



Board of Trustees Meeting
December 6, 2022



Presented for Review and Approval
March 1, 2023

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BOARD OF TRUSTEES MEETING
EMPLOYEES RETIREMENT SYSTEM OF TEXAS
December 6, 2022

TRUSTEES PRESENT

Dr. Jim Kee, Board Chair
Brian Barth, Vice Chair
Neika Clark, Member
I. Craig Hester, Member
Catherine Melvin, Member
John R. Rutherford, 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
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
Chuck Turner, Director of Information Systems
David Veal, Chief Investment Officer

ERS STAFF PRESENT

Jason Avants, Information Systems
Frank Barker, Information Systems
Georgina Bouton, Group Benefits
Raquel Colón, Investments
Kurt Cressotti, Internal Audit
Anthony Curtiss, Investments
Kelley Davenport, Executive Office
Blaise Duran, Group Benefits
Leah Erard, Government Relations & Special Projects
Aaron Hatt, Office of General Counsel
Angelica Harborth, Group Benefits
Tiffani Jenkins, Benefits Communications
Lanesia Jones, Investments
Debbie Legg, Group Benefits
Nancy Lippa, Office of General Counsel
John Moreno, Investments
Averi Mullins, Group Benefits
Jonathan Puckett, Internal Audit
Christopher Roland, Information Systems
Ariana Whaley, Government Relations & Special Projects
Lacy Wolff, Government Relations & Special Projects

ALSO PRESENT

Jeff Algahardt, UHC
Santo Anzadi, CVS Health
Alison Archer, Willis Towers Watson
Janet Bezner, GBAC Chair
Patrick Bouquet, Self
Phil Dial, Rudd & Wisdom, Inc.

Roger Holland, ESI
Christopher Johnson, Rudd and Wisdom, Inc.
Janet Tornelli-Mitchell, Texas Tech University System
Michael Rodriguez, Willis Towers Watson
Kandice Sanaie, Cigna
Tracy Stephenson, Optum Rx
David Tolliver, Optum Rx
David Yebra, Texas Department of Criminal Justice
Claire York, BCBSTX

Meeting of the ERS Board of Trustees

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

Dr. Kee, 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 9:45 a.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 1:21 p.m. on Monday, November 28, 2022, as required by Chapter 551 Texas Government Code, referred to as the Open Meetings Act.”

7. Consideration of the Minutes to the August 24, 2022 ERS Board of Trustees Meeting – (ACTION)

Dr. Kee, Chair, opened the floor for a motion on the approval of the minutes from the August 24, 2022 ERS Board of Trustees meeting.

Move that the Board of Trustees approve the minutes to the meeting held on August 24, 2022

Motion by Brian Barth, second by Craig Hester

Final Resolution: Motion Carries

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

Abstained: John R. Rutherford

PUBLIC COMMENT STATEMENT

The Board Chair called for Mr. Patrick Bouquet who requested to address the board. Mr. Bouquet informed the board of his issues he had dealing with ERS to remove a medical support order.

8. 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 Internal Auditor. Thereafter, the Board may consider appropriate action in open session.

The Board convened in executive session.

Upon returning from executive session Dr. Kee announced that no action was taken by the Board while in executive session. Dr. Kee then called for members to entertain a motion.

Move that the Board of Trustees promote ERS Internal Auditor Tony Chavez with a 5% salary increase effective January 1, 2023.

Motion by Catherine Melvin, second by Brian Barth

Final Resolution: Motion Carries

Aye: Brian Barth, Neika Clark, Craig Hester, Jim Kee, Catherine Melvin, John R. Rutherford

9. Consideration of Proposed Amendments to Rules of the Board of Trustees, Texas Administrative Code, Title 34, Part IV, Chapter 75 (Hazardous Profession Death Benefits) – (Action)

Mr. Bernie Hajovsky, Director of Enterprise Planning Office, and Ms. Robin Hardaway, Director of Customer Benefits presented proposed amendments to Chapter 75 of Texas Administrative Code to address the impact of the cash balance benefit on survivor annuities under Chapter 615 of the Texas Government Code. Ms. Hardaway stated that ERS administers the survivor benefits established by Chapter 615, which the State of Texas provides to the eligible survivors of certain first responders and other public servants killed in the line of duty. Benefits may include lump sum payments, monthly benefits for surviving spouses and minor children and other specified benefits.

Ms. Hardaway noted the proposed amendment clarifies that the traditional annuity formula is used to calculate the benefit payable to the eligible surviving spouse of a Chapter 615 decedent who passed away prior to September 1, 2022. The proposed amendment further clarifies that an eligible surviving spouse of a Chapter 615 decedent who passed away on or after September 1, 2022 would receive the greater of a traditional annuity or a cash balance annuity. The recommended amendment would include gain sharing interest if calculated under the cash balance annuity formula, and the surviving spouse would be given the option to choose the lesser annuity by making a one-time irrevocable written election prior to the payments being made.

Mr. Hajovsky stated that ERS received no public comments on the proposed amendments.

Following questions and comments from the trustees, the Board took the following action:

Move that the Board of Trustees adopt, with changes, proposed amendments to Texas Administrative Code, Title 34, Part IV, Chapter 75 (Hazardous Profession Death Benefits) as detailed in Exhibit A to this agenda item.

Motion by Catherine Melvin, second by Brian Barth

Final Resolution: Motion Carries

Aye: Brian Barth, Neika Clark, Craig Hester, Jim Kee, Catherine Melvin, John R. Rutherford

10. Consideration of Proposed Calendar Year 2023 Texa\$averSM Program Fees – (Action)

Ms. Diana Kongevick, Director of Group Benefits, Mr. Blaise Duran, Actuarial and Reporting Services, Group Benefits, and Ms. Angelica Harborth, Deferred Compensation Manager, presented the proposed Calendar Year 2023 Texa\$aver Program Fees. The Employees Retirement System of Texas (ERS) administers the deferred compensation Texa\$averSM 401(k) and 457 Program on behalf of the State of Texas. Ms. Kongevick provided an overview of the Texa\$aver Program while Ms. Harborth provided background information.

New state employees are automatically enrolled in the 401(k) plan at 1% of salary. The plan offers 12 core funds, nine Target Date Funds, and a self-directed brokerage account option. Great-West Life and Annuity Insurance Company currently administers the program.

Mr. Duran provided the fee overview, stating that ERS does not receive appropriated funds from the Texas Legislature for the administrative cost of the Texa\$aver program. Participants fund the program cost through payment of a monthly administrative fee calculated on a per plan basis and in a sufficient amount to cover record keeping costs and ERS' internal administrative costs. Effective June 1, 2021, the board adopted a flat fee of \$1.50 per plan per month. Prior to that date, participants funded program cost through a tiered administrative fee assessment based on each participant's account balance.

The ERS Actuarial and Reporting Services (ARS) team, annually reviews the administrative fee to ensure it generates sufficient revenue to cover all program costs. Based on this review, the ARS team recommends maintaining the current monthly flat fee of \$1.50 for Calendar Year 2023.

Following questions and comments from the trustees, the Board took the following action:

Move that the Board of Trustees approve the continuation the proposed monthly administrative flat fee of \$1.50 per plan for the TexaSaver Program effective January 1, 2023.

Motion by Craig Hester, second by Jim Kee

Final Resolution: Motion Carries

Aye: Brian Barth, Neika Clark, Craig Hester, Jim Kee, Catherine Melvin, John R. Rutherford

11. Consideration of the Group Benefits Advisory Committee Report

Mr. Bernie Hajovsky, Director of Enterprise Planning Office, and Dr. Janet Bezner, chair of the Group Benefits Advisory Committee (GBAC), presented the report of 2022 committee activities. Dr. Bezner highlighted topics from the March 2022 and October 2022 committee meetings. During its last two meetings, the committee discussed the impact of telehealth in a post-pandemic environment, participant engagement in wellness offerings, and the report on alternative methods for delivery of current Group Benefits Program (GBP) benefits. In addition, the GBAC also reviewed and discussed potential improvements to basic and optional life insurance coverage and modernization of obesity treatment and bariatric surgery benefits. Dr. Bezner noted that the committee had no formal recommendations for Board consideration but was supportive of staff's continued exploration of potential improvements to life insurance coverage, obesity treatment, and bariatric surgery benefits.

Dr. Bezner answered questions from the Board on health and wellness engagement opportunities before concluding her presentation.

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

12. Appointment of Group Benefits Advisory Committee Members – (Action)

Mr. Bernie Hajovsky, Director of Enterprise Planning Office, presented staff recommendations for five appointments to the Group Benefits Advisory Committee (GBAC). The GBAC, which is comprised of 11 members representing state employees and retirees, employees of institutions of public higher education and a benefits industry professional, advises the Board of Trustees on planning and development of benefits within the Group Benefits Program. On behalf of ERS staff, Mr. Hajovsky recommended the following individuals be appointed to serve three-year terms on the GBAC effective January 1, 2023:

- Matthew Miller, Department of Motor Vehicles (Large state agency)
- Sandra White, Department of Criminal Justice (Large state agency)
- Dana Haulotte, Legislative Council (Mid-sized state agency)
- Kara Sharman, Kilgore College (Two-Year Institution of Higher Education)
- Jennifer Cawley, Texas Association of Life and Health Insurers (Benefits Professional)

Following questions and comments from the trustees, the Board took the following action:

Move that the Board of Trustees appoint Sandra White, Matthew Miller, Dana Haulotte, Kara Sharman and Jennifer Cawley to the ERS Group Benefits Advisory Committee for three-year terms beginning January 1, 2023.

Motion by Brian Barth, second by John R. Rutherford

Final Resolution: Motion Carries

Aye: Brian Barth, Neika Clark, Craig Hester, Jim Kee, Catherine Melvin, John R. Rutherford

13. Wellness Presentation: Leaders Leveraging Existing Solutions to Improve Health and Well-being

Ms. Lacy Wolff, Health Promotion Administrator for the Texas Employees Group Benefits Program (GBP), introduced Dr. Janet Tornelli-Mitchell, Texas Tech University Systems and Mr. David Yebra,

Deputy Director, Texas Department of Criminal Justice to present to the board on how they use GBP programs to improve the health and well-being of their respective workforces.

Ms. Wolff updated the board on the AMP initiative. AMP stands for Assess, Manage, and Prevent. Assess refers to the online health risk assessment that is available through Blue Cross Blue Shield through the Well On Target portal. Manage is referring to health behavior and there are two weight management programs, Wondr Health and Real Appeal. Prevent, stands for preventive visits (annual check-ups). The AMP initiative created engagement goals and regularly reports on the progress towards those goals to the 16 largest employers in the GBP. Dr. Mitchell reported that seeing Texas Tech's progress on these goals spurred them to create a university initiative to improve employee engagement.

Dr. Mitchell reported that they leverage Wondr Health, a digital behavioral program about teaching people to be more mindful about their eating habits. Studies show that people who were in the Wondr program showed that 70.1% were increased their physical activity.

Dr. Mitchell and Mr. Yebra both participated in this program themselves. Mr. Yebra then began to talk how he promoted the program at TDCJ.

Ms. Wolff announced another initiative for onsite checkups with Catapult Health, which serve as a preventive visit designed to get employees engaged with their health. TexasTech is serving as a pilot employer for a virtual version of the Catapult visits.

TDCJ created their own subsite promoting the Wondr program, which is available at no charge to qualified participants, based on certain medical criteria. TDCJ incents employee participation by providing eight hours of administrative leave each time they completed a ten-week module.

Dr. Mitchell briefly discussed Catapult checkups and stated the patient is referred back to their primary care physician and any applicable health care provider at Catapult based on the results of their evaluation. They also refer patients to additional resources offered through the health plan like chronic condition management, Wondr Health, Real Appeal and Well onTarget based on the Catapult evaluation results.

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

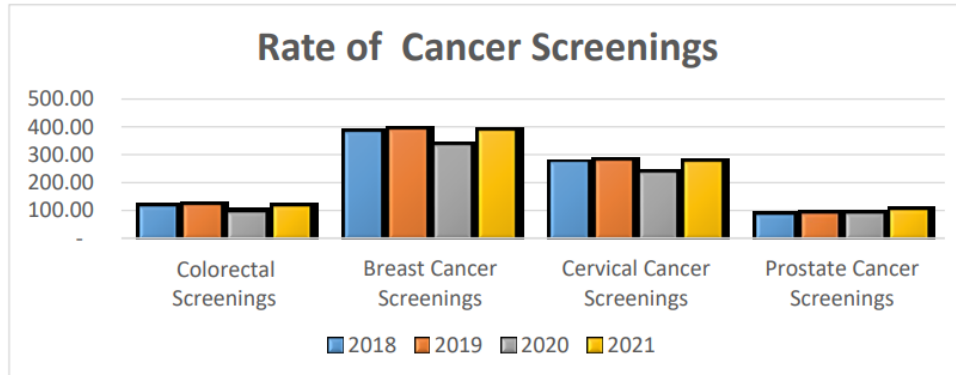
14. Consideration of Updates Related to the HealthSelect of Texas® Plan

Ms. Diana Kongevick, Director of Group Benefits, and Mr. Blaise Duran, Actuarial and Reporting Services of Group Benefits provided updates related to the HealthSelect of Texas® (HealthSelect) Plan.

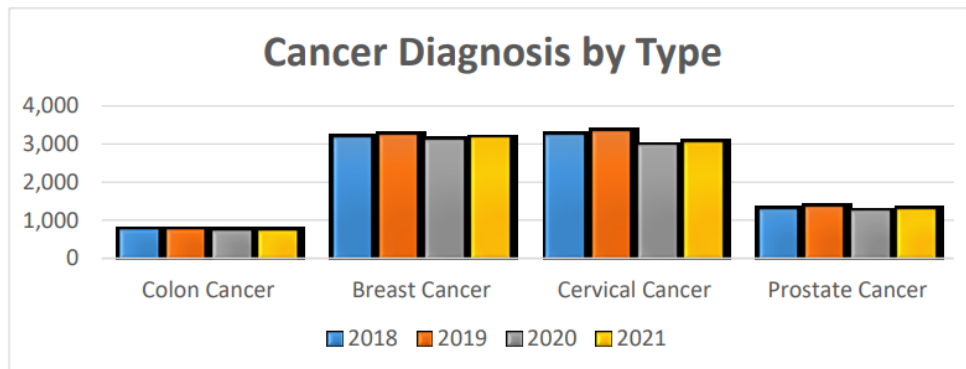
The HealthSelectSM point of service plan is the primary health plan for state agency and eligible public higher education employees, retirees and their dependents with 80% of all participants enrolled in the plan. In many cases, the plan requires a Primary Care Physician (PCP) referral to receive in-network benefits when seeing a specialist.

Reduced utilization during the first year of the pandemic indicated some services were delayed (or deferred) primarily due to social distancing recommendations. Preventive service delays can lead to delays in diagnosing disease or medical conditions that result in higher cost and worse health outcomes.

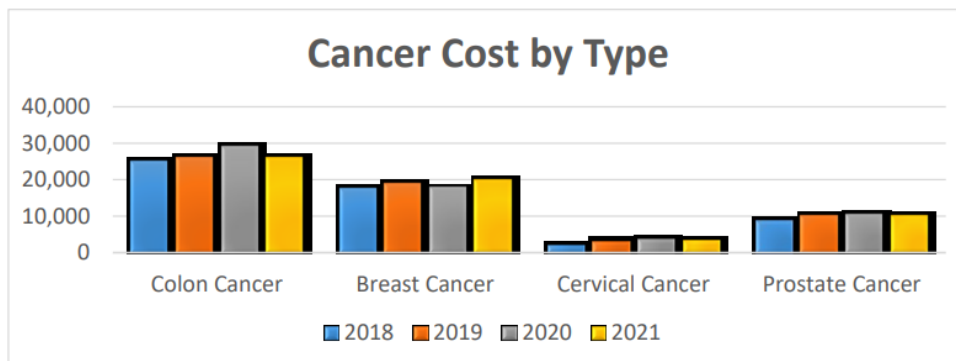
While cancer screening rates dropped in 2020, they returned close to pre-pandemic levels in 2021.



The number of participants diagnosed with cancer reduced in 2020 before rebounding in 2021, likely due to the reduced number of screenings.



Lower screening rates could potentially lead to fewer cases caught early, increasing the number of higher cost late stage cancers, typically with worse outcomes. However, so far, screening delays have not lead to an increase in the average cancer cost per case.



Mr. Duran reported that, after a 2020 reduction, the 2021 prevalence and average cost of heart disease per case returned to pre-pandemic levels.

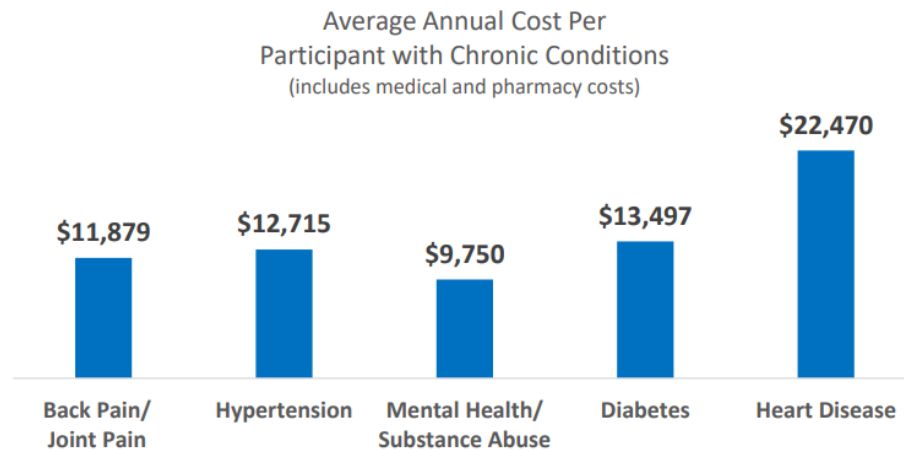
Staff also reviewed the rates of diabetes, diabetic screenings, A1C screenings, and the average cost of an individual with diabetes. The 2020 A1C screening rates reduced before rebounding in 2021; however, the average annual cost for those with diabetes continues to rise.

Virtual visits are those visits provided by one of the in-network virtual visit providers, Doctor On Demand and MDLIVE. As a result of the waiver of HealthSelect of Texas virtual visit medical copays

effective September 1, 2017, utilization steadily increased. Scheduled mental health visits were added at no cost to the participant.

Telemedicine visits are provided by an individual provider using the provider's electronic platform. In March of 2020, ERS waived the telemedicine copay to encourage members to continue necessary provider care during the pandemic. Telemedicine utilization increased significantly. Even though telemedicine copays have since resumed, utilization remains strong.

The table below illustrates the HealthSelect average annual costs for those with chronic conditions.



Specialty drugs typically treat complex conditions, require special handling and are generally expensive. In Fiscal Year 2021, specialty drugs represented 1% of prescriptions and 35% of total drug cost.

Ms. Kongevick provided an update related to new FDA approval of medications for treatment of obesity. While HealthSelect Plans currently exclude drugs prescribed for the treatment of obesity, evaluation is underway to determine whether a modification should be made to this exclusion. Once the research is complete, this item will follow existing timing for Board consideration of plan rates, generally during the May Board meeting. One board member inquired about the costs of the weight loss medications, and Mr. Duran estimated a cost of approximately \$1,000 per 30 days (90-day regimen). Ms. Kongevick also described potential clinical prior authorization requirements in order to obtain and continue the medications.

Ms. Kongevick also provided an update related to potential life insurance improvements currently under evaluation. Staff and the consulting actuaries are reviewing potential increases to basic life insurance, optional life insurance and the addition of a portability feature as an alternative to whole life conversion. Legal and regulatory research continues and, once complete, this item will follow existing timing for Board consideration of plan rates, typically during the May Board meeting.

There were no further questions or discussion, and this agenda item did not require action.

15. Consideration of Plan Compliance and Operational Updates Related to the Texas Employees Group Benefits Program (GBP) – for Coverages with Plan Years that Ended on August 31, 2022

Ms. Diana Kongevick, Director of Group Benefits, and Ms. Georgina Bouton, Assistant Director of Group Benefits, presented the plan compliance and operational updates related to the Texas Employees Group Benefits Program for coverages with plan years that ended August 31, 2022.

Ms. Bouton explained that a performance guarantee (PG) is connected to a business-critical service function(s) required of a vendor throughout the contract period. She noted that PG metrics are formulated from regulatory standards and industry best practices. Each PG is then risk-rated using risk assessment modeling and given a PG severity level (emergency, critical, moderate, and minor.) For this period, five

vendors had only minor or moderate issues, two vendors had a critical issue and one vendor had an emergency issue connected to data file processing.

Ms. Bouton advised that plan compliance and operational updates for the calendar year based plans are scheduled for the March 2023 Board meeting.

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

16. Consideration of Health Insurance Financial Update for Fiscal Year 2022 and Outlook for Fiscal Year 2023

Ms. Diana Kongevick, Director of Group Benefits, Mr. Blaise Duran, Actuarial and Reporting Services, Group Benefits, and Mr. Phil Dial, actuary with Rudd and Wisdom, Inc., presented the Health Insurance Financial update for Fiscal Year 2022 and outlook for Fiscal Year 2023.

Mr. Duran explained recent trend experience. For Plan Year 2020, the combined medical and pharmacy trend in Plan Year 2020 was 9% and 11.8% in Plan Year 2021. The Plan Year 2022 estimated trend shows medical at 4.1% and pharmacy at 11.3% for a combined trend of 6.1%.

Based on claims data, there were 64,000 HealthSelect COVID-19 cases in Plan Year 2022 with an estimated cost of just under \$80 million, down from \$126.1 million in Plan Year 2021. The plan spent an additional estimated \$40 million on tests and vaccine administration. While utilization of services returned to pre-pandemic levels, the plan still saw a reduction in utilization of services in Plan Year 2022 resulting in a cost reduction of \$31.1 million.

Current projections indicate the Group Benefits Plan will likely start drawing down funds from the contingency fund beginning in Plan Year 2024; however, projected savings from the new PBM contract should delay the need for this drawdown of contingency funds.

Both Mr. Duran and Mr. Dial explained the plan is currently in good financial shape and, as a result, ERS did not request additional funds in the legislative appropriation requests for the FY24-FY25 biennium.

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

17. Consideration of Alternate Delivery Methods, a Report for the 87th Legislature, Senate Bill 1, Rider 17

Ms. Diana Kongevick, Director of Group Benefits, Mr. Phil Dial, actuary with Rudd and Wisdom, Inc., and Ms. Alison Archer, Director of Health and Benefits at Willis Towers Watson reviewed the Alternate Delivery Methods report, a report for the 87th Legislature, Senate Bill 1, Rider 17.

Ms. Kongevick provided background information and stated the report was required by the 87th legislature, Senate Bill 1, Rider 17. The Rider required ERS to engage a third party vendor to examine alternative methods to deliver the current benefits supplied under the Group Benefits Program (GBP). This item was included in the Benefit Consulting Services RFQ released by ERS in 2021 with consulting services awarded to Willis Towers Watson (WTW). WTW kicked off the project in February 2022. The study focused on medical and prescription drug coverage under HealthSelect of Texas plans for active employees and retirees.

Ms. Archer reviewed the report contents as well as dynamics happening in the provider community with regard to provider consolidation and vendor consolidation. WTW reviewed the purpose of the group benefits plan as explained in the Texas Employees Group Benefits Act. The alternative methods for delivering current benefits are categorized into plan design alternatives, delivery system alternatives, and retiree medical alternatives.

After considering the purposes of the GBP as outlined in the Texas Employees Group Benefits Act, the study concluded that the delivery methods currently in place are highly effective approaches and changes in delivery alternatives may adversely impact plan cost, the member experience and the

administrative efforts. Ms. Archer provided an illustration in connection with the Consumer Directed HealthSelectSM health plan, which provides employees choice and the ability to save medical funds for the future.

The analysis concluded that, while there are alternatives that may provide cost savings, such as high-performing/narrow networks, these options are not consistently available across the covered population and would impact access and the member experience. The GBP has a number of elements promoting high-quality, cost-effective care within the plans, including a variety of value-based care and contracting strategies.

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

18. Consideration of Contract Award Recommendation for Pharmacy Benefit Management Services for the HealthSelectSM Prescription Drug Program and HealthSelectSM Medicare Rx (Medicare Part D) Prescription Drug Program under the Texas Employees Group Benefits Program (GBP) – (Action)

Ms. Diana Kongevick, Director of Group Benefits, Mr. Blaise Duran, Actuarial and Reporting Services, Group Benefits, Ms. Gabrielle Schreiber, Director of Procurement and Contract Oversight, and Ms. Georgina Bouton, Assistant Director of Group Benefits presented the recommendation of contract award for pharmacy benefit management services for the HealthSelect Prescription Drug Program and HealthSelect Medicare Rx (Medicare Part D) Prescription Drug Program under the Texas Employees Group Benefits Program (GBP).

ERS contracts with OptumRx to provide pharmacy benefit management (PBM) services for the self-funded HealthSelect prescription drug plan (PDP), and the Medicare Rx PDP under the GBP for participants covered in the GBP.

ERS issued a request for proposals (RFP) on May 11, 2022 for a qualified entity to provide pharmacy benefit management services (the Services) for the HealthSelect PDP and HealthSelect Medicare Rx PDP. The solicitation provides for a contract term of approximately six years, which begins upon execution of the contract by ERS and, after the implementation period, extends through December 31, 2029, subject to the terms of the contract. In this solicitation, price accounts for 60% of the overall score and operational capabilities and other factors accounts for 40% of the total.

ERS received four minimum requirements submissions on June 13, 2022:

- CaremarkPCS Health, L.L.C.;
- Express Scripts, Inc.;
- HealthTrust Purchasing Group, LP; and
- OptumRx

On June 23, 2022, all four entities provided a full proposal for review for the preliminary review phase and ERS evaluated:

- Compliance with the RFP;
- Responsiveness; and
- Certain vendor performance checks required by the Texas Comptroller of Public Accounts.

Ms. Schreiber reported that during the preliminary review phase, HealthTrust Purchasing Group, LP was eliminated as they did not meet the experience minimum requirement. ERS passed three entities through the Proposal Review Phase:

- CaremarkPCS Health, L.L.C.;
- Express Scripts, Inc.; and
- OptumRx

For the proposal review phase, 18 subject matter experts (SMEs) across nine ERS divisions reviewed applicable proposal sections.

The SMEs scored two main categories: operational capabilities and services including program design, communications, information systems, funding payment accounting and the price proposal.

ERS began evaluation of these pass/fail items during the proposal review phase including contractibility, legal requirements and regulatory compliance, Service Organization Control (SOC) (SOC-1 and SOC-2) reports and financial stability.

Based on the scores for pass/fail items, Operational Capabilities and Services, and Price Proposals during the Proposal Review Phase, ERS selected the following entities as finalists:

- CaremarkPCS Health, L.L.C.;
- Express Scripts, Inc.; and
- OptumRx

ERS evaluated the Finalists based on new and clarified information:

- Data Center and Security Operations Center Site Visits;
- Operations Facilities Site Visits;
- Interviews;
- Past Performance;
- Financial Stability;
- Contractibility and Legal Requirements and Regulatory Compliance; and
- Best and Final Offer (BAFO), Price.

The RFP evaluation team and OPCO met with Executive Office and reviewed the RFP evaluation team findings and a best-value determination was made.

Following questions and comments from the trustees about the determining factors for the recommendation, and the potential impact to members, the Board took the following action:

Move that the Board of Trustees authorize the Executive Director to negotiate and execute a contract with **Express Scripts, Inc.** with terms that are fully acceptable to ERS, and authorize the Executive Director to administer the resulting contract to provide the required Pharmacy Benefit Management Services for the **HealthSelectSM Prescription Drug Program and HealthSelectSM Medicare Rx (Medicare Part D) Prescription Drug Program.** In the event that ERS is not able to negotiate a satisfactory contract with **Express Scripts, Inc.**, or if they will not be capable of providing the required **Services** to ERS' satisfaction during the contract term, then the Board authorizes the Executive Director to resume any necessary due diligence processes and contract negotiations with the next top-ranked qualified respondent and to negotiate and execute contract terms that are fully acceptable to ERS and administer the contract.

Motion by Craig Hester, second by Catherine Melvin

Final Resolution: Motion Carries

Aye: Brian Barth, Neika Clark, Craig Hester, Jim Kee, Catherine Melvin, John R. Rutherford

19. Consideration of Actuarial Valuation of Retiree Health Insurance Benefits as of August 31, 2022

Ms. Mabelle Pharr, Chief Financial Officer, Mr. Phil Dial, Rudd and Wisdom and Mr. Chris Johnson, Rudd and Wisdom presented the Actuarial Valuation of Retiree Health Insurance Benefits.

Ms. Pharr opened by stating that insurance for retirees is reported separately in the annual financial report in accordance with standards established by the Governmental Accounting Standards Board (GASB). She explained that while the plan is funded on a pay-as-you-go basis, the assets are in a trust and thus reported in accordance with GASB Statement 74. Ms. Pharr introduced Mr. Dial and Mr.

Johnson and then turned the presentation over to Mr. Dial. Mr. Dial provided a brief overview of the requirements under GASB that ERS value the other post-employment benefits that are provided through the Group Benefits program (GBP) to all qualified retired members of the plan. He further stated that the OPEB provided through GBP is for life insurance and health insurance, stating that the life insurance component is very small while the health insurance is the primary component and very extensive. He clarified that OPEB does not include optional benefits (life insurance, disability insurance, and vision insurance) as these are funded by members and also excludes retirement benefits.

Mr. Dial continued, stating the population valued includes retirees as well as active and deferred vested members. He reported the reduction in population of approximately 1% compared to 2021 is primarily due to a reduction of dependents.

Mr. Dial stated that GASB 75, which governs OPEB employer reporting, has been in effect since FY18 and the Comptroller reports OPEB expense and liability information for ERS and TRS in the financial statements published in the state's annual comprehensive financial report. The information for GASB 75 comes from GASB 74 valuations conducted at ERS and TRS.

Mr. Dial reviewed the valuation process and explained that the entry age funding method is used as mandated by GASB for the plan valuation. He noted that numerous assumptions were used in the valuation and turned the presentation over to Mr. Johnson. Mr. Johnson presented the demographic and economic assumptions utilized in the plan valuation, which are the same assumptions used in the ERS and TRS retirement plan valuations. He continued, noting that for the discount rate, the benefits under the plan are provided on a pay as you go basis and thus GASB 74 mandates the discount rate be based on yields of 20 year tax exempt municipal bonds as of August 31 of each year. Mr. Johnson elaborated that this can result in significant changes in the discount rate from year to year, causing volatility in the OPEB liability. Mr. Johnson concluded noting the fluctuation of the discount rate and stating that as discount rates go down, liability goes up and inversely as discount rates go up, liability goes down.

Mr. Dial stated that two important assumptions used for the health insurance benefits are different from the retirement plan. The first is the per capita health benefit cost and is determined based on the projection of FY23 costs and the valuation of that going forward. He continued noting that there are three sets of health benefit costs that provide the data for setting the per capita cost: medical costs for HealthSelect participants, HealthSelect Medicare Advantage participants, and HealthSelect pharmacy experience. The second non-retirement related assumption is the health benefit cost trend, noting the use of a select and ultimate schedule for the trend assumption that is sustainable. The trend level established as the sustainable level is the inflation assumption used for the retirement plan, plus two points. Mr. Dial further detailed the results from utilizing the assumptions and trends.

Mr. Johnson said there was an overall decrease of \$7.4 billion for a total of \$28.65 billion for FY22. He further reviewed the Actuarially Determined Contribution (ADC), which is comprised of normal cost, plus 30 year amortization of the net OPEB liability, and noted that there is no contribution requirement for this plan, again noting it is a pay as you go. He further presented a comparison of FY21 versus FY22, which showed a decrease of approximately 5% of payroll costs. He continued, providing statistics on the liability and discount rate and additional details on adjustments to assumptions.

Mr. Dial noted the difference between the determination of the discount rate under GASB 43, which placed determination of the rate on the actuaries, to the requirement to use the yields of 20 year tax exempt municipal bonds under GASB 74. Mr. Johnson concluded his presentation noting one of the requirements under GASB 74 is the disclosure of some sensitivity analysis discount rate changes as well as changes in the health benefit cost trend and noting the volatility in the discount rate.

20. Consideration of Calendar for Board of Trustees Election – (Action)

Mr. Bernie Hajovsky, Director of Enterprise Planning Office, presented the proposed calendar of milestone activities for the 2023 ERS Board of Trustees Election. The term currently held by trustee Catherine Melvin with the Texas Department of Public Safety is set to expire August 31, 2023, and the rules stipulate that the Board establish deadlines for each election.

Mr. Hajovsky provided a general overview of the election, including information on candidate and voter eligibility, voting channels and historical voter participation rates. Most state employees are eligible

to run as candidates in the 2023 election, except those employed at the Health and Human Services Commission and Department of Transportation since these agencies are currently represented on the Board. Beginning with the 2023 election, retirees receiving an annuity from ERS are also eligible to serve on the Board. All state employees, non-contributing members, and retirees receiving an annuity from ERS are eligible to vote in the election. Eligible voters may cast their vote by paper mail or electronically during the five-week voting period. ERS' third-party election vendor tabulates all votes and provides the election results following the conclusion of the voting period.

The following calendar dates were proposed for the 2023 Board of Trustees Election:

| | |
|---|--------------------------|
| Distribution of Nominating Petitions | Wednesday, March 1, 2023 |
| Close Nominations Period | Friday, March 31, 2023 |
| Certify Candidates; Draw for Ballot Order | Thursday, April 13, 2023 |
| Candidate Forum | Thursday, May 11, 2023 |
| Voting Begins | Friday, May 12, 2023 |
| Voting Closes | Friday, June 16, 2023 |
| Election Results Certified | Thursday, July 20, 2023 |

Following questions and comments from the trustees, the Board took the following action:

Move that the Board of Trustees adopt the 2023 Board of Trustees Election Calendar as detailed in Exhibit A to this agenda item.

Motion by Brian Barth, second by John Rutherford

Final Resolution: Motion Carries

Aye: Brian Barth, Neika Clark, Craig Hester, Jim Kee, Catherine Melvin, John R. Rutherford

21. 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, reported that as of November, there are 34 full time employee (FTE) positions in the contact center. Of those 34 FTE positions, 26 have been filled. There are eight temps in temp-to-hire positions. There are four temps over the FTE count. ERS has also posted to hire regional counselors outside of the Austin area that will handle calls and see visitors in locations outside of the Austin headquarters.

The Benefits Counseling Center saw an increase in the average speed to answer calls.

In the outsourced call center, there was an average of 32 FTEs, and the average speed of response times increased to around 14 minutes during the month of November.

Survivor Benefits processing time was about 30 days in November, averaging about 34 days to pay benefits. Ms. Hardaway announced that as of this date, these numbers have continued to decrease to about 29 days to send the initial packet and about 20 days to pay.

Workforce update –

Ms. DeeDee Sterns, Director of Human Resources, reported that recruitment continues to be a challenge with low applicant pools, increased demands on salaries and expectations, including fully remote work, and candidate pools that are not always meeting qualifications. The need to hire staff quickly is another challenge while turnover remains elevated. There is a lot of internal movement, which Ms. Sterns expressed is healthy.

Despite these challenges, over the last six years, ERS' turnover rate has been significantly lower than that of the state workforce. Hiring managers are focusing on filling open positions, and re-examining job requirements, while also maintaining flexible work schedules. Additional staff in human resources will focus on recruitment, and outside expertise is also used on specific hires.

Group 4 Implementation –

Porter recognized the project team for the successful roll-out of system changes needed by September 1 to implement Group 4, which is the retirement plan now in place for employees. Implementation efforts will continue into 2023. More than 5,000 employees enrolled in Group 4 as of November. Ms. Catherine Terrell noted that the Group 4 members have a different contribution rate and that the first hurdle has been working with all employers and the various payroll systems to get the contribution rate correct.

Plan Year 2023 Fall Enrollment –

Fall Enrollment for Medicare-eligible retirees, survivors and their families was from October 31 – November 18. ERS held in-person Fall Enrollment fairs (the first since 2019) at state agencies and higher education institutions across Texas. ERS mailed over 106,937 Personalized Benefits Enrollment Statement packets. The contact center fielded 3,969 calls and 4,764 members made coverage changes.

State Employee Charitable Campaign – 67% of ERS employees contributed to the 2022 SECC campaign and made contributions raising \$53,834, slightly under the agency’s goal. There were five divisions within ERS that had 100% of their employees participate. The campaign was co-chaired by Elizabeth Roque and Adriana Monreal.

22. Recess of the Board of Trustees – The Board of Trustees will reconvene on Wednesday, December 7, 2022, at 9:00 a.m. with the Investment Advisory Committee to take up the remaining agenda items.

The Board of Trustees recessed at 5:02 p.m. on Tuesday, December 6, 2022.