



# Board of Trustees Meeting

May 17, 2023



**Presented for Review and Approval**

**August 23, 2023**

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BOARD OF TRUSTEES MEETING  
EMPLOYEES RETIREMENT SYSTEM OF TEXAS  
May 17, 2023

**TRUSTEES PRESENT**

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

**TRUSTEE NOT PRESENT**

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  
Kurt Cressotti, Internal Audit  
Anthony Curtiss, Investments  
Kelley Davenport, Executive Office  
Blaise Duran, Group Benefits  
Amy Frickmann, Group Benefits  
Marcia Gibbs, Benefits Communications  
Tiffani Jenkins, Benefits Communications  
Debbie Legg, Group Benefits  
Dani Levrie, Benefits Communications  
Nancy Lippa, Office of General Counsel  
Robert Sessa, Investments

**ALSO PRESENT**

Philip Dial, Rudd & Wisdom, Inc.

## **Meeting of the ERS Board of Trustees**

### **1. 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 8:30 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 12:05 p.m. on Tuesday, May 9, 2023, as required by Chapter 551 Texas Government Code, referred to as the Open Meetings Act.”

“The same posting provided notice of today’s Joint Meeting of the ERS Board of Trustees and Investment Advisory Committee.”

### **2. Consideration of Consent Agenda – (Action)**

Dr. Kee, Chair, opened the floor for a motion on the approval of the Consent Agenda items:

- Consideration of the minutes to the March 1, 2023 Audit Committee Meeting
- Consideration of the minutes to the March 1, 2023 Board of Trustees Meeting
- Consideration of the minutes to the March 1, 2023 Joint meeting of the Board of Trustees and Investments Advisory Committee
- Consideration of proposed Fiscal Year 2024 fees for TexFlex<sup>SM</sup> Program

**Move** that the Board approve all items on the Consent Agenda as presented.

**Motion** by Craig Hester, second by Brian Barth

Final Resolution: Motion Carries

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

Not Present: John R. Rutherford

### **3. Consideration of Proposed Fiscal Year 2024 Rates for HealthSelect of Texas® and Consumer Directed HealthSelect<sup>SM</sup> Plans – (Action)**

Diana Kongevick, Director of Group Benefits, Blaise Duran, FSA, Group Benefits Actuarial and Reporting Services, and Phil Dial of Rudd and Wisdom, Inc., provided proposed HealthSelect and Consumer Directed HealthSelect Fiscal Year (Plan Year) 2024 rate information to the Board.

Mr. Duran stated that contributions from employers and enrolled members fund the HealthSelect<sup>SM</sup> plan cost. The legislative appropriation determines State contributions. The State currently pays 100% of the contribution for eligible full-time employees, up to 100% of the contribution for retirees based on retirement tier and 50% of the contribution rate for eligible dependents enrolled in HealthSelect. The State contributions are the same for employees and retirees enrolled in HealthSelect of Texas, Consumer Directed HealthSelect and HealthSelect<sup>SM</sup> Medicare Advantage.

The Actuarial and Reporting Services unit and consulting actuary analyzed factors including revenue requirements, historical enrollment, claims experience, projected contingency fund balance, cost containment practices and funding for basic life and accidental death and dismemberment coverages and recommend no changes to HealthSelect contributions for Plan Year 2024. Mr. Dial noted that rates have generally remained the same since an increase in 2017, adding benefits have not reduced since then and in some cases, increased. Ms. Kongevick reported by approving Plan Year 2024 rates, the Board also approves notable plan changes, if any.

Beginning September 1, 2024, diabetic supplies and test strips will no longer be available through the HealthSelect medical plan durable medical equipment benefits (except for specific supplies needed for insulin pumps and continuous glucose monitors) but are available through the prescription plan. Effective January 1, 2024, the prescription drug plan also will cover certain continuous glucose monitors. Currently these are only available through the medical plan.

While the HealthSelect benefits are not changing, Ms. Kongevick updated the group about weight loss medications and bariatric surgery. The prescription drug plan will continue coverage of glucagon-like

peptide-1 (GLP-1) medications for the treatment of Type 2 diabetes and maintain the exclusion of weight loss medications. Staff will continue to monitor cost and utilization, as well as other factors connected to these drugs given the significant cost impact to the plan, and will keep the Board apprised. By statute, the bariatric surgery benefit must be cost-neutral and eligibility is defined in statute. The bariatric surgery benefit remains in place; however, the plan is modernizing certain pre-requisites to aid in effective plan administration.

Mr. Duran presented projected HealthSelect trends, reporting that while COVID-19 costs appear to have stabilized; the plan expects to add approximately \$42 million in COVID-19 related cost for this year. Looking forward to Plan Year 2024, staff currently projects a return to historic trend levels with a combined medical/pharmacy trend of 6.9%, comprised of a 5.6% medical benefit cost trend and a 10% prescription drug cost trend.

By statute, the Consumer Directed HealthSelect plan must be revenue neutral. ERS continued the original pricing assumptions based on 3% enrollment to meet this requirement to develop Plan Year 2024 rates.

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 approve the proposed Plan Year 2024 contribution rates for the HealthSelect of Texas plans®, including Consumer Directed HealthSelect<sup>SM</sup>, effective September 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

Not Present: John R. Rutherford

#### **4. Consideration of Proposed Plan Year 2024 Rates for the Group Benefits Program Optional Coverages – (Action)**

Diana Kongevick, Director of Group Benefits, Blaise Duran, FSA, of Group Benefits Actuarial and Reporting Services and Phil Dial of Rudd and Wisdom, Inc. provided proposed Group Benefits Program Optional Coverages Fiscal Year (Plan Year) 2024 rate information to the board.

**State of Texas Dental Choice Plan<sup>SM</sup> and Dental Health Maintenance Organization Plan (DHMO)**- The State of Texas Dental Choice plan continues to experience growth with almost 10,000 new members. When determining rates, staff reviewed recent claims experience through March 31, 2023, estimated trends in per capita benefit costs, projected provider reimbursement, changes in historical enrollment patterns, guaranteed administrative fees, and any notable benefit changes. Members fund these self-funded plans. Over time, the Dental Choice plan has done well, even with losses during 2021 and 2022; projections indicate a \$1.5 million gain this year.

The DHMO enrollment continues to experience a small decrease each year, especially as the State of Texas Dental Choice plan continues to grow. In 2022, Delta Dental voluntarily returned approximately \$980,000 to the plans to not profit from underutilization during the pandemic, and the Board approved a 10% rate reduction to return those funds to enrolled members in 2023. Now that the refund is exhausted, staff propose rates return to Plan Year 2022 levels, illustrated by the member-only coverage returning to the \$9.59 monthly rate from the current \$8.62 monthly rate.

Mr. Dial commented that optional plans are historically difficult to insure because the member pays the full cost. However, these dental plans together have about 80% participation, which is an extremely high level of optional participation.

Ms. Melvin asked how accurate the dental rate forecasts are, and Mr. Dial responded there is a small percentage difference. Staff noted they would provide an illustration of dental rate projection forecasts during next year's dental rate discussion.

Staff recommends that, due to lower than expected Plan Year 2023 costs, the State of Texas Dental Choice Plan remain at 2023 levels with no contribution increase for Plan Year 2024. Staff further recommends the DHMO plan return to Plan Year 2022 contribution rates for Plan Year 2024.

**State of Texas Vision<sup>SM</sup> Plan** – Staff recommends no Plan Year 2024 contribution rate increase, maintaining rates at Plan Year 2023 levels. While expenses are expected to continue to exceed contributions, funds accrued from prior years will be sufficient to cover any losses. Effective September 1, 2023, EyeMed is the new third party administrator.

State of Texas Vision is a self-funded plan funded by the members and contributions must be sufficient to support the anticipated costs for the upcoming plan year. Member contribution rates are based on claims experience through February 28, 2023, estimated trends, projected provider reimbursements, guaranteed administrative fees, and then notable plan changes.

**Basic and Optional Term Life and Accidental Death and Dismemberment Plans** – While Plan Year 2023 rates were impacted by the pandemic and increased by approximately 5.8%, staff recommends no contribution change for Plan Year 2024 in connection with Life and Accidental Death and Dismemberment (AD&D) plans and Voluntary AD&D plans.

Life insurance is fully insured through a minimum premium arrangement with Minnesota Life. ERS reimburses the insurer in an amount equal to actual life insurance claims paid by the insurer. Voluntary AD&D is fully insured through Minnesota Life with premium rates guaranteed through the life of the contract. ERS completed a Life and AD&D RFP in 2021.

Life plan member contribution rates are based on a review of the last 10 years' experience and anticipated claim payment patterns, investment income earned on funds held by ERS, and the maximum claims rates and administrative fees included in the Minnesota Life contract.

The pandemic caused a significant claims increase with claims peaking in Plan Year 2021, but have decreased in Plan Years 2022 and 2023. However, claims continue to be elevated relative to pre-pandemic levels. Mr. Duran stated that staff is expecting COVID-19 to continue to impact life claims, though at a lower rate than in Plan Year 2021.

**Texas Income Protection Plan<sup>SM</sup> (TIPP)** – Staff recommends a 7.7% reduction in the disability contribution rate due to a reduction in claims during 2022 and 2023. Reed Group, the TIPP plan administrator, advises this reduction is consistent across their book of business.

Staff further recommends no change to the long-term disability rates, maintaining at Plan Year 2023 levels. Long-term disability rates increased in Plan Year 2023 and projections indicate the rates continue to be adequate for Plan Year 2024.

Both the short term and long-term disability benefits are self-funded plans. Short-term disability benefits last approximately five months after a one month elimination period. Long-term disability benefits can last for many years and the maximum benefit range ranges from 12 months up to Social Security retirement age and there's a six-month elimination period.

Member contribution rates are based on reasonable expectations of future claims, anticipated claim payment patterns, expected investment income on funds held by ERS, and any administrative fees associated with the contract.

Short-term disability has short-term liabilities and long-term disability claims are longer in duration with experience evaluated over several years. In Plan Year 2022, short-term disability had a nearly \$5 million gain and in Plan Year 2023, it was \$2.7 million.

Mr. Hester inquired about how often the financial health of companies like Minnesota Life are monitored. Ms. Kongevick responded that Minnesota Life's most recent evaluation occurred about 18 months earlier during the recent procurement.

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 approve the proposed Plan Year 2024 rates for the State of Texas Dental Choice and Dental Health Maintenance Organization Plans; the State of Texas Vision Plan; the Basic and Optional Term Life and Accidental Death and Dismemberment Plans; and the Texas Income Protection Plan as reflected in Exhibits A-E in the agenda item.

**Motion** by Craig Hester, second by Neika Clark

Final Resolution: Motion Carries

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

Not Present: John R. Rutherford

#### **5. Consideration of Proposal to Grant ERS Employees a Salary Increase Equivalent to the Increase Approved by the Legislature for Other State Employees – (Action)**

DeeDee Sterns, Director of Human Resources, and Machel Pharr Chief Financial Officer, presented an item on the legislative proposed salary increase for State classified employees. Ms. Sterns noted that ERS follows the Texas State Classification Plan and Salary Administration Policies and that Senate Bill 30 includes a 5% salary increase for state employees effective July 1, 2023.

Ms. Pharr reported that the FY23 budget amendment has a minimum increase of \$250/monthly with an anticipated increase to the FY24 budget of \$2.2 million salaries and \$0.8 million other salary cost.

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 approve an amendment to the Fiscal Year 2023 budget to provide a salary increase effective July 1, 2023, in an amount equivalent to the increase set forth in Senate Bill 30 or similar legislation that passes in the 88<sup>th</sup> Regular Session.

**Motion** by Brian Barth, second by Catherine Melvin

Final Resolution: Motion Carries

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

Not Present: John R. Rutherford

#### **6. Agency Update**

Porter Wilson, Executive Director provided his Agency Update to the Board of Trustees on the following items:

**2023 Board of Trustee Election** – ERS certified five candidates for the 2023 Board of Trustees election on April 13. The candidates, in ballot order, are:

- James (Jimmy) Jackson, Retiree
- Suzy Whittenton, Retiree
- Stuart Greenfield, Retiree
- Chris Nelson, Texas Workforce Commission
- Ilesa Daniels, Retiree

Election results will be announced July 20. The term for the new Trustee-elect will begin on September 1.

**Legislative Update** - Jennifer Chambers, Director of Government Relations, provided a legislative update and the impact on ERS programs and operations. The 88<sup>th</sup> Texas Legislative Session will adjourn on May 29, 2023 and the Governor has until June 18 to take action on all bills passed by both the House and Senate. Staff will continue to update the Board throughout the fiscal year.

**Customer Service Update – “Action Beyond the Call”** – Robin Hardaway, Director of Customer Benefits, provided an “Action Beyond the Call” update and reported that the Benefits Counseling Center is fully staffed. On May 8, the outsourced vendor began taking insurance calls with the continued support of ERS counselors. The outsourced vendor will phase in appropriate staff levels through August when ERS counselors will no longer support the transition.

Survivor benefits has only one vacancy in the hiring process and ERS continues to see improvements in processing times.

Ms. Hardaway provided detail data information on the Benefits Counseling Center for FY22-FY23, the Outsource Call Center (Group O) for FY22-FY23, and the Survivor Benefits and Death processing.

**Workforce Update** – DeeDee Sterns, Director of Human Resources provided an update on the ERS workforce and noted that staffing challenges continue at ERS but the number of vacancies and turnover has declined.

**2023 Get Fit Texas State Agency Challenge** - The Get Fit Texas State Agency Challenge occurred between January 23 – April 2, 2023 with over 38,000 people from 110 state agencies and higher education institutions participating. The goal is to engage in 150 minutes of moderate to vigorous physical activity each week. While ERS did not win its category this year, a total of 69.5% of participants completed at least six weeks of the challenge, logging more than 80 million minutes of exercise and movement.

**7. Recess of the Board of Trustees. Following a temporary recess, the Board of Trustees will reconvene to take up the remaining items listed on the agenda.**

The Board of Trustees recessed at 10:21 a.m. on Wednesday, May 17, 2023. Following a temporary recess, the Board reconvened to take up the remaining items listed on the agenda.