



Board of Trustees Meeting

February 22, 2017



Presented for Review and Approval

May 17, 2017

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BOARD OF TRUSTEES MEETING
EMPLOYEES RETIREMENT SYSTEM OF TEXAS

February 22, 2017
ERS Board Room
ERS Building – 200 E. 18th Street
Austin, Texas 78701

TRUSTEES PRESENT

I. Craig Hester, Chair
Doug Danzeiser, Vice-Chair
Ilesa Daniels, Member
Cydney Donnell, Member
Brian Ragland, Member
Jeanie Wyatt, Member

ERS STAFF PRESENT

Porter Wilson, Executive Director
Catherine Terrell, Deputy Executive Director
Paula A. Jones, Deputy Executive Director and General Counsel
Shack Nail, Director of Governmental Relations
Tony Chavez, Internal Auditor
Bernie Hajovsky, Director of Enterprise Planning Office
Jordan Hajovsky, Co-Director of Operations Support
Robin Hardaway, Director of Customer Benefits
Robert Kukla, Director of Benefit Contracts
Wendy McAdams, Co-Director of Operations Support
Machelle Pharr, Chief Financial Officer
DeeDee Sterns, Director of Human Resources
Gabrielle Stokes, Director of Office of Procurement & Contract Oversight
Kathryn Tesar, Director of Benefits Communications
Tom Tull, Chief Investment Officer
Chuck Turner, Chief Information Officer
Georgina Bouton, Benefit Contracts
Bailey Crowell, Executive Office
Kelley Davenport, Executive Office
Christi Davis, Customer Benefits
Blaise Duran, Benefit Contracts
Leah Erard, Governmental Affairs
Mike Ewing, Office of General Counsel
Liz Geise, Benefits Communications
Beth Gilbert, Internal Audit
Neil Henze, Investments
Jennifer Jones, Executive Office
Sharmila Kassam, Deputy Chief Investment Officer
Panayiotis Lambropoulos, Investments
Nick Maffeo, Investments
Betty Martin, Investments
Roger Nooner, Benefits Communications
Jonathan Puckett, Internal Audit
Susie Ramirez, Executive Office
Lauren Russell, Benefit Contracts
Leighton Shantz, Investments
Michael Shoop, Investments
Pablo de la Sierra Perez, Investments

Michelle Sneed, Executive Office
Keith Yawn, Director of Strategic Initiatives

ALSO PRESENT

Nick Arnold, Humana
Eamon Briggs
Tiffany Calderon, Humana
Philip Dial, Rudd and Wisdom
Kristen Doyle, Aon Hewitt
Duane Galligher, Texas Independent Pharmacies Assoc.
Lynn Gordon, Securian
Bill Hamilton, Retired State Employees Association
Emily Johnson, Sunset Commission
Kirk Lavaller, Delta Dental
Catherine Melvin, Department of Public Safety
R. Eric Ramos, Department of Public Safety
Michael Rigby
David Rose, Aon Hewitt Global Real Estate Research Team
Steve Voss, Aon Hewitt
Eric Weiner, Grand Rounds

Mr. Craig Hester, Chairman of the Board of Trustees of the Employees Retirement System of Texas (ERS), noting a quorum was present, called the meeting to order and read the following statement:

“A public notice of the Board of Trustees meeting containing all items on the proposed agenda was filed with the Office of the Secretary of State at 12:08 p.m. on Monday, February 13, 2017 as required by Chapter 551, Texas Government Code, referred to as “The Open Meetings Law.”

The Board of Trustees then convened as a committee of the whole at 3:13 p.m. to consider Board of Trustee meeting agenda items.

XIII. Review and Approval of the minutes to the December 2, 2016 Meeting of the Board of Trustees

Board of Trustee Chair, Mr. Craig Hester opened the floor for a motion on the approval of the minutes to the Board of Trustees Meeting held on December 2, 2016.

MOTION made by Ms. Cydney Donnell, seconded by Ms. Ilesa Daniels and carried unanimously by the present members of the Board of Trustees of the Employees Retirement System of Texas to approve the minutes to the meeting held on December 2, 2016.

XIV. Review, Discussion and Consideration of the Texas Employees Group Benefits Program:

a. Health Insurance Financial Status Update for the First Quarter Fiscal Year 2017

Mr. Robert Kukla, Director of Benefit Contracts and Mr. Blaise Duran, ASA, MAA and Manager of Underwriting, Data Analysis and Reporting (UDAR) presented an overview of the health insurance plan for the first four months of this fiscal year with an overall trend at 7.1%. This is a direct result from favorable experience with the prescription drug program. A prescription drug pricing trend of 6.1% with Caremark will result in an estimated year-end balance of \$607.6 million for the contingency fund. With the new pharmacy contract, rebates and Part D subsidies, the low drug trend should continue.

Current FY17 initiatives are reducing plan costs. Patient-Centered Medical Homes saved \$11.9 million in FY16 and four of the five clinics received a payment reflecting their portion of the savings. Those payments totaled \$3.4 million. HealthSelectSM of Texas is planning to expand this program to Lubbock, and Amarillo. ERS is also exploring expansion to Plano and east Texas.

Extended hours in the medical homes have resulted in a major decrease in emergency room visits which reduces costs. Additional savings were realized through the Dependent Eligibility Audit performed by Aon Hewitt. These audits are ongoing and projected savings are an estimated \$8 million in FY17.

Mr. Porter Wilson noted the \$607.6 million fund balance figure doesn't take into account the \$260 million that ERS proposed to spend down to offset the legislative appropriation request for the insurance program. Mr. Hester expressed the Board's appreciation for staff's attention to keeping costs under control. Mr. Hester asked about the current prescription drug benefit contract and the costs of generic or brand drugs and tier pricing. Mr. Kukla explained staff is reviewing these issues and working to transition members properly.

This agenda item is presented for discussion and informational purposes only. No action is necessary.

b. HealthSelect Plans and Monitoring Strategy

Mr. Kukla introduced Ms. Lauren Russell, CTCM, Benefit Contracts Program Account Manager, to review the HealthSelectSM of Texas program, including medical and pharmacy plans. Ms. Russell explained that HealthSelect of Texas is a self-funded, managed care, point-of-service health plan that is available to active employees, retirees, and their eligible dependents. It has both a medical and prescription drug program. The HealthSelect of Texas program for Plan Year 2016 consisted of a contract with UnitedHealthcare Services to provide medical administrative services and another contract with Caremark RX, LLC to provide prescription drug administrative services.

At the May 2016 Board of Trustee meeting, the Board approved an initial five-year and eight-month contract with UnitedHealthcare Services, Inc., known as Optum RX, for administration of the pharmacy plan beginning January 1, 2017 through August 31, 2022. Additionally, in December 2016, the Board awarded a six-year contract for medical/administrative services to Blue Cross and Blue Shield of Texas beginning September 1, 2017.

Enrollment in the HealthSelect of Texas plan remains steady with approximately 82% of GBP participants enrolled. HealthSelect of Texas expanded to include Consumer Directed HealthSelect which includes both a high deductible health plan, administered by UnitedHealthcare Services and a health savings account, administered by Optum Bank. About 450 members and their dependents have enrolled in this option which started on September 1, 2016.

These programs are subject to enhanced monitoring for contractual compliance and program management requirements. Performance summaries and monthly administrative performance reports for both the medical and prescription drug programs in PY 2016 were reviewed.

As this is the last Board of Trustee meeting for Mr. Kukla prior to his retirement, he thanked the Board for their support and expressed his appreciation for their support.

This agenda item is presented for discussion and informational purposes only. No action is necessary.

Public Comment regarding benefit issues by Mr. Eamon Briggs and Mr. Michael Rigby- Mr. Briggs described his personal experience with obtaining a long-standing prescription from the new pharmacy benefit manager (PBM), Optum Rx. He stated that the Optum Rx prior authorization process was problematic.

Recently, Mr. Briggs was contacted by an ERS member advocate and advised there were actions that Optum Rx should have taken, such as sending a letter regarding the prior authorization requirement. After his appeal was approved, he should have been notified of the process for

claims reimbursement. Mr. Briggs recommended to ERS that a simple process for filing complaints be developed. He consulted the ERS website and found a very detailed, easy to understand process for filings appeals. Mr. Briggs felt there wasn't an obvious mechanism for complaints with the administrator's process.

Mr. Hester introduced Mr. Michael Rigby. Mr. Rigby, General Counsel with the Texas Office of Consumer Credit Commissioner, presented his work history as an attorney, establishing his familiarity with state agency processes, insurance and actuarial methods. Mr. Rigby noted the savings resulting from the new pharmacy benefit contract and the importance of taxpayer savings. His concern is ensuring that state employees receive the benefits they have earned, including pharmacy benefits from Optum Rx, and are not subject to benefits denial or delays. Mr. Rigby said that he has heard from other state employees who have had similar Optum Rx experiences— discouraging employees from obtaining their benefits, possibly denying eligible claims or requiring unnecessary appeals. He urged ERS to closely monitor the contract and was pleased to see the monitoring tools used by Benefit Contracts.

Mr. Hester thanked both Mr. Rigby and Mr. Briggs for addressing the Board. Mr. Danzeiser asked if the new PBM was requiring new prior authorization of drugs that were previously authorized under the old administrator. Ms. Russell explained that drugs approved with the previous administrator should have been grandfathered and said she would research the matter. Anyone with new prescriptions after January 1, 2017 will be required to go through prior authorization for certain medications. Mr. Kukla reported that he will review the processes and take any needed corrective action. Mr. Hester asked Benefit Contracts to report their findings and corrective actions to the Board. Mr. Danzeiser asked about researching appeal data. Mr. Kukla will review current appeals data and ask Optum Rx to supply appeals data since January 1, 2017.

This agenda item is presented for discussion and informational purposes only. No action is necessary.

XV. Executive Director Agency Update

Mr. Porter Wilson, Executive Director, provided the agency update:

- ***Legislative Update***

The 85th Session of the Texas Legislature convened on Tuesday, January 10th. ERS staff from throughout the agency serve on a Legislative Analysis Group (LAG), which meets to discuss proposed legislation. The group analyzes bills that could have a significant impact on the agency, our members, and our retirees. If the Board is interested in any bill, staff will provide analysis. Key bills are listed on the ERS public webpage. Bills of interest include proposed limits on trust fund investments, the possibility that one elected board member could be a retiree, and various bills involving ethics and open records.

The House and Senate filed their introductory budget proposals. Encouragingly, both chambers maintain the 9.5% state contribution to the trust fund established in 2015. On the health insurance side, the proposed budgets fund the base request, as well as growth for the 2018-19 biennium. The remainder of the cost trend will be funded through a partial draw-down of the GBP Contingency Fund, a structure proposed by ERS in its Legislative Appropriations Request (LAR) last August.

ERS appeared before the Senate Finance committee February 1 to testify about the appropriations request. In addition, the Finance Committee held a working session with ERS, Teacher Retirement System (TRS), Health and Human Services Commission, and Texas Department of Criminal Justice to discuss rising health care costs. TRS and ERS will testify before the committee on Monday, February 27 at 2PM. ERS appeared before the subcommittee February 21 to discuss the LAR. The Legislature requested ideas to lower or contain costs in all of the state funded insurance programs.

ERS provided cost savings ideas for legislative consideration. Some are true cost containment measures while others strictly shift costs from the plan to members. Presented ideas included:

- Episode-based bundling, which combines all health care costs for a particular procedure into one billed cost as a way to deliver more efficient care and lower costs.
- Medicare maximization for members with Social Security, which attempts to get all participants who are eligible for federal disability covered by Social Security. This makes Medicare the primary payer for their health claims.
- Disincentive for using a free-standing emergency room. Free-standing ERs negatively impact the plan because of their high cost and low network participation. This would create a method to move participants away from using free-standing ERs, such as creating a high copay or reducing the benefit in another way.
- Expand participation of patient-centered medical homes, which has proven to be effective at delivering quality health care while reducing costs.
- Expand the number of onsite health clinics such as the Capitol health clinic with an advanced practice nurse, or a “near-site” clinic.
- Charge pre-Medicare retirees an additional premium for health insurance prior to Medicare eligibility.
- Charge a premium or an additional surcharge for employees whose spouses are enrolled in the GBP, even though they have access to health insurance through their own employers.

Add a deductible or premium that could be earned back by performing certain actions, such as getting an annual exam or enrolling in an applicable condition management program. ERS provided feedback on these ideas with some cost projections and will continue to provide information. The House Committee on Pensions is meeting February 27 for an organizational meeting. ERS will testify and present an overview of ERS, the pension plan and the health insurance plan.

- ***Sunset Update***

ERS is working to implement some of the management recommendations adopted as part of the Sunset Report. One recommendation was to form an Advisory Committee for Benefits to obtain regular stakeholder and expert input on benefits. Proposals for committee composition and operation will be presented to the Board during the May and August meetings. Committee meetings should begin during fiscal year 2018.

- ***2017 Board of Trustees Election Update***

ERS certified four candidates for the 2017 Board of Trustees Election on February 15. The name and representing agency, in ballot order, are:

- Catherine A. Melvin, Texas Department of Public Safety
- Morgen Ashley Cuming, Texas Board of Professional Engineers
- Benito Ybarra, Texas Department of Transportation
- Jacqueline “Jackie” A. Dickerson, Texas Department of Criminal Justice

Candidates will answer voter questions as part of the Candidate Forum - to be held March 9 in the ERS auditorium. The forum will be live-streamed. A recording will be posted on the website. Voting runs March 10 through April 14. Election results will be announced on May 10. The term for the new Trustee-elect will begin September 1, 2017.

- ***Board Web Portal Service***

ERS will use a web service beginning in May to securely manage Board meeting agenda items, exhibits and minutes. ERS selected BoardDocs Pro, an electronic service that aims to reduce the reliance on paper-based Board materials by offering an easy to use on-line interface. ERS plans

to use the new service beginning with the May 2017 Board meeting. All users will receive training on using the service prior to the May meeting.

- ***ERS Website Redesign and Other Changes to ERS' Online Presence –***

ERS is in the process of redesigning the member website, which is done at regular intervals but also correlates with Sunset feedback. As with past redesigns, we've worked with an outside firm that specializes in website design and online communications to evaluate the site and make recommendations for improvements. The ultimate goal is to make information easier to find and understand. At the same time as the redesign, ERS is moving to a new content management system, which is the content platform that supports the site. This change was recommended after determining the current content system no longer adequately meets our needs.

State agencies have been asked to change their website domain names to conform with the texas.gov naming convention. ERS will change the domain name as part of the website redesign. The existing state.tx.us naming convention will continue to redirect to the new site for at least one year. ERS staff email addresses will also change to the texas.gov naming convention and the previous email addresses will also be redirected to the new addresses. These interrelated projects are:

- Website redesign
- New content management system
- New domain name: ers.texas.gov

All three changes will be implemented at the same time to simplify communications and adjustments for users, either in late April or August. Benefits Communications is planning extensive communications to inform and educate users about the changes. The Board and staff discussed timing and tracking of redirected website and emails. Mr. Wilson suggested that a number of technical issues might cause delays, but late April is currently the target. If the project is delayed, it won't happen until after summer enrollment in August. ERS is planning to keep the redirection service as long as possible. Although website redesigns can be disruptive to users, we believe the new site ultimately will provide clearer communications and a better overall experience for our members and other audiences.

- ***2017 Everything's Fitter in Texas Challenge***

This is the time of year when state agencies participate in the statewide physical activity challenge. The challenge requires participants be active 30 minutes a day, five days a week, for at least six weeks during a 10-week period, logging a minimum of 150 minutes of physical activity each week.

The Texas Department of State Health Services (DSHS) manages this program and is developing a new website in response to feedback from previous years. The new website will not be ready until 2018. Rather than miss a year, Ms. Michelle Sneed, ERS' Health Promotions Administrator, partnered with DSHS to offer an alternative for state agencies to engage in a friendly fitness competition in early 2017.

Mr. Wilson recognized Michelle for going the extra mile to make fitness a priority for State employees! This year the statewide challenge has a new (albeit temporary) name: 2017 Everything's Fitter in Texas Challenge! This is the same annual statewide challenge with a new name, a new look, and a much more friendly user website. The new logo was designed by ERS' graphic designer, Mike Martinez. The Challenge started on February 6 and ends on April 16. ERS has set a goal of once again being the fittest state agency in our size category. ERS has 90% employee participation to date.

- **ERS Director Retirement**

As announced previously, Rob Kukla, Director of Benefit Contracts will retire at the end of March. Mr. Wilson expressed ERS's appreciation for his work for ERS on behalf of state employees and taxpayers to put a modern face on the Group Benefits Program (GBP). During his tenure, Rob was involved in a number of GBP improvements. Some of the notable recent accomplishments were a new vision plan and benefit enhancements to the dental plan.

Mr. Kukla's legacy will be the innovative management of costs, specifically with the patient-centered medical homes. The Board and the Legislature expect ERS to identify these types of innovative ways to manage cost. Another innovation was the creation of UDAR, the Underwriting Data Analysis and Reporting section of Benefit Contracts, which regularly looks at data and identifies trends. Working closely with Rudd & Wisdom and our Policy Team on health care policy, UDAR identifies future problems and issues. Mr. Kukla had the vision to make it happen. Mr. Wilson thanked Mr. Kukla for his service and noted a retirement party will be held at ERS on March 30. Mr. Hester also expressed the Board's appreciation.

This agenda item is presented for discussion and informational purposes only. No action is necessary.

XVI. Set Date for the Next Joint Meeting of the ERS Board of Trustees and Investment Advisory Committee, the Next Meeting of the Board of Trustees and the Next Meeting of the Audit Committee

Mr. Hester announced that the next meeting is Wednesday, May 17 and asked for any other business. There were no questions or further discussion.

XVII. ADJOURNMENT OF THE BOARD OF TRUSTEES

The February 22, 2017 Meeting of the ERS Board of Trustees adjourned at 4:23 pm CT.