



Board of Trustees Meeting

May 23, 2018



Presented for Review and Approval

August 29, 2018

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**BOARD OF TRUSTEES MEETING
EMPLOYEES RETIREMENT SYSTEM OF TEXAS
May 23, 2018
ERS Board Room
ERS Building – 200 E. 18th Street
Austin, Texas 78701**

TRUSTEES PRESENT

Doug Danzeiser, Board Chair
Cydney Donnell, Board Vice Chair
Ilesa Daniels, Member
I. Craig Hester, Member
Catherine Melvin, Member

TRUSTEE ABSENT

Jeanie Wyatt, Member – *Excused by the Board*

ERS STAFF PRESENT

Porter Wilson, Executive Director
Cathy Terrell, Deputy Executive Director
Paula A. Jones, Deputy Executive Director & General Counsel
William Nail, Special Projects & Policy Advisor
Jennifer Chambers, Director of Government Relations
Tony Chavez, Director of Internal Audit
Bernie Hajovsky, Director of Enterprise Planning
Robin Hardaway, Director of Customer Benefits
Diana Kongevick, Director of Benefit Contracts
Machelle Pharr, Chief Financial Officer
Gabrielle Schreiber, Director of Procurement and Contract Oversight
Chineque “DeeDee” Sterns, Director of Human Resources
Kathryn Tesar, Director of Benefits Communications
Tom Tull, Chief Investment Officer
Keith Yawn, Director of Strategic Initiatives
Carlos Chujoy, Investments
Anthony Curtiss, Investments
Kelley Davenport, Executive Office
Juli Davila, Investments
Christi Davis, Customer Benefits
Pablo De La Sierra Perez, Investments
D’Ann DeLeon, Benefit Contracts
Blaise Duran, Benefit Contracts
Leah Erard, Strategic Initiatives
Peter Erhret, Investments
Beth Gilbert, Internal Audit
Angelica Harborth, Benefit Contracts
Darren Hughes, Investments
Megan Hunter, Benefit Contracts
Aaron Ismail, Internal Audit
Sharmila Kassam, Deputy Chief Investment Officer
Betty Martin, Investments
Travis Olson, Investments
Susie Ramirez, Executive Office
Tanna Ridgway, Investments
Lauren Russell, Benefit Contracts
Robert Sessa, Investments
Leighton Shantz, Investments
Michael Shoop, Investments
Bernely Tharp, Benefit Contracts

ALSO PRESENT

April Beggs, Blue Cross and Blue Shield of Texas
David Deleon, Blue Cross and Blue Shield of Texas
Phil Dial, Rudd & Wisdom, Inc.
Katy Fallon-Brown, Legislative Budget Board
Christy Fields, Pension Consulting Associates
David Glickman, Pension Consulting Associates
Lynn Gordon, Securian
Aaron Haftl, Aon Hewitt
Bill Hamilton, Retired State Employees Association
Roy Hogan, Retiree/Self
Louellen Lowe, Legislative Budget Board
Colleen McGlamry, United Health Care
Chris Paxton, Optum Rx
Lee Spangler, Blue Cross and Blue Shield of Texas
Steve Voss, Aon Hewitt
Cyrus Walker, Blue Cross and Blue Shield of Texas
Jessica Walton, Dimensional Fund Advisors

Meeting of the ERS Board of Trustees

1. CALL TO ORDER

1.1 Call Meeting of the ERS Board of Trustees to Order

Mr. Doug Danzeiser, Chairman of the Board of Trustees of the Employees Retirement System of Texas (ERS), noting a quorum was present, called the meeting to order at 8:00 a.m. and read the following statement:

“A public notice of the ERS Board of Trustees meeting containing all items on the proposed agenda was filed with the Office of the Secretary of State at 8:31 a.m. on Friday, May 11, 2018, as required by Chapter 551 Texas Government Code, referred to as the Open Meetings Law.”

The Board of Trustees convened as a committee of the whole to consider the following Board agenda items.

2. MINUTES

2.1 Review and Approval of the minutes to the March 7, 2018 ERS Board of Trustees Meeting (ACTION)

Mr. Danzeiser opened the floor for a motion on the approval of the minutes.

Move that the ERS Board of Trustees of the Employees Retirement System of Texas approve the minutes to its meeting held on March 7, 2018.

Motion by Craig Hester, second by Cydney Donnell

Final Resolution: Motion Carries

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

3. PENSION FUNDING

3.1 Review and Consideration of Pension Funding Priorities and Guidelines Policy – (ACTION)

Ms. Cathy Terrell, Deputy Executive Director, and Keith Yawn, Director of the Office of Strategic Initiatives, presented a final draft of a Pension Funding Priorities and Guidelines Policy for board review and discussion. Ms. Terrell informed the board that the Funding Priorities and Guidelines document is a formal adopted policy that outlines a systematic set of procedures used to identify the contributions that should be made to maintain fund solvency and also to state preferences on how to finance any gains or losses experienced by the plan. Ms. Terrell reminded the trustees that the board does not control contributions to the plans, but does have a role in participating in discussions about what those contributions should be and how the Plan should be financed. The policy should reflect the legal and practical realities specific to the plan's funding, benefit design and sources of authority. ERS retirement plans have historically been funded as a fixed percent of payroll.

Ms. Terrell reported that the actuaries determine an actuarially required contribution and the legislature, as plan sponsor, then decides what amount of that contribution they will fund. ERS does not set the state or employee contribution levels, and therefore will use the funding priorities document as a communication and educational tool to help guide discussions with legislative stakeholders.

There are several components to a funding policy document:

- The actuarial cost method is the adopted technique used to allocate the total present value of future benefits over an employee's working career.
- The asset smoothing method defines how pension plans will smooth assets over a period of time to reduce the effects of market volatility and stabilize contribution needs. ERS' recently adopted a closed five-year smoothing with direct offset as part of the experience study process in 2017.

- The amortization funding period policy is the length of time and structure selected for increasing or decreasing contribution revenue in order to address an unfunded actuarial accrued liability or surplus.

Mr. Yawn reminded the board that the purpose of the amortization period is to define a period goal for paying off unfunded liabilities. Current industry guidelines are trending to periods of less than 30 years. He stated that amortization periods are typically calculated as either an open rolling or a closed period and that closed periods can be difficult to manage financially. Ms. Terrell added that the legislature has defined an amortization period for ERS in statute, as a 31-year open amortization period.

The funding policy proposes a three-tiered priority structure:

1. First goal is to avoid plan depletion,
2. Second goal is to meet the 31-year amortization period as defined in statute,
3. Ultimate goal is to have a shorter amortization period equal to the average years of service of members in each specific plan.

Other position statements set guidelines for when to provide supplemental payments, some of which are determined directly by the Board. The policy lays out what factors should be considered or reviewed when making funding decisions or determining supplemental payments and enhancements to benefits. The policy is designed to ensure that decisions are made in a way that maintains the solvency and soundness of the plan moving forward. Mr. Yawn noted the policy also includes information about the constitutional and statutory provisions impacting contribution rates.

Mr. Hester asked if ERS expects the legislature to address statute to align with a trend of achieving less than 30-year funding period, Ms. Terrell replied that staff has not heard if the legislature will consider that but that they certainly are aware of industry trends and the Texas Pension Review Board has come out with guidelines for pension plans that suggest a lower amortization period.

Mr. Yawn informed the board of changes that were made to the draft Pension Funding Priorities and Guidelines policy, including adding language to clarify and more explicitly state the intent of the document as a communications and transparency tool, a definition of the funding policy rate, language to clarify the intent of the Board that when enhancements are made they should be pre-funded, or amortized over a short period so as not to endanger fund stability.

Mr. Danzeiser asked when the last supplemental payment was made. Ms. Terrell stated that there was a cost-of-living adjustment paid in January 2002 that was based on the August 31, 2001 valuation. It was about a billion dollar payout that brought annuitants up to the current consumer price index at that time. Since that time, the trust's funded ratio has declined and it has not been in the required financial position to make any supplemental payments or cost-of-living adjustments.

Mr. Danzeiser asked when ERS would communicate to the legislature, in writing, reflecting the Board's approved policies. Ms. Terrell stated that the Legislative Appropriations Request (LAR) is provided prior to each legislative session and includes an administrator's statement which she stated would be the best avenue for including some of the elements of the guidelines. Mr. Danzeiser asked if ERS would anticipate pursuing a less-than-31 year funding period in the LAR document. Ms. Terrell responded by saying that ERS will request appropriations to meet the 31-year funding period and will also ask for the full actuarially sound contribution.

Mr. Danzeiser asked if staff is planning a similar policy document related to funding priorities for the Texas Employees Group Benefits Program. Mr. Wilson replied that it has been discussed with internal staff as a next step for the health programs. Mr. Hester stated that it is a very important benefit to our active members and our retirees and something the board should pursue. Mr. Wilson replied that staff will begin outlining a policy to present to the board.

PUBLIC TESTIMONY

Mr. Bill Hamilton, President of the Retired State Employees Association, presented public testimony. He expressed his appreciation for the work of board members and staff to reach appropriate funding. Chairman Danzeiser thanked Mr. Hamilton for his comments.

Ms. Catherine Melvin asked if ERS received any other comments that might be of importance to the Board. Ms. Terrell responded that in addition to Mr. Hamilton's testimony, ERS received a letter from the American Federation of State, County and Municipal Employees (AFSCME) retirees expressing concern that board adoption of the policy could impact this year's actuarial valuation. Ms. Terrell explained that the valuation would continue to be based on current statutory and actuarial requirements, although ERS would also begin tracking the fund policy rate. The letter also expressed concern that the action from the Board could lead legislators to change the 31-year statutory requirement to a lower amortization period.

There being no further discussion or questions, Mr. Danzeiser opened the floor for a motion.

Move that the Board of Trustees of the Employees Retirement System of Texas adopt the Pension Funding Priorities and Guidelines Policy as recommended by staff. Further move that the board review the policy periodically to make any updates based on changes to statute, funding, benefit design, best practice recommendations or other considerations.

Motion by Craig Hester, second by Cydney Donnell.

Final Resolution: Motion Carries

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

4. INCENTIVE COMPENSATION PLAN

4.1 Review and Discussion of the Incentive Compensation Plan

Ms. DeeDee Sterns, Director of Human Resources presented the Incentive Compensation Plan (ICP) to the Board for review. The ICP will be considered for adoption at the August board meeting so that it is in place before the start of the plan year on September 1. The Board looks at the plan each year in order to make any needed adjustments. The ICP is brought to the board each year for review, and then brought again to the Board for approval. Staff will recommend any plan changes they see fit, and provide board members with a draft plan document for additional feedback. The ICP and related processes are reviewed annually to make recommendations to the Board. At this time, staff has not identified any changes for the upcoming fiscal year.

The ICP provides an opportunity to participating employees to earn incentive compensation for leadership and outstanding performance. ERS' Plan objectives are to communicate the strategic performance priorities, encourage sustained levels of high-investment performance, promote teamwork, support goals and attract and retain key employees in a cost-effective manner.

Eligibility for the ICP requires compliance with all policies and procedures, as well as the investment policy. Staff must be in good standing to receive an award and new hires will have to successfully complete their six-month probationary period. There are metrics and calculations tied to the active risk budget approved by the Board. Benchmarks are set in the investment policy. Performance measures are based on a one, three and five-year performance period.

Participants are evaluated on both a quantitative and a qualitative metric. There is a 75% quantitative with a minimum of 25% based on total trust in order to promote teamwork, and a 25% maximum on the qualitative award. Ms. Sterns reported that the investment team uses a discretionary matrix tool to evaluate the investment participants on qualitative performance. All participants have both individual portfolio performance and total trust performance benchmarks. The benchmarks must be met in order to receive an incentive award.

Ms. Sterns reported that any awarded incentive compensation is based on the performance net of fees and payouts of the incentive awards are done over a three-year period (50% in first year, 25% each following year). Ms. Sterns then explained that any active participant must remain eligible and active as an ERS employee for the full three years to receive the full amount.

The Trust Fund must have a positive performance in order to pay incentive compensation. ICP awards are calculated based on a weighted salary and ERS has a clawback provision which means that any employee paid in error will have to reimburse ERS the amount of payment, even if they no longer work for ERS. Ms. Sterns reported that the administrative oversight of the Plan is managed by Human

Resources and Finance performs the award calculations. There is an internal and an external audit that ensures payments are in accordance to the Plan.

Ms. Sterns reported that ERS has contracted with the consulting firm Segal Waters to do a compensation study for investment and perform additional market research related to ICP. Staff will review the survey results and key components of the documents provided as an additional review for the ERS Plan. If staff identifies any recommendations or changes that should occur to the Plan, that information can be discussed with the Board at the August Board meeting.

ERS performs the compensation study at least every three to four years, in response to a previous board directive.

Mr. Danzeiser asked for an explanation of the award payments being deferred during non-positive years. Mr. Tom Tull, Chief Investment Officer stated that if there is performance beyond benchmarks, a participant can earn incentive compensation, but if the Trust does not have positive returns, those payments are deferred until there is a positive total Trust.

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

5. SUNSET

5.1 Review and Discussion of the Sunset Implementation Project Updates

Mr. Keith Yawn, Director of Strategic Initiatives presented updates on the Sunset Review implementation projects to the board. During the March 7, 2018 meeting, staff began the process of briefing the board on the status of required projects, beginning with eight completed Sunset Commission review initiatives. He reported that there are a total of 19 requirements of the Sunset process, either through the staff report or through direct Commission action. These were broken down into both management actions, of which there were 10 that the Sunset Commission directed the Agency to pursue, and an additional nine statutory changes that were included in Senate Bill 301, passed by the Texas Legislature during the 85th Regular Session (2017). Mr. Yawn reported there are three projects that are still in progress that staff is actively working to complete.

The Group Benefits Advisory Committee was created by the agency to obtain regular, formal stakeholder and expert input on benefits administration and design issues. This was a management action directive requirement that staff began researching and developing in July 2016 following the release of the Sunset staff report. Mr. Yawn reminded the Board that trustees approved the proposed governance charter for the committee in August and appointed members in December 2017. The first Group Benefits Advisory Committee meeting was held March 26, 2018 and was primarily an administrative and educational meeting to make sure that the appointees have a full understanding of all GBP benefits, as well as their role as a committee member, before beginning program specific deliberations.

Recommendation 2.3 related to the development of a process and clear criteria for evaluating changes to the Group Benefits Program. Mr. Yawn noted this is a management action directive and several internal projects were begun to formalize existing agency processes during the spring of 2016. ERS redesigned formal agency policies and either expanded or refined them to address the concerns that were raised within the Sunset report and to improve policies within the agency. The first is a revised policy development process that was approved in January 2018. This is an internal process where the agency reviews and considers changes to administrative processes, operations, and the way benefits applications are reviewed. The second is the agency "Solutions Session" revised policy which was adopted in February 2018 and has been more directly integrated with the agency's strategic planning process.

Recommendation 3.3 requires effectively educating members about choices and decisions that can lead to unexpected health insurance charges. This is an ongoing focus of the agency led by Benefits Communications. A full assessment and redesign of the agency's public website was completed from September 2016 to August 2017. In addition, a review of HealthSelect plan branding was performed during fiscal year 2017 to ensure clarity and transparency for members about the various plans offered

and coverages. The agency contracted for an independent review of external publications that included a sample of agency annual publications and periodic communications. As an outcome of this process, the agency has identified improvements to a series of newsletter articles and other communications to help more effectively educate members.

Recommendation 3.5 requires the development of policies and procedures to govern reviews of Chapter 615 survivor benefit applications. The Customer Benefits division completed its revisions to the program's administrative policies in July 2016, expanding the detail describing the internal review processes. The process flow explanations were specifically revised to better reflect when certain applications may require specialized review.

Recommendation 5.1 relates to applying standard across-the-board requirements to ERS, including Board member training requirements. This specific recommendation ensures that the board is fully informed on the operations, actions, and authority of the agency. This requirement is a statutory change that was included in Senate Bill 301 of the 85th Regular Texas Legislative Session. Mr. Yawn reported the New Trustee Orientation met the requirements for the training program. Additionally, staff were required to update the Trustee Training Manual and distribute to the board. This is an annual requirement and the board will receive an updated version of the manual each December.

Mr. Yawn informed the board that a recommendation was added by Sunset Commission members to conduct the pension experience study once every four years instead of the existing 5-year requirement. The current study was adopted in August 2017 and the next study will be considered in 2021, following a two-year review of the assumed rate of return component in 2019.

Mr. Yawn concluded his presentation and informed the board there are five remaining projects that staff will provide updates on during a future board meeting.

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

6 EXECUTIVE SESSION

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

Mr. Danzeiser stated it was 9:05 a.m. on May 23, 2018. In accordance with Section 551.074, Texas Government Code, the ERS Board of Trustees will meet in executive session to evaluate the duties, performance and compensation of the Executive Director of the Employees Retirement System of Texas.

Upon conclusion of discussion of the above topic, the ERS Board of Trustees will meet in executive session in accordance with Section 815.3016, Texas Government Code, to consider and discuss an alternative investment or a potential alternative investment in infrastructure. Thereafter, the Board may consider appropriate action in open session.

6.2 Executive Session – In accordance with Section 815.3016, Texas Government Code, the Board of Trustees will meet in executive session to consider and discuss an alternative investment or a potential alternative investment in an infrastructure fund. Thereafter, the Board may consider appropriate action in open session.

Upon returning from the separate executive sessions held as posted and announced under agenda items 6.1 and 6.2, Mr. Danzeiser announced it was 10:10 a.m. on May 23, 2018 and the Board is now in Open Session. No action, decision, or vote was taken by the Board while in Executive Session held under the topics posted in agenda items 6.1 and 6.2. Mr. Danzeiser then stated he will entertain any motion from members of the Board at this time.

Ms. Donnell moved that the Board of Trustees of the Employees Retirement System of Texas authorize the executive director to cause ERS to make the investment in the alternative investment fund

discussed during the executive session 6.2 by negotiating and executing documentation for the investment, with terms and conditions acceptable to ERS; and to authorize the executive director to thereafter administer the investment in accordance with negotiated terms and conditions.

Motion by Cydney Donnell, second by Ilesa Daniels

Final Resolution: Motion Carries

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

7. RECESS

7.1 Recess of the ERS Board of Trustees. Following a temporary recess, the Board of Trustees will reconvene its meeting with the Investment Advisory Committee to take up the following Joint Board of Trustees and Investment Advisory Committee agenda items.

8. TEXAS EMPLOYEES GROUP BENEFITS PROGRAM

8.1 Review and Consideration of Texas Employees Group Benefits Program Update and Proposed Rates for HealthSelectSM of Texas and Consumer Directed HealthSelectSM Plans – (ACTION)

Ms. Diana Kongevick, Director of Benefit Contracts, introduced Mr. Blaise Duran, Manager of Underwriting, Data Analysis and Reporting, and Mr. Phil Dial of Rudd & Wisdom, Inc. Mr. Duran explained that the HealthSelect Plans are funded by contributions paid by employers and enrolled members. State contributions are determined by legislative appropriation. Currently the state pays 100% of the contribution rate for full-time employees and retirees and 50% of the contribution for eligible dependents. The state portion of the contributions is the same for HealthSelect of Texas, Consumer Directed HealthSelect and HealthSelect Medicare Advantage.

Mr. Duran summarized items the consulting actuary (Rudd & Wisdom) and staff analyze when performing contribution rate analysis, such as revenue requirements, state funding, historical enrollment, claims experience and health benefit cost trends. Mr. Duran reported that for fiscal year 2018, the medical benefit cost trend is anticipated to be 4.4%. Beginning in January 2018, prescription drug trend is expected to continue at an estimated 13% through the remainder of the fiscal year with an estimated prescription drug trend of 6.3%. The total combined medical and prescription drug trend is estimated to be 4.8% for fiscal year 2018.

For the Consumer Directed HealthSelect Plan, staff is required by statute to price it so that it is revenue-neutral. Mr. Duran explained that when staff originally priced the fiscal year 2017 plan, a set of assumptions was developed to price the plan and meet the revenue-neutral requirement. Staff originally projected 3% enrollment, and currently enrollment is 0.4%. The current level of enrollment is too small to use for consistent projections. As a result, when pricing this plan, staff will continue to use the original pricing assumptions.

Ms. Kongevick discussed recommended fiscal year 2019 benefit plan changes. Consistent with IRS maximums, the HealthSelect out-of-pocket maximum will increase from \$6,500 to \$6,650 for individuals and from \$13,100 to \$13,300 for families. Ms. Kongevick clarified that the out-of-pocket maximum refers to the combined amount for deductibles, coinsurance and copayments during the plan year. She further clarified that, consistent with other GBP health plans, the member out-of-pocket annual maximum will not apply to out-of-network services in the Consumer Directed HealthSelect Plan, meaning the Plan will never pay 100% of billed charges for out-of-network services. No other benefit changes are recommended.

Mr. Duran presented the fiscal year 2019 proposed rates for the HealthSelect of Texas plan, which include a 0.47% member contribution increase (dependent coverage). He reported that the appropriation allowed for a 0.71% increase in the total state's per-capita contribution that included contributions for all health plans as well as basic life and AD&D coverage. Staff is not recommending any rate changes for Basic life and AD&D.

Ms. Kongevick provided an update on virtual visits, reminding the Board that beginning September 1, 2017, ERS waived the copay for participants using virtual visit services. The two in-network HealthSelect providers are Doctor on Demand and MDLive. Both are available 24-hours a day, all year

long. Since the copay change, utilization for virtual visits has increased significantly, especially during flu season. In fiscal year 2017 there were 4,600 virtual visits. There were 14,000 visits during the first seven months of fiscal year 2018. The highest utilization occurs Monday through Friday between 8:00 a.m. and 8:00 p.m.

Mr. Duran reported there are nine patient-centered medical homes (PCMHs) in place for fiscal year 2018 covering much of Texas. The total PCMH enrollment on March 31, 2018 is 70,265, representing about 16% of the HealthSelect population.

There being no further discussion or questions, Mr. Danzeiser opened the floor for a motion.

Move that the Board of Trustees of the Employees Retirement System of Texas approve the proposed Fiscal Year 2019 HealthSelect of Texas and Consumer Directed HealthSelect contribution rates, inclusive of the recommended plan changes, as presented in this agenda item effective September 1, 2018.

Motion by Cydney Donnell, second by Catherine Melvin.

Final Resolution: Motion Carries

Aye: Cydney Donnell, Doug Danzeiser, Ilesa Daniels, Catherine Melvin

Not Present at Vote: Craig Hester

8.2 Review and Consideration of Proposed Fees for TexFlexSM Flexible Spending Account Program – (ACTION)

Ms. Diana Kongevick, Director of Benefit Contracts, introduced the next item, review and consideration of proposed fees for the TexFlex program. Mr. Blaise Duran, Manager of Underwriting, Data Analysis and Reporting, informed the Board that the TexFlex Program includes three flexible spending accounts, the Health Care Reimbursement account, the Limited Reimbursement account and the Dependent Care Reimbursement account. The Program also includes a Commuter Spending account. The accounts are funded by pre-tax salary contributions from active employees with reimbursement to participants for incurred, qualified expenses.

Mr. Duran reported that in previous years, members were charged the \$1 per account per month administrative fee. ERS waived the fiscal year 2017 and fiscal year 2018 administrative fee and the fee was funded from the previous year's forfeited funds balance. Staff recommends continuing the administrative fee waiver for fiscal year 2019, allowing the fee to be paid from the plan forfeiture account. Members will not be charged the \$1 per account per month fee in fiscal year 2019.

Ms. Kongevick explained that the Plan offered a Commuter Spending account effective in fiscal year 2016 to eligible active employees utilizing mass transit and/or incurring parking expenses as part of their daily commute to and from work. Enrollment in the program is minimal with 166 participants enrolled as of March 2018. The monthly cost for participation in the program is \$3 per month or \$36 per year paid entirely by the participant. Ms. Kongevick reported that several challenges exist that contribute to the plan's low enrollment: ERS is not the employer and some of the same programs are offered through ERS participating employers. However, Ms. Kongevick further noted that even with the low enrollment, the program does contribute value in other ways such as value to environmental and mobility issues. Staff are recommending continuation of the program while they further evaluate additional value considerations connected with the program.

There being no further discussion or questions, Mr. Danzeiser opened the floor for a motion.

Move that the Board of Trustees of the Employees Retirement System of Texas approve a Fiscal Year 2019 administrative fee holiday for the TexFlex program applicable to those participants enrolled in the Flexible Spending Health Care Reimbursement and Dependent Care Reimbursement plans, and further move to approve continuance of the \$3.00 per month (or \$36 per year) employee-paid fee to participate in the Commuter Spending Account.

Motion by Catherine Melvin, second by Ilesa Daniels.

Final Resolution: Motion Carries

Aye: Cydney Donnell, Doug Danzeiser, Ilesa Daniels, Catherine Melvin

Not Present at Vote: Craig Hester

8.3 Review and Consideration of Proposed Rates for Basic and Optional Term Life, Accidental Death and Dismemberment Plans – (ACTION)

Ms. Diana Kongevick, Director of Benefit Contracts introduced Mr. Blaise Duran, Manager of Underwriting, Data Analysis and Reporting, to present proposed rates for Basic and Optional Term Life, and Accidental Death and Dismemberment Plans. Mr. Duran informed the board that the life insurance program is funded through a fully insured, minimum premium contract with Minnesota Life Insurance Company (Minnesota Life). The minimum premium arrangement includes a maximum premium rate for each coverage. If the total amount of life insurance claims exceeds the maximum premium amount, the insurer is responsible for the coverage. Mr. Phil Dial of Rudd and Wisdom, Inc. added this the program operates as a self-funded plan.

Mr. Duran provided information on the Accidental Death and Dismemberment Plan (AD&D) which is also a fully insured program. ERS agreed to a two-year contract extension for Life and AD&D through August 31, 2020 with Minnesota Life. This extension includes the same administrative fees and maximum premium rates currently in effect. The member contributions for the life plans are developed based on the following factors: 1) reasonable expectations of future claims determined through a review of the plan experience over the last five years; 2) anticipated claim-payment patterns; 3) expected investment income earned on funds held by ERS and 4) maximum claims rates and administrative fees include in the Minnesota Life contract.

Mr. Duran provided a brief overview of the experience summary through March 31, 2018 and stated that the loss ratio, incurred claims divided by total premium, is right at 100.1%. He continued that staff is not recommending any changes to fiscal year 2019 rates.

There being no further discussion or questions, Mr. Danzeiser opened the floor for a motion.

Move that the Board of Trustees of the Employees Retirement System of Texas approve the proposed Fiscal Year 2019 member contribution rates for the Basic Life, Optional Life, and Accidental Death and Dismemberment plans effective September 1, 2018 and as presented in this agenda item.

Motion by Cydney Donnell, second by Catherine Melvin.

Final Resolution: Motion Carries

Aye: Cydney Donnell, Doug Danzeiser, Ilesa Daniels, Catherine Melvin

Not Present at Vote: Craig Hester

8.4 Review and Consideration of Proposed Rates for Texas Income Protection PlanSM (TIPP) – (ACTION)

Mr. Blaise Duran, Manager of Underwriting, Data Analysis and Reporting, advised the board that the Texas Income Protection Plan (TIPP) has two self-funded plans; the short-term disability plan and the long-term disability plan. The short-term disability plan provides five months of benefits after a one-month elimination period. The long-term disability plan has a maximum benefit range from 12 months to Social Security Retirement age, after a 12-month elimination period. Benefits are fully funded through member contributions, as the employer does not contribute to the coverage.

Mr. Duran noted that when contribution rates for these plans are being developed, staff takes into consideration the reasonable expectations of future claims, anticipated claim payment patterns, expected investment income and administrative fees associated with the TIPP benefit administration. He stated that different contribution rate approaches are used for each plan.

Mr. Duran provided an overview to the board on the short-term disability experience for fiscal year 2017 and year to date 2018 (as of March 31, 2018) and the long-term disability experience for fiscal years 2007-2016 as seen in the following two tables below.

Short Term Disability Experience		
	FY17	FY18 YTD (as of March 31, 2018)
Member Contributions	\$16,591,081	\$8,387,748
Incurred Claims	\$10,105,293	\$6,253,184
Administrative Fees	\$3,360,780	\$1,873,301
Total Expense	\$13,466,073	\$8,126,485
Contribution Gain(Loss)	\$3,125,008	\$261,263

Long Term Disability Experience FY07 – FY16 Cumulative		
	Actual	Adjusted Assumptions*
Actual Member Contributions	\$268,008,025	\$257,319,434
Incurred Claims with Discounted Reserves	\$231,384,318	\$231,384,318
Administrative Fees	\$16,858,459	\$30,919,361
Total Expense	\$248,242,777	\$262,303,679
Contribution Gain/(Loss)	\$19,765,248	(\$4,984,245)

*Previous years adjusted when necessary to reflect current contribution rates and Administrative fees.

Staff are not recommending any rate changes at this time. Mr. Phil Dial, Rudd & Wisdom, Inc., reported that the voluntary plans have a relatively high level of enrollment with 53% of the active employees enrolled in the short-term disability plan and 41% enrolled in the long-term plan.

There being no further discussion or questions, Mr. Danzeiser opened the floor for a motion.

Move that the Board of Trustees of the Employees Retirement System of Texas approve the proposed Fiscal Year 2019 member contribution rates for the Texas Income Protection Plan effective September 1, 2018 and as presented in this agenda item.

Motion by Cydney Donnell, second by Ilesa Daniels.

Final Resolution: Motion Carries

Aye: Cydney Donnell, Doug Danzeiser, Ilesa Daniels, Catherine Melvin

Not Present at Vote: Craig Hester

8.5 Review and Consideration of Proposed Rates for State of Texas Dental ChoiceSM, Dental Health Maintenance Organization and State of Texas Dental Discount PlanSM – (ACTION)

Blaise Duran, Manager of Underwriting, Data Analysis and Reporting, informed the board that the State of Texas Dental Choice PlanSM (Dental Choice) is a voluntary, self-funded plan. Member contributions must be in an amount sufficient to support the cost for the year. Member contribution rates are based on claims experience through March 31, 2018, estimated trend in per capita benefit costs,

projected provider reimbursement, historical enrollment, contractually guaranteed administrative fees and proposed benefit changes.

Diana Kongevick, Director of Benefit Contracts, reported to the board that staff are recommending several benefit changes effective September 1, 2018. These include:

1. increase the individual annual maximum plan limit increase. Staff recommends that the individual annual plan limit for basic and major restorative services increase from \$1,500 to \$2,000, a \$500 increase.
2. increase of the individual lifetime orthodontic benefit from \$1,500 to \$2,000.
3. Add adult orthodontic benefits
4. Remove the current plan exclusion for missing tooth replacement. The plan currently does not provide benefits for tooth replacement unless that tooth was extracted while the participant was covered under this plan.
5. Remove the extended annual maximum benefit for services performed at an out-of-network provider, maintaining the current extended benefit to apply to services provided by in-network providers. Currently, the plan covers 40% of the allowed amount for services received after the individual's annual benefit maximum has been reached, regardless of whether the provider is in-network or out-of-network.

Ms. Kongevick commented that it is now considered proactive care to provide adult orthodontic benefits, and to provide a replacement missing tooth benefit, both to prevent complications and expensive correctional care later.

Ms. Kongevick commented that it is unusual for both in-network and out-of-network benefits to be provided at the same level. This plan change encourages participants to seek in-network care. Mr. Duran explained a large portion of the impact to those using out-of-network providers is offset by the additional \$500 increase to the annual plan maximum.

Staff are recommending a rate increase of 4.5%, inclusive of the recommended plan changes, effective September 1, 2018; Mr. Duran reported this translates to a \$1.23 increase for member-only coverage and a \$4.19 increase for member and family coverage.

Staff negotiated an extension for fiscal year 2019 at the current rates for the Dental Health Maintenance Organization (DHMO). The DHMO premiums are paid in full by member contribution, therefore the member contribution rates for fiscal year 2019 are set equal to the contractual premium rates.

Staff are recommending no changes to the State of Texas Dental Discount PlanSM (Dental Discount). Mr. Duran provided the board with a breakdown of member enrollment among the various plans as listed in the table below.

GBP Dental Plan Enrollment as of March 31, 2018			
	State of Texas Dental Choice	Dental Health Maintenance Organization	State of Texas Dental Discount Plan
Member Only	98,566	41,617	3,633
Member & Spouse	32,448	11,854	909
Member & Child(ren)	24,038	8,973	650
Member & Family	21,205	7,626	654
Total	176,257	70,070	5,846

There being no further discussion or questions, Mr. Danzeiser opened the floor for a motion.

Move that the Board of Trustees of the Employees Retirement System of Texas approve the Fiscal Year 2019 member contribution rates for the State of Texas Dental Choice plan, with the rates inclusive of the recommended plan changes described in this agenda item, and further approve the Fiscal Year 2019 member contribution rates for the Dental Health Maintenance Organization plan and the Dental Discount program as presented in this agenda item, all effective September 1, 2018.

Motion by Cydney Donnell, second by Catherine Melvin.

Final Resolution: Motion Carries

Aye: Cydney Donnell, Doug Danzeiser, Ilesa Daniels, Catherine Melvin

Not Present at Vote: Craig Hester

8.6 Review and Consideration of Proposed Rates for State of Texas Vision Plan – (ACTION)

Mr. Blaise Duran, Manager of Underwriting, Data Analysis and Reporting, presented the proposed rates for the State of Texas Vision Plan. The Vision Plan has been well-received in its first two years. It is a self-funded plan and the Texas Employees Group Benefits Program (GBP) assumes all risks, paying all eligible claims and administrative expenses in excess of member contributions. Contributions must be sufficient to support the anticipated costs for the upcoming year. Member contribution rates are based on claims experience through January 31, 2018, estimated trends in benefit costs, projected provider reimbursement rates, and contractually guaranteed administrative fees.

Mr. Duran reported that enrollment is growing rapidly in the plan, from 140,000 participants in Plan Year 17, to 180,000 enrolled through March of 2018. The fiscal year 2017 plan experience reflects approximately \$9 million in contributions received, \$6 million in paid claims and \$500,000 in administrative costs.

ERS staff recommend two plan changes effective September 1, 2018:

1. Modify the annual frequency to receive services during the plan year, changing from 12 months following the last date of service to once each plan year.
2. Reduce the in-network annual eye exam copay from \$25 to \$15 to encourage more participants to get an annual vision exam.

Because of the current utilization pattern, Mr. Duran reported that staff recommend a 10% decrease in the rate for fiscal year 2019, which results in a member only monthly contribution decrease of \$0.67 and a family monthly contribution decrease of \$2.11.

There being no further discussion or questions, Mr. Danzeiser opened the floor for a motion.

Move that the Board of Trustees of the Employees Retirement System of Texas approve the Fiscal Year 2019 State of Texas Vision Plan Proposed Rates, including the recommended plan changes as presented in this agenda item effective September 1, 2018.

Motion by Cydney Donnell, second by Ilesa Daniels.

Final Resolution: Motion Carries

Aye: Cydney Donnell, Doug Danzeiser, Ilesa Daniels, Catherine Melvin

Not Present at Vote: Craig Hester

8.7 Review and Consideration of Proposed Rates for Health Maintenance Organization Plans – (ACTION)

Mr. Blaise Duran, Manager of Underwriting, Data Analysis and Reporting, reported on three Health Maintenance Organization Plans (HMOs) including Community First Health Plans (San Antonio region), Baylor Scott & White Health Plan (Austin, San Angelo, Temple and Waco), and KelseyCare (Houston region). For fiscal year 2019 staff did not publish Requests for Applications (RFAs) for HMOs; instead, incumbent carriers were provided a renewal option, subject to due diligence.

The State's Appropriations Act includes a rider with language stating that in no event shall the total amount of state contributions allocated to fund coverage in an optional health plan exceed the actuarially determined total amount of state contributions required to fund basic health coverage for those active employees and retirees who have elected to participate in that optional health coverage. To ensure compliance with the rider, ERS staff and Rudd and Wisdom, Inc. developed a theoretical cost index (TCI) to estimate the cost of coverage for those members enrolled in the HMO if they were covered under HealthSelect. The required rates proposed by the HMOs must not exceed 95% of the TCI. Mr. Duran added that, in addition to meeting the TCI requirement, staff reviewed the appropriateness of the methodology and the rate development by the HMOs and ensured that they are using GBP experience to develop those rates.

Community First Health Plans, Inc. Proposed Monthly HMO Rates Fiscal Year 2019				
	Total Contribution	State Pays	Member Pays	Change in Member's Monthly Contribution
Member Only	\$ 547.40	\$ 547.40	\$ 0.00	\$ 0.00
Member & Spouse	1,176.92	862.16	314.76	21.92
Member & Child(ren)	968.88	758.14	210.74	14.66
Member & Family	1,598.40	1,072.90	525.50	36.58

Mr. Duran continued by providing the board a brief overview of the coverage areas (table below) and enrollment for participating HMOs: Community First Health Plans, Inc. (Community First), Baylor Scott and White Health Plan (Baylor Scott & White), and KelseyCare powered by Community Health Choice, Inc. (KelseyCare powered by CHC).

Texas Employees Group Benefits Program Participating HMOs Fiscal Year 2018 (as of March 31, 2018)				
HMO	Areas of Coverage	Enrolled Members	Enrolled Dependents	Total
Community First	8-county service area: San Antonio region	2,352	2,126	4,478
Baylor Scott & White	30-county service area: Austin, San Angelo, Temple and Waco regions	10,572	6,447	17,019
KelseyCare powered by CHC	5-county service area: Houston region	2,495	2,660	5,155

There being no further discussion or questions, Mr. Danzeiser opened the floor for a motion.

Move that the Employees Retirement System of Texas Board of Trustees approve the extension of the incumbent HMO Carrier plans and set contribution rates as presented in this agenda item for participation in the Texas Employees Benefits Program in Fiscal Year 2019 beginning September 1, 2018 and ending August 31, 2019:

- Community First Health Plans, Inc. to provide services in the application area of San Antonio which includes the counties indicated in Exhibit A-1 of this agenda item.
- Baylor Scott and White Health Plan to provide services in the application areas of Austin, San Angelo, Temple and Waco which include the counties indicated in Exhibit A-2 of this agenda item.
- KelseyCare powered by CHC to provide services in the application areas of Houston which include the counties indicated in Exhibit A-3 of this agenda item.

Motion by Cydney Donnell, second by Catherine Melvin.

Final Resolution: Motion Carries
 Aye: Cydney Donnell, Doug Danzeiser, Ilesa Daniels, Catherine Melvin
 Not Present at Vote: Craig Hester

9. EXECUTIVE DIRECTOR REPORT

9.1 Executive Director Agency Update

Legislative Update – On March 21, 2018, Executive Director Porter Wilson testified at the Senate Health and Human Services Committee interim hearing on value-based contracting arrangements and benefits in the ERS health care programs. Mr. Wilson reported that committee members were very complimentary on ERS’ efforts to maintain a comprehensive benefit program while limiting cost growth.

On April 4, 2018, Mr. Wilson testified at a hearing of the Senate State Affairs committee hearing on the interim charge to review the various pension plans in the state and discuss current trends and best practices related to operations and investments. Mr. Wilson explained several facets of the retirement program, including the board’s recent decision to lower the trust’s assumed rate of return to 7.5%. Consulting pension actuary Joe Newton, Gabriel Roeder Smith, also testified. Chairman Doug Danzeiser and Trustee Craig Hester attended the hearing as potential resource witnesses, but were not called to testify.

On April 27, 2018, Diana Kongevick, Director of Benefit Contracts, testified at the House Select Committee on Opioid and Substance Abuse along with representatives from the Teacher Retirement System, and University of Texas and Texas A&M University Systems. Ms. Kongevick talked about ERS’ efforts to address opioid and substance abuse issues holistically, with input and involvement from all aspects of the health and behavioral health care delivery. Mr. Wilson noted this was a good opportunity for the state health plans to share their ideas and hear what other peer organizations are doing across the state.

Group Benefits Advisory Committee Update – Mr. Wilson noted that the initial meeting of the new Group Benefits Advisory Committee (GBAC) was held on March 26. The agenda included an overview of the GBP programs, HIPAA training, and discussion of topics for future meetings. The Committee will meet twice a year and provide a report on activities, findings, and recommendations at a Board of Trustees meeting once each year. The next GBAC meeting is scheduled for October 3, 2018.

Summer Enrollment for Plan Year 2019 – Mr. Wilson informed the board that Summer Enrollment for Plan Year 2019 will take place over a five-week period beginning June 25, 2018 through July 27, 2018. Summer enrollment will be in four phases and each phase will span a two-week period as seen in the table below.

Summer enrollment is an opportunity for active employees and retirees not enrolled in Medicare to make changes to their benefits. ERS communicates to its members in numerous ways including traveling the state for 30 enrollment fairs, and conducting 11 webinars. Each member is mailed a personal benefits enrollment statement which is customized for them with their enrollment options, current benefit coverage and current and potential benefit costs.

Annual Enrollment for Plan Year 2019 June 25 - July 27, 2018					
	Monday June 25	Sunday July 1	Sunday July 8	Sunday July 15	Sunday July 22
Phase 1 (June 25 - July 7)	█				
Phase 2 (July 2-14)		█			
Phase 3 (July 9-21)			█		
Phase 4 (July 16-27)				█	

External Review of ERS Publications – Mr. Wilson invited Kathryn Tesar, Director of Benefits Communications, to present the external review of ERS publications. Ms. Tesar reminded the board that ERS received a charge from the Sunset Advisory Commission to look at ways ERS can improve the ways it educates members about their benefits. The external communications firm (San Antonio-based Texas Creative) worked with ERS’ Benefits Communications over a six-month process to review key member

and employee publications. During the six month review period the firm examined newsletters that go out on a regular basis as well as two comprehensive annual publications.

Ms. Tesar noted that one of the primary ways ERS communicates with members is through the ERS website. Texas Creative provided ERS with a lot of positive feedback on the publications as well as feedback from readers. There is always room for improvement, and Texas Creative recommended that ERS should focus on capturing the reader's attention. Texas Creative suggested ways to improve and the Benefits Communications team will work to implement those suggestions over the next few months. The communications team will continue to look for other ways to improve member publications.

Building Redevelopment Design Build Project Update – Mr. Wilson informed the board that in March, ERS selected Ryan Companies US, Inc. to provide Design Build Services for the ERS building redevelopment project. Ryan partnered with STG Architectural as the architectural firm to design the new building. The project will solve ERS' long term future space needs, while allowing ERS to earn revenue from the new building as an investment property. The new building will replace the ERS annex building on the eastern half of the 200 block of East 18th street. The two firms have engaged with staff to design a new building that will be attractive to the robust commercial business district office space market, while still interacting with the current building. The new building will also include space for retail businesses on the ground floor.

ERS also issued a Request for Qualification (RFQ) for an independent architect which is a requirement per the Texas Government Code, Chapter 2269.305. Staff are vetting finalists and will look to have a decision and a contract in place in the coming weeks.

The ERS Board will give the final green light to the project and the budget when the construction design is finalized and the guaranteed maximum price is determined. That vote is expected at the December board meeting.

2018 Get Fit Texas Results – The 2018 Get Fit Challenge took place in the early fall and challenged ERS employees to be active for 30 minutes a day, five days a week over a course of 10 weeks. ERS took first place in the mid-size agency category for agencies with 201-500 full-time employees and had the highest percentage of employees completing the challenge. ERS had 68.7% of its employees participate and they logged in a total of 698,294 minutes of activity. Mr. Wilson said that it is important for ERS to set an example as the agency who administers the health plan. ERS actively communicates on living healthy lives and encourages health plan members to do all they can to stay healthy and keep health costs down.

Staff Departures – Mr. Wilson recognized two departing staffers, Jennifer Jones and Dana Jepson, who have done important work for ERS. Ms. Jones was the Senior Policy Analyst who focused on pension policy for the organization, and helped to guide the development of the Pension Funding Priorities and Guidelines. Ms. Jones had four years at ERS and she interacted on a regular basis with the pension actuaries and helped guide discussions on pension policy matters. Ms. Jepson has been employed at ERS for 14 years and had been the health care policy expert for the agency. Among her many contributions to ERS, Dana produced the GBP annual Cost Containment Report which highlights the innovative things ERS does to maintain costs in the plan. The report was revised to make it more engaging and several other systems have indicated their interest in copying the ERS report format.

Mr. Wilson expressed appreciation to both Ms. Jones and Ms. Jepson for their service to ERS and the State of Texas.

10. RECESS

10.1 Recess of the ERS Board of Trustees. Following a temporary Recess, the Board of Trustees will reconvene as a committee of the whole to consider Audit Committee agenda items.