

**AGENDA ITEM DETAILS**

- Subject:** Review, Discussion and Consideration of Proposed Fiscal Year 2022 Rates for the Group Benefits Program Optional Coverages – (ACTION)
- State of Texas Dental Choice Plan and Dental Health Maintenance Organization
  - State of Texas Vision Plan
  - Basic and Optional Term Life, Accidental Death and Dismemberment Plans
  - Texas Income Protection Plan

**RECOMMENDED ACTION:**

Move that the Board of Trustees of the Employees Retirement System of Texas approve and adopt the proposed Fiscal Year 2022 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 Employees Group Benefits Program as reflected in Exhibits A-E attached to this agenda item.

**Background/Analysis:**

**State of Texas Dental Choice Program and Dental Health Maintenance Organization**

Currently, the Texas Employees Group Benefits Program (GBP) offers participants two dental insurance options.

Dental Care Options PY21		
<b>State of Texas Dental Choice Plan<sup>SM</sup> (Dental Choice)</b>	Self-funded dental Preferred Provider Organization (PPO) plan	Delta Dental Insurance Company (Delta Dental) serves as the Third Party Administrator (TPA) for the Dental Choice plan
<b>Dental Health Maintenance Organization (DHMO) plan</b>	Fully-insured DHMO plan	DeltaCare USA DHMO through Alpha Dental Programs, Inc., a wholly owned subsidiary of Delta Dental, Inc.

Enrollment in the Dental Choice Plan continues to increase while enrollment in the DHMO plan declines. Since the end of last year, enrollment in the Dental Choice Plan increased 3.3% and enrollment in the DHMO decreased 4.2%.

**COVID-19 Impact**

Dental plan participants had fewer dental visits in the second half of Plan Year (PY) 2020 and in the first half of PY21 due to the pandemic. Participants are returning to their dentists and staff expects the plan will experience increased costs in the second half of PY21. Gains accrued during the period of decreased utilization are expected to cover the increased cost incurred during the second half of PY21. These potential costs were not included in the rate development for PY22. Utilization is expected to return to normal levels in PY22.

### State of Texas Dental Choice Plan

The Dental Choice Plan is self-funded, which means the GBP assumes all risk for claims and administrative expenses in excess of member contributions. Participant contributions are expected to fund the full cost of the plan and contributions must be sufficient to support the anticipated costs for the upcoming year. To determine the Dental Choice Plan proposed member contribution rates, the Employees Retirement System of Texas Actuarial and Reporting Services (ARS) unit and Rudd and Wisdom, Inc., ERS' consulting actuary for insurance, reviewed and analyzed the information below.

1. Claims experience through February 28, 2021
2. Estimated trends in per capita benefit costs
3. Projected provider reimbursement
4. Historical enrollment patterns
5. Contractually guaranteed administrative fees
6. Proposed benefit changes

The tables below show experience projected through PY22 and current State of Texas Dental Choice enrollment.

#### State of Texas Dental Choice<sup>SM</sup> Projected Experience (Through PY22)

	PY20	PY21 Projected	PY22 Projected
<b>Contributions</b>	105,187,691	108,221,841	113,632,933
<b>Claims</b>	88,843,305	103,511,910	115,051,541
<b>Administration</b>	4,504,087	4,653,692	4,886,377
<b>Gain/(Loss)</b>	\$11,840,299	\$56,239	(\$6,304,985)

#### State of Texas Dental Choice<sup>SM</sup> Member Enrollment (as of March 31, 2021)

	Employees	Retirees	Survivors	COBRA	Total	Year Over Year Change 2019-2020
<b>Member Only</b>	76,614	34,591	2,727	718	<b>114,650</b>	<b>3.56%</b>
<b>Member &amp; Spouse</b>	16,081	20,402	-	147	<b>36,630</b>	<b>3.46%</b>
<b>Member &amp; Children</b>	25,024	1,871	70	50	<b>27,015</b>	<b>2.28%</b>
<b>Member &amp; Family</b>	21,095	2,266	-	60	<b>23,421</b>	<b>3.45%</b>
<b>Total</b>	<b>138,814</b>	<b>59,130</b>	<b>2,797</b>	<b>975</b>	<b>201,716</b>	<b>3.35%</b>

### DHMO

The Board of Trustees awarded Delta Dental the contract for the fully insured DHMO plan, DeltaCare USA DHMO, at its March 6, 2019 meeting. Delta Dental guaranteed the DHMO rates for three years. The DHMO premiums are paid in full by member contributions. Therefore, the PY22 member contribution rates are set equal to the contractual premium rates.

Member contribution rates for the DHMO are less than in the Dental Choice Plan. The plan has a narrower network of providers and DHMO participants must obtain services through a contracted dentist. The consulting actuary's analysis for the DHMO is included in this agenda item as Exhibit B.

**Dental Health Maintenance Organization (DHMO)  
Member Enrollment  
(as of March 31)**

	Employees	Retirees	Survivors	COBRA	Total	Year Over Year Change 2019-2020
<b>Member Only</b>	27,061	11,936	817	220	<b>40,034</b>	<b>-3.25%</b>
<b>Member &amp; Spouse</b>	4,463	5,837	-	28	<b>10,328</b>	<b>-4.62%</b>
<b>Member &amp; Children</b>	6,921	733	21	20	<b>7,695</b>	<b>-7.01%</b>
<b>Member &amp; Family</b>	5,299	828	-	14	<b>6,141</b>	<b>-6.26%</b>
<b>Total</b>	<b>43,744</b>	<b>19,334</b>	<b>838</b>	<b>282</b>	<b>64,198</b>	<b>-4.23%</b>

**Recommendation:**

Staff recommends the Board adopt the PY22 GBP self-funded Dental (PPO) Plan rates attached as Exhibit A, reflecting a 3% rate increase and adopt the PY22 GBP fully insured DHMO rates attached as Exhibit B, reflecting no rate increase.

**State of Texas Vision Plan**

The State of Texas Vision Plan remains popular in its fourth year as part of the Texas Employees Group Benefits Program (GBP). The plan is self-funded, which means the GBP, not an insurance company, assumes all the risk and pays all claims and administrative expenses in excess of contributions. It is essential that employee contributions are sufficient to support the anticipated costs for the upcoming year.

**COVID-19 Impact**

Participants had fewer visits to vision providers in the second half of Plan Year (PY) 2020 due to the pandemic. Utilization returned to normal in PY21, and staff expects normal utilization to continue in PY22.

**Plan Overview**

Approximately 38% of eligible GBP employees, retirees and their dependents are enrolled in the State of Texas Vision Plan.

<b>State of Texas Vision Plan Plan Enrollment March 31, 2021</b>	
	<b>Count</b>
<b>Employees</b>	128,659
Dependents	105,055
<b>Retirees</b>	25,930
Dependents	12,986
<b>Total</b>	<b>272,630</b>

The GBP began offering self-funded vision benefits to its members, retirees, and eligible dependents on September 1, 2016. The ERS Board of Trustees approved Superior Vision Services, Inc. (Superior) as

the third-party administrator for vision services in May 2016. The current contract was extended through August 31, 2022. Administration rates for Superior are guaranteed for the entire term of the contract.

The State of Texas Vision covers an eye exam, contact lens fitting and other eyewear options. The plan includes an allowance for eyeglass frames or contact lenses, as well as discounts for LASIK. Access to more than 90,000 providers in the Superior Vision network are available nationwide and in all 50 states, including the top 50 optical retail chains.

Highlights of annual in-network benefit levels are shown in the table below.

Annual Benefit	In-Network Co-pay
Routine Eye Exam, Including Dilation	You pay \$15
Contact lens fitting, standard/specialty	You pay \$25/\$35
Single vision lens	You pay \$10
Bifocal lens	You pay \$15
Trifocal lens	You pay \$20
Progressives	You pay \$70
Frames	Up to \$200 retail allowance
Contact lenses (in lieu of frames/glasses)	Up to \$200 allowance

#### **Rates**

To determine the proposed participant contributions for the coming year, the ERS Actuarial and Reporting Services (ARS) staff and Rudd and Wisdom, Inc., the consulting actuary for insurance, reviewed and analyzed the following:

1. claims experience through February 28, 2021;
2. estimated trends in benefit costs;
3. projected provider reimbursement rates and
4. contractually guaranteed administrative fees.

Neither ERS nor covered participants receive appropriated funds from the State of Texas for any costs associated with the vision benefit. Funded solely by plan participant contributions, contribution rates are adopted annually by the ERS Board.

Contributions continue to exceed expenses, which is expected to continue in PY22 at the current rates. Therefore, ERS staff and consulting actuaries recommend a rate reduction to PY22 contribution rates.

#### **State of Texas Vision Plan Projected Experience Through PY22**

	PY20	PY21 Projected	PY22 Projected
<b>Contributions</b>	13,576,114	14,789,692	17,008,146
<b>Claims</b>	10,221,853	12,761,428	14,675,642
<b>Admin</b>	918,537	998,235	1,147,970
<b>Gain/(Loss)</b>	\$2,435,724	\$1,030,029	\$1,184,534

**Staff Recommendation:**

Staff recommends approval of the FY22 State of Texas Vision Plan Proposed Rates, effective September 1, 2021, reflecting a 10% rate reduction as shown in Exhibit C to this agenda item.

### **Basic and Optional Term Life, Accidental Death and Dismemberment Plans**

#### ***Basic and Optional Life Contribution Rates***

The Employees Retirement System of Texas (ERS) Actuarial and Reporting Services (ARS) unit works in cooperation with Rudd and Wisdom, Inc., the consulting actuary for insurance, to develop recommended member contribution rates for the Life and Accidental Death and Dismemberment (AD&D) plans. Member contribution rates developed for the Life plan are based on:

1. reasonable expectations of future claims determined through a review of the plan experience over the last five years;
2. anticipated claim payment patterns; and
3. expected investment income earned on funds held by GBP trust and the maximum claims rates and administrative fees included in the contract with Minnesota Life Insurance Company (Minnesota Life).

Based on this analysis, staff and the consulting actuary provided their recommended rates for this program in Exhibit A.

#### ***COVID-19 Impact***

The pandemic has resulted in a significant increase in claims. Comparing the period March 1, 2019 – February 29, 2020 to the period of March 1, 2020 – February 28, 2021 shows an increase of 12.2% in the number of claims and 28.5% in the paid amount. Plan reserves were sufficient to cover the increase and the increased claim level is not expected to carry forward into Plan Year (PY) 2022.

#### ***Background***

ERS offers Basic Life and Accidental Death and Dismemberment, Optional Term Life, and Voluntary Accidental Death and Dismemberment (AD&D) insurance coverage under the Texas Employees Group Benefits Program (GBP). The benefits provided under the optional life, voluntary AD&D, and dependent life plans are funded solely by the contributions from individuals who choose to enroll in the plans based on contribution rates adopted annually by the ERS Board of Trustees.

The contributions to fund employee and retiree basic term life and AD&D benefits are also adopted by the ERS Board of Trustees, but paid for by the State of Texas through the State's biennial appropriation for the GBP.

Minnesota Life underwrites and administers the life insurance and AD&D coverage. Their contract continues through December 31, 2021. ERS has issued a request for proposal for this program. Results of the solicitation, along with a staff recommendation, will be presented at the May 2021 Board meeting.

## Coverage Options

<b>Basic Group Term Life Insurance with AD&amp;D coverage</b>	
<b>Actives:</b>	Each participating employee who elects GBP health coverage is automatically enrolled in \$5,000 Basic Group Term Life Insurance and \$5,000 Basic AD&D coverage.
<b>Retirees:</b>	Each participating retired employee in the GBP is automatically enrolled in \$2,500 Basic Group Term Life Insurance. AD&D coverage is not available to retired employees.

<b>Optional Group Term Life Insurance with Basic AD&amp;D coverage</b>													
<b>Actives:</b>	The Optional Group Term Life Insurance and AD&D coverage amounts are based on the employee's salary. Upon hire, an employee may apply for Optional Term Life Insurance in an amount equal to one or two times annual salary without Evidence of Insurability (EOI). An election of Optional Term Life Insurance at three or four times annual salary requires EOI. The combined amount of Optional Group Term Life Insurance may not exceed \$400,000 with a corresponding amount of AD&D coverage.												
<b>Retirees:</b>	Optional Group Term Life Insurance is available to retirees. However, specific rules governing the maximum amount available is dependent on retiree age at the date of retirement. Beginning at age 70 (and in five year increments based on age) the amount of retiree coverage decreases. The plan also offers a \$10,000 fixed level of coverage that retirees may choose to purchase if they were not enrolled in optional term life at time of retirement. <table border="1" data-bbox="641 1060 1084 1285"> <thead> <tr> <th>Age</th> <th>Benefit Coverage</th> </tr> </thead> <tbody> <tr> <td>70-74</td> <td>65%</td> </tr> <tr> <td>75-79</td> <td>40%</td> </tr> <tr> <td>80-84</td> <td>25%</td> </tr> <tr> <td>85-89</td> <td>15%</td> </tr> <tr> <td>90 and over</td> <td>10%</td> </tr> </tbody> </table>	Age	Benefit Coverage	70-74	65%	75-79	40%	80-84	25%	85-89	15%	90 and over	10%
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<b>Dependent Term Life Insurance coverage with AD&amp;D coverage</b>	
<b>Actives:</b>	Each participating employee may purchase \$5,000 of Dependent Group Term Life Insurance and \$5,000 of AD&D for each listed eligible dependent.
<b>Retirees:</b>	Each participating retired employee may retain \$2,500 of Dependent Group Term Life Insurance if coverage was in place as an active employee at the time of retirement. The AD&D coverage is not available for dependents of retired employees.

<b>Voluntary AD&amp;D coverage</b>	
<b>Actives:</b>	Voluntary AD&D coverage is a separate insurance program. Voluntary AD&D, sometimes referred to as Voluntary Accident Insurance (VAI), is offered to employees for an additional premium unrelated to the Group Term life premium. An employee is not required to carry Optional Group Term Life Insurance coverage in order to carry Voluntary AD&D coverage and EOI is not required for Voluntary AD&D. The maximum amount of Voluntary AD&D coverage is \$200,000, but available in lesser incremental amounts.
<b>Retirees:</b>	Not available to retirees.

## Enrollment

### GBP Life and AD&D Coverage (as of March 31, 2021)

Plan	Funding	Enrolled Members	Insurance Volume
Basic Life	Fully Insured	335,075	\$1,368,850,000
Optional Life & AD&D	Fully Insured	215,127	\$22,132,245,518
Voluntary AD&D	Fully Insured	125,931	\$17,627,761,500
Dependent Life & AD&D	Fully Insured	102,156	\$432,657,500

### Basic and Dependent Optional Life Insurance Funding

The life insurance plans are funded through a fully insured minimum premium arrangement with Minnesota Life. Under this funding arrangement, ERS pays the insurer the contractual administrative fees on a monthly basis. Each week, ERS reimburses the insurer in an amount equal to the actual life insurance claims paid by the insurer during the previous week. The minimum premium arrangement includes guaranteed maximum premium rates during the contract term for each coverage. In no event will payments to the insurer exceed the amount calculated based on the guaranteed maximum premium rates over the term of the contract. The administrative fees are guaranteed for the term of the contract. ERS agreed to a contract extension through December 31, 2021 with the same administrative fees and maximum premium rates.

The AD&D plan is also fully insured by Minnesota Life; ERS pays each month's premium in full. The AD&D premium is based on premium rates that are also guaranteed for the term of the contract.

### GBP Life and AD&D Coverage Experience PY11 – PY21

Plan	Average Volume	Total Premium	Incurred Claims	Loss Ratio
Basic Life	\$13,241,714,000	\$81,557,566	\$81,104,328	99.4%
Optional Life & AD&D	\$195,439,553,000	\$656,666,508	\$647,814,243	98.7%
Voluntary AD&D	\$4,882,121,000	\$22,014,791	\$21,850,000	99.3%
Dependent Life & AD&D	\$213,563,388,000	\$760,238,864	\$750,768,571	98.8%

### STAFF RECOMMENDATION

Staff recommends approval of the proposed PY22 member contribution rates for the Basic Life and Accidental Death and Dismemberment, Optional Term Life, and Voluntary Accidental Death and Dismemberment plans effective September 1, 2021, at the same rates as PY21 as shown in Exhibit D of this agenda item.

### Texas Income Protection Plan

#### Fiscal Year 2021 Member Contribution Rate Analysis

The Employees Retirement System of Texas (ERS) Actuarial and Reporting Services (ARS) unit works in cooperation with Rudd and Wisdom, Inc., the consulting actuary for insurance, to develop recommended member contribution rates for short-term and long-term disability coverage, known as the Texas Income

Protection Plan (TIPP). Reed Group administers the plan and plan rates are based on the items listed below.

1. reasonable expectations of future claims
2. anticipated claim payment patterns
3. expected investment income on funds held by GBP trust
4. administrative fees associated with the Texas Income Protection Plan<sup>SM</sup> (TIPP) benefit administration

**COVID-19 Impact**

The plan has approximately \$245,000 in disability claims with a COVID-19 diagnosis through February 28, 2021, primarily in the short term disability plan. Staff expects the case rate to decline with little PY22 cost impact expected.

**Experience**

The tables below show the PY20 and YTD 2021 (as of March 31, 2021) short-term disability plan experience and the long-term disability plan cumulative experience for Fiscal Years 2010-2019.

Short-Term Disability Experience		
	PY20	PY20 YTD (as of March 31, 2021)
<b>Member Contributions</b>	\$14,938,354	\$8,758,770
<b>Incurred Claims</b>	\$11,468,151	\$6,037,916
<b>Administrative Fees</b>	\$3,152,953	\$1,819,603
<b>Total Expense</b>	\$14,621,104	\$7,857,519
<b>Contribution Gain(Loss)</b>	<b>\$317,250</b>	<b>\$901,251</b>

Long-Term Disability Experience PY11 – PY19 Cumulative	
<b>Member Contributions*</b>	\$273,600,577
<b>Incurred Claims**</b>	\$271,435,110
<b>Administrative Fees*</b>	\$29,022,986
<b>Total Expense</b>	\$300,458,095
<b>Contribution Gain/(Loss)</b>	<b>(\$26,857,518)</b>

\*Adjusted to in force rates.

\*\*Discounted back to the middle of the plan year of the date of disability at a rate of 2.86%

In establishing PY21 contribution rates, ARS and the consulting actuary evaluated prior experience with different rating techniques for the short-term and long-term disability plans. Important distinctions between the plans are considered. For instance, under the short-term disability plan, benefits last approximately five months. As a result, when analyzing experience, it is necessary to focus on the previous year's results to project future costs. However, under the long-term disability plan, benefits can last many years. In order to provide for future benefits, claims reserves are established at the time of the initial claim. Over time, as disabled individuals stop receiving benefits for any reason, these reserves are reduced. As a result, significant gains/losses can occur year over year. In setting the long-term disability rates, ERS considers 10 years of experience to allow for these fluctuations.

As a result of the analysis, ARS and the consulting actuary propose short-term disability rates remain at PY21 levels; however, a 7.9% rate increase is recommended for the long-term disability plan as explained in Exhibit E.

**Background**

Under the Texas Employees Group Benefits Program (GBP), ERS provides short-term and long-term disability coverage through TIPP. Disability coverage provides benefits for disabilities resulting from occupational and non-occupational illness or injury. This type of coverage is beneficial to covered employees and their families by replacing a percentage of earnings when a covered employee is unable to work due to injury or illness. The disability coverage available within TIPP is available to active employees as an optional benefit and covered employees pay the full cost of coverage. The plan is self-funded. ERS contracts with a third party administrator to review and pay claims.

Disability Coverages	
<b>Short-term disability</b>	Provides the enrolled employee with a monthly benefit equal to 66% of his/her covered monthly salary or \$6,600, whichever is less. The monthly benefit payment will not be less than 10% of his/her monthly salary when combined with all applicable resources (i.e. benefits payable under Worker’s Compensation Act, Disability Retirement Law). The benefit period will not exceed five months.
<b>Long-term disability</b>	Provides the enrolled employee with a monthly benefit equal to 60% of his/her covered monthly salary or \$6,000, whichever is less. The monthly benefit payment will not be less than 10% of his/her monthly salary when combined with all applicable resources (i.e. benefits payable under Worker’s Compensation Act, Disability Retirement Law). The benefit period will range from 12 months up until full social security retirement age, depending on the enrolled employee’s age at the time of disability.

ERS does not receive appropriated funds from the State of Texas for any costs associated with administering the TIPP benefit or for payment of claims. Rather, plan participants pay all of the costs of the program through their voluntary contributions, if they choose to enroll. The Board adopts the member contribution rates annually. Approximately 47% of eligible GBP employees were enrolled in short-term disability coverage and 36% were enrolled in long-term disability coverage as of March 31, 2021.

Overall, member enrollment in the TIPP benefit has been relatively stable. The following table summarizes the enrollment and covered monthly payroll by type of disability coverage for the period ending March 31, 2021.

GBP Disability Plans (as of March 31, 2021)			
Plan Type	Funding	Enrolled Members	Covered Monthly Payroll
Short-Term	Self-funded	109,753	\$ 479,424,399
Long-Term	Self-funded	83,774	\$ 386,581,340

In May 2017, the Board awarded the TIPP contract to Reed Group Management, Ltd., (Reed Group), a wholly owned subsidiary of The Guardian Life Insurance Company of America®. The contract is for the period of January 1, 2018 through December 31, 2021.

**Recommended Action**

Staff recommends approval of the proposed PY22 member contribution rates for the Texas Income Protection Plan effective September 1, 2021 as shown in this agenda item.

## **SUMMARY RECOMMENDED ACTION:**

Staff recommends approval of the proposed PY22 member contribution rates as shown in this agenda item, inclusive of proposed plan changes as described and as reflected in Exhibits A-E attached to this agenda item:

- State of Texas Dental Choice Plan and the Dental Health Maintenance Organization Plans
- State of Texas Vision Plan
- Basic and Optional Term Life and Accidental Death and Dismemberment Plans
- Texas Income Protection Plan

## **ATTACHMENTS:**

1. Exhibit A - Recommended Member Contribution Rates for FY22 Dental PPO Plan
2. Exhibit B - Recommended Member Contribution Rates for FY22 Dental HMO Plan
3. Exhibit C - Recommended Member Contribution Rates for FY22 Vision Plan
4. Exhibit D - Recommended Member Contribution Rates for FY22 Life and ADD Plans
5. Exhibit E - Recommended Member Contribution Rates for FY22 Texas Income Protection Plan
6. Slides - Proposed Fiscal Year 2022 Rates for Group Benefits Program Optional Coverages