



Board of Trustees Meeting

March 1, 2023



Presented for Review and Approval

May 17, 2023

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BOARD OF TRUSTEES MEETING
EMPLOYEES RETIREMENT SYSTEM OF TEXAS
March 1, 2023

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

Chris Beggs, Investments
Georgina Bouton, Group Benefits
Amanda Burleigh, Office of General Counsel
Amy Chamberlain, Government Relations & Special Projects
Raquel Colón, Investments
Kurt Cressotti, Internal Audit
Anthony Curtiss, Investments
Pablo de la Sierra Perez, Investments
Kelley Davenport, Executive Office
Blaise Duran, Group Benefits
Leah Erard, Government Relations & Special Projects
Kim French, Group Benefits
Marcia Gibbs, Benefits Communications
Angelica Harborth, Group Benefits
Tiffani Jenkins, Benefits Communications
Debbie Legg, Group Benefits
Nancy Lippa, Office of General Counsel
Robert Sessa, Investments

ALSO PRESENT

Diana Head, Blue Cross Blue Shield of Texas
Casey Sharp, Blue Cross Blue Shield of Texas

Meeting of the ERS Board of Trustees

24. 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 3:31 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 4:15 p.m. on Tuesday, February 21, 2023, as required by Chapter 551 Texas Government Code, referred to as the Open Meetings Act.”

25. Consideration of the Minutes to the December 6, 2022 ERS Board of Trustees Meeting – (Action)

Dr. Kee, Chair, opened the floor for a motion on the approval of the minutes from the December 6, 2022 ERS Board of Trustees meeting.

Move that the Board of Trustees approve the minutes to the meeting held on December 6, 2022

Motion by Catherine Melvin, second by Craig Hester

Final Resolution: Motion Carries

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

Abstained: John R. Rutherford

26. Consideration of the Retirement Insurance System Enhancement (RISE) Project

Cathy Terrell, Deputy Executive Director, Chuck Turner, Chief Information Officer, and Robin Hardaway, Director of Customer Benefits, discussed the Retirement Insurance System Enhancement (RISE) project. As the benefits administrator for the state of Texas, ERS interacts with state employees and retirees, their employers, and contracted benefit providers. ERS was among the first pension systems in the nation to implement an enterprise solution that did not depend on paper for benefits administration. The system is an aging Oracle/PeopleSoft platform that was customized during the implementation to improve its functionality.

The Benefits Administration module was implemented in September 2001 and includes recording of insurance enrollment, eligibility, billing and reporting for health, dental, vision, life insurance, voluntary AD&D disability insurance, and flexible spending accounts.

In July 2004, the payroll module handled the distribution of annuity and other benefit payments. The pension administration module was fully implemented in September 2007 and included recording of service, pensionable earnings, and contributions.

The age of the system requires it to be upgraded in order to continue to function more effectively, with less manual intervention required on key processes. The system is dated in terms of user functionality and ease of use. ERS sought out market expertise to look at multiple options to determine if upgrading the existing system made sense or if there was a better approach. After reviewing multiple options, ERS determined the best solution was to seek a system that had already been developed that offered the needed functionality.

A request for proposal for a commercial off-the-shelf system was issued on January 10, 2022. ERS received three proposals. Following extensive due diligence, ERS selected LifeWorks in a multi-year contract. LifeWorks proposed the shortest implementation period and the lowest cost proposal. The project is expected to take 6-8 years. After the implementation is complete, the contract will move into maintenance. Ms. Terrell concluded that ERS staff and the vendor team will now begin work to convert data, clarify system requirements and identify any gaps between the delivered product and ERS' administrative requirements.

In response to a question, Ms. Terrell responded that LifeWorks (recently acquired by Telus Health) has been in business for quite some time and has successfully completed implementations across the country for public retirement systems.

Mr. Hester questioned the 6-8 years implementation and the team approach. Ms. Terrell responded that staff will be added to the project team and there is a project manager on contract. Additional resources will be needed to help manage the project and provide independent oversight, as well as completing data conditioning. Mr. Turner informed the board that staff has begun resource planning and have identified approximately 30 people across two teams that will need to be dedicated to the project.

Mr. Hester asked if it will be outsourced or internal. Mr. Turner stated that staff anticipated external resources with data expertise would be needed to assist. Staff also will receive assistance from the vendor who has the most experience implementing their product. In order to free up certain staff for the project, other people will need to be brought in to assist with daily operations.

Mr. Hester made a comment and questioned if the budgets can be amended during the course of the year. Ms. Terrell responded that the Board approved the capital budget for RISE as part of the FY23 budget. An implementation schedule was submitted with the RFP. Mr. Turner noted that process modules will be delivered in phases, but ERS will not start utilizing the new system until the end point of the project. Different people will be involved in the different phases. One team may focus on financial and one on retirement. There will be a core team that will rotate subject-matter experts as needed. Mr. Wilson reiterated how deliberate this process has been in evaluating needs and focusing on successfully moving the agency forward.

Mr. Barth encouraged staff to be cautious with fitting business processes to accommodate the software and emphasized that the important thing is for the business to get what they need. Ms. Terrell responded that insurance is more commoditized because of federal regulations, while pension administration can vary from state to state. However, ERS' goal is to get a system that meets the extensive requirements laid out in the RFP.

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

27. Consideration of the Texas Employees Group Benefits Program Update

Annual Non-Financial Performance Measure Update

Ms. Diana Kongevick, Director of Group Benefits, and Blaise Duran, FSA, of Group Benefits Actuarial and Reporting Services, updated the board on the Texas Employees Group Benefits Program non-financial performance measures. Reported annually, the update includes information such as the assessments of network performance, competitiveness of benefits, utilization of benefits, participant satisfaction with self-funded HealthSelectSM plans, and the Assess, Measure and Prevent (AMP) Wellness initiative program.

ERS developed criteria designed to gauge the competitiveness of the HealthSelect plan. In connection with how competitive HealthSelect is in comparison to other plans, the plan noted that both ERS and all vendors perform a variety of surveys and participant satisfaction results are very strong. Fiscal Year 2022 Member Cost Share as a percentage of total cost increased slightly due to a change in the mix of services utilized.

Mr. Duran reported that virtual visit utilization through Doctor on Demand and MDLive continues to increase. Telemedicine visit utilization (visits using a provider's platform) dropped and is expected to stabilize as the impact of the pandemic wanes.

The panel provided survey results connected to HealthSelect plans, with 87.6% of HealthSelect participants responding as satisfied with the HealthSelect of Texas® and Consumer Directed HealthSelectSM plans offered by ERS; 96.7% responding as satisfied with Optum's administration of HealthSelectSM Prescription Drug Program; and 97.1% responding as satisfied with the UnitedHealthcare's administration of HealthSelectSM Medicare Rx.

The AMP measures were initially set high as aspirational targets. Health assessment completion and weight management program enrollment continues to increase; however, the program notes a slight drop in preventive visit completion, which is currently under review.

The State of Texas Dental Choice PlanSM (Dental PPO) has 98.9% of participants with access standards met for the current period of January 31, 2023. For Plan Year 2022, 48.5% of participants had a preventive visit during the plan year; and no target has been set for this measure.

Plan Compliance and Operational Updates – Calendar Year Programs

Staff reports annually to the ERS Board of Trustees (Board) for each GBP vendor's compliance with the contract and overall performance. Ms. Kongevick reported on the performance guarantee (PG) assessments for the GBP calendar year plans. 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.

A noncompliant performance metric may require corrective action. ERS has a formal process for the review, oversight, and enforcement of performance guarantees to ensure consistency of contracting decisions. An escalated review process is an additional measure to ensure the Executive Office approves the final enforcement of contractual performance issues.

Vendor performance remains very strong. The HealthSelectSM Medicare Advantage Plan (MA-PPO) administered by UnitedHealthcare and the HealthSelect Medicare Rx plan administered by UnitedHealthcare both met all performance standard guarantees during the plan year. Performance guarantee assessments were also reviewed for Optum Financial Services, the administrator for Health Savings Accounts for those enrolled in Consumer Directed HealthSelect, and Reed Group, the administrator for the self-funded Texas Income Protection PlanSM, which is made up of short-term and long-term disability coverage.

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

28. Consideration of Contract Award Recommendation to Provide Third-Party Administration of the Self-Funded State of Texas VisionSM Plan under the Texas Employees Group Benefits Program – (Action)

Ms. Diana Kongevick, Director of Group Benefits, Gabrielle Schreiber, Director of Procurement and Contract Oversight, and Blaise Duran, FSA, Group Benefits Actuarial and Reporting, presented the contract award recommendation to the Board for the provision of third-party administration of the self-funded State of Texas VisionSM under the Texas Employees Group Benefits Program (GBP).

Ms. Kongevick reported that ERS is currently under a contract with Superior Vision Services, Inc. to provide group vision care services. The State of Texas Vision provides vision exams and eyewear and the cost of the plan is funded by participant contributions.

Ms. Schreiber informed the board that, on June 20, 2022, ERS issued a request for proposals (RFP) to solicit a qualified entity to provide the Services. The solicitation provides for a contract term of six years, which begins upon execution of the contract by ERS and, after the implementation period, extends through August 31, 2029, subject to the terms of the contract.

ERS received five Minimum Requirements submissions (Avesis LLC was eliminated during this phase since they did not meet the minimum requirements):

1. Avesis LLC
2. EyeMed Vision Care, LLC
3. Humana Insurance Company
4. Superior Vision Services, Inc.
5. Vision Service Plan Insurance Company

ERS received proposals from each entity and the following four entities passed the Minimum Requirements Review Phase and moved to the Proposal Review Phase:

1. EyeMed Vision Care, LLC
2. Humana Insurance Company
3. Superior Vision Services, Inc.
4. Vision Service Plan Insurance Company

Based on the evaluation of the Proposal Review and the pass/fail items, ERS selected the following three Respondents as finalists:

1. EyeMed Vision Care, LLC
2. Superior Vision Services, Inc.
3. Vision Service Plan Insurance Company

Mr. Duran stated that ERS determines the appropriate weighting of price, and operational capabilities and services, which differs for each GBP RFP. In this case, he confirmed appropriate weighting was 35% for price and 65% for operational capabilities and services.

During the Finalist Review Phase, ERS staff scored proposals using the same criteria and weights used in the Proposal Review Phase. The Price score was updated based on each Respondent's best and final offer (BAFO). ERS conducted remote site visits to operational facilities, primary data centers, and security operations centers. Video conference interviews with Finalists occurred in December 2022, and included a prepared presentation by each Finalist and a case study with further questions posed by staff.

Staff answered questions posed by trustees and following discussion, questions and comments from the Trustees, the Board took the following action:

Move that the Board of Trustees authorize the Executive Director to negotiate and execute a contract with ***EyeMed Vision Care, LLC*** with terms that are fully acceptable to ERS, and authorize the Executive Director to administer the resulting contract to provide the third-party administration of the self-funded State of Texas VisionSM (Services). In the event that ERS is not able to negotiate a satisfactory contract with ***EyeMed Vision Care, LLC*** 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 a contract with terms that are fully acceptable to ERS and administer the resulting contract.

Motion by Brian Barth, second by Jim Kee

Final Resolution: Motion Carries

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

29. Consideration and Appointment of Group Benefits Advisory Committee Member – (Action)

Mr. Bernie Hajovsky, Director of Enterprise Planning, presented the Appointment of the Group Benefits Advisory Committee Member. The 11- member Group Benefits Advisory (GBAC) committee provides the Board with input from ERS participants, benefit experts, and professionals. GBAC members are appointed by the Board to fill three-year terms. The GBAC meets twice each year and gives reports and feedback to the Board.

The Board previously approved GBAC representatives for all of the required categories, except for the representative for the small state agency category. Staff sought out applicants and Janice McCoy has been reviewed by a group of agency executives and was approved by the Executive Director. Ms. McCoy is the Executive Director at the Texas Optometry Board.

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

Move that the Board of Trustees appoint Janice McCoy to the ERS Group Benefits Advisory Committee for a three-year term beginning March 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

Agenda items 14 and 32 were taken out of order.

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Dr. Kee announced 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 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. No motion was entertained.

30. Consideration of TexaSaverSM Plan Compliance and Operational Updates

Ms. Diana Kongevick, Director of Group Benefits, and Ms. Angelica Harborth, Deferred Compensation Manager, Group Benefits, presented compliance and operational updates for the defined contribution on TexaSaver program. Ms. Kongevick stated there are two separate vendor contracts with the TexaSaver program, Great-West Life and Annuity Insurance Company (Empower) and Advised Assets Group, LLC now Empower Advisory Group (EAG), for investment advisory services.

Ms. Harborth provided Calendar Year 2023 operational updates, noting that the 401(k) and 457 plan contribution limits are set by the IRS annually. For Plan Year 2023, the limit on overall elective deferrals went up to \$22,500 and the catch-up provisions also increased to \$7,500. Those contributing to a 457 plan who are three years out from retirement have an additional catch up of \$22,500.

On December 29, 2022, the SECURE 2.0 Act was signed into law expanding retirement plan provisions. Most of the changes will not go into effect until January 1, 2024. There are several changes to the required minimum distribution (RMD) age which are effective immediately. The RMD age was raised from 72 to 73 for anyone turning age 72 after January 1, 2023. For anyone who missed an RMD, the penalty was reduced from 50% to 25%.

Ms. Kongevick explained the performance guarantee assessment severity levels and reviewed Empower and EAG performance for Calendar Years 2021 and 2022.

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

31. Agency Update

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

Customer Benefits "Action Beyond the Call" –

As of December, ERS hired three counselors who work remotely. The benefits counseling center is fully staffed, including extra positions to continue to address turnover. Training is still underway for new staff and additional subject matter training is underway for existing staff.

The Survivor Benefits section is fully staffed. Training is underway and three new employees have started in the last two months. Processing times have decreased and there is still room for improvement. Significant increase in the number of deaths affected processing times.

Legislative Update –

The 88th Texas Legislature convened on Tuesday, January 10, 2023. The executive director testified on January 30, 2022 at the Senate Finance Committee and on February 21, 2023 at the House Appropriations Subcommittee on Articles I, IV & V. Both the House and the Senate maintained funding levels for state employee and retiree health insurance. Filed versions of HB1 and SB1 include existing and legacy funding for the ERS Plan, and full funding for the Law Enforcement and Custodial Officer (LECO) Plan, and the JRS2 (Judicial Retirement System Plan). Both bills include an appropriation to provide a salary increase for state employees of 5% to begin on September 1, 2023 and an additional 5% to occur on September 1, 2024.

1836 Building Update –

ERS finalized and executed the first tenant lease for the 1836 San Jacinto building. The University of Texas Health Science Center at Houston School of Public Health has committed to a 150-month lease on 64,959 square feet spread across the entire 5th floor (41,327 sf), the balance of the 6th floor (16,957 sf), and approximately half of the largest 1st floor retail space (6,675 sf). Construction of tenant improvements is expected to begin in coming weeks with a target completion for spring 2024 semester.

Staff is preparing for renovations to begin to the 200 E. 18th building with plans approved for internal construction and improvements to landscaping and outdoor break areas.

2023 Get Fit Texas State Agency Challenge –

The 2023 Get Fit Texas Challenge kicked off on January 23, 2023 and runs through April 2, 2023. The challenge offers the chance for state employees to get active in an agency-to-agency competition to see which agency can claim the title of being the “Fittest State Agency.” ERS has earned the #1 Fittest State Agency in the mid-size category (agencies with 201-500 FTEs) for the last five years and intends to defend the title again this year.

33. Adjournment of the Board of Trustees

The Board of Trustees adjourned at 7:18 p.m. on Wednesday, March 1, 2023.