



Board of Trustees Meeting

March 10, 2021



Presented for Review and Approval

May 26, 2021

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**BOARD OF TRUSTEES MEETING
EMPLOYEES RETIREMENT SYSTEM OF TEXAS
March 10, 2021**

The March 10, 2021 meeting of the ERS Board of Trustees was held by video conference call as authorized under Section 551.127 of the Texas Government Code, 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 will be visible and/or audible to the public.

TRUSTEES PRESENT

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

ERS DIRECTORS PRESENT

Porter Wilson, Executive Director
Cathy Terrell, Deputy Executive Director
Paula A. Jones, Deputy Executive Director & General Counsel
Bernie Hajovsky, Director of Enterprise Planning Office
Diana Kongevick, Director of Group Benefits
Machelle Pharr, Chief Financial Officer
Gabrielle Schreiber, Director of Procurement and Contract Oversight
DeeDee Sterns, Director of Human Resources
Tom Tull, Chief Investment Officer
Chuck Turner, Information Systems

ERS STAFF PRESENT

Nora Alvarado, Group Benefits
Georgina Bouton, Group Benefits
Kelley Davenport, Executive Office
Blaise Duran, Group Benefits
Angelica Harborth, Group Benefits
Aaron Ismail, Internal Audit
Tiffani Jenkins, Benefits Communications
Lanesia Jones, Investments
Bruce Marton, Information Systems
Matt Reimersma, Information Systems
Tanna Ridgway, Investments
Lacy Wolff, Strategic Initiatives

ALSO PRESENT

Michael Kennedy, Korn Ferry

Meeting of the ERS Board of Trustees

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

Mr. Craig Hester, 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 3:05 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 11:39 a.m. on Monday, March 1, 2021, as required by Chapter 551 Texas Government Code, referred to as the Open Meetings Law.”

21. Review and Approval of the Minutes to the December 8, 2020 ERS Board of Trustees Meeting – (ACTION)

Chair Craig Hester opened the floor for a motion on the approval of the minutes from the December 8, 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 December 8, 2020 and attached as exhibit A to the agenda item.

Motion by Brian Barth second by Ilesa Daniels

Final Resolution: Motion Carries

Aye: Craig Hester, Brian Barth, Ilesa Daniels, Jim Kee, Catherine Melvin

22. Review, Discussion and Consideration of Contract Award Recommendation for the TexFlex Flexible Spending Account Plan and TexFlex Commuter Spending Account Plan and/or Health Savings Account Benefits Plan under the Texas Employees Group Benefits Program – (ACTION)

Ms. Gabrielle Schreiber, Director of Procurement and Contract Oversight (OPCO), presented a recommendation for award of the TexFlex Spending and Commuter Spending Account Plan, and the Health Savings Accounts Benefits Plan under the Texas Employees Group Benefits Program.

Ms. Schreiber reported that ERS currently contracts with two separate entities for the following services under the Texas Employees Group Benefits Program (GBP). ERS contracts with WageWorks, Inc. to provide administrative services for TexFlex, the Flexible Spending Account Program (TexFlex FSA), and the Commuter Spending Account Plan (CSA), and with Optum Health Financial Services for Health Savings Account (HSA) services associated with the Consumer Directed HealthSelectSM plan.

ERS issued a Request for Proposal (RFP) for Health Savings Account (HSA) services and for the administrative services for TexFlex FSA and CSA, which includes claims processing, card services, communication, account management, technology services, customer care and plan reporting. ERS is continuing to evaluate the HSA proposals and staff will not be making a recommendation for an award at this time.

Ms. Schreiber announced that, based on the minimum requirements questionnaires due September 1, 2020, ERS received minimum requirements from 10 entities proposing to offer TexFlex FSA and CSA services. Five entities passed the minimum requirement phase. Vendors then had to submit full proposals that were due to ERS on September 16, 2020. Nine chose to submit entire proposals and ERS evaluated only those proposals passed through from the minimum requirements phase. ERS evaluated five full proposals.

The first phase of the Proposal Review Phase was a preliminary review phase. For this phase, ERS evaluated the proposals for responsiveness, compliance with the RFP requirements, and for certain vendor performance checks required by the Texas Comptroller of Public Accounts.

Four entities passed through to the TexFlex FSA and CSA Proposal Review Phase. Those entities were Aight Solutions LLC, Optum Health Financial Services, Inc., PayFlex Systems USA, Inc., and WageWorks, a wholly owned subsidiary of HealthEquity, Inc.

The two main categories in the Proposal Review Phase included the price proposal that weighed in at 40% and operational administrative service capabilities, weighted at 60%. Administrative service capabilities include eligibility and plan design services, communication requirements, information system services, operational specifications, and funding, payment, and accounting services.

Pass/fail items were also evaluated during the Proposal Review Phase. Staff fully evaluated SOC-2 requirements and financial stability for all vendors that submitted proposals in this phase. Staff also finalized the initial reviews of contractility, and legal requirements and regulatory compliance. Based on those fully evaluated pass/fail items, the operational and administrative services capabilities scores and the price proposals, ERS selected two entities as finalists. Those finalist entities were PayFlex Systems USA, Inc., (PayFlex), and WageWorks.

Ms. Schreiber reported that during the Finalist Review Phase, the same 60/40 (operations/price) weighted breakdowns applied. Scoring was based on new and clarified information. Staff performed operational, and security operations site visits remotely. Vendors were to submit a best and final offer on price.

Ms. Diana Kongevick, Director of Group Benefits, stated both PayFlex and WageWorks are two very qualified firms. Staff looked at operational items including claims submission and processing, debit card services, various payment options, participant engagement, customer care and education.

Ms. Georgina Bouton, Assistant Director of Group Benefits, described the evaluation of operational and administrative service capabilities performed by the ERS cross-divisional team of subject matter experts. Both PayFlex and WageWorks are well-established administrators in the industry who approach the TexFlex FSA and CSA plans with proprietary systems. There are differences in the respective models and approaches that they proposed.

Ms. Bouton continued that with its 2019 acquisition by HealthEquity, WageWorks provided a proposal that included a migration from the current operational platform to the HealthEquity platform in order to improve on the existing processing and administrative services and capabilities offered by the firm's core technology offerings. WageWorks proposes maintaining the current account management team to continue the account service level currently provided to ERS.

Within their proposal, PayFlex assigned a senior-level account executive team to provide a higher level of account management and service delivery experience to ERS and TexFlex participants.

Both finalists proposed an enhanced verification process to increase auto-substantiation of FSA debit card purchases at point of sale. Auto-substantiation refers to the administrator's ability to electronically validate the eligibility of an FSA expense paid with an FSA debit card. An auto-substantiated card swipe makes it easier for participants because they do not have to validate an FSA debit card purchase by submitting a receipt or an explanation of benefits form (EOB). If a card swipe cannot be auto-substantiated and requires claim substantiation, both finalists offer a letter and email notification to alert participants of next steps required to substantiate the claim.

PayFlex also offers a text notification option allowing a participant to receive a text message on their mobile device if the debit card transaction will require action by the participant. PayFlex reported these text prompts have reduced complaints because it serves as an immediate and convenient call to action.

Mr. Blaise Duran, FSA, Manager of ERS' Actuarial and Reporting Services', developed enrollment assumptions to project the proposed administrative fee total cost over the six-year contract period. Both finalist's bid prices are lower than the current administrative fees of approximately \$6.6 million projected for Fiscal years 2022 through 2027. WageWorks proposed administrative fees of \$5.8 million and PayFlex at \$5.5 million.

Ms. Schreiber reported that the RFP evaluation team and OPCO met with Executive Office to review the findings and staff made a value determination.

Ms. Kongevick thanked WageWorks for their service to ERS and the participants enrolled in these plans. Based on the evaluation process discussed, ERS recommends the Board award the contract to PayFlex Systems USA, Inc. to provide administrative services for the TexFlex Flexible Spending Account Plan and the Commuter Spending Account Plan.

Ms. Catherine Melvin asked what was driving the lower cost proposals. Ms. Kongevick responded that she believes one significant factor is increased usage of electronic methods in member reimbursement such as uploading claims documentation instead of mailing information back and forth, leads to greater savings and member satisfaction.

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

Move that the Board of Trustees of the Employees Retirement System of Texas authorizes the executive director to negotiate and execute a contract with PayFlex Systems USA, Inc. 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 PayFlex Systems USA, Inc. or if PayFlex Systems USA, Inc. will not be capable of providing the required **TexFlex Flexible Spending Account Plan and Commuter Spending Account Plan** 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 Catherine Melvin, Second by Dr. Jim Kee

Final Resolution: Motion Carries

Aye: Craig Hester, Brian Barth, Ilesa Daniels, Jim Kee, Catherine Melvin

23. Review and Discussion of the Texas Employees Group Benefits Program Update

Diana Kongevick, Director of Group Benefits, introduced Blaise Duran, FSA, Manager of ERS' Actuarial and Reporting Services, to help present the Texas Employees Group Benefits Program Update. Mr. Duran began by providing the Board with historical trend information for FY19 and FY20, and provided information about the FY21 projected trend. Pharmacy trend is expected to run relatively normal at 10.5%. When combined with the expected 18.1% medical trend, the total combined FY21 trend (medical and pharmacy) is projected to be 15.9%. The PY21 fund balance is expected to increase by \$219 million, less than the PY20 gain of \$600 million.

COVID-19 Update

Mr. Duran reported the Plan Year 2020 COVID-19 net financial impact reduced expected costs by \$135 million. The net impact is an increase in the direct cost of COVID-19, offset by lower costs due to fewer people using services. In PY21, the net impact is expected to increase plan costs by \$152 million. This cost increase is primarily the result of the large number of COVID-19 cases. Mr. Duran reported that as of January 26, 2020, HealthSelectSM has 20,000 new cases compared to 10,000 cases at the beginning of PY20. The cost of treating COVID-19 in PY21 is expected to cost \$115 million. With the increased costs due to vaccinations and deferred utilization from the prior year, costs are expected to increase by an additional \$37 million.

Mr. Duran reported that as of February 23, 2021, for those with vaccinations through HealthSelect, approximately 9,000 participants received a first dose vaccination and 5,000 participants received a second dose and are fully vaccinated. Of the 9,000 first dose participants, 3,000 were vaccinated through the medical plan and 6,000 through the pharmacy plan. An additional 140,956 participants were tested for COVID-19 for a total of 239,243 tests administered in FY20 and FY21 for a total cost of \$31.8 million.

Ms. Kongevick informed the board that in March 2020, the Families First Coronavirus Response Act was signed into law, requiring group health plans to cover COVID-19 diagnostic testing without any cost share or prior authorization. The Coronavirus Aid, Relief, and Economic Security or CARES Act was signed into law on March 27, 2020 and expanded the diagnostic testing mandate for COVID-19.

ERS and the agency's health plan vendors responded quickly. On March 18, 2020, GBP health plans implemented coverage of COVID-19 diagnostic testing and associated services at a doctor's office, urgent care or emergency room or through a telehealth visit at no cost to a participant and without prior authorization, regardless if the provider was in-network or out-of-network. This coverage will remain in place throughout the Declaration of the Public Health Emergency.

To help plan participants access the care and also to give some needed relief to the medical community during this time, ERS implemented additional non-COVID temporary benefit enhancements for the HealthSelect plans. HealthSelect waived cost share for non-COVID in-network medical and mental health virtual visits and waived cost share for in-network provider platform primary care physician and specialist telemedicine visits for both medical and mental health, through March 3, 2021. The plan previously waived prior authorization requirements for hospital interfacility transfers to lower levels of care and that waiver expired February 28, 2021.

TexFlex and the Consolidated Appropriations Act of 2021

Plan Manager Angelica Harborth, Group Benefits Voluntary Income Plans, discussed the Consolidated Appropriations Act of 2021. Because many employees made their PY20 TexFlex benefit selections prior to the public health emergency, they were unable to use their FSA benefits as they originally intended. With this recent regulatory action, ERS was able to implement a temporary provision to the program to help address these challenges for participants.

The Consolidated Appropriations Act was signed into law on December 27, 2020, and included provisions that provided temporary relief for health care and dependent care FSAs. On January 7, 2021, ERS took quick action to extend and expand temporary relief to help TexFlex FSA participants. Those plan amendments will be presented to the board no later than December of this year. For ERS, these provisions apply to the TexFlex health care FSA, dependent care FSA, and limited purpose FSA.

Ms. Harborth reported that temporary relief provisions available to participants include:

- an extended carryover provision allowing employees to carry over all unused Plan Year 2020 funds for use in Plan Year 2021,
- an expanded spend-down provision allowing additional time for employees to spend unused FSA funds up to the amount contributed - even if the employee stopped participation or left employment prior to electing COBRA,
- an expansion of dependent care eligibility to allow participants enrolled in dependent care FSAs more time to incur claims for children who turned 13 during the pandemic to allow the participant to use unused funds into the next plan year until the child turns 14, and
- an extension of mid-year election changes to allow a change without a qualifying life event. IRS Notice 2020-29 allowed for prospective benefit changes without a qualifying life event during CY20 and PY21.

Annual Non-Financial Performance Measure Update

Mr. Duran provided the HealthSelect non-financial performance measure information in the areas of network performance, competitiveness of benefits, utilization of benefits, participant satisfaction with HealthSelect plans and the AMP program.

Network performance improved in each of the six areas compared to the prior year. The percentage of claims paid in-network increased nearly half a percent. The percentage of participants selecting a PCP improved more than half a percent, and the participant to PCP ratio is down – a positive measure. The

network access standard increased slightly on participant access standards and the percentage of PCPs accepting new patients is up. Overall network satisfaction is up significantly, from 86.9% to 91.6%.

The competitiveness of benefits metrics are similar to last year. Member cost share as a percentage of total cost decreased somewhat from 13% in FY19 to 12% in FY20. Member contributions as a percentage of total cost remained the same.

The utilization metrics illustrate the increase in virtual visit utilization. Virtual visits are those visits through Doctor on Demand and MD Live. While the increased utilization target is 25%, PY19 reflected a 78% utilization increase and 75% utilization in PY20. Telemedicine visits, those remote visits utilizing a provider's own platform, also increased dramatically. In connection with temporary benefit adjustments to assist during the pandemic, in the spring of 2020, ERS provided a telemedicine benefit without member cost-share to encourage members sheltering in place to seek necessary health care and remain in contact with their PCP. More than 200,000 telemedicine visits occurred in FY20.

In response to Mr. Craig Hester's question asking if this increased telemedicine utilization translated into plan savings, Mr. Duran responded that the service cost is similar; however, it is possible the visit may avoid increased ER utilization or related services later.

The participant satisfaction with the HealthSelect of Texas® and Consumer Directed HealthSelectSM plans is determined from the quarterly survey sent by Blue Cross and Blue Shield of Texas. While PY19 satisfaction rate was 78.4%, the satisfaction rate increased to 84.9% in the current period.

The HealthSelect AMP (Assess, Manage, Prevent) program attempts to measure metrics related to program participation and care designed to improve overall member wellness. Slightly more members completed an online health assessment, from 1.7% to 2.0%, and participated in a weight management program, from 0.87% to 0.92%. Unfortunately, fewer people sought preventive care in an annual physical, which was attributed to people reducing doctor visits during the early months of the pandemic.

Ms. Melvin congratulated the Group Benefits team for the nice array of benefits available to members, including programs to help them stay healthy.

Ms. Lacy Wolff, ERS' Wellness Coordinator, mentioned that ERS is engaged with employers on AMP metrics, and has seen particular success at the Department of Public Safety and Texas Tech University. Ms. Wolff noted that working with agency leaders prior to the pandemic has definitely been useful through this period and helped form momentum with the agencies. She stated that ERS continues to work on strategies to reach everyone. ERS hosts weekly webinars through the ERS Wellness Event Calendar, which is a great opportunity to highlight the wellness initiatives. MS. Wolff reported that ERS is looking at many different ways to help educate people about AMP and to keep the ball rolling.

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

24. Executive Session - In Accordance with Section 551.089, Texas Government Code, Board of Trustees will meet in executive session to discuss: (1) security assessments or deployments relating to information resources technology; (2) network security information as described by Section 2059.055(b); or (3) the deployment, or specific occasions for implementation, of security personnell, critical infrastructure, or securirty devices and/or (4) a security audit. The entire quorum of the Board of Trustees will be in attendance at the executive session via video conference call in accordance with Section 551.127 of the Texas Government Code as modified by Governor Abbott's Emergency Order suspending certain provisions of the Texas Open Meetings Act on March 16, 2020. Thereafter, the Board my consider appropriate action in open session

Mr. Hester stated the time is 4:00 p.m. on Wednesday, March 10, 2021. A quorum of the Board of Trustees will meet in executive session in accordance with Section 551.089 Texas Government Code, to discuss (1) security assessments or deployments related to information resources technology, (2) network security information as described in Section 2059.055, or (3) the deployment or specific occasions for implementation of security personnel, critical infrastructure, or security devices, and/or (4) a security audit.

The entire quorum of the Board will be in attendance at the executive session via video conference call in accordance with Section 551.127 of the Texas Government Code as modified by Governor Abbott's emergency order suspending certain provisions of the Texas Open Meetings Act on March 16, 2020. Thereafter the board may consider appropriate action in open session.

Upon returning from executive session, Mr. Hester announced the time is 5:11 p.m. on Wednesday, March 10, 2021 and the Board is now in open session. No action, decision, or vote was taken by the Board while in executive session.

25. Adjournment of the Board of Trustees meeting.

The Board of Trustees adjourned at 5:12 p.m. on Wednesday, March 10, 2021