

AGENDA ITEM DETAILS

Subject: Review and Discussion of the Texas Employees Group Benefits and TexaSaver Program Update

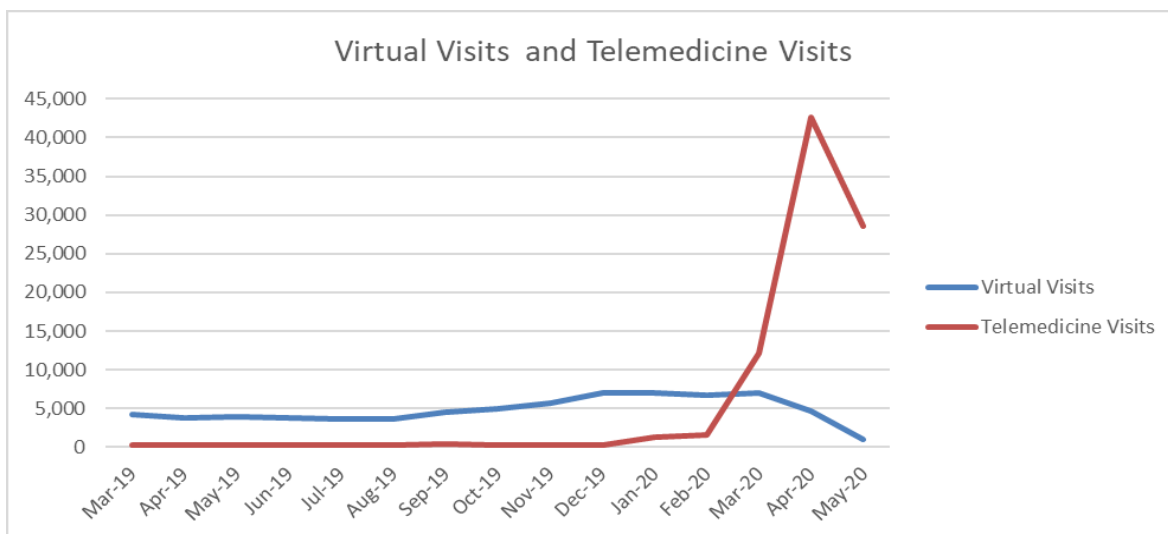
Background/Analysis:

Projected Plan Year 2020 HealthSelectSM Experience

HealthSelect combined medical and pharmacy plan trend was 6.2% through the first half of PY20. While lower than the original projected trend of 7.3%, trend is well within the normal year-to-year variance range. Medical trend was higher than average during this time at 7.2%, while pharmacy trend was lower than average at 3.5%.

Beginning in March, medical utilization dropped sharply with the impact of the COVID-19 pandemic. Lower utilization is expected throughout the remainder of the fiscal year with a projected medical trend of -5.9%. In contrast, pharmacy trend increased significantly in March as members filled prescriptions early in response to pandemic. Pharmacy trend dipped in April and May and then increased again in June as members refilled prescriptions for drugs filled in March. This cyclical effect is expected to even out and prescription drug trend is projected at 9.8% for the second half of PY20, in line with historic norms.

While most health services have experienced a reduction in utilization, expanded availability of virtual visits and provider-platform telemedicine resulted in an increase in those services. HealthSelect experienced a large increase in utilization primarily driven by use of local providers providing telemedicine in place of traditional in-office visits. The increase of provider-platform telemedicine services delivered by a participant's PCP appears to be a factor in reduced utilization of Doctor On Demand and MD Live virtual visits. As use of provider-platform telemedicine increased, utilization of the HealthSelect virtual visit providers decreased. The graph shown below illustrates the utilization of virtual visits and provider-platform telemedicine visits for the period March 2019 through May 2020.



Note: Virtual visits are delivered by Doctor On Demand or MD Live. Telemedicine visits are services delivered using a provider platform.

HealthSelect experienced an increase in confirmed COVID-19 cases in June and July. Based on claims paid as of July 14, 2020, HealthSelect had 3,721 cases compared to 1,000 cases at the beginning of June. Due to medical claims lag time, it is too early to determine the impact this will have on plan costs. However, even with the increased case rate, reduced utilization is expected offset the direct cost of COVID-19 treatment.

Health Plan Changes due to COVID-19

Group Benefits staff presented an update pertaining to the COVID-19 pandemic and associated benefits changes at the May 20, 2020 ERS Board of Trustees meeting. Benefit changes were implemented under the GBP health plans to cover in-network and out-of-network COVID-19 diagnostic testing and related services, which will continue to remain in place throughout the Declaration of Public Health Emergency and at no cost to participants.

Under the HealthSelect of Texas®, HealthSelectSM Out-of-State, HealthSelectSM Secondary (HealthSelect plans) and the Consumer Directed HealthSelectSM plan (HDHP), additional benefit enhancements were implemented for some non-COVID-19 services. Several of those non-COVID-19 benefit enhancements were recently extended beyond their initial expiration dates to allow increased participant access to care and to continue to relieve pressure on the medical community.

On March 27, 2020, ERS waived HealthSelect plans and HDHP copays, deductibles and coinsurance for non-COVID-19-related in-network medical and mental health Virtual Visits (Doctor On Demand and MD Live), and participant cost sharing for in-network provider-platform primary care physician and specialist telemedicine visits (medical and mental health). These benefit enhancements are extended through August 31, 2020.

Interfacility transfer prior authorization requirements for transfers to lower levels of care were waived through September 30, 2020 to help with the transition of participants between hospital facilities to address hospital capacity and medical needs.

The Group Benefits Division and ERS health plan vendors continue to monitor the situation closely.

Texa\$averSM 401(k) / 457 Program Update

The CARES Act included several provisions intended to provide relief to retirement plan participants, including government-sponsored 457(b), 403(b), 401(a) and 401(k), 403(b) plans. Section 2203 of the CARES Act waives all required minimum distributions (RMDs) for the 2020 calendar year. This waiver also applies to RMDs that are due by April 1, 2020 for individuals who turned age 70½ last year, unless those payments were already made last year. This provision is mandatory and applies to governmental 457(b), 403(b) and 401(k). The Texa\$aver program's Third Party Administrator (TPA) implemented this provision effective January 1, 2020.

Section 2202 of the CARES Act provides special rules for the use of retirement funds in the current emergency for plan sponsor consideration. These optional provisions are temporary and may provide much-needed opportunities for participants who may need emergency liquidity from their Texa\$aver assets.

Available Assistance

To assist in providing financial relief to Texa\$aver program's participants directly impacted by COVID-19, ERS implemented the three CARES Act provisions specific to the Special Rules for Retirement Funds:

- 1) Coronavirus-Related Distributions (CRDs),
- 2) increased loan limit and
- 3) extension of the loan repayment period.

CRD Eligibility

On June 19, 2020, the IRS issued Notice 2020-50, which provided additional guidance on the CARES Act provisions, including an expanded definition for CRD eligibility requirements. Notice 2020-50 eligibility

requirements include a spouse or a member of the household who suffers adverse consequences as a result of COVID-19 and allow a CRD if pay was reduced but work hours remained the same.

The CARES Act now provides that qualified individuals, as the definition is expanded by Notice 2020-50, may treat as CRDs, up to \$100,000 in distributions made from their eligible retirement plans (including IRAs) between January 1 and December 30, 2020. Thus, if the spouse lost a job due to COVID-19, a CRD is available anytime up until December 30, 2020, regardless if the job loss occurred before or after the issuance of Notice 2020-50.

Eligibility requirements for CRDs now include:

1. Being diagnosed with the virus SARS-CoV-2 or with coronavirus disease 2019 (COVID-19) by a test approved by the Centers for Disease Control and Prevention;
2. Having a spouse or dependent diagnosed with such virus or disease by such a test; or
3. An individual or their spouse or member of their household experiencing adverse financial consequences as a result of (1) being quarantined, (2) being furloughed or laid off, (3) having work hours reduced, (4) being unable to work due to lack of child care, or (5) being unable to work due to the closing or reducing of the hours of a business owned or operated by the individual, (6) having a reduction in pay, or (7) having a job offer rescinded or its start date delayed.

Plan sponsors can rely on the employee's self-certification that the coronavirus-related conditions are satisfied for CRD eligibility. As of June 30, 2020, Texa\$aver received 694 CRDs totaling approximately \$4 million dollars. This compares to the same period in 2019 with 408 hardship distributions totaling \$570,422 (pre-COVID).

COVID-19 Impact - Optional Benefit Plans

1. Dental – State of Texas Dental Choice utilization remains low. April dental service paid claims are 13% of what they were during the same period last year. May and June paid claims increased to 65% and 80% respectively when compared to the prior year paid claims during the same period.
2. Vision – The State of Texas Vision plan experienced similar results as the dental plan, although the results are not as extreme. Payments for April services were 28% of what they were at the same time last year with May and June payments at 85% and 137% respectively. Because of delayed services, June may reflect an increase although it is still too soon to tell without consideration of run out claims.
3. Life – An increase in COVID-19 related claims is expected due to the large increase in COVID-19 cases. ERS staff will continue to monitor the plan and current reserves are adequate to cover the cost of these claims.
4. Disability – Direct impact to the disability plans is not expected due to the relatively short term nature of the disease.

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The required report is due September 1, 2020. The report draft was completed by UT Health Science Center Houston (UTHSCH) and reviewed by the multi-agency work group. Currently, the Texas Health and Human Services Commission (HHSC) review process is underway and on track for timely completion.

Data dashboards were created for each agency and are currently under review. UTHSCH is working to collect FY19 data from all agencies and is adding FY20 data to provide comparative data analysis. The workgroups continue to meet regularly.

Background – HealthSelect of Texas

HealthSelect of Texas is a self-funded point of service health benefit plan offered under the GBP. Eligible employees are automatically enrolled in this plan and must opt out if they wish to decline coverage or choose another plan. Approximately 80% of GBP health plan participants are enrolled in HealthSelect of Texas, which offers health benefits coverage throughout Texas and the United States.

The healthcare benefits and administrative costs provided under HealthSelect of Texas are funded by contributions paid by the enrolled individuals and by the State of Texas and other employers. The State currently pays 100% of the HealthSelect of Texas contribution rate for eligible employees and retirees and 50% of the contribution rates for dependent coverage.

The ERS Board of Trustees sets the annual contribution rates based on the plan's benefits, member cost sharing, projected expenses, provider reimbursement arrangements, and appropriated funding from the State of Texas.

HealthSelect of Texas benefits include medical and pharmaceutical services. Blue Cross and Blue Shield of Texas is the current third-party administrator of medical services under HealthSelect of Texas. The contract for the GBP pharmacy benefits manager is currently held by OptumRX, an affiliate of UnitedHealthcare.

Internal administrative expenses represent slightly less than 0.5% of total HealthSelect of Texas expenses. External administrative fees represent less than 2% of total HealthSelect of Texas expenses.