitations;
- Several provisions relating to vendor performance reporting;
- Numerous new requirements applicable to procurements made pursuant to the Department of Information Resources' (DIR) cooperative purchasing program; and
- Extensive ethics, reporting and approval requirements specific to the following ERS contracts: HealthSelect Third-Party Administrator, Pharmacy Benefit Manager (PBM) for HealthSelect, PBM for Employer Group Waiver Plan Prescription Drug Program, Dental PPO, and potentially the prospective Vision plan administrator (hereinafter referred to as Certain BC Contracts).

ERS has accomplished the following in its efforts to comply with SB 20:

- Formally designated a Director of Procurement;
- Drafted forms and procedures governing the approval of a solicitation by the Business Division's Director, the Legal Services division, and the Director of Procurement;
- Drafted forms and procedures for the Director of Procurement's review and approval of the selected respondent;
- Revised the standard solicitation documents to account for vendor performance as reported in the Comptroller's Vendor Performance Tracking System;
- Updated the standard contract to align with the new revolving door restriction;
- Created procedures for complying with the new DIR requirements relating to requesting pricing from DIR vendors and submitting Statements of Work (SOWs) to DIR for approval if the SOW is valued at $50,000 or more; and
- Created procedures for posting DIR-approved SOWs on ERS' external website.

In addition to the above, ERS accomplished the following applicable to Certain BC Contracts:

- Created procedures for posting the following on ERS' external website: executed contracts (including non-confidential exhibits) and the Contract Management Guide (CMG) and Risk Analysis Procedure;
- Updated the current conflicts of interest processes to account for the new requirements;

- Revised the standard solicitation documents to notify vendors certain contracts are prohibited and that the executed contract (including non-confidential exhibits) will be posted on ERS' external website;
- Drafted a rule regarding enhanced contract and performance monitoring;
- Created a process for notifying the Board in the event of any serious issues or risks;
- Ensured ERS' current process accounts for the additional reporting requirements; and
- Currently drafting an agency CMG and finalizing the Benefit Contracts specific CMG and Risk Analysis Procedure.

Along with the extensive requirements of SB 20, the General Appropriations Act (GAA) also created numerous new contracting requirements applicable to ERS. The major requirements include:

- Reporting to the Legislative Budget Board (LBB) on contracts valued at $50,000 or more (This is not a new requirement, but it had previously only applied to contracts paid for with appropriated funds; it now also applies to ERS' contracts.);
- Notifying and providing certifications to LBB on contracts valued at more than $1 million that have not been competitively bid and contracts valued at more than $10 million that have been competitively bid;
- Submitting to the LBB and the Comptroller of Public Accounts certain information pertaining to ERS' utilization of and efforts to utilize historically underutilized businesses (HUBs); and
- Providing certain information to the LBB, State Auditor's Office, the Office of Attorney General, and the Comptroller of Public Accounts relating to the next solicitation and implementation of the HealthSelect Contract.

ERS' efforts to comply with the above stated GAA requirements include the following:

- Ongoing efforts to report to the LBB all of the requisite information relating to contracts meeting or exceeding the stated thresholds, including working closely with LBB to ensure complete compliance with these requirements given the unique complexities of ERS' major contracts;
- On track (at the time this Report was published) to timely comply with the HUB reporting requirements due by December 1st; and
- Formulating processes and procedures for complying with the reporting requirements specific to the HealthSelect solicitation and contract implementation.

ERS will continue to work on the above processes and procedures as well as continue to educate the divisions on these new processes and procedures. ERS is also monitoring and waiting on rules from various agencies tasked under SB 20 with formalizing additional contracting processes. As these rules are published, ERS will ensure its own processes and procedures account for the rules' requirements consistent with ERS' fiduciary responsibility.

Development of Consumer Directed Health Plan

The 84th Texas legislature directed ERS to implement a consumer directed health plan and health savings account option for state employees and pre-Medicare retirees starting September 1, 2016. To meet that deadline, ERS is engaging in a number of activities:

- Evaluating responses to an RFP for a health savings account administrator,
- Modeling plan design options in compliance with legislation,
- Developing a comprehensive communication plan to educate members on the new high-deductible health plan and health spending account,
- Consulting stakeholders on plan design, and
- Preparing recommendation for board approval in February for plan design and HSA administrator.

This optional plan will be part of HealthSelect and use the same HealthSelect administrator and provider network. Members will be able to choose this health plan if they believe it meets their needs. By federal and state law, the plan must have a deductible of at least $1,300. Those choosing this option will have access to a tax favored health savings account with contributions from their employer along with the opportunity to contribute on their own. Those choosing this plan can either pay out of pocket health costs out of their health savings account, or allow the account to grow through contributions and investments for future health care costs.

Since all of the current state health plans have no medical deductible, explaining this plan will be a challenge. We want to make sure people understand the potential benefits and drawbacks as we communicate this option next summer. ERS will be working with stakeholder groups prior to the February board meeting to get their input on the plan so it can be included in what is ultimately recommended to the board in February.

Plan Year 2016 Fall Enrollment Update

Fall Enrollment for Medicare-eligible retirees and their families was November 2-20, for the plan year beginning January 1, 2016. Medicare-eligible retirees can change their health plans and can drop any coverage at any time during the year. Fall Enrollment is their opportunity to enroll in or change dental or life insurance coverage, and to enroll in or change health coverage for dependents not eligible for Medicare.

ERS mailed Personal Benefits Enrollment Statement packets to more than 77,000 retirees, providing each with current enrollment, eligible coverage options and Plan Year 2016 updates. Fall Enrollment fairs were conducted around the State to allow members to receive important benefits information and to share information with us.

Members participated in Fall Enrollment in the following ways:

- 2,450 changes to coverage;
- attendance of 436 at 14 fairs and 4 webinars across Texas;
- 2,186 phone calls:
    - 431 at ERS
    - 1,755 at ACT;
- 53 visits to ERS; and
- 33,970 logins to ERS Online.

Staying Connected Retiree Events

Every other year, ERS hosts Staying Connected events for retirees. Staying Connected gives retirees the opportunity to hear about changes to benefits, including those coming out of the legislative session, and to interact directly with ERS and its program administrators. It also provides the chance for retirees to socialize with each other. In September, approximately 800 retirees joined us at Staying Connected events in Austin, Dallas and Houston. As at past events, the attendees appreciated ERS' hosting the events and had many questions about their benefits.

Forms 1095-B and 1095-C

For the past several months, ERS and its health plan administrators have been preparing to provide plan members with Form 1095-B, a new Internal Revenue Service document required under the Affordable Care Act (ACA). Form 1095-B provides verification that plan participants had health coverage in 2015, the first year the federal government is requiring most Americans to have health coverage or pay a tax penalty.

As the provider of the self-funded HealthSelect℠ of Texas plan, ERS will send a Form 1095-B to every employee and non-Medicare retiree enrolled in the plan. UnitedHealthcare, the third-party administrator of HealthSelect, is sending 1095-Bs on behalf of ERS. We have been working closely with UnitedHealthcare to ensure forms will be mailed by the federal deadline of January 31, 2016. The three commercial health maintenance organizations will send 1095-Bs to their enrollees. Participants in HealthSelect Medicare Advantage and KelseyCare Advantage will receive their 1095-Bs from the federal Centers for Medicare & Medicaid Services.

The ACA also mandates that large employers – which are required by the ACA to offer insurance to full-time employees and their children – send Form 1095-C to verify that they offered health coverage to eligible employees and their dependents in 2015. While state agencies and institutions will be responsible for generating these forms, those designating ERS as Designated Governmental Entity (DGE) will not be required to show who was actually covered under HealthSelect. Instead, this informational requirement will be fulfilled via information provided on the 1095-B. To date, 142 agencies and institutions have designated ERS as DGE.

ERS anticipates all Form 1095-Bs and Form 1095-Cs will be mailed by the federal deadline. We have been communicating with GBP-participating agencies and institutions over the past several months. We recently began communicating with members and retirees, to educate them about the 1095 forms and their responsibility in reporting their 2015 health coverage.

Space Planning Update

Since the August board meeting, work has continued on the space planning project. Gensler (architecture firm) completed a massing study of ERS' property site at the end of September. The massing study shows some potential options for site development. Once the massing study was completed, a Request for Information (RFI) was posted November 17th on the Electronic State Business Daily. Responses are due back January 8, 2016. We will continue to update the Board on the project. In the meantime, ERS has been meeting with other state agencies to keep them up to date on what we've been doing. Management has met with the Texas Facilities Commission (TFC) and the Preservation Board to discuss ERS' space and project and to hear from them what is planned in the upcoming year for the Capitol Complex. Staff will bring the results of the RFI to the Board at the February Board Meeting.

State Employee Charitable Campaign Results

The State Employee Charitable Campaign (SECC) is a statutorily authorized workplace campaign that provides state employees with a convenient and efficient way to make voluntary contributions to charities.

This campaign involves numerous charities, offering employees broad choices in giving. These charitable organizations must meet strict eligibility and accountability standards and must demonstrate they provide direct and indirect health and human services that benefit Texas citizens. Employees can donate through payroll contributions or make a one-time donation.

ERS SECC leadership team established an agency goal of a 50% participation rate and $37,500 in contributions. We are pleased to announce results exceeded our campaign goals With 252 (75%) employees contributing over $47,938 for the 2015 campaign. There were four divisions that had 100% participation:

Investments,
Benefit Contracts,
Executive Office, and
Internal Audit.

Customer Benefits division earned the most improved award rising from 15% participation in FY 2014 to 80% participation in FY 2015. The SECC team led by Beth Gilbert, did a great job promoting participation in this effort and I am very proud of our ERS employees.

Human Resources Acting Director Named

Ralph Salinas, Director of Human Resources has announced his retirement at the end December. Ralph began his employment with ERS in November 2004 and under his leadership and direction, Human Resources have been successful in accomplishing many projects that have benefited ERS. Ralph's numerous accomplishments are attributed to his ability to direct and manage an extremely effective and knowledgeable Human Resources team.

I am also pleased to announce that one of his team members, DeeDee Sterns, has been named as the Acting Director of Human Resources effective January 1st. DeeDee's ERS career began in July 1994 in Support Services division. Although she has been in Human Resources for most of her career at ERS, her knowledge of Human Resources and leadership has been demonstrated throughout her career. I am confident her experience will guide the division through a seamless transition. Please join me in congratulating DeeDee on her new role, and thanking Ralph for his many years of service to the agency.