



Board of Trustees Meeting

May 26, 2021

ERS

EMPLOYEES  RETIREMENT
SYSTEM OF TEXAS

Presented for Review and Approval

August 25, 2021

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**BOARD OF TRUSTEES MEETING
EMPLOYEES RETIREMENT SYSTEM OF TEXAS
May 26, 2021**

The May 26, 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. James Kee, Member

ERS DIRECTORS PRESENT

Porter Wilson, Executive Director
Cathy Terrell, Deputy Executive Director
Cynthia Hamilton, Acting General Counsel
Bernie Hajovsky, Director of Enterprise Planning Office
Robin Hardaway, Director of Customer Benefits
Diana Kongevick, Director of Group Benefits
Gab Schreiber, Director of Procurement and Contract Oversight
DeeDee Sterns, Director of Human Resources
Kathryn Tesar, Director of Benefits Communications
Tom Tull, Chief Investments Officer

ERS STAFF PRESENT

Georgina Bouton, Group Benefits
Kelley Davenport, Executive Office
Christi Davis, Customer Benefits
Blaise Duran, Group Benefits
Tiffani Jenkins, Benefits Communications
Lanesia Jones, Investments
Bruce Marton, Information Systems
Tanna Ridgway, Investments

ALSO PRESENT

Phil Dial, Rudd and Wisdom, Inc.

Meeting of the ERS Board of Trustees

12. 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 12:18 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 11:09 a.m. on Monday, May 17, 2021 as required by Chapter 551 Texas Government Code, referred to as the Open Meetings Law.”

13. Review and Approval of the Board of Trustees Meeting Minutes – (ACTION)

Chair, Craig Hester requested that an amendment be made to the April 14, 2021 Board of Trustees meeting minutes before approval. The change is to agenda item 2, first sentence to change the word “and” to “in” and read as follows, “.... recommending Board approval of an investment allocation of \$175 million in alternatives for inclusion into the overall trust consistent with past practice.”

Chair Hester then opened the floor for a motion on the approval of the minutes from the March 10, 2021 ERS Board of Trustees meeting and the minutes from the April 14, 2021 ERS Board of Trustees meeting.

Move that the Board of Trustees of the Employees Retirement System of Texas approve the minutes to its meeting held on March 10, 2021 and its meeting held on April 14, 2021 as amended by Mr. Hester.

Motion by Brian Barth second by James Kee

Final Resolution: Motion Carries

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

14. *Review, Discussion and Consideration of Retirement and Service Purchase Actuarial Factor Tables – (ACTION)

Ms. Robin Hardaway, Director of Customer Benefits, and Ms. Christi Davis, Assistant Director of Customer Benefits, presented on retirement and service purchase actuarial factor tables. Ms. Hardaway noted that Texas Government Code, Section 815.105 requires the ERS Board to adopt mortality, service, and other necessary tables after considering the results of an experience study of the ERS retirement plans. Following adoption of the study in May 2020, ERS staff worked with Gabriel, Roeder, Smith, and Company (GRS), ERS' external pension actuarial firm, to develop updated factors that align with the adopted modifications. Updating these factors ensures that the retirement plans are using factors that are actuarially equivalent to the respective plan provisions adopted by the actuarial assumptions.

The retirement actuarial factors are used for certain retirement options and death benefit options. When a member becomes eligible for retirement, they are eligible for a monthly retirement annuity for the rest of their life. That is based on the member's highest average salary and their years of service at retirement. A standard annuity is the highest benefit that is payable to the member for their lifetime. Retirees who choose a standard annuity are not selecting an option to pay a beneficiary upon their death.

Members have the ability to select an option for a beneficiary. There's five different options the member can choose from.

Option 1. The retiring member would receive a permanently reduced monthly retirement check, and the beneficiary would receive the same benefit amount. Benefits would be paid to the retiree until their death, and then to the beneficiary for the rest of their life.

Option 2. The retiring member would receive a permanently reduced monthly retirement check, and the beneficiary would receive 50% of that benefit amount. Benefits would be paid to the retiree until their death, and then to the beneficiary for the rest of their life.

Option 3 and 4, guarantees payments for five or ten years, even if the retiree dies before the end of the time period.

Option 5. The retiring member would receive a permanently reduced monthly retirement check, and the beneficiary would receive 75% of that benefit amount. Benefits would be paid to the retiree until their death, and then to the beneficiary for the rest of their life.

Actuarial factors are also used when a retiring member selects a Partial Lump Sum Option (PLSO). A member can select 1 to 36 months of their standard annuity in a single payment at time of retirement. Their monthly annuity is then permanently reduced.

These factors are also used to calculate a non-occupational disability retirement, if the person is retiring earlier than normal retirement age, if a member dies while they're an actively contributing employee, and for early retirement provisions in the Law Enforcement and Custodial Officers plan.

ERS also uses actuarial factors to calculate the cost to buy Additional Service Credit and Waiting Period Credit. A member can purchase up to three years of Additional Service Credit if they have at least 10 years of contributing service, not counting military and unused sick/annual leave. A member can also purchase waiting period service, which is time that a member, by statute, had to wait before contributing to ERS.

Ms. Davis reported that the proposed annuity factor changes for survivor payment options and PLSO will have a modest impact. Under the assumptions adopted last May, the member is expected to live longer and, therefore, their survivor options cost less. For service purchases, there was an increase of about 1% to 5% for the factors for the Regular Class employees. Ms. Davis then provided the Board with some examples of retirement and service purchase factor calculations to see the impact of each.

Ms. Davis provided information on the process for the implementation of actuarial factors and informed the board that the formulas were provided to ERS by GRS. The factors were then loaded into ERS OnLine to create program formulas which produced factor tables. Staff provided those system-generated factors back to GRS, who then closely examined and certified their accuracy and consistency with the actuarial assumptions that were adopted last May. Once these are adopted by the Board, the factors will be effective June 1 for retirements that will begin after September 1. For the Additional Service Credit and Waiting Period Service Purchases, GRS developed the proposed actuarial factors for Additional Service Credit and for waiting period. Those will then be loaded into ERS OnLine once adopted, and they'll be available for service purchases after 9/1.

There being no further discussion or questions, the Chair opened the floor for a motion:

Motion made that the Board of Trustees of the Employees Retirement System of Texas adopt the proposed actuarial factor tables presented in this agenda item as Exhibit A for retirement benefits, death benefits, partial lump sum options and Exhibit C service purchases occurring on or after September 1, 2021 and as presented in this agenda item.

Motion by Brian Barth, seconded by Ilesa Daniels

Final Resolution: Motion Carries

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

15. Review, Discussion and Consideration of Contract Award Recommendations for the Group Term Life Insurance and Accidental Death and Dismemberment Insurance Plans under the Texas Employees Group Benefits Program – (ACTION)

Diana Kongevick, Director of Group Benefits, is joined by Georgina Bouton, Assistant Director of Group Benefits, Blaise Duran, ERS actuary in Group Benefits, and Gabrielle Schreiber, Director of Procurement and Contract Oversight to present on the contract award recommendation for the Group Term Life Insurance and Accidental Death and Dismemberment Insurance plan under the Texas

Employees Group Benefits program. Ms. Kongevick informed the Board that ERS currently contracts with Minnesota Life Insurance Company to underwrite and administer Group Term Life Insurance with Accidental Death and Dismemberment (AD&D) plans for participants covered under the Texas Employees Group Benefits Program (GPB). The coverage available under GPB include Group Term Life insurance coverages with AD&D and voluntary AD&D insurance coverage.

Ms. Kongevick reported that on October 6, 2020, ERS issued a Request for Proposal (RFP) for a qualified entity to provide Group Term Life Insurance and AD&D, which includes benefits underwriting, claims processing, communications, account management, technology services, customer care, and plan reporting.

Ms. Schreiber explained the RFP process and noted that minimum requirements questionnaires were due on November 20, 2020. ERS received minimum requirements from six entities proposing to underwrite and administer Group Term Life and AD&D coverage. All six entities passed the minimum requirements review phase. The entities received were Dearborn Life, Metropolitan Life (MetLife), Minnesota Life, Prudential Insurance, Standard Insurance, and Symetra Life Insurance. Vendors then submitted full proposals that were due December 3, 2020. Five chose to submit entire proposals; Symetra chose not to bid on the full services.

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

Each of the five entities passed through to the Group Term Life and AD&D Proposal Review Phase. For the Proposal Review phase, there were subject matter experts from divisions all across ERS to review the proposals, and they scored based on published criteria. The main category is operational capabilities and services which makes up 55% of the score and includes coverage eligibility and plan design services, communication requirements, information system services, operational specifications, and funding, payment, and accounting services. The other 45% is the price proposal.

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. Ms. Schreiber reported that each of the five entities passed on both of these items. Based on that pass/fail review, as well as the scoring of operational capabilities and the price proposal, ERS selected three entities as finalists. Those entities are Dearborn Life, MetLife, and Minnesota Life.

Ms. Schreiber reported that during the Finalist Review Phase, the same 55/45 (operational/price) weighted breakdowns applied. Scoring was based on new and clarified information. Staff performed operational, call center, data center and security operations site visits remotely. Staff conducted teleconference interviews with the vendors and performed reference checks. Staff also finalized the reviews of contractibility, legal requirements and regulatory compliance. Vendors were to submit a best and final offer on price.

Ms. Georgina Bouton stated that each finalist provided dedicated teams, integrated technologies for administrative efficiencies, and enhanced member education and communication models. Each finalist provided a demonstration of its Evidence of Insurability (EOI) and claims experience under its own proprietary system.

Ms. Bouton reported that within the member experience, education and engagement services, most offer legacy services, will preparation, and grief counseling services. Even though it is the current carrier for Group Term Life and AD&D insurance under the GPB, Minnesota Life offered opportunities to further fine tune its processes with operational and technical alignments. Ms. Bouton provided examples including Benefit Scout, an educational tool designed to help members make selections on the amount of group term life insurance coverage to best fit their needs. Other examples include contact-free medical underwriting and lifestyle benefits.

Mr. Blaise Duran, FSA, Manager of ERS' Actuarial and Reporting Services, stated that the cost of the contract is broken up into three pieces, the administrative fee for optional and basic life claims, the fully insured premiums for voluntary AD&D, and the value of the maximum claim amounts. Mr. Duran further explained that under the program there is a maximum threshold for claims. The carrier is responsible for the excess claim amounts above the stated threshold.

The projected total cost throughout the contract period is formulated as the sum of the basic and optional life administrative fees and the fully insured premiums for voluntary AD&D, minus the value of the maximum claim amounts. The current contract cost is projected at \$64.1 million from December 31, 2021 through August 31, 2027. All three finalists' bid proposals are lower than the current fees. Dearborn Life's proposal was \$62.6 million, MetLife's proposal was \$62.2 million, and Minnesota Life's proposal was the lowest at \$57.8 million. Mr. Duran reported that Minnesota Life's proposal represents a significant reduction to the current contract terms.

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 noted that based on the evaluation process reviewed, ERS recommends the Board award the contract to Minnesota Life to provide Group Term Life Insurance and Accidental Death and Dismemberment Insurance.

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

Motion that the Board of Trustees of the Employees Retirement System of Texas authorize the Executive Director to negotiate and execute a contract with Minnesota Life Insurance Company with terms that are fully acceptable to ERS, and to authorize the Executive Director to administer the contract agreed to by the parties. In the event that ERS is not able to timely negotiate a satisfactory contract with Minnesota Life Insurance Company, or if Minnesota Life Insurance Company will not be capable of providing the required Group Term Life Insurance and Accidental Death and Dismemberment Insurance 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 James Kee, seconded by Catherine Melvin

Final Resolution: Motion Carries

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

16. Review, Discussion and Consideration of the Proposed Rates for HealthSelect and Consumer Directed HealthSelect Plans, with Rates Inclusive of Plan Changes for Fiscal Year 2022 – (ACTION)

Diana Kongevick, Director of Group Benefits, Blaise Duran, ERS actuary, and Phil Dial, Rudd and Wisdom, Inc., presented the proposed HealthSelect of Texas® and Consumer Directed HealthSelectSM rates inclusive of proposed Plan Changes for Fiscal Year 2022. Ms. Kongevick noted that HealthSelect plan costs include contributions from employers and enrolled members. The State contributions are determined based on legislative appropriations. The state currently pays 100% of the contribution rate for eligible full-time employees and certain retirees, and 50% of the contribution rate for eligible dependents. State contributions are the same for HealthSelect of Texas, the Consumer Directed HealthSelect and HealthSelectSM Medicare Advantage.

Mr. Duran informed the board that, when reviewing the rates, actuarial staff and the consulting actuary analyze revenue requirements, state funding, historical enrollment, past claims experience, the projected contingency fund balance, cost containment practices, the impact of participating health maintenance organizations, and funding for basic life and accidental death and dismemberment coverages.

The pandemic affected Plan Year 2020 HealthSelect costs. Plan Year 2020 costs were \$134 million less than expected largely due to fewer services delivered during this time. Plan Year 2021 projections indicate costs will reflect a net increase of an estimated \$67 million. However, with the number of increased COVID-19 cases and associated treatment costs, vaccination costs and deferred services from the prior year, Plan Year 2021 costs are expected to offset pandemic-related utilization reductions. Plan experience is projected to return to normal levels in Plan Year 2022 as the number of COVID-19 cases drop and utilization patterns return to normal levels as projected.

Projections indicate Plan Year 2021 medical and prescription drug trend (combined) at 14.2%, largely due to a medical benefit cost trend of 15.9% and 9.7% prescription drug trend. Plan Year 2022 combined trend projection is estimated at 5%, with the medical benefit cost trend projected at 3.2% and the prescription drug trend estimated at 10%.

Ms. Kongevick reminded the board that ERS implemented several HealthSelect of Texas and Consumer Directed HealthSelect temporary plan changes during the pandemic. Prior authorizations were waived for the period March 16, 2020 – May 31, 2020 with interfacility transfer to a lower level of care prior authorizations waived for the period March 16, 2020 - February 28, 2021. ERS honored all prior authorizations approved January 1, 2020 - June 30, 2020 until December 31, 2020. ERS waived copays, coinsurance, and deductibles for all virtual visits (through MD Live and Doctor on Demand) and telemedicine visits, for the period March 27, 2020 - May 31 of 2021, extended to end June 30, 2021.

HealthSelect plan changes included in the proposed rates and effective September 1, 2021 include formulary insulin coverage bypassing the prescription drug deductible and, for those with a diabetes diagnosis, diagnostic hemoglobin A1C test coverage bypassing the health plan deductible (copays and coinsurance will still apply). ERS expects these changes, together with previous action providing certain no-cost glucometers, test-strips and diabetes supplies through the prescription drug plan, will encourage testing and diabetic adherence. The annual out-of-pocket plan maximum cost will increase from \$6,750 to \$7,000 for individuals and from \$13,500 to \$14,000 for families, in line with the Internal Revenue Service.

Effective July 1, 2021, mental health virtual visits through Doctor on Demand and MD Live will permanently change to the same member no or low cost as a medical virtual visit, and a non-COVID telemedicine visit through a provider's platform will have the same copay (or deductible/coinsurance) as an office visit.

Mr. Duran advised the board regarding the receipt of the \$2.16 million medical loss ratio (MLR) rebate from one of the participating Group Benefits Program HMO plans. ERS must distribute to members the portion of the rebate consistent with the portion of the premium paid by members, during the period for which the rebates were earned. The current rate reduction for MLR rebates received in Plan Year 2020 is sufficient to distribute the rebates received in Plan Year 2021.

By statute, the Consumer Directed HealthSelect Plan must be revenue neutral. The assumptions used to develop the rates meet this requirement. While the original pricing assumptions were based on a projected 3% enrollment, current enrollment is at 0.9%. Despite enrollment below the original enrollment projections, staff believes that the assumptions developed using the 3% figure continue to be viable to project costs and develop rates.

Staff recommends no change to Fiscal Year 2022 member contribution rates. Rates would remain at Fiscal Year 2021 levels. Mr. Dial reported that, if approved, this would be the fourth consecutive fiscal year without an increase to member contribution rates. The slight reduction from Fiscal Year 2021 connected to the medical loss ratio rebate also remains in place. Mr. Wilson further reported that while the General Appropriations Act has not passed yet, staff did not request a funding increase for the next two years.

There being no further discussion or questions, the Chair opened the floor for a motion:

Motion for the Board of Trustees of the Employees Retirement System of Texas to approve the proposed FY22 HealthSelect of Texas and Consumer Directed HealthSelect contribution rates, inclusive of the recommended plan changes as presented in this agenda item, effective September 1, 2021.

Motion by Catherine Melvin, seconded by Brian Barth

Final Resolution: Motion Carries

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

17. Review, Discussion and Consideration of Proposed Fiscal Year 2022 Rates for the Group Benefits Program Optional Coverages – (ACTION)

Diana Kongevick, Director of Group Benefits, Blaise Duran, ERS actuary, and Phil Dial, consulting actuary with Rudd And Wisdom, Inc., presented the proposed Fiscal Year 2022 rates for the Group Benefits Program Optional Coverages.

State of Texas Dental Choice PlanSM and Dental Health Maintenance Organization

As of March 31, 2021 more than 200,000 members were enrolled in the State of Texas Dental Choice PPO plan with nearly 55,000 members enrolled in the Dental Health Maintenance Organization (DHMO). Mr. Duran noted that due to the pandemic and the reduced utilization during Plan Year 2020, the dental plans experienced a significant gain of almost \$12 million.

The State of Texas Dental Choice is a self-funded plan assuming risk for claims and administrative expenses. Member contributions must be sufficient to support the plan's cost for the upcoming year. Factors used in developing member contribution rates include claims experience through March 31, 2021, estimated trends in per capita benefit cost, projected provider reimbursement, historical enrollment patterns, contractually guaranteed administrative fees, and proposed benefit changes.

The plans experienced reduced utilization in the second half of Plan Year 2020 and the first half of Plan Year 2021 largely due to the pandemic. Projections indicate utilization should return to normal levels in Plan Year 2022. Staff recommends a 3% increase to the Plan Year 2022 Dental Choice PPO member contribution rates, and no change to member contribution rates for the DHMO, which are set equal to the contractual premium rates. Plan Year 2022 DHMO rates will remain the same as Plan Year 2021, \$9.59 for member only coverage and \$30.59 for member and family coverage.

State of Texas VisionSM Plan

The State of Texas Vision Plan is a self-funded plan and member contributions must be sufficient to support the anticipated claims and administrative expenses for the upcoming year. Factors used in developing member contribution rates include claims experience through March 31, 2021, estimated trend, projected provider reimbursement rates and contractually guaranteed administrative fees.

While the pandemic contributed to lower utilization in the second half of Plan Year 2020, utilization returned to normal in Plan Year 2021 and is projected to continue at normal levels during Plan Year 2022. Plan enrollment continues to grow with more than 272,000 participants enrolled. The plan experienced a significant gain of \$2.4 million during Plan Year 2020. Even with current rates, staff projects a \$1 million gain in Plan Year 2021 and a \$1.2 million gain in Plan Year 2022.

Staff recommends a 10% reduction to the Plan Year 2022 member contribution rates, resulting in monthly rate decreases ranging from \$0.51 decrease to member-only coverage to a \$1.61 decrease to family coverage.

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, Inc. On a weekly basis, ERS reimburses the insurer in an amount equal to the actual life insurance claims paid by the insurer. On a monthly basis, ERS pays the insurer the contractual administrative fees. The minimum-premium arrangement includes the maximum premium rates for each coverage type, which are guaranteed by the contract.

Mr. Duran reported that Accidental Death and Dismemberment (AD&D), is fully insured by Minnesota Life and based on premium rates guaranteed for the term of the contract. The life and AD&D RFP was completed in Plan Year 2021 and the board awarded the contract to Minnesota Life.

Life plan member contribution rates are based on reasonable expectations of future claims through a review of the last ten years of plan experience, anticipated claim payment patterns, expected investment income earned on funds held by the GBP trust, and the maximum claims rates and administrative fees included in the contract.

A significant increase in claims occurred during the pandemic. The number of claims across all life and AD&D plans increased by 12.2% and the claims amount increased 28.5% when comparing the period March 1, 2020 through February 28, 2021 to the same period in the prior year.

Mr. Duran reported sufficient plan assets exist to cover the increased claims and the increased claims level should not continue into Plan Year 2022. Staff recommends the Plan Year 2022 life and AD&D member contribution rates remain the same as Plan Year 2021.

Texas Income Protection PlanSM (TIPP)

Short-term Disability benefits last approximately five months following a one-month elimination period. Long Term Disability benefits can last for many years with the maximum benefit period ranging from 12 months to the Social Security Retirement age, following a six-month elimination period. Member contributions fund TIPP benefits.

Factors used in developing TIPP member contribution rates include reasonable expectations of future claims, anticipated claim payment patterns, expected investment income on the GBP trust, and administrative fees associated with TIPP benefit administration. Different contribution rate approaches apply when developing rates for short-term and long-term disability. With short-term liabilities, recent experience applies to short-term disability. With longer duration claims, experience over many years applies to long-term disability.

Member enrollment in the TIPP benefit remains relatively stable. As of March 31, nearly 110,000 GBP employees (approximately 47%) enrolled in STD and almost 84,000 employees (approximately 36%) enrolled in long-term disability.

The short-term disability benefits experienced a \$300,000 gain in Plan Year 2020 and staff projects a \$900,000 gain in Plan Year 2021. Staff recommends no change to the member contribution rate in Plan Year 2022. The long-term disability benefit reflects a loss of approximately \$427 million. Staff recommends a Plan Year 2022 increase of \$0.05 per \$100 covered salary, changing the long-term disability monthly benefit contribution from \$0.63 per \$100 to \$0.68 per \$100 of monthly covered salary.

There being no further discussion or questions, the Chair opened the floor for a motion:

Motion that the Board of Trustees of the Employees Retirement System of Texas approve and adopt the proposed Fiscal Year 2022 rates, 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 (AD&D) Plans; and the Texas Income Protection Plan within the Texas Employees Group Benefits Program as reflected in Exhibits A-E to this agenda item.

Motion by Ilesa Daniels, second by James Kee

Final Resolution: Motion Carries

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

18. Review, Discussion and Consideration of Proposed Fiscal Year 2022 Fees for TexFlex Program and Termination of the Commuter Spending Account Program – (ACTION)

Diana Kongevick, Director of Group Benefits, and Blaise Duran, ERS Actuary, presented proposed Fiscal Year 2022 Fees for the TexFlexSM Program and a recommendation to terminate the Commuter Spending Account Program.

Mr. Duran explained that TexFlex includes three types of flexible spending accounts: a Health Care Reimbursement Account, a Limited Purpose Reimbursement Account and a Dependent Care Reimbursement Account. TexFlex also includes a Commuter Spending Account. Pre-tax contributions from active employee salaries fund the accounts, which allow reimbursement of qualified eligible expenses to participants.

In previous years, employees enrolled in Flexible Spending Account were responsible for an administrative fee of \$1 per account per month. ERS waived the administrative fee for those enrolled in the plans during fiscal years 2017 – 2021. ERS staff recommends waiving the member paid administrative fee and continuing the administrative fee holiday for FY22. Consistent with IRS rules for forfeited FSA balances, the \$1 per account per month administrative fee is paid for through the previous year's forfeited funds balance; however, forfeited fund balances cannot be used to pay the commuter spending account administrative fee.

Mr. Duran reported a reduction in FY21 enrollment and contributions. Ms. Kongevick advised that the pandemic affected TexFlex enrollment and employee contribution amounts. Due to the timing of the pandemic, many employees made their TexFlex benefit selections before the public health emergency and were unable to use their health care and dependent care FSA benefits as they originally intended. Several times throughout the year, ERS enacted temporary provisions under the Consolidated Appropriations Act of 2021 to help address those challenges.

ERS took quick action to assist employees, and removed FSA carryover limits for both the 2020 and 2021 plan years and adopted spend-down provisions for plan years ending in 2020 and 2021, allowing those who leave a plan to submit claims up to the contribution amount for dates of service during the entire plan year. ERS also adopted special carry forward rules for dependent care reimbursement for children turning 14 during this period, and allowed prospective FSA elections without a Qualified Life Event for plan year 2021 only.

Ms. Kongevick provided information about the history of the Commuter Spending Account (CSA). The Enrollment into the CSA program began January 1, 2016 with a benefit start date of March 1, 2016. This account is available only to those who use mass transit and/or incur parking expenses as part of their daily commute to and from work. Unlike a flexible spending account, CSA participants can enroll and disenroll on a monthly basis without waiting for summer enrollment or a Qualified Life Event.

Since inception, the program has seen minimal utilization across both the parking and the transit CSA accounts, even with communication campaign efforts and direct mailings to members living and working in cities with mass transit. As of March 31, 2021, 291 employees were enrolled in the transit account and 60 were enrolled in the parking benefit. Of that population, at this time 49 continue contributions to the transit benefit and 19 to the parking benefit.

With the administrative challenges of the program, low participation and low enrollment, staff recommends the CSA plan end on August 31, 2021, with a claims run-out period for the parking benefit ending December 31, 2021. Staff further recommends a refund of remaining balances following the end of the run-out period. Those payments will be taxable to the participant. Refunds are expected to occur in early 2022.

In response to Ms. Melvin's question asking about the largest account balance in the program, Ms. Kongeveck provided approximate ranges, noting one-third ranged from \$0.25 to mid-\$100's, several had approximately \$3,000 and the remainder in between.

There being no further discussion or questions, the Chair opened the floor for a motion:

Motion that the Board of Trustees of the Employees Retirement System of Texas approve a PY22 administrative fee holiday for the TexFlex program applicable to those participants enrolled in the Flexible Spending Health Care Reimbursement and Dependent Care Reimbursement plans; and further move that the Commuter Spending Account terminate August 31, 2021, with a runout period ending December 31, 2021, after which remaining eligible balances will be refunded to participants on a taxable basis.

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

19. Review, Discussion and Consideration of Proposed Rules of the Board of Trustees, Texas Administrative Code Title 34, Part IV, Chapter 63 (Board of Trustees) – (ACTION)

Mr. Bernie Hajovsky proposed a rule amendment to § 63.4 of Texas Administrative Code pertaining to the election process for the ERS Board of Trustees. The proposed amendment would allow the board or its designee to cancel the election and designate the lone candidate as the trustee-elect when only one candidate is certified. Mr. Hajovsky reminded the Board that Neika Clark of the Texas Health and Human Services Commission was the only individual to satisfy the candidate certification requirements for this year's election. With only one candidate, staff reviewed statute and rules to determine if an election was necessary. By rule, the electorate is only allowed to cast a vote for a candidate on the ballot and cannot write-in a candidate name. The system would expend significant time and resources holding an election with only one candidate on the ballot. Thus the Board adopted a revised election calendar at its April 14 meeting and postponed the remaining 2021 election activities until further notice.

The proposed amendment would allow the board or its designee to cancel the election. After the election is cancelled, the Executive Director could designate Ms. Clark as the new trustee-elect effective June 30. The six-year term for Ms. Clark would begin September 1.

Notice of the proposed amendment was published in the April 23, 2021 issue of the Texas Register. ERS received no comments on the proposed amendment.

Mr. Barth asked if the proposed amendment applied to future election cycles as well. Mr. Hajovsky confirmed that the proposed amendment applies to this year's election and future election cycles.

In response to Dr. Kee's question whether state employees were aware of the open position on the Board, Mr. Hajovsky highlighted ERS' efforts to promote the election and the candidate nomination process through regular mail and email communications, newsletters and website articles. Mr. Porter Wilson noted that at least five individuals indicated interest in running as a candidate in this year's election, but the difficulty of gathering signatures in a remote work environment along with other circumstances likely contributed to the nomination process yielding only one candidate. Mr. Wilson commended Ms. Clark for her ability to fulfill the candidate certification requirements despite the unique challenges faced during this election cycle.

In response to a question from Mr. Barth, Mr. Hajovsky noted that the candidate nomination process will continue to allow paper and electronic signatures from eligible voters.

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

Motion that the Board of Trustees of the Employees Retirement System of Texas adopt the proposed amendment to Chapter 63, concerning Board of Trustees, as reflected in Exhibit A to this agenda item.

Motion by Ilesa Daniels, seconded by Catherine Melvin

Final Resolution: Motion Carries

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

20. Agency Update

2021 Legislative Session Update – The 87th Legislative Session adjourns on Monday, May 31, 2021. ERS staff has produced a legislative tracking report that is published on the ERS website and board portal that provides an update on variety of bills as they move their way through the process.

House Bill 917 would permit one ERS Board of Trustees that is elected to be a retiree. The bill was signed by the Governor on May 15, 2021 and becomes effective on September 1, 2021.

The supplemental Appropriations Bill has an allocation of over \$1 billion for the biennium for the ERS pension fund. That allocation of appropriation is contingent on the passage of Senate Bill 321 (ERS retirement bill). Senate Bill 321 provides \$510 million every year for the next three years as a fixed payment to the pension plan to pay down the unfunded liability in addition to the 10% contribution to state already makes as a percentage of payroll. If passed, the bill would eliminate the unfunded liability over time. The bill also seeks to lower future employer liabilities by creating a new benefit structure for employees who are hired after August 31, 2021. The Group 4 would be a cash balance design, which is a defined benefit plan where the lifetime benefit is calculated on an account balance instead of a formula based on service and salary.

A final list of bills with a comprehensive review of everything that passed will be made available to the Board at the August board meeting.

Summer Enrollment for Plan Year 2022 – Summer Enrollment for Plan Year 2022 will take place over a five-week period from June 21, 2021 through July 23, 2021 in a planned phased approach. Each phase will span a two-week period in which members can make benefits changes. This approach helps ERS manage call volume and volume of changes.

ERS' will mail personal Benefits Enrollment Statement packets to all eligible members which will have information on what the member and member's family is currently enrolled in and information about available programs.

ERS will provide support by phone and email as well as providing 50 webinars with general enrollment information, specifics for each benefit plan, and guidance for participants in decommissioned HMOs.

1836 San Jacinto Building Update – ERS is in the process of finalizing a contract with a Property Management Firm and expects the building to be substantially completed by mid summer. Furniture in the lobby areas and some of the common areas will be installed on levels 1, 6 and 9 shortly after completion of the building.

CBRE continues to solicit tenant proposals and conduct broker tours and activity in the market continues to pick up. The ninth floor is a conference center, which is available to host events for ERS, such as board meetings, and will also be a great amenity available to our tenants, and the public, for conferences and meetings.

ERS is also in the process of finalizing a contract with an Architectural firm for the 200 E. 18th building. Mr. Wilson explained that ERS has not grown in square footage as an organization since the late 1970s. As an organization, ERS has been living in the same footprint for over 40 years, and is in need of space. Mr. Wilson noted that ERS needs to make some changes to our existing space—including some life safety issues that are much more prevalent in a post-COVID world.

2021 Get Fit Texas State Agency Challenge Results – The Get Fit Texas State Agency Challenge began on January 11 and ended on March 28. Staff that completed 6 of the 10 weeks of the challenge successfully completed the challenge. ERS came in first place for the fourth year in a row with 57.7% of employees participating. ERS will continue to push wellness through programs that focus on keeping people active well beyond the Get Fit Challenge by monitoring and being actively engaged in wellness throughout the year.

Recent News

Return to Work Status – As the CDC guidance has changed and vaccines have been administered more broadly, ERS opened the front doors in mid-April so that members could come and drop off information and engage and ask questions to our lobby receptionist. ERS is not having in-person counseling just yet, and is continuing doing virtual counseling, connecting members to retirement counselors via video.

As of May 1, there continues to be a core group of employees (35-40) that have been at the office throughout COVID. This staff helps make sure that everything is being operated at a very robust level as an agency and allowing others that are working from home to be able to do their job effectively. Executive leaders were asked to be in the office multiple days a week effective May 1. ERS' plan is to be back in a more in-office work pattern after the Labor Day holiday.

21. Executive Session

Mr. Hester stated the time is 2:47 p.m. on Wednesday May 26, 2021. A quorum of the Board of Trustees will meet in executive session in accordance with section 551.074 Texas Government Code, the Board of Trustees will meet in executive session to deliberate the employment, evaluation and duties of the Executive Director of the Employees Retirement System of Texas. 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 may consider appropriate action in open session.

Upon returning from executive session, Mr. Hester announced it was 3:15 p.m. on Wednesday May 26, 2021 and the Board is now in open session. No action, decision, or vote was taken by the Board while in executive session. Mr. Hester further stated he would entertain any motion from members of the Board at this time. No other business was made.

22. Adjournment of the Board of Trustees

Chair Craig Hester announced the time is 3:16 p.m. on Wednesday, May 26, 2021 and the Board is now adjourned.