



Board of Trustees Meeting

May 11, 2022

ERS

EMPLOYEES  RETIREMENT
SYSTEM OF TEXAS

Presented for Review and Approval

August 24, 2022

TABLE OF CONTENTS

18. Call Meeting of the ERS Board of Trustees to Order 2

19. Consideration of the Minutes to the March 9, 2022 ERS Board of Trustees Meeting – (ACTION) . 2

20. Consideration of Contract Award Recommendation for Third-Party Administrative and Evidence of Insurability Underwriting Services for the Texas Income Protection Plan under the Texas Employees Group Benefits Program – (ACTION) 2

21. Consideration of Proposed Rates for HealthSelectSM and Consumer Directed HealthSelectSM Plans, with rates Inclusive of plan changes for Fiscal Year 2023 – (ACTION)..... 3

22. Consideration of Proposed Plan Year 2023 Rates for the Group Benefits Program Optional Coverages – (ACTION))..... 4

23. Consideration of Proposed Fiscal Year 2023 Fees for TexFlexSM flexible spending account (FSA) program – (ACTION)..... 5

24. Consideration and Discussion of Group 4 Implementation 5

25. Agency Update 5

26. Executive Session – In accordance with Section 551.074, Texas Government Code, the Board will meet in executive session to deliberate the employment, evaluation, and duties of the Executive Director, and in accordance with Section 551.072, Texas Government Code, the Board will meet in executive session to deliberate the purchase, exchange, lease, or value of real property at 1836 San Jacinto Boulevard. Thereafter, the Board may consider appropriate action in open session. 6

27. Adjournment of the Board of Trustees meeting..... 6

BOARD OF TRUSTEES MEETING
EMPLOYEES RETIREMENT SYSTEM OF TEXAS
May 11, 2022

TRUSTEES PRESENT

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

ERS DIRECTORS PRESENT

Porter Wilson, Executive Director
Cathy Terrell, Deputy Executive Director
Jennifer Chambers, Director of Government Relations & Special Projects
Tony Chavez, Director of Internal Auditor
Bernie Hajovsky, Director of Enterprise Planning Office
Cynthia Hamilton, General Counsel
Robin Hardaway, Director of Customer Benefits
Diana Kongevick, Director of Group Benefits
Wendy McAdams, Director of Operations Support
Shack Nail, Special Projects & Policy Advisor
Machelle Pharr, Chief Financial Officer
Gabrielle Schreiber, Director of Procurement and Contract Oversight
DeeDee Sterns, Director of Human Resources
Kathryn Tesar, Director of Benefits Communications
David Veal, Chief Investment Officer

ERS STAFF PRESENT

Jason Avants, Information Systems
Maggie Baker, Office of General Counsel
Frank Barker, Information Systems
Georgina Bouton, Group Benefits
Raquel Colón, Investments
Kurt Cressotti, Internal Audit
Anthony Curtiss, Investments
Kelley Davenport, Executive Office
Christi Davis, Customer Benefits
Blaise Duran, Group Benefits
Lanesia Jones, Investments
Nancy Lippa, Office of General Counsel
Cheryl Scott Ryan, Office of General Counsel
Robert Sessa, Investments
Ariana Whaley, Government Relations & Special Projects

ALSO PRESENT

John Barksdale, CBRE
Bo Beacham, CBRE
Phil Dial, Rudd Wisdom, Inc.
David Tolliver, Optum

Meeting of the ERS Board of Trustees

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

Mr. Catherine Melvin, 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 2:06 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 9:56 a.m. on Tuesday, May 3, 2022, as required by Chapter 551 Texas Government Code, referred to as the Open Meetings Act.”

19. Consideration of the Minutes to the March 9, 2022 ERS Board of Trustees Meeting – (ACTION)

Catherine Melvin, Chair, opened the floor for a motion on the approval of the minutes from the March 9, 2022 ERS Board of Trustees meeting.

Move that the Board of Trustees approve the minutes to the meeting held on March 9, 2022

Motion by Neika Clark, second by Brian Barth

Final Resolution: Motion Carries

Aye: Craig Hester, Brian Barth, Neika Clark, Jim Kee, Catherine Melvin

Note: Craig Hester is excused by the board to leave the meeting at 3:43 p.m.

20. Consideration of Contract Award Recommendation for Third-Party Administrative and Evidence of Insurability Underwriting Services for the Texas Income Protection Plan under the Texas Employees Group Benefits Program – (ACTION)

Gabrielle Schreiber, Director of Procurement and Contract Oversight, presented the recommendation for the third-party administrative and evidence of insurability underwriting services for the Texas Income Protection Plan under the Group Benefits Program. ERS currently contracts with Reed Group Management LLC. ERS issued a request for proposals seeking a qualified entity on October 13, 2021. ERS received two proposals: from Broadspire Services, Inc., and Reed Group Management LLC.

Staff evaluated minimum requirements on a pass/fail basis and certain vendor performance checks that are required by the Texas Comptroller of Public Accounts during the preliminary review phase. In the proposal review phase, responses were judged on operational capabilities and services which made up 65 points and the price proposals of 35 points. Based on scores for pass/fail items, operational capabilities and services, and price, ERS selected Reed Group Management LLC as the sole finalist. Broadspire Services, Inc.'s proposal was deemed non-responsive.

Blaise Duran, Actuarial and Reporting Services, Group Benefits, reported that Reed Group Management LLC bid their current in-force rates, which are the same rates in place today. Mr. Duran estimated a cost of around \$35 million over the life of the contract or under \$6 million a year.

Diana Kongevick, Director of Group Benefits, noted that ERS has a great deal of experience managing the Texas Income Protection Plan program as a self-funded disability program vs. a fully insured program.

In response to a question about pricing, Ms. Schreiber explained that ERS staff reviewed initial price proposals from both vendors and that Broadspire was eliminated based on its own proposal.

Move that the Board of Trustees authorize the executive director to negotiate and execute a contract with Reed Group Management LLC the terms that are fully acceptable to ERS.

Motion by Brian Barth second by Jim Kee

Final Resolution: Motion Carries

Aye: Brian Barth, Neika Clark, Jim Kee, Catherine Melvin

Not Present: Craig Hester

21. Consideration of Proposed Rates for HealthSelectSM and Consumer Directed HealthSelectSM Plans, with rates inclusive of plan changes for Fiscal Year 2023 – (ACTION)

Diana Kongevick, Director of Group Benefits; Blaise Duran, Actuarial and Reporting Services with Group Benefits, and Phil Dial of Rudd & Wisdom Inc. presented proposed rates for the HealthSelect plans including Consumer Directed HealthSelect, with rates inclusive of plan changes for Fiscal Year 2023. The state currently pays up to 100% of contributions for eligible full-time employees and retirees, and up to 50% contribution rate for eligible dependents. In 2014, the state began requiring 20 years of service in order to earn fully paid retiree coverage. State contributions are the same for HealthSelect of Texas® plans including Consumer Directed HealthSelect and HealthSelectSM Medicare Advantage.

Mr. Duran provided a Plan Year (PY) 2023 contribution rate analysis, mentioning that the Actuarial and Reporting Services unit analyzed several factors when determining rate recommendations. Factors included revenue requirements, state funding, historical enrollment, claims experience, projected contingency fund balance, cost containment and funding for basic life and accidental death and dismemberment coverages.

COVID-19 increased PY21 costs by an estimated \$85.6 million as infections surged during winter and summer variant surges. Plan Year 2022 projected costs increased by \$97.8 million due to the pandemic. Continued COVID-19 waves are expected; however, impact to subsequent years should have a reduced impact as treatments and medications improve and the general population's immunity grows.

Mr. Duran discussed the projected combined medical and prescription drug trends. Plan Year 2022 trend is 6.1%, which includes a 4.5% medical benefit cost trend and 10.3% prescription drug trend. The projected PY23 trend is 5.7%, with 3.9% medical benefit cost trend and 10.0% prescription drug trend. Mr. Dial mentioned both good administrative and benefit management steps have been taken, which contributes to keeping the plan expenses as low as they are, especially with benefits that have remained steady or increased since 2011.

Diana Kongevick provided benefit changes that were included in the proposed rates. Per federal law specific to COVID-19 at home testing and medications, effective January 15, 2022, the health plans must cover up to eight FDA-authorized at-home rapid tests per participant per month. Also related to COVID-19, two new anti-viral medications (Molnupiravir and Paxlovid) are covered formulary drugs in which the participant currently pays no out of pocket cost.

Plan changes for PY23 also include expanded formulary coverage of diabetic supplies at the pharmacy, which now includes Contour products (in addition to One-Touch products). Other manufacturer products will be covered with the applicable copay or coinsurance. Also effective in PY23, in order to align with IRS maximum limits, the combined (medical and pharmacy) out-of-pocket maximum for HealthSelect of Texas plans including Consumer Directed HealthSelect increases from \$7,000 to \$7,050 per individual and from \$14,000 to \$14,100 per family.

In PY20 and PY21, ERS received a total of \$5 million in Medical Loss Ratio (MLR) rebates from two of the GBP participating HMO plans. ERS was required to distribute to members the portion of the rebate that is consistent with the portion of the dependent premium paid by the members during the period for which the rebates are required. To meet that requirement, ERS reduced health plan contribution rates by about 0.1% during those years. With no MLR rebates received in PY22, PY23 rates will return to PY20 levels (the 0.1% decrease ends).

Move that the Board of Trustees approve the proposed FY23 contribution rates for the HealthSelect of Texas® Plans, including Consumer Directed HealthSelectSM, effective September 1, 2022, inclusive of recommended plan changes as presented in this agenda item.

Motion by Jim Kee, second by Brian Barth
Final Resolution: Motion Carries
Aye: Brian Barth, Neika Clark, Jim Kee, Catherine Melvin
Not Present: Craig Hester

22. Consideration of Proposed Plan Year 2023 Rates for the Group Benefits Program Optional Coverages – (ACTION)

Diana Kongevick, Director of Group Benefits; Blaise Duran, Actuarial and Reporting Services, Group Benefits, and Phil Dial of Rudd & Wisdom Inc. presented the proposed PY23 rates for the Group Benefits Program Optional Coverages.

State of Texas Dental Choice PlanSM and Dental Health Maintenance Organization – Mr. Duran reported the State of Texas Dental Choice plan (dental PPO), administered by Delta Dental, is a self-funded plan where the GBP assumes risk for claims and administrative expenses. The DeltaCare® USA plan is a dental health maintenance organization (DHMO) insured by Delta Dental. Member contributions must be adequate to cover premiums for each plan.

While the dental PPO enrollment continues to increase from year to year, utilization decreased in the second half of PY20 and the first half of PY21 due to the pandemic. Projections indicate dental trend will be at normal levels going forward. The ERS Actuarial and Reporting Services unit and Rudd and Wisdom recommend a 2.5% increase in the PY23 member contribution rates.

Similar to the dental PPO, the PY20 fully insured DHMO plan utilization also reduced. To not profit from the pandemic, Delta Dental voluntarily returned \$980,000 in DHMO plan premium to the GBP. The refund amount represents 10% of PY23 expected premium. Staff recommends a one-time, 10% reduction in PY23 member contribution rates as a result of the refund.

State of Texas VisionSM Plan – As a self-funded plan, the GBP assumes risk for claims and administrative expenses; therefore, member contributions must be sufficient to support costs for the upcoming year. Member contribution rates are based on claims through February 28, 2022, estimated trends in benefit costs, projected provider reimbursement rates and administrative fees. The plan experienced reduced utilization in the second half of PY20 due to the pandemic and returned to normal in PY21 and PY22. Staff recommends no change to the PY23 plan contribution rates.

Basic and Optional Term Life, Accidental Death and Dismemberment Plans – Life insurance is funded through a fully-insured, minimum premium arrangement with Minnesota Life. ERS reimburses the insurer weekly for an amount equal to the actual life insurance claims paid by the insurer. ERS pays administrative fees on a monthly basis.

Fully insured by Minnesota Life, the Accidental Death and Dismemberment plan premium rates are guaranteed for the term of the contract.

The pandemic caused a significant claims increase in PY21 with incurred claim payments 60% higher than PY19. While life insurance plan experience may improve as COVID-19 treatments continue to develop and population immunity grows, life plan experience is not expected to return to pre-pandemic levels in the near future. ERS Actuarial and Reporting services and Rudd and Wisdom recommend a 5.8% increase to optional and dependent life rates.

Texas Income Protection Plan (TIPP) – The two self-funded plans, short-term disability and long term disability, operate as self-funded programs. Under short-term disability, benefits last approximately five months following a 30-day waiting period. Under long-term disability, benefits can last for many years following a 180-day waiting period and the maximum benefit period ranges from 12 months to Social Security Retirement age.

TIPP enrollment has reduced from 84,000 to 80,000 enrolled in short-term disability, and from 109,000 to 103,000 enrolled in long-term disability. Contributions are based on reasonable expectations of future claims, anticipated claim-payment patterns, and expected investment income on funds held by ERS and administrative fees associated with the TIPP benefit administration.

The contribution rate approach differs for short-term and long-term disability. The short-term disability plan has short-term liabilities and relies on recent experience. However, long-term disability claims can be 10 to 20 years in duration and are evaluated over many years. To date, the pandemic has not significantly affected these plans. Staff did not recommend any proposed changes to the rates for either TIPP plan.

Move that the Board of Trustees approve and adopt the proposed Fiscal Year 2023 rates, inclusive of any proposed plan changes for the State of Texas Dental Choice PlanSM and Dental Health Maintenance Organization Plan; the State of Texas VisionSM Plan; Basic and Optional Term Life and Accidental Death and Dismemberment Plans; and the Texas Income Protection PlanSM (TIPP) as reflected in Exhibits A-E to the agenda item.

Motion by Neika Clark, second by Brian Barth
Final Resolution: Motion Carries
Aye: Brian Barth, Neika Clark, Jim Kee, Catherine Melvin
Not Present: Craig Hester

23. Consideration of Proposed Fiscal Year 2023 Fees for TexFlexSM flexible spending account (FSA) program – (ACTION)

Diana Kongevick, Director of Group Benefits, and Blaise Duran, Actuarial and Reporting Services, Group Benefits, presented on proposed FY23 TexFlex Program administrative fees. The TexFlex flexible spending account (FSA) program is made up of three programs, the Health Care FSA, Limited-purpose FSA, and Dependent Care FSA. These programs are intended to help participants cover qualified, eligible out-of-pocket costs using pre-tax dollars. Active employees fund the program through pre-tax salary contributions and ERS credits earned through HealthSelectShoppERSSM incentives to an FSA. FSA reimburses participants for qualified eligible expenses determined by the IRS.

In previous years, employees enrolled in an FSA were responsible for an administrative fee of \$1 per account per month, which was paid for through the previous year's forfeited fund balance. ERS waived the fee for Plan Year 2017 through Plan Year 2022. Staff recommends waiving the 2023 fee.

The HealthSelectShoppERS program allows members to shop for high quality, in-network lower cost services with an incentive credited to the FSA. An additional benefit of the HealthSelectShoppERS program resulted in 610 members, not previously enrolled in an FSA until they earned an incentive, enrolling in an FSA and contributing pre-tax dollars to the FSA for the first time.

Move that the Board of Trustees waive the TexFlex Flexible Spending (FSA) account program's administrative fee for participants enrolled in Plan Year 2023.

Motion by Brian Bark, second by Jim Kee
Final Resolution: Motion Carries
Aye: Brian Barth, Neika Clark, Jim Kee, Catherine Melvin
Not Present: Craig Hester

24. Consideration and Discussion of Group 4 Implementation

Mr. Bernie Hajovsky and project leadership provided an update on implementation activities for the establishment of the new Group 4 cash balance benefit structure for new employees who join the state workforce on or after September 1, 2022. Mr. Hajovsky commended the project team's efforts, noting that activities are on track as scheduled. Recent project activities include preparations for necessary changes to technical systems, internal and external communications and training efforts, and development of administrative rules to supplement statutory language for Group 4 administration. The project team is on target to deliver the necessary systems changes by the September 1 effective date, and Group 4 administrative rules will be proposed for consideration at the August board meeting.

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

25. Agency Update

Mr. Porter Wilson, Executive Director, provided an update on the following items.

Customer Benefits "Action Beyond the Call" – Ms. Robin Hardaway, Director of Customer Benefits, provided an update on progress on Action Beyond the Call including staff recruitment and retention, improving call answer times and processing times, and streamlining processes. The Benefits

Counseling Center has hired 16 FTEs and continues to recruit for those positions. The Survivor Benefits Data division is fully staffed with additional benefits counselors hired for a training class to begin in May.

Survey of Employee Engagement (SEE) – Ms. DeeDee Sterns, Director of Human Resources, provided an update on the Survey of Employee Engagement (SEE) which is conducted by the Institute for Organizational Excellence at UT Austin every two years. It gives employees the opportunity to comment on their workplace and jobs anonymously.

ERS' launched the survey on April 11. ERS sets high goals for participation and engagement levels, and there is a plan for staff to analyze the results and share those with the board and staff in August.

Strategic Planning – ERS prepares a five-year strategic plan and updates it biennially as required for submission to the Governor and the Legislative Budget Board by June 1. As part of the process this year, ERS engaged employees in the process. Employees were sent a number of short surveys to gather their opinions on various topics. There were also small group brainstorming sessions where facilitators met with staff in a group of 10 to 12 to talk about ideas and thinking in different ways about where the agency needs to be going as an organization to serve customer needs, grow the Trust, and operate efficiently. The goal is to produce a strategic plan that sets ERS on a positive path for the next 75 years.

Commuter Spending Account – The Commuter Spending Account (CSA) program was decommissioned on August 31, 2021, following the Board approval to end the program on May 26, 2021. Participants were allowed to spend their balances through December 31, 2021. In March 2022, ERS sent refunds to 77 agencies for processing.

Staying Connected Events – The Staying Connected retiree fairs were held on April 26 and April 27 at the 1836 San Jacinto Conference Center. Approximately 100 retirees attended and were updated on ERS benefits, wellness tips and given a presentation on staying engaged and active as you age.

Summer Enrollment for Plan Year 2023 - Summer enrollment for Plan Year 2023 is scheduled to take place from June 20 through July 22, again using a phased approach which continues to be an effective way to manage call volume and website traffic. Resources for summer enrollment include sending Personal Benefits Enrollment Statement packets to all eligible members, in-person enrollment fairs and webinars.

2022 Get Fit Texas – The Get Fit Texas Challenge began on January 10-March 20, 2022. The goal is to engage in 150 minutes of moderate to vigorous physical activity each week of the challenge. ERS came in first place for the fifth year in a row in the mid-sized agency category with 67.3% of participants that completed at least six weeks of the challenge.

26. Executive Session – In accordance with Section 551.074, Texas Government Code, the Board will meet in executive session to deliberate the employment, evaluation, and duties of the Executive Director, and in accordance with Section 551.072, Texas Government Code, the Board will meet in executive session to deliberate the purchase, exchange, lease, or value of real property at 1836 San Jacinto Boulevard. Thereafter, the Board may consider appropriate action in open session.

Ms. Melvin announced the time and date, as well as the Board's intent to convene in executive session, and the Board moved to a separate conference room for the executive session.

Upon returning from executive session, Ms. Melvin announced the time and date and noted that no action was taken by the Board while in executive session.

27. Adjournment of the Board of Trustees meeting

The Board of Trustees adjourned at 5:53 p.m. on Wednesday, May 11, 2022.