Board of Trustees Meeting

May 20, 2020

ERS
EMPLOYEES RETIREMENT SYSTEM OF TEXAS

Presented for Review and Approval

August 19, 2020

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BOARD OF TRUSTEES MEETING
EMPLOYEES RETIREMENT SYSTEM OF TEXAS
May 20, 2020

The May 20, 2020 meeting of the ERS Board of Trustees was held by video conference call as authorized under Section 551.127 of the Texas Government Code. This meeting was conducted by videoconference in accordance with the governor's authorization concerning suspension of certain open meeting law requirements in response to the covid-19 (coronavirus) disaster. A quorum of members of the Board participated in the meeting remotely and could be heard and seen online by members of the public.

TRUSTEES PRESENT
Ilesa Daniels, Board Chair
I. Craig Hester, Board Vice Chair
Brian Barth, Member
Dr. Jim Kee, Member
Catherine Melvin, Member

ERS DIRECTORS PRESENT
Porter Wilson, Executive Director
Cathy Terrell, Deputy Executive Director
Paula A. Jones, Deputy Executive Director & General Counsel
Tony Chavez, Director of Internal Audit
Bernie Hajovsky, Director of Enterprise Planning Office
Robin Hardaway, Director of Customer Benefits
Diana Kongevick, Director of Group Benefits
Machelle Pharr, Chief Financial Officer
Gabrielle Schreiber, Director of Procurement and Contract Oversight

ERS STAFF PRESENT
Nora Alvarado, Group Benefits
Georgina Bouton, Group Benefits
Kelley Davenport, Executive Office
Blaise Duran, Group Benefits
Lauren Russell, Group Benefits
Betty Martin, Investments
Bruce Marton, Information Systems
Roger Nooner, Benefits Communications
Susie Ramirez, Executive Office

ALSO PRESENT
Stuart Greenfield, self
Kay Ghahremani, self

Meeting of the ERS Board of Trustees

22. Call Meeting of the ERS Board of Trustees to Order

Ms. Ilesa Daniels, Chair of the Board of Trustees of the Employees Retirement System of Texas (ERS), noting a quorum was present, called the meeting to order at 3:04 p.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 12:01 p.m. on Tuesday, May 12, 2020, as required by Chapter 551 Texas Government Code, referred to as the Open Meetings Law."

23. Review and Approval of the Minutes to the March 11, 2020 ERS Board of Trustees Meeting – (ACTION)

Chair Ilesa Daniels opened the floor for a motion on the approval of the minutes from the March 11, 2020 ERS Board of Trustees meeting.

Move that the Board of Trustees of the Employees Retirement System of Texas approve the minutes to the meeting held on March 11, 2020.

Motion by Craig Hester second by Brian Barth
Final Resolution: Motion Carries
Aye: Craig Hester, Brian Barth, Ilesa Daniels, Jim Kee, Catherine Melvin

24. Review, Discussion and Consideration of Contract Award Recommendation for Professional Audit Services– (ACTION)

Ms. Gabrielle Schreiber, Director of Procurement and Contract Oversight (OPCO), Mr. Tony Chavez, Director of Internal Audit, and Ms. Machelle Pharr, Chief Financial Officer, presented a recommendation for award of a Professional Audit Services contract.

Mr. Chavez provided background on the solicitation which is for a financial opinion audit of the ERS Comprehensive Annual Financial Report (CAFR) and other schedules related to employer allocations for our defined benefit funds and Other Post-Employment Benefits (OPEB).

This service has been provided by the State Auditor's Office (SAO) since 2007. ERS requested and received a delegation of purchase authority from the SAO, which allowed ERS to solicit a different audit firm. This allows ERS to select a new audit firm in order to follow auditor rotation practices recommended by the accounting industry.

Mr. Chavez understands that stakeholders are generally familiar with the CAFR, but asked Ms. Pharr to explain the additional reports to be provided by the professional auditor as a result of the solicitation. Ms. Pharr explained that the two additional schedules – employer allocations for ERS defined benefit pension plans and other post-employment benefits – are required by Governmental Accounting Standards, specifically Statements 68 and 74. Employers are required to report the financial statements their share of those other post-retirement benefit payments on their financial statements. The schedules published by ERS provide the information to state agencies, universities and community colleges, which include the information necessary to report their proportionate share for both the funded and unfunded liabilities for pension and insurance.

Ms. Schreiber stated that ERS issued a Request for Qualifications (RFQ) instead of a Request for Proposal (RFP) because ERS requires that the services be performed by a professional accountant, which is governed by the Texas Professional Services Act. RFQs evaluate bidders on qualifications and are awarded to the most qualified for a fair and reasonable price.

The RFQ was published November 19, 2019 with responses due December 19. ERS received responses back from seven entities: BDO USA, CliftonLarsonAllen (CLA), Crowe LLP (Crowe), Deloitte and Touche (Deloitte), Eide Bailey, RSM US, and Weaver and Tidwell.

Based on the evaluation process, staff recommends awarding the contract to CLA. The recommendation was the result of a three-stage evaluation process.

During the Preliminary Review Phase, OPCO evaluated defined pass/fail criteria to evaluate proposal responsiveness and compliance with RFP requirements as well as performing certain vendor performance checks required by the Texas Comptroller of Public Accounts. Also during this first phase, OPCO staff verified that respondents met the minimum requirements of the RFQ. All seven respondents passed this preliminary review.

During the second evaluation stage, agency staff reviewed the content of the responses in two defined areas, each worth 50% of score: Qualifications and Services – including firm qualifications, staff qualifications and information technology security; and Methodology and Soundness of Approach. Staff also initially reviewed the respondents on certain pass/fail items: legal requirements and regulatory compliance and financial stability. Based on these pass/fail items and the scoring of Qualifications and Services and Methodology and Soundness of Approach, three respondents were recommended as finalists: CLA, Crowe, and Deloitte.

For the final phase, agency staff evaluated the responses including any new or clarified information received as part of the second evaluation phase. The final review had the same criteria as the second evaluation stage. The three finalists were ranked and agency staff negotiated contract and price with the top-ranked respondent, CLA.

Mr. Chavez presented the qualifications of the CLA firm and proposed staff, and the audit approach. All firms were strong candidates and had the capability to perform the engagement. The attribute that separated CLA from the other two finalists was the proposed team. CLA has a dedicated practice to the government pension plan sector, meaning they perform a lot of these types of audits. In fact, the proposed audit team only works on government pension plan audits.

In addition, CLA is familiar with the state and state agencies in Texas as they are currently the auditor for the Texas statewide single audit, which is the federal portion of the statewide audit (federal money received by state agencies). The statewide audit is managed by the State Auditor's Office. While the proposed CLA team is not on that engagement, as a firm, they have experience with Texas state agencies.

CLA also serves as the current auditor for the Texas Municipal Retirement System, one of ERS' peer agencies, and the proposed team for ERS is the same. The firm has a lot of relevant experience with this specific type of audit.

Mr. Chavez emphasized that the proposed team only works on these types of audits in this specific industry full time. In addition, the proposed methodology includes government specific analytics that might improve information available for reporting, but might also help in ERS' day-to-day operations.

In summary, the experience of the firm and proposed staff was the deciding factor in selecting CLA as the staff's recommendation and what separated CLA from the other two finalists.

Ms. Schreiber stated that based on the scores, a determination was made that CLA is the most qualified professional auditor who could also provide those services at a fair and reasonable price.

Ms. Melvin stated that she thought it reflected well on ERS that the State Auditor's Office delegated the purchasing authority, which shows they have confidence in this team. She inquired about the assurances the Board of Trustees has that the proposed team will be available to complete the work or if ERS has approval authority if team members need to be substituted.

Ms. Schreiber stated that, as a standard contract term, a change to any key team members must be approved by ERS. Mr. Chavez added that, for this engagement, key team members would be the engagement partner and manager and part of the evaluation was their tenure with the firm. While not a guarantee, they have both been with CLA for some time. If team members are substituted, the replacement auditors will be evaluated on whether they have similar experience to the proposed team member. In addition, CLA has a strong knowledge bench in this type of audit and industry. Ms. Schreiber also noted that while the team's experience has been emphasized, CLA also received the highest score for firm qualifications and soundness and methodology of approach.

Ms. Melvin asked if there are anticipated cost savings. Ms. Schreiber noted that since the contract is proposed and marked as confidential she cannot comment on the pricing publicly with any detail, but there was additional information in the confidential information provided to Board members with an estimated cost comparison.

There being no further questions, the Board of Trustees took the following action:

Move that the Board of Trustees of the Employees Retirement System of Texas authorizes the executive director to negotiate and execute a contract with CliftonLarsonAllen, LLP (CLA) with terms that are fully acceptable to ERS, and to authorize the executive director to thereafter administer the contract agreed to by the parties. In the event that ERS is not able to timely negotiate a satisfactory contract with CLA or if CLA will not be capable of providing the required financial audit services to ERS' satisfaction during the contract term, then the Board authorizes the executive director to resume any necessary due diligence processes and contract negotiations with the next top ranked qualified respondent, and to negotiate and execute contract terms that are fully acceptable to ERS, and thereafter administer the contract.

Motion by Ms. Melvin, second by Brian Barth
Final Resolution: Motion Carries
Aye: Craig Hester, Brian Barth, Ilesa Daniels, Jim Kee, Catherine Melvin

25. Review, Discussion and Consideration of Contract Award Recommendation for the HealthSelect Medicare Advantage Preferred Provider Organization Plan – (ACTION)

Ms. Gabrielle Schreiber, Director of Procurement and Contract Oversight (OPCO), introduced Diana Kongevick, Director of Group Benefits, Georgina Bouton, Assistant Director of Group Benefits and Blaise Duran, FSA, Manager of ERS' Actuarial and Reporting Services, all of whom would be presenting to the Board for review, discussion and consideration of a recommendation for the contract award of the HealthSelect^{SM} Medicare Advantage Preferred Provider Organization Plan, or MA PPO.

Ms. Schreiber explained that ERS currently contracts with Humana Insurance Company (Humana) to underwrite and administer the HealthSelect MA PPO contract under the Texas Employees Group Benefits Program (GBP). This current contract expires December 31, 2020. ERS prepared and published a Request for Proposals (RFP) on November 12, 2019.

Ms. Georgina Bouton provided an overview of the requested services and requirements defined within the RFP. She explained that the services included comprehensive operational requirements and a network for the HealthSelect MA PPO medical-only plan, as well as plan eligibility, plan design and utilization management services. Other requirements included communication requirements, information system requirements, account management, administration, customer service, plan reporting, accounting and funding requirements.

Ms. Schreiber explained that two responses were received by the January 6, 2020 response due date. A response was received from the current plan, Humana, and from Sierra Health and Life Insurance Company, which is a subsidiary of UnitedHealthcare (United). Ms. Schreiber indicated she would describe the evaluation process, and that based on the evaluation, ERS recommends the Board of Trustees of the Employees Retirement System of Texas award the MA PPO contract to United.

Ms. Schreiber then described the solicitation review process, explaining that the RFP respondents were first required to complete a Minimum Requirements Questionnaire. If respondents passed the Minimum Requirements, they were asked to submit a full proposal. Both respondents passed the Minimum Requirements phase.

ERS received and accepted full responses from Humana and United. During the Preliminary Review phase, OPCO evaluated the certain criteria on a pass/fail basis. Both respondents passed the Preliminary Review Phase.

Ms. Schreiber explained that during the Proposal Review Phase, subject matter experts reviewed the responses. Scoring was allocated between two main categories: 40% weighted to Network Operational Capabilities and Services, and 60% weighted to Price Proposal. During the Proposal Review Phase, the team reviews other pass/fail items. Ms. Schreiber reported that based on those pass/fail items and the Network Operational Capabilities and Service Requirements, as well as the Price Proposal scores, both Humana and United were advanced as finalists.

The Finalist Review Phase had the same allocated breakdown as the Proposal Review Phase: Certain items were also evaluated on a pass/fail basis.

Ms. Bouton explained that both Humana and United are extremely capable of administering the plan. Both offer robust clinical and service delivery models designed for Medicare primary retirees. Their respective models are designed to improve health outcomes by identifying and closing gaps in care. Humana leverages an integrated social determinants of health strategy based on three pillars, screening, coding, and connection with participants. United leverages a customer service model to personalize participant support through their Advocate for Me and Navigate for Me approach. Both have a strong focus on key care offerings for health and wellness which include primary care, disease management, on-demand care, behavioral health, complex care and wellness initiatives that includes Silver Sneakers. Both Humana and United use an electronic data integration process with CMS for eligibility verification. Ms. Bouton closed by stating both Humana and United met the requirements that are fully defined within the RFP.

Ms. Diana Kongevick added that ERS is very fortunate to have both United and Humana submit responses to our RFP. She reiterated that both respondents are very qualified and met all of the requirements. Ms. Kongevick turned the presentation to Mr. Blaise Duran to address the price evaluation.

Mr. Duran explained that for the pricing evaluation, a model was developed to project claims and revenue over the six-year contract period. Premium, administrative fee, profit margin and track guarantees, as well as gain share or proposals from each finalist were plugged into this model in order to project the total cost.

The current premium is based on the current contract with Humana. That amount was then projected out for a six year period (assuming no rate increase) totaling $1.1 billion. Humana’s bid under the new proposal was $860 million. Humana's proposal offers significant savings to its current rate. United’s proposed bid of $693.7 million provides $166.3 million in savings when compared to Humana’s proposed bid. All of these projected figures are projected assuming a six year contract period.

Mr. Craig Hester commented that the projected savings are significant. He asked what would be driving the significant price difference.

Mr. Duran responded that the difference between the two is a longer duration of the guaranteed premium for United versus Humana. United included a multi-year guarantee of the lower premium.

Ms. Schreiber commented that based on the process discussed, evaluation findings were reviewed. She went on to note that, just as Ms. Kongevick and Ms. Bouton explained, both Humana and United scored extremely well in operational capabilities and it really came down to a price differential that was discussed by Mr. Duran. Ms. Schreiber reported that the RFP evaluation team and OPCO met with ERS’ Executive Office to review the RFP evaluation team findings. Based on the information presented, a best value determination was made.

Ms. Ilesa Daniels asked, if there were no further questions or comments, and if the Board was ready to proceed with the motion.

There being no further questions, the Board of Trustees took the following action:

> **Move** that the Board of Trustees of the Employees Retirement System of Texas authorizes the executive director to negotiate and execute a contract with Sierra Health and Life Insurance Company, a subsidiary of UnitedHealthcare (United), with terms that are fully acceptable to ERS and

to authorize the executive director to thereafter administer the contract agreed to by the parties. In the event that ERS is not able to timely negotiate a satisfactory contract with United, or if United will not be capable of providing the required MA PPO services to ERS' satisfaction during the contract term, then the board authorizes the executive director to resume any necessary due diligence processes in contract negotiations with the next top ranked qualified respondent and to negotiate and execute contract terms that are fully acceptable to ERS and thereafter administer the contract.

Motion by Brian Barth seconded by Craig Hester
Final Resolution: Motion Carries
Aye: Craig Hester, Brian Barth, Ilesa Daniels, Jim Kee, Catherine Melvin

Ms. Daniels then commented that ERS would like to thank Humana for all the services that they've provided.

26. Review and Discussion of the Group Benefits Program Update

COVID-19 Update - Lauren Russell, director of ERS Health Plan Operations, provided an update about recent federal mandates and additional benefits that make it easier for people to access health care during the COVID-19 pandemic. She reviewed the phases of the various federal mandates. Phase 1 addressed the Coronavirus Preparedness and Response Supplemental Appropriations Act enacted on March 6, 2020. It provided over $8 million of funding to federal agencies including Health and Human Services, the Small Business Administration, the Centers for Disease Control and others. Phase 2, known as the Families First Coronavirus Response Act, (FFCRA), was signed into law on March 18, 2020. It requires employers with fewer than 500 employees and public employers to provide paid leave due to COVID-19 and requires health plan coverage of COVID-19 diagnostic testing and related services. Phase 3 included the Coronavirus Aid Relief and Economic Securities Act (CARES Act) and includes over $2 trillion in economic stimulus and financial assistance. This act was signed into law on March 27, 2020.

The FFCRA requires group health plans to cover COVID-19 diagnostic testing and related services without any member cost sharing or prior authorization. ERS responded to the FFCRA with changes to health benefits to ensure greater access to care and coverage for COVID-19 services. The Group Benefits Plan (GBP) added coverage for provider-platform telemedicine visits associated with COVID-19 at no cost to HealthSelect of Texas® and ConsumerDirected HealthSelect℠ participants effective March 11, 2020. Ms. Russell further explained that, with the requirements of the FFCRA, in-network and out-of-network COVID-19 lab testing and associated services are covered at no cost to the member effective March 18, 2020 and throughout the declaration of the Health and Human Services public emergency. To reduce the burden to providers, beginning March 16, 2020, GBP paused referral requirements and certain prior authorizations through May 31, 2020 and these items will be re-evaluated for continuation before May 31, 2020.

The CARES Act expanded COVID-19 diagnostic testing mandate provisions and expanded telemedicine for high deductible plans. On March 27, 2020 the GBP waived HealthSelect℠ and high deductible health plan member co-pays, coinsurance, and deductibles for non-COVID related in-network medical and mental health telemedicine and virtual visits through May 31, 2020. This extends to specialist visits, such as eligible in-network physical therapy services, occupational therapy, and speech therapy services. These items will be re-evaluated for continuation before May 31, 2020.

ERS worked with Blue Cross Blue Shield of Texas, administrator of the HealthSelect plans, to launch an additional resource available to HealthSelect participants through Catapult Health to aid in the triage and testing of COVID-19. This service provides a dedicated website, ERSAssist.com, to assist in providing educational information about COVID-19.

Other steps taken by ERS include lifting refill-too-soon edits in the Prescription Drug Plan (PDP) under OptumRX and the employer group waiver plan through UnitedHealthcare. Participants were provided information reminding them of the availability of home delivery which alleviates the need to go to a pharmacy or a grocery store.

Trustee Craig Hester asked Ms. Russell to discuss the trends with virtual visits and telemedicine. Ms. Russell noted that there was a significant increase in virtual visit utilization during March and participants experienced longer than normal wait times during that period for both Doctor on Demand and MDLIVE. Provider platform telemedicine visits are continuing to be a popular feature with participants and their providers. Many participants are now seeking care through their provider's telemedicine platform.

Ms. Nora Alvarado, manager of ERS' Voluntary Income Plans, explained how ERS and Empower Retirement implemented temporary changes to the Texa$aver^{SM} 401(k) / 457 Program, which are based on federal laws to provide financial relief for those experiencing hardship due to COVID-19. The emergency legislation included several provisions intended to provide relief to retirement plan participants, including governmental sponsored plans. Section 2203 of the CARES Act waives all required minimum distributions (including required minimum distributions (RMDs) for Calendar Year 2020. This provision is mandatory legislation and applies to all governmental plans. Texas$aver implemented this change.

Section 2202 of the CARES Act also provides special rules for the use of retirement funds. These provisions are both optional and temporary.

ERS responded by adopting the following provisions for the Texa$aver program:

1. Permit Coronavirus-Related Distributions (CRDs)
    - Allow withdrawals to be repaid within three years of the date of distribution
    - Waive the 10% early withdrawal penalty for any CRDs up to $100,000 per individual across plans

2. Increase loan limits
    - Allows for an increase in the maximum loan to $100,000 or 100% of the vested balance for loans taken through September 23, 2020

3. Extend loan repayment period
    - Allows for a delay in loan repayments for up to one year
    - Applies to loan payments due between March 27, 2020 and December 31, 2020

In order for a participant to act on any of the special rules provisions, the participant must meet one of the eligibility requirements that defines a coronavirus related distribution such as; an individual diagnosed with the coronavirus disease, has a spouse or dependent that is diagnosed, or experiences adverse financial consequences as a result of being quarantined, being furloughed or laid off, has work hours reduced, is unable to work due to lack of childcare, or is unable to work due to the closure or reduction of hours of a business owner operated by the individual.

Dr. Kee asked a question how many participants have metthe requirements for COVID-19-related loans. Ms. Alvarado responded that 79 participants elected to take a withdrawal related to the coronavirus. It appears participants are reacting, but the number is low.

HealthSelectShoppERS^{SM} Program – Ms. Russell explained that during the last legislative session, Rider 16 directed ERS to provide an incentive to participants to shop for lower cost health care within the health plan using a shared savings approach. Beginning September 1, 2020, the HealthSelectShoppERS program will be available to active employees and their covered dependents enrolled in the HealthSelect of Texas plan, Consumer Directed HealthSelect, and HealthSelect^{SM} Out-of-State. The program is not available to Medicare primary participants or retirees. The HealthSelectShoppERS program will be accessible through Blue Cross Blue Shield of Texas and their affiliate, Sapphire Digital. The program will reward HealthSelect participants who shop for certain in-network, elective non-emergency procedures. Incentives are provided as employer contributions credited to the employee's health care flexible spending account, or for those enrolled in the high deductible health plan, a limited purpose flexible spending account. The maximum incentive up to $500 is available each plan year per family.

HealthSelect^{SM} Prescription Drug Program (PDP) – Ms. Diana Kongevick explained that diabetic supply coverage will be added to the Prescription Drug Program (PDP) effective September 1, 2020.

Diabetic supplies are currently covered by HealthSelect only through Durable Medical Equipment or DME providers. The PDP coverage is in addition to diabetic supply coverage currently offered through the medical plan. With the new PDP diabetic supply program, a free glucometer (One Touch Verio Meter or One Touch Verio Flex Meter) will be available to qualified participants once each plan year. For HealthSelect of Texas participants, test strips for the free meter will also be available at no cost when purchased at an in-network pharmacy. Oher diabetic supply brands are available through OptumRx's premium formulary and will be available at the applicable tier level copay.

Mr. Barth stated he was impressed with how quickly ERS staff responded to the COVID-19 situation and including the quick communication allowing members to start using the benefits.

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

Public Testimony

Retiree, Stuart Greenfield, addressed the Board recommending that ERS communicate to participants about the availability of certain types of diabetic supplies, including continuous glucose monitors and consider supplying participants with oximeter pulse meters.

27. Review, Discussion and Consideration of the Proposed Rates for HealthSelect of Texas and Consumer Directed HealthSelect Plans with rates inclusive of plan changes for Fiscal Year 2021 – (ACTION)

Ms. Diana Kongevick, Director of Group Benefits, introduced Blaise Duran of ERS' Actuarial and Reporting Services to discuss the proposed rates for HealthSelect of Texas® and Consumer Directed HealthSelect℠ Plans.

HealthSelect plan costs are funded by contributions paid by employers and enrolled members with state contributions determined based on legislative appropriation. The state currently pays 100% of the contribution for eligible full-time employees and retirees and 50% of the contribution rate for eligible dependents. State contributions are the same for HealthSelect of Texas, Consumer Directed HealthSelect, and HealthSelect℠ Medicare Advantage.

ERS' Actuarial and Reporting Services unit and ERS' consulting insurance actuary look at the following factors when recommending rates: revenue requirements, state funding, historical enrollment, claims experience, projected contingency fund balance, cost containment practices, and the impact of participating health maintenance organizations and funding for basic life and accidental death and dismemberment coverages.

The combined Fiscal Year 2020 medical and prescription drug trend is 6.3%, with a medical benefit cost trend at 6.1% and a prescription drug trend at 6.9%. Projections include a significant impact due to COVID-19 with increased costs due to testing and treatment. As testing rates increase, it is expected costs will increase. Utilization reductions due to social distancing; however, should decrease cost in the short term. Based on current information and plan design, it is expected the plan should be able to absorb pandemic treatment costs.

ERS is implementing several changes for Fiscal Year 2021 including changes due to the COVID-19 pandemic and the HealthSelectShoppERS℠ program, as well as offering certain diabetic supplies at no cost to the member through the prescription drug benefit. These changes are not expected to have a significant impact on plan costs.

Two HMOs made medical loss ratio payments to ERS as required by the Affordable Care Act, totaling $3 million. ERS is required to distribute to members the portion of the rebate consistent with the portion of premium paid by members during the period for which the rebates are required. This will temporarily reduce premium contribution rates.

Consumer Directed HealthSelect is required to be revenue neutral by statute. While original pricing assumptions for the plan design were projected based on 3% enrollment, current enrollment is at approximately 0.5%.

There being no further questions, the Board of Trustees took the following action:

Move that the Board of Trustees of the Employees Retirement System of Texas approve the proposed Fiscal Year 2021 HealthSelect of Texas and Consumer Directed HealthSelect contribution rates, inclusive of the recommended plan changes, as presented in this agenda item effective September 1, 2020.

Motion by Craig Hester seconded by Jim Kee
Final Resolution: Motion Carries
Aye: Craig Hester, Brian Barth, Ilesa Daniels, Jim Kee, Catherine Melvin

28. Review, Discussion and Consideration for Recommended Strategy for HMOs – (ACTION)

Diana Kongevick, Director of Group Benefits, introduced Blaise Duran with ERS' Actuarial and Reporting Services and Phil Dial, insurance actuary with Rudd and Wisdom, Inc. to present the recommended strategy for HMO plans. Mr. Duran reported there are two HMO's offered to participants, Community First Health Plans and Scott and White Health Plan. For Fiscal Year 2021, ERS staff did not publish requests for applications for HMOs. Instead, incumbent carriers were provided a renewal option subject to due diligence.

The State's appropriations act includes the following language in rider. "*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 or retirees who have elected to participate in that optional health coverage."*

The HMO rates were subject to review, which included reviewing the appropriateness of the methodology used by the HMOs to develop rates, GBP experience, and whether the rates met the theoretical cost index in order to comply with the rider.

Mr. Duran reviewed the service area for Community First in the San Antonio region and the proposed rates for Fiscal Year 2021 as shown below:

Community First Health Plans, Inc.
Proposed Monthly HMO Rates
Fiscal Year 2021

	Total Contribution	State Pays	Member Pays	Change in Member's Monthly Contribution
Member Only	$547.40	547.40	$0.00	$ 0.00
Member & Spouse	1,176.08	861.74	314.34	(0.42)
Member & Child(ren)	968.32	757.86	210.46	(0.28)
Member & Family	1,597.00	1,072.20	524.80	(0.70)

Mr. Duran also reviewed the Scott and White service area and the proposed rates for Fiscal Year 2021 as shown below:

Baylor Scott & White Health Plan Proposed Monthly HMO Rates Fiscal Year 2021				
	Total Contribution	State Pays	Member Pays	Change in Member's Monthly Contribution
Member Only	$619.76	$619.76	$0.00	$ 0.00
Member & Spouse	$1,331.56	$975.66	$355.90	(0.46)
Member & Child(ren)	$1,096.32	$858.04	$238.28	(0.32)
Member & Family	$1,808.12	$1,213.94	$594.18	(0.78)

The current GBP HMOs have stable populations and this, combined with the theoretical cost index (TCI) requirement, means there is minimal risk of negative financial impact to the GBP through their participation. New HMOs; however, have historically attracted younger, healthier participants and have caused significant adverse selection. It is hard to determine an appropriate TCI for new HMOs as it is unknown who will enroll. This impacts initial enrollment as well as enrollment in subsequent years where there is significant growth. Movement of healthier risk to HMO plans is expected to lead to higher premiums for all enrolled in a HealthSelect^{SM} health plan.

Under current statute, every six years, ERS is required to competitively bid those plans for which it purchases coverages, which includes HMO plans. Fiscal Year 2021 is the last year of the current six-year bidding cycle. In order to continue HMO participation in the GBP, ERS would have to open the GBP to competitive bidding for Fiscal Year 2022. Expansion of HMO enrollment would result in further degradation of the HealthSelect risk pool and an overall increase in cost for those remaining in HealthSelect plans. It would be detrimental to the GBP to allow new HMOs to participate; therefore, ERS recommends that HMO participation in the GBP be discontinued effective September 1, 2021.

Scott and White Health Plan currently has 15,000 participants and 95% of the providers in that network are in the HealthSelect network. Mr. Duran reported that the benefits are essentially the same; the main difference is that HealthSelect offers out-of-network benefits, whereas the HMOs do not. Scott and White is $1.64 less for spouse coverage and $2.74 less for family coverage.

For Community First Health Plans, there are 4,000 participants and 94% of the PCPs in that network participate in HealthSelect. Most of the non-participating specialists were primarily hospital-based physician assistants and nurse practitioners. Mr. Duran reported that the benefits are essentially the same; except HealthSelect offers out-of-network benefits, whereas Community First does not. Members in Community First currently pay $43.24 less for spouse coverage and $72.20 less for family coverage.

Ms. Melvin asked if both health plans were made aware about the proposed recommendation. Ms. Kongevick responded by saying that there were several conversations over the past year about the difficulties in having an HMO coexist next to a plan like HealthSelect. She does not think that this would be new information to anyone.

Public Testimony

Kay Ghahremani, CEO for Community Health Plans, addressed the Board and stated her concern that the two plans mentioned in the agenda item are more cost-effective and putting everything into one plan seems risky.

Mr. Phil Dial responded to Ms. Ghahremani. He stated that ERS has been very conscious over the years with this issue and an important consideration is there is not any particular choice increase added by the HMOs. The physician networks and providers are very similar in those areas and the plan benefits are also very similar.

There being no further questions, the Board of Trustees took the following action:

Move that the Board of Trustees of the Employees Retirement System of Texas approve the extension ofHMO carrier plans for Community First Health Plans, Inc. and Baylor Scott and White Health Plan, including the service areas described in exhibit B and exhibit C, and set contribution rates as presented in this agenda item for participation in the Texas Employees Group Benefits Program beginning September 1, 2020, and ending August 31, 2021. Further move that HMO participation in the group benefits program be discontinued no later than August 31, 2021.

Motion by Brian Barth seconded by Catherine Melvin
Final Resolution: Motion Carries
Aye: Craig Hester, Brian Barth, Ilesa Daniels, Jim Kee, Catherine Melvin

<u>29. Review, Discussion and Consideration of Proposed Fiscal Year 2021 Rates for the Group Benefits Program Optional Coverages – (ACTION)</u>

State of Texas Dental Choice Plan^{SM} and Dental Health Maintenance Organization – Mr. Blaise Duran, Manager of ERS' Actuarial and Reporting Services, provided dental plan updates. Mr. Duran explained strong enrollment continues in the Texas Dental Choice Plan (Dental Choice) and the Dental Health Maintenance Organization (DHMO). About two-thirds of eligible participants are enrolled in one of these two dental plans. Just under 200,000 members are enrolled in Dental Choice Plan, with approximately 67,000 members are enrolled in the DHMO. Delta Dental became the administrator for both dental plans effective September 1, 2019.

The Dental Choice Plan is a self-funded plan funded solely by the members. Contributions from those members must be sufficient to support anticipated costs for the upcoming year. These contribution rates are based on claims experience through March, estimated trends of per capita costs, projected provider reimbursements, historical enrollment, any contractually administrative fees and proposed changes expenses.

COVID-19 and the impact of social distancing contributed to reduced utilization in the plan over the last few months. Some of this reduced utilization is the result of delayed services expected to be made up at a later date. There is not a cost increase to the plan associated with COVID-19.

Staff recommends no increase in contribution rates for Fiscal Year 2021.

The DHMO plan (DeltaCare HMO USA) is a fully-insured plan with premiums paid entirely by member contributions. The Fiscal Year 2021 member contribution rates are set equal to the contracted premium rate and rates remain unchanged for Fiscal Year 2021.

State of Texas Vision Plan – Mr. Duran reported that the State of Texas Vision Plan is in its fourth year and continues to be well-received. The Plan is a self-funded plan and the member contributions must be sufficient to support the anticipated costs. Member contribution rates are based on claims experience through March 31, 2020, estimated trends and benefit costs, projected provider reimbursement rates and contractually guaranteed administrative fees.

The plan is experiencing some reduced utilization due to COVID-19 and social distancing requirements but it is anticipated that many services will be souought at a later date with minimal net cost impact.

Enrollment continues to increase with 252,000 participants, of whom 140,000 are active employees and retirees. Mr. Duran reported that in Fiscal Year 2019 the plan experienced a $3 million gain contributing to a 10% rate reduction in Fiscal Year 2020. With the rate reduction, the projected gain is expected to be $1.6 million, assuming no impact due to COVID-19. The projected Fiscal Year 2021 gain would be $1.5 million if benefits and rates were kept the same.

Utilization continues to be less than expected despite high participation. In order to increase the utilization and value of benefits to participants, Group Benefits proposes improving benefits by increasing how much the paln will pay each year for eyeflass frames and contact lenses. For frames, staff recommends that the annual in-network benefit allowance increase from $150 to $200 and the out-of-network allowance from $50 to $75. For contact lenses, it is recommended that the annual in-network benefit allowance increase from $150 to $200, and the out-of-network increase from $100 to $150.

Staff recommends no change to the member contribution rates as the projected gain for next year will accommodate the recommended plan changes.

Basic and Optional Term Life, Accidental Death and Dismemberment Plans – Life insurance is funded through a fully-insured minimum-premium arrangement with Minnesota Life, an affiliate of Securian Financial Group. On a weekly basis, ERS reimburses the insurer an amount equal to the actual life insurance claims paid by the insurer, and on a monthly basis ERS pays the administrative fees. The minimum premium arrangement includes maximum premium rates for each covered type, which are guaranteed for the term of the contract.

The Accidental Death and Dismemberment plan (AD&D) is fully insured by Minnesota Life, and is based on premium rates guaranteed for the term of the contract. Mr. Duran noted that a life and AD&D Request for Proposal will be issued in Fiscal Year 2021. Member contribution rates are based on reasonable expectations of future claims, through a review of the plan experience for the last five years, anticipated claim payment patterns, expected investment income earned on funds held by ERS and maximum claim rates and administrative fees included in the Minnesota Life contract. Mr. Duran reported that an increase in death claims is expected as a result of COVID-19. While this is expected to be a short term increase, Mr. Duran reported it is not expected to have a long term impact on the plan. Current reserves are adequate to cover the potential increase in costs and no rate action is recommended.

Mr. Duran reviewed the experience summary and noted that the plan is performing as expected.

Texas Income Protection Plan℠ (TIPP) – The Texas Income Protection Plan (TIPP) is made up of two disability plans. In the short-term disability plan, benefits last approximately five months after a one month waiting elimination period. In the long-term disability plan, benefits can last for many years with the maximum benefit period ranging from 12 months up to the Social Security full retirement age (after a six month elimination period). These benefits are funded entirely through member contributions.

Disability plan member contribution rates are based on reasonable expectations of future claims and the anticipated claim payment patterns, expected investment income on funds held by ERS, and administrative fees associated with the benefit administration.

Different contribution rate approaches are used for short-term and long term disability. Short-term disability has short-term liabilities, and recent experience is used. Long-term disability claims are longer in duration, and experience is evaluated over many years.

The COVID-19 pandemic is expected to have little direct impact on the short term disability plan, largely due to the relatively short duration of the disease compared to the elimination period of the plan. At this time, staff does not expect to see many COVID-19 related disability claims. ERS will be monitoring this experience but currently recommends no rate action due to COVID-19.

Enrollment in the TIPP remains stable. As of March 31, 2020, more than 112,000 employees enrolled in short term disability coverage (approximately 47%) and approximately 85,000 employees enrolled in the long term disability plan (approximately 36%).

Staff recommends keeping Fiscal Year 2020 rates in place for Fiscal Year 2021.

Mr. Hester and Ms. Melvin both expressed their gratitude towards the Group Benefits team for the great job they do in paying close attention to the management of benefits.

There being no further questions, the Board of Trustees took the following action:

Move that the Board of Trustees of the Employees Retirement System of Texas approve and adopt the proposed Fiscal Year 2021 rates, inclusive of proposed plan changes, for the State of Texas Dental Choice and Dental Health Maintenance Organization plans, the State of Texas Vision Plan, Basic and Optional Term Life and Accidental Death and Dismemberment Plans, and the Texas

Income Protection Plan within the Texas Employee Group Benefits Program, as reflected in Exhibits A through F attached to this agenda item, number 29.

Motion by Craig Hester seconded by Catherine Melvin
Final Resolution: Motion Carries
Aye: Craig Hester, Brian Barth, Ilesa Daniels, Jim Kee, Catherine Melvin

30. Review, Discussion and Consideration of Proposed Fiscal Year 2021 Fees for TexFlex^{SM} Program – (ACTION)

Mr. Blaise Duran, Manager of ERS' Actuarial and Reporting Services, explained there are three types of flexible spending accounts in the TexFlex Program, including a: the health care reimbursement account, a limited purpose reimbursement account and a dependent care reimbursement account. The TexFlex plan also offers a commuter spending account. These accounts are funded by active employee pre-tax salary contributions which reimburse participants for qualified eligible expenses.

In previous years employees enrolled in a flexible spending account were responsible for a nominal account administrative fee of $1 per account per month. ERS waived the administrative fee for those enrolled in flexible spending accounts during Fiscal Year 2017 through Fiscal Year 2020. Mr. Duran reported that ERS staff recommends waiving the administrative fee for Fiscal Year 2021. This $1 per account per month administrative fee is paid through prior year flexible spending account forfeitures.

Participants in the commuter spending account option pay a $3 monthly fee for account administration. Consistent with IRS rules, forfeited funds cannot be used to pay the $3 per month commuter spending administrative fee. Therefore, staff recommends no change to the commuter spending administrative fee.

Enrollment in the commuter spending account began January 1, 2016, with a start date of March 1, 2016. The account is available to those who utilize mass transit or incur parking expenses as part of the daily commute to and from work. Participants can enroll and dis-enroll on a monthly basis without waiting for summer enrollment or a Qualified Life Event. Mr. Duran reported there are 34 participants who participate in the parking benefit and 149 participating in the transit benefit.

There being no further questions, the Board of Trustees took the following action:

Move that the Board of Trustees of the Employees Retirement System of Texas approve a FY21 administrative fee holiday for the TexFlex program, applicable to those participants enrolled in the flexible spending health care and limited health care reimbursement and dependent care reimbursement plans, and continue the $3 per month, or $36 per year, employee-paid fee for the commuter spending account.

Motion by Brian Barth seconded by Jim Kee
Final Resolution: Motion Carries
Aye: Craig Hester, Brian Barth, Ilesa Daniels, Jim Kee, Catherine Melvin

31. Review and Discussion of the Incentive Compensation Plan for Fiscal Year 2021

Ms. DeeDee Sterns, Director of Human Resources, and Mr. Jamey Pauley, ICP Program Specialist, presented the review and discussion of the ERS Incentive Compensation Plan (ICP) for Fiscal Year 2021. Ms. Sterns stated that this is an informational item and that no action is required at this time.

Ms. Sterns reminded the Board that an ICP overview is provided each year during the May Board meeting including a draft of the next year's plan for discussion. The final plan document will be presented in August for the Board's action. After mentioning that the plan year starts each year on September 1, Ms. Sterns introduced Mr. Pauley.

Mr. Pauley reviewed the primary objectives of the plan with the Board and then provided a general overview of various significant aspects of the plan. Mr. Pauley concluded the presentation by reviewing the recommended changes for next year's plan document, which are the result of the annual review that HR conducted with executive management and key stakeholders.

Based on the annual review, one material change is recommended. This change will be to the definition of the global composite performance metric, which is defined in section 2.16 of the plan document. The change being recommended will include discontinuing the practice of adjusting the total trust return for unallocated cash.

The practice of adjusting the total trust return for unallocated cash was a practice that began in 2013 as the result of some new accounting rules. The new rules required that short term treasuries in the short term investment fund account be marked to market daily, even though ERS usually held them to maturity. At the time, BNY Mellon (ERS's custodian) and ERS didn't have a method to book the market value adjustments at the portfolio level, so the whole gain or loss was being booked to unallocated cash.

Recently, the finance team has developed a method with BNY Mellon to be able to book the adjustment to the affected portfolios on a daily basis. Now that these transactions are being recorded at the portfolio level, staff believes that there is no longer a need to adjust the total trust return for unallocated cash.

Mr. Hester asked if this takes into account cash in each portfolio category. Betty Martin, Director of Investment Services, confirmed that this applied to the short term investment fund account, which all of the portfolios' cash is swept to every night, and that they are now being allocated their losses from the market value adjustments on the short term investments - the treasuries in the short term investment pool.

In addition to reviewing the one recommended material change for Plan Year 2021, Mr. Pauley stated that some non-material changes were also being recommended to the plan document to help provide clarification and better reflect current processes and practices. These recommended changes were reflected in the draft plan document attached as an exhibit to the agenda item.

Mr. Barth asked Mr. Pauley to confirm that the incentive compensation pay has no relation to the assumed rate of return that the Board voted on earlier in the day. In other words, those benchmarks that ERS's investment professionals are graded against have no relation to the assumed rate of return. Mr. Pauley confirmed that this was the case. Mr. Barth then stated that the plan provides an incentive for ERS' investment professionals to do the best they can completely independent of the assumed rate of return.

Mr. Wilson added to Mr. Barth's comments by stating that it is the risk budget that controls the potential upside and the amount of appropriate risk that the Board provides for in the risk budget that is in the investment policy statement. Mr. Tull also added that the bottom line is really to provide the best competitive, relative risk-adjusted rate of return that, given the risk profile of the trust and ERS' fiduciary responsibility to trust beneficiaries.

Dr. Key concluded the questions by asking Mr. Pauley to confirm his understanding from earlier in the presentation regarding non-payment of awards when trust fund returns are negative. Mr. Pauley confirmed that this is a provision in the plan - when the global composite metric is not positive for any given year then award payments are deferred for that particular year. Mr. Pauley also confirmed that if an award payment is deferred for three consecutive years in a row then the payment is forfeited. Ms. Jones added that this is a tax law requirement.

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

<u>32. Agency Update</u>

Workforce Transition in response to COVID-19 – Executive Director Porter Wilson provided the board with an update on ERS' workforce transition process due to COVID-19. The transition occurred over the course of a week to 10-days and successfully transitioned 95% of ERS workforce to work from home during that period. The process of transitioning staff was an enterprise wide effort, including significant work by many information system support staff. ERS has continued to maintain a small team in the office to handle certain things that have to be done physically in the building every day, such as processing incoming mail and checks. ERS continues to keep communication open with staff utilizing remote technology such as video meetings, regular work-from-home electronic newsletters, and a daily email from the executive director keeping staff apprised of what's been going on that day. Many team building and check-in activities have been converted for remote working, including monthly lunch sessions, new employee orientations, and fun virtual activities every Friday planned and conducted by the human resource team.

The executive office team has been working on a plan foror returning employees back to the building when it is safe to do so, based on available data points and public health guidance.

Legislative Interim Activities – During the summer months of even-numbered years, ERS staff prepare for the next legislative session. Since the outbreak of COVID-19, the legislature has gone to a remote workforce and has not been holding legislative hearings. ERS expects hearing activities to resume once protocol has been developed for them.

Legislative Appropriation Request for 2022-0223 – The legislative appropriations request process starts in the summer before each legislative session and commences with the development of LAR drafting instructions. This work is done by the Governor's Office and the Legislative Budget Board on what agencies can ask for as part of their base request. Once agencies get directions on what they can request in the base budget, anything over that is considered an exceptional item. In previous sessions, base-level funding for the retirement and insurance programs has been the previous biennium's level of funding on an annualized basis. The base requests for the ERS retirement plan, LECOS, and JRS Plan 2 are at the current state contribution level. The JRS Plan 1 is a pay as you go plan and the base request will be at the 2021 level or lower for each year of the next biennium. The base request for the group benefits program is at the appropriation level for the second year of the biennium to incorporate growth of participantscovered by the program.

Retirement and Benefits Surveys - ERS partnered with the University of Texas Institute for Organizational Excellence (IOE) to survey employees and retirees on their views of ERS-administered retirement and benefits programs. The surveys were split into two different surveys, one on the group benefits side and another survey on the pension and retirement side. Nearly 60,000 surveys were sent out and around 7,000 people responded. Three out of every four retirement survey respondents understand their State of Texas defined benefit plan and consider their defined benefit plan a major reason for remaining in the State workforce. On the insurance benefits side, more than four out of every five respondents say their health coverage satisfies their needs and that GBP benefits are a valuable part of their total compensation or retirement package.

Summer Enrollment for Plan Year 2021 - Summer Enrollment for Plan Year 2021 will take place over a five-week period from June 22 through July 24, 2020. ERS has decided to move traditional in-person Summer Enrollment fairs online this year, to encourage continued social-distancing. In lieu of the physical fairs, the Benefits Communications division is developing an extensive schedule of webinars that will include both ERS' Summer Enrollment overview presentation and Q&A sessions on each benefits plan.

2020 Get Fit Texas State Challenge - The Get Fit Texas State Agency Challenge began on January 20 and ended on March 29. ERS came in first place in the mid-size category (agencies with 201-500 full-time employees) for the third year in a row. ERS had the highest percentage of employees completing the challenge (65.70%) who logged a total of 804,702 minutes of activity.

Questions – Mr. Hester requested an update on the vacant trustee position. Mr. Wilson responded that the Executive Office has been in communication with the governor's office and knows that they have been vetting some candidates and hope that an appointment will be named soon.

33. Adjournment of the Board of Trustees meeting.

The Board of Trustees adjourned at 5:55 p.m. on Wednesday, May 20, 2020.