TEACHER RETIREMENT SYSTEM OF TEXAS MEETING
BOARD OF TRUSTEES

AGENDA

June 1, 2017 – 9:00 a.m.
June 2, 2017 – 9:00 a.m.

TRS East Building, 5th Floor, Boardroom.

All or part of the June 1-2, 2017 meeting of the TRS Board of Trustees may be held by telephone or video conference call as authorized under Sections 551.130 and 551.127 of the Texas Government Code. The Board intends to have the presiding officer and a quorum physically present at the following location, which will be open to the public during the open portions of the meeting: 1000 Red River, Austin, Texas 78701 in the TRS East Building, 5th Floor, Boardroom.

NOTE: The Board may take up any item posted on the agenda during its meeting on Thursday, June 1, 2017, or during the meeting on the following day, June 2, 2017, beginning at the time and place specified on this agenda.

1. Call roll of Board members.
2. Consider the following administrative matters – David Kelly:
   A. Approval of the April 6-7, 2017 proposed meeting minutes.
   B. Setting, rescheduling, or canceling future Board meetings.
3. Provide an opportunity for public comment – David Kelly.
4. Receive an update on the TEAM Program, – Brian Guthrie and Chet Henry.
5. Receive a presentation from the TEAM Program Independent Program Assessment (IPA) Vendor – Michael Johnson, Bridgepoint Consulting.
6. Review and discuss the Executive Director's report on the following matters – Brian Guthrie:
   A. Administrative operational matters, including updates on financial, audit, legal, staff services, board administration activities, special projects, long-term space planning, and strategic planning.
B. Board operational matters, including a review of draft agendas for upcoming meetings.

C. Event notices or reminders; holiday and other schedules of interest; board member, employee or other individual recognitions; and expressions of thanks, congratulations, or condolences.

7. Review and consider the role, performance and engagement of Board Investment Consultant, Dr. Keith Brown – Brian Guthrie.


10. Discuss the First Quarter 2017 Performance Review – Steve Voss and Mike Comstock, Aon Hewitt.


12. Evaluate the performance of Gabriel, Roeder, Smith & Company as the provider of pension fund actuary consulting and related services to TRS – Rebecca Merrill.

**NOTE:** The Board meeting likely will recess after the last item above and resume Friday morning to take up items listed below.


14. Review Deputy Director’s report, including matters related to administrative, financial, and staff services operations – Ken Welch.

15. Review the report of the Investment Management Committee on its June 1, 2017 meeting – Committee Chair.

16. Review the report of the Risk Management Committee on its June 1, 2017 meeting – Committee Chair.

17. Review the report of the Policy Committee on its June 1, 2017 meeting – Committee Chair.

18. Review the report of the Budget Committee on its June 1, 2017 meeting – Committee Chair.

19. Review the report of the Audit Committee on its June 2, 2017 meeting – Committee Chair.
20. Discuss and consider selecting a health benefit consultant and actuary including considering a finding that deliberating or conferring on the selection of the consultant and actuary in open meeting would have a detrimental effect on the position of the retirement system in negotiations with a third person. – Katrina Daniel.

21. Discuss and consider selecting a pharmacy benefit administrator (PBM) for TRS-Care Standard, TRS-Care Part D, and TRS-ActiveCare, including considering a finding that deliberating or conferring on the selection of the PBM in open meeting would have a detrimental effect on the position of the retirement system in negotiations with a third person. – Katrina Daniel, Yimei Zhao; and William Hickman, Amy Cohen, and Kevin DeStefino Gabriel, Roeder, Smith & Company.

22. Review and consider adoption of the following related to the TRS health benefits programs – Katrina Daniel; William Hickman and Amy Cohen, Gabriel, Roeder, Smith & Company.

   A. Premiums and plan design for TRS-Care, the retiree health benefits program, including the standard plan, the fully-insured Medicare Advantage Plans and the Medicare Part D Plans.

   B. Premiums and plan design for TRS-ActiveCare, the active member health benefits program, including the preferred-provider organization (PPO) plan.

   C. Premiums, plan designs, and service areas for the TRS-ActiveCare health maintenance organization (HMO) plan.

23. Consider authorizing a one-year extension of the contract between TRS and Genworth Life Insurance Company, the carrier authorized by TRS to provide group long-term care insurance under Chapter 1576 of the Texas Insurance Code – Katrina Daniel.

24. Review the report of the General Counsel on pending and contemplated litigation, including updates on litigation involving benefit-program contributions, retirement benefits, health-benefit programs, and open records – Carolina de Onís.

25. Consider personnel matters, including the appointment, employment, evaluation, compensation, performance, duties, discipline, or dismissal of the Executive Director, Chief Investment Officer, or Chief Audit Executive – David Kelly.

26. Consult with the Board's attorney(s) in Executive Session on any item listed above on this meeting agenda as authorized by Section 551.071 of the Texas Open Meetings Act (Chapter 551 of the Texas Government Code) – David Kelly.
TAB 2
Minutes of the Board of Trustees

April 6-7, 2017

The Board of Trustees of the Teacher Retirement System of Texas met on April 6-7, 2017, in the boardroom located on the fifth floor of the TRS East Building offices at 1000 Red River, Austin, Texas. The following Board members were present:

David Kelly, Chair
Karen Charleston
Joe Colonnetta
David Corpus
John Elliott
Greg Gibson
Christopher Moss
Dolores Ramirez

Others present:

Brian Guthrie, TRS
Ken Welch, TRS
Don Green, TRS
Carolina de Onis, TRS
Katrina Daniel, TRS
Britt Harris, TRS
Jerry Albright, TRS
Chet Henry, TRS
Janet Bray, TRS
Heather Traeger, TRS
Chris Cutler, TRS
Frank Williams, TRS
Howard Goldman, TRS
Katherine Farrell, TRS
Steve Huff, Reinhart Boerner Van Deuren
Steve Voss, Aon Hewitt
Mike Comstock, Aon Hewitt
Dr. Keith Brown, Investment Advisor
Michael Johnson, Bridgepoint Consulting

Philip Mullins, TX State Employees Union
Patrick Harvey, Walgreens Boots Alliance
Joni Lozano, Caremark
Tiffany Calderes, Humana
Sabina Rahman-Garcia, Humana
Sandra Barseas, ESI
Ajay Dalal, ESI
Jim Baker, Unite Here

Mr. Kelly called the meeting to order at 9:07 a.m.

1. Call roll of Board members.

Ms. Farrell called the roll. A quorum was present.

2. Consider the following administrative items – David Kelly:
A. **Approval of the proposed February 22-24, 2017 Board meeting minutes.**

On a motion by Mr. Colonnetta, seconded by Ms. Ramirez, the Board unanimously voted to approve the proposed minutes of the February 22-24, 2017 Board meeting.

B. **Excusing Board member absences from the February 22-24, 2017 Board meeting.**

On a motion by Ms. Charleston, seconded by Ms. Ramirez, the Board unanimously voted to excuse the Mr. Corpus absence on February 24, 2017.

C. **Consider consenting to the Board Chair’s appointment of the Budget committee members, and receive the Board Chair’s public announcement of the Budget chair.**

Mr. Kelly announced Dr. Gibson as the new Budget Committee chair.

D. **Setting, rescheduling or canceling future Board meetings.**

On a motion by Mr. Colonnetta, seconded by Dr. Gibson, the Board unanimously voted to reschedule the July 14, 2017, Board Meeting to July 13, 2017.

3. **Provide opportunity for public comment – David Kelly.**

No public comment was provided.

4. **Receive an update on the TEAM Program – Brian Guthrie and Chet Henry.**

Mr. Brian Guthrie announced there are 179 days from the actual switching on of the new system, Phase 1, which will affect all the reporting entities around the state and all the functionality associated with it. Mr. Guthrie reviewed the TEAM Transparency report. Mr. Guthrie discussed TEAM budget: the amount originally budgeted, what is currently budgeted and what has been encumbered to date. He then discussed the risk management review completed on March 8, 2017.

Mr. Chet Henry described the weekly detailed level requirements meetings. He said these meetings are to prevent the requirements gathering problems of Phase 1.

Mr. Guthrie announced the change foreseen in December and February of the change of Hewlett Packard to DXC Technology. He said Hewlett Packard split into two units, HPI and HPE, and HPE is now merging with Computer Sciences Corporation to create this new company called DXC Technology. Mr. Guthrie said the team are all still part of the project. Mr. Kelly requested a letter be sent to the new entity, DXC, to express the mission critical need of this project for TRS and our demand for excellence.

Mr. Guthrie reviewed accomplishments that had occurred since the February board meeting. He said the third round of user business testing is completed. He said they have put in place a feature freeze in order to deliver on time with Phase 1. Mr. Guthrie announced 98 percent of all reporting entities have completed their certification which covers 99.6 percent of all TRS members. Mr. Guthrie discussed the progress of the beta test. Mr. Henry stated the cutover will start September 9, 2017 and go-live October 2, 2017. Mr. Guthrie stated they are looking forward to the second phase and on what was taken on internally such as the customer relationship management project and the health insurance line of business milestones.
5. **Receive a presentation from the TEAM Program Independent Program Assessment (IPA) Vendor – Michael Johnson, Bridgepoint Consulting.**

Mr. Michael Johnson stated Bridgepoint Consulting’s role is to report to the Board and executive director on the project, focused on risks in: scope, quality, schedule and cost. Mr. Johnson reviewed how the TEAM transparency report is an average of parties’ input. He said Bridgepoint’s input differed in two areas, the schedule and cost scores. For scheduling Mr. Johnson said the concern identified was the competing and overlapping of Phase 1 and Phase 2 activities. As for quality, Mr. Johnson stated there is much improvement in Phase 2 from Phase 1. He said there is significant progress on the data conditioning and the member account balances. As for cost, Mr. Johnson said the risk is if the schedule slips there will be a cost impact.

6. **Review and discuss the Executive Director’s report on the following:**

   A. Administrative operational matters, including updates on the following: Executive Director’s goals, financial awareness project, audit, legal, staff services, investments, board administration, special projects, actuarial matters and strategic planning.
   
   B. Board operation matters, including a review of draft agendas for upcoming meetings.
   
   C. Event notices or reminders; holiday and other schedules of interest; board member, employee, or other individual recognitions; and expressions of thanks, congratulations or condolences.

Mr. Guthrie provided general updates. He then reviewed the midyear actuarial valuation. He reported the unfunded liability is now 36.6 years, a slight increase since August 2016. Mr. Guthrie discussed the legislative session and status of certain bills. He provided an update on the Governor’s hiring freeze. He discussed the status of his employment goals in preparation for his review in July. Mr. Guthrie then reviewed possible agenda items for the June and July meetings.

7. **Receive a report on TRS Workforce Overview – Janet Bray.**

Ms. Janet Bray provided a review of the TRS Workforce. She gave a snapshot of the TRS employee profile. She pointed out the percentage of employees eligible to retire is 15.7 percent, down from 32.3 percent in FY 13. Ms. Bray reported the turnover rate for FY 16 was 11.2 which was considerably lower than the state rate of 21.4 percent. She discussed the succession planning process TRS is putting in place.

8. **Review the Executive Performance Incentive Pay Plan for the plan year beginning July 1, 2017 – Janet Bray.**

Ms. Janet Bray provided the plan overview of the executive director’s performance incentive plan. She said the program was piloted in December 1, 2015 and are in the first full period of the plan that started July 2016 through June 2017. She said this plan measures four components: leadership effectiveness, member satisfaction, the operational effectiveness and employee engagement. Ms. Chris Bailey reviewed the current measures regarding the validity, attainability and how they align with TRS’ strategic plan. She noted an area that currently does not have a
direct link to the strategic plan is related to the Executive Director’s oversight of investment management. She also identified areas in the plan where modifications may be proposed moving forward. She said one area is to create a separate bonus calculation to address the Executive Director’s oversight of the investment management division, using the same criteria as the investment management division bonus which ranges from five to twenty-five percent. Ms. Bray concluded by discussing the next steps. In June the Trustees will be presented the finalized measures for final sign-off for the next years and in July the evaluations for the Executive Director, Chief Investment Officer and Chief Audit Officer will be conducted.


Mr. Chris Cutler reported on the key role that cybersecurity plays here at TRS in protecting information, reviewed the protections and mitigations in place to protect TRS’ information. Mr. Cutler reviewed the important role of information security training and testing as part of the overall security program. Mr. Frank Williams provided real examples of malware affecting local governments and small pension plans. He discussed cyber-insurance and how TRS is proactively looking into it. He said ninety-five percent of all security incidents involve human error, typically, someone clicked on the wrong item. Mr. Williams described phishing, spear phishing and whaling attacks. He discussed the formation of the Information Security Advisory Team which includes a volunteer from each of the departments at TRS. In conclusion, Mr. Ken Welch recognized Mr. Williams and Mr. Kyle Colson for having just received certification as Application Assault Certified Professionals.


Mr. Mike Comstock presented the trust performance review on a year-to-date basis through December 31st, which included market returns, market value change, asset allocation, and total fund performance. He noted for the 4th quarter, fixed income came under stress due to rising interest rates and the rising U.S. dollar. He reported the trust did return a positive 0.1 percent for the quarter which outperformed the benchmark. He said the positive 0.1 percent return was equal to 64 basis points of outperformance. Mr. Comstock reported 2016 ended on a relative high note with a 7.8 percent return compared to 7.2 percent for the performance benchmark. Mr. Comstock provided an update as to the first quarter for 2017. There was discussion on the risk versus revenue returns as compared to the peer group. Mr. McCormick noted that the target risk for TRS’ plan was 11 percent but over a five year period the risk was 5 ½ percent with an 8.4 percent return, meeting the actuarial return.

At 2:13 p.m., Mr. Kelly announced the Board would recess for the rest of the day in order to take up the noticed committee meetings.
The Board of Trustees of the Teacher Retirement System of Texas reconvened on April 7, 2017, in the boardroom located on the fifth floor of the TRS East Building offices at 1000 Red River Street, Austin, Texas. The following board members were present:

David Kelly, Chair
Karen Charleston
David Corpus
Joe Colonnetta
John Elliott
Greg Gibson
Christopher Moss
Dolores Ramirez

Others present:

Brian Guthrie, TRS
Ken Welch, TRS
Don Green, TRS
Carolina de Onís, TRS
Katrina Daniel, TRS
Amy Barrett, TRS
Jerry Albright, TRS
Barbie Pearson, TRS
Howard Goldman, TRS
Heather Traeger, TRS
Jimmie Savage, TRS
Allen MacDonell, TRS
Katherine Farrell, TRS
Rogier Slingerland, CEM Benchmarking

Ted Melina Raab, Texas AFT
Sabina Rahman-Garcia, Humana
Ajay Dalal, ESI
Gilbert Gonzales, ESI
Sandra Barseñas, ESI
Jim Baker, United Here

Mr. Kelly called the meeting to order at 9:06 a.m.

1. Call role of Board members.
Ms. Farrell called the roll. A quorum was present.

No public comment was provided.

12. Review Deputy Director’s report, including matters related to administrative, financial and staff services operations – Ken Welch.

Mr. Ken Welch reported the service levels on telephone counseling and health care areas significantly improved as compared to February. He said the telephone counseling center hold time is just over one minute, the target level is two. He reported the shifting of certain calls to a one stop shop for telephone counseling has worked well. He said the addition of outside
resources to help on health care has brought down hold times from almost 15 minutes to below three minutes.

Mr. Welch announced for the 27th time in a row TRS has received the Government Finance Officers Association Certificate of Excellence for the CAFR. Mr. Welch informed the Trustees they had all met the Pension Review Board minimum education training requirement. Mr. Welch provided an update on other activities occurring at TRS. He announced Jay LeBlanc of the Energy Risk Management received the designation as a certified risk management professional.


Mr. Rogier Slingerland provided a report on global pension trends. He said over the past ten years, cost efficiencies has become a focus, especially straight through processing, automation. He said with more information on-line has not resulted in a reduction of full time employees (FTEs) for the contact centers. Mr. Slingerland said a big thing is flex work and telecommuting. As a result he said productivity has gone up and employee satisfaction has gone up a lot. From a cost perspective it’s been very efficient, he reported on client had five building sand was able to reduce it to three and operate in the same way. Mr. Slingerland discussed communications with members and social media.


Mr. Colonnetta, the Committee Chair, provided the following report of the Investment Management Committee:

The Investment Management Committee met on April 6, 2017. The committee approved the proposed minutes of the December 1, 2016 meeting. The first presentation was an overview of the public internal markets given by Chi Chai, Patrick Cosgrove, KJ Van Ackeran. Following, there was a presentation given by Bernie Bozelli, Steve Patterson and Jaime Llano with the annual review of trading. The final presentation was an update on Phase 2 of Project Alpha conducted by Jase Auby, Dale West and Chi Chai.

15. Receive the report of the Risk Management Committee on its April 6, 2017, meeting. – Karen Charleston.

Ms. Charleston, the Committee Chair, provided the following report of the Risk Management Committee:

The Risk Management Committee met on April 6, 2017. The committee approved the proposed minutes of the December 1, 2016 meeting. A presentation was given reviewing the investment risk report which was presented by James Nield.

16. Receive the report of the Policy Committee on its April 6, 2017, meeting and consider the following related matters – David Corpus:
Mr. Corpus, the Committee Chair, provided the following report of the Policy Committee:

The Policy Committee met on April 6, 2017. The committee approved the proposed minutes of the December 1, 2016 meeting. The committee recommended to the Board adoption of proposed amendments to the proxy voting policy. The committee received an update on the 403(b) rulemaking. Staff reported that it will lay out the proposed rule amendments at the Policy Committee’s June meeting. Staff also sought committee approval to publish draft rules in the Texas Register for public comment. The plan is to conclude the rule review by this September.

Mr. Corpus concluded the report with a motion. He moved that the Board adopt the proposed amendments to the proxy voting policy as recommended by the Policy Committee.

Mr. Kelly called the question asking for all those in favor. The Board unanimously voted in favor.

17. Receive the report of the Budget Committee on its April 6, 2017, meeting and consider the following related matters – Greg Gibson:

Dr. Gibson, the Committee Chair, provided the following report of the Budget Committee:

The Budget Committee met on April 6, 2017. The committee approved the proposed minutes of the July 29, 2016 meeting. Mr. Green presented a recap of the FY 2017 operating budget by fund, division and expense category. A total of $12.8 million, or 8 percent of the operating budget is expected to remain unspent at the end of this current fiscal year. A resolution was discussed and adopted by the Budget Committee to bring to the Board today authorizing an increase in the current fiscal budget for TRS-Care of $800,000 to pay for the HILOB project.

Dr. Gibson concluded the report with a motion. He moved for the Board to adopt the proposed resolution authorizing an increase in the current fiscal year budget for TRS-Care administrative operation budget as recommended by the Budget Committee. Mr. Kelly called the question asking for all those in favor. The Board unanimously voted to approve the following resolution:
Board of Trustees of the Teacher Retirement System of Texas

RESOLUTION

AMENDING THE FISCAL YEAR 2017 ADMINISTRATIVE OPERATIONS BUDGET FOR THE TEXAS PUBLIC SCHOOL RETIRED EMPLOYEES GROUP BENEFITS PROGRAM (TRS-CARE)

April 6-7, 2017

Whereas, Section 1575.054 of the Insurance Code authorizes the Teacher Retirement System of Texas (TRS) as trustee of the Texas Public School Retired Employees Group Benefits Program (TRS-Care) to pay the expenses incurred in developing and administering the group program as provided by a budget adopted by the trustee;

Whereas, On July 29, 2016, the TRS Board of Trustees (Board) adopted the Fiscal Year (FY) 2017 Administrative Operations Budget and General Provisions for the TRS-Care program and provided that program operations be funded from the TRS-Care fund;

Whereas, The FY 2017 TRS-Care Administrative Operations Budget currently includes an amount budgeted for wages, benefits and professional services;

Whereas, Unanticipated but mission-critical activities have resulted in additional operating expenses above those budgeted for wages, benefits and professional services in FY 2017, for the development of the health insurance line of business project; and

Whereas, TRS management and the Budget Committee of the Board recommend that the TRS-Care Administrative Operations Budget for wages, benefits and professional services for FY 2017 be increased by $800,000 bringing the total TRS-Care budget to $6,586,696; now, therefore, be it

Resolved, That the Board, on behalf of TRS as trustee of TRS-Care, hereby amends the FY 2017 TRS-Care Administrative Operations Budget to increase the amount budgeted for wages, benefits and professional services by $800,000 bringing the total TRS-Care budget to $6,586,696.

18. Receive the report of the Audit Committee on its April 7, 2017, meeting – Chris Moss.
Mr. Moss, the Committee Chair, provided the following report of the Audit Committee:

The Audit Committee met at 8:30 on Friday, April 7, 2017, in the 5th Floor Boardroom. The TRS compliance officer presented her routine compliance reports, internal audit staff presented the results of projects, including the quarterly investment compliance testing, follow up audit of outstanding audit recommendations of reporting entities, and prior audit and consulting recommendation status and innovation project status. Internal audit staff presented audit administrative reports for FY 2017 and audit staff accomplishments.

19. Receive the report of the Chief Benefit Officer and consider related action, including:
   A. Approve proposed minutes of the January 2017 Medical Board meeting.

Ms. Barbie Pearson presented for approval the January 20, 2017 Medical Board meeting minutes.

Mr. Moss moved, Ms. Ramirez seconded and the Board unanimously voted to approve the January 20, 2017 Medical Board meeting minutes as presented by staff.

   B. Approve the list of members qualified for retirement for December through February.

Ms. Pearson present for Board approval the list of members qualified for retirement for December 2016 through February 2017.

Ms. Charleston moved, Dr. Gibson seconded and the Board unanimously voted to approve the list of members qualified for retirement for December 2016 through February 2017.


Mr. Jerry Albright reported the London office opened 18 months ago in November 2015. Mr. Albright provided the background as to why the London office was opened. Ms. Carolina de Onis provided an update regarding the time and resources it took into getting the office opened. Mr. Don Green reported from the operational standpoint of opening the office. Mr. Albright concluded by stating how opening the London office was a cross departmental project that required unbelievable coordination and talent. Mr. Allen MacDonell provided an update on how 2016 went and what are the plans for the upcoming year.


Mr. Don Green provided an update on the records management, e-records project. Mr. Green said that email storage alone for a four year period has grown from six terabytes to 16 terabytes of data which equates to about an $800,000 cost. He said the real cost is not the storage but the time individuals in the organization use to search and retrieve data. Mr. Green reported the records project’s objective is geared towards helping with redundant, obsolete and trivial information (ROT). A goal he said is to create centralized repositories and standard processes. He said they are looking at various technologies to assist in creating an automated process for
electronic records information. Mr. Green stated June 2018 is the target for completing this records management project. Mr. Green concluded by thanking his records management team: Mr. Jimmie Savage, Bob O’Connor and Jeanel Walker.


Mr. Don Green for the facilities discussion focused on what projects have been undertaken to make current facilities better over the years. He said plans are under development to remodel the first three floors of the Red River East Building. Mr. Green provided updates on the state fire marshal safety inspections and DPS’ security inspection. Mr. Green concluded by giving an update on the local development that is going on around Red River, what the City of Austin calls the Innovation Zone.

23. Review the report of the General Counsel on pending and contemplated litigation, including updates on litigation involving benefit-program contributions, retirement benefits, health-benefit programs and open records – Carolina de Onis.

This agenda item was not taken up.

24. Consider personnel matters, including the appointment, employment, evaluation, compensation, performance, duties, discipline or dismissal of the Executive Director, Chief Investment Officer or Chief Audit Executive. – David Kelly.

This agenda item was not taken up.

25. Consult with the Board’s attorney(s) in Executive Session on any item listed above on this meeting agenda as authorized by Section 551.071 of the Texas Open Meetings Act (Chapter 551 of the Texas Government Code). – David Kelly.

This agenda item was not taken up.

At 11:55 a.m., Ms. Ramirez moved, Dr. Gibson seconded, and the Board unanimously voted to adjourn.


ATTESTED BY:

__________________________   _________________________
Katherine H. Farrell     Date
Secretary to the TRS Board of Trustees
TAB 4
TEAM PROGRAM - Agenda

Agenda

• Summary
• Execution
• Budget Impact
• Improvements
• Accomplishments
• Near Term Goals
• Progress
• Issues/Risks
123 Days until Phase 1 “Go Live”

• User Acceptance Testing (UAT) underway and going very well
• BETA testing with Reporting Entities (REs) is progressing
  – Over 89 REs have submitted files in BETA environment
• Individual assessment improved month over month

Business Users are reportedly ready to “Go Live”, seeing much of the new system as making their work life better.
# TEAM PROGRAM - Summary

## TEAM TRANSPARENCY

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## Project Health

### Schedule Trend

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### Quality Trend

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### Individual Assessment Trend

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## Estimated P2 DLR Sessions

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## Milestones

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<td>3. P1 - User Acceptance Test</td>
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<td>4. P1 - Cut-over Dry Runs</td>
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<td>5. P1 - TRUST Training</td>
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<td>6. P1 - Execute Cut-over Plan</td>
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<td>7. P1 - Go Live</td>
<td>Jul</td>
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<td>8. P2 - DLR Sessions</td>
<td>Aug</td>
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<td>9. P2 - HILOB - Complete Initial Enrollment</td>
<td>Sep</td>
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<td>10. P2 - CRM - Complete 1st 10 Workflows</td>
<td>Oct</td>
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## Achievements

- **P2** – Per the schedule 2 DLR packages out of 33 completed and 6 are in process.

## Other Key Updates/Notes

### Key Goals Upcoming

- **P1** – DXC Train the TRS Trainer sessions are scheduled to begin mid-June
- **P1** – First mock cut-over dry run is schedule to occur June 15th thru June 18th

### Issues/Risks

- Risk - P1 - Changes can impact schedule, resource capacity and budget – being strictly managed
- Risk – P1 and P2 - Coordination complexity of DXC and TRS schedules and resources – inspected and managed weekly
TEAM Transparency Report – Project Execution Scores

December: B+
January: B
February: B
March: B
April: B
May: B

12/2016 01/2017 02/2017 03/2017 04/2017 05/2017
TEAM PROGRAM – Execution

TEAM Transparency Report – Project Execution Category Scores

Overall Project Execution Trend

| Schedule Trend |
|----------------|----------------|
| B+            | A              | C    | B    | A    | B-   |
| DEC           | JAN            | FEB  | MAR  | APR  | MAY  |

Cost Trend

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Quality Trend

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Individual Assessment Trend

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Budget Information

- Authorized Budget: $122
- Original: $109
- Spent/Encumbered: $87.8

- Original
- Forecasted
- Spent/Encumbered
TEAM PROGRAM – Improvements

Process Improvements Made Since April Board Meeting

• High-level Test Case Development Earlier in Project Lifecycle

• Increased Resource Management Through Usage Analysis

• DXC & TRS development resources are working more closely in order to synchronize their efforts
Recent Accomplishments

- Started BETA Testing on April 7 – Opened BETA to all REs the week of May 1
- Started User Acceptance Testing as scheduled on April 17
- Completed two Phase 2 requirements package deliverables
- Launched TRS’ Health Insurance (HILOB) and Customer Relationship Management (CRM) development efforts
Near Term Goals and Progress

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<tr>
<th>Project Task</th>
<th>Jan</th>
<th>Feb</th>
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<tr>
<td>1. P1 - User Business Test 3</td>
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<td>4. P1 - Cut-over Dry Runs</td>
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<td>5. P1 - TRUST Training</td>
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<td>6. P1 - Execute Cut-over Plan</td>
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<td>8. P2 - DLR Sessions</td>
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<td>9. P2 - HILOB - Complete Initial Enrollment</td>
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<td>10. P2 - CRM - Complete 1st 10 Workflows</td>
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- **Ahead of Schedule**
- **On Schedule**
- **Behind Schedule**
- **Not Started**
- **Completed**
- **As of Date for Report**
TEAM PROGRAM – Near Term Goals

Near Term Goals and Progress

• Phase 1 - Train the Trainer sessions scheduled to begin mid-June
• Phase 1 – First mock cut-over dry run is scheduled to start June 16th
• Phase 2 – Focus on risk mitigation for Phase 2. Phase 1 “Go Live” trumps Phase 2 planning.
User Acceptance Testing (UAT)

• Standard Software Development practice – focused on end user testing vs. IT Quality Assurance effort

• UAT Exit Criteria
  – No Severity 1s or 2s (critical or high w/o workaround)
  – Severity 3s (classified as high w/workaround, medium or low)
  – Severity 4s and Severity 5s
User Acceptance Testing (UAT)
Health Insurance Line of Business (HILOB)

• TRS taking on Health Care IT needs
  – Provides flexibility to make changes due to potential future legislation
  – TRS staff learning the technology in preparation for maintenance in the future
• Focusing on Business Users’ and Analysts’ requirements
• Necessary development and QA environments set up
• Eligibility, enrollment and forms development has begun
• Catapult (User Experience experts) – engaged to lay out screens and assist in implementation
Customer Relationship Management (CRM)

- TRS taking on Customer Relationship Management (CRM) development
- Progress to date
  - Business Users and Analysts completed workflow requirements
  - TRS Developed code being merged with DXC’s and testing for Phase 2
  - Currently proceeding ahead of pace
Issues/Risks

• P1 - Continuous Phase 1 contract changes will impact schedule and budget.

Improvements
– Feature freeze
– Triage process
Issues/Risks

• P1/P2 - Coordinating DXC and TRS schedules and resources is critical for TEAM program success.

Improvements

– Joint meetings
– Increased resource management
TEAM PROGRAM – Issues/Risks

Issues/Risks

• P2 – Achieving Quality Assurance

Improvements
– Early user test case development
– Better coordination of test case development between TRS and DXC
QUESTIONS?
TAB 5
TEAM Program
Independent Program Assessment
Board Presentation

June 1, 2017
Objectives

Independent Program Assessment (IPA)
Provide independent reporting and oversight to the TRS Board and Executive Director, or designee, regarding critical risks related to the TRS Enterprise Application Modernization (TEAM) Program to enable informed decision making

Critical Risks Focus:
- Schedule: program substantially delayed
- Quality: scope requirements not adequately defined; significant defects in code development
- Cost: program substantially over budget
Execution Scores

TEAM Scores: based on May 2017 Transparency Report

Sched. = B-
Quality = B
Cost = B
Overall = B

IPA Scores: based on consideration of Transparency Report scores and additional qualitative risk outlook

Sched. = C
Quality = B-
Cost = B
Overall = C+
Project Strengths

- Phase 1 User Acceptance Testing (UAT) is going well thus far with continued close monitoring and results reporting.

- Organizational Change Management (OCM) - providing clear communications supporting change readiness
  - Ongoing employee assessments
  - Conducted focus group sessions
  - Developed TEAM Connect website

- “Show and Tell” work groups sessions and presentations
  - Well attended and executed
  - Enhances knowledge with customized demos
Key Discussion Matters

1. **Schedule**
   - Increasing risk outlook of resource constraints and capacity for both TRS and DXC given overlapping Phase 1 & 2 activities, including TRUST-HILOB (Healthcare) and TRUST-CRM workflow
   
   - Phase 1 code requirement updates continue to be identified and vetted – additional “must haves” could result in missed critical path due dates
   
   - Phase 1 defects continue to be worked and ‘burndown’ tracked towards User Acceptance Testing (UAT) exit criteria
   
   - Phase 2 detail level requirements (DLR) sessions and packages delivery – some running behind schedule (e.g., Retirement Application Process) and could be further impacted by Phase 1 priorities
   
   - Continue close monitoring and coordination of TRS and DXC schedules, including resource allocation and contingency usage analysis
Key Discussion Matters

2. **Quality**

- Phase 1 risk outlook increasing for achieving quality resolutions of “must haves” requirement updates and defects before Oct 2, 2017 go-live given resource constraints and Schedule pressures
  - User Acceptance Testing (UAT) exit criteria are being communicated to set expectations and closely monitored

- Phase 2 risk outlook increasing for quality of requirements (DLR) packages given resource constraints and Schedule pressures
  - DLR sessions have improved over Phase 1
  - Close monitoring of DLR process and activity is ongoing
  - Early coordination of test planning and development of user acceptance test scripts is a critical success factor
3. Cost

- Potential additional requirement update changes determined to be “must haves” could add to costs and usage of budget contingency

- Possible added costs related to resource needs and potential further extension of the schedule or schedule contingency usage
  - Includes consideration of TRS taking on TRUST-HILOB (Healthcare) and TRUST-CRM workflow scope
Activities Completed – Current Period

1. Attended Enterprise Project Oversight Committee (EPOC), Line of Business (LOB), Health Insurance Line of Business (HILOB), Quality Assurance Project (QAP) and Customer Relationship Management (CRM) meetings, and Show and Tell demo sessions; observed Phase 2 detail level requirements (DLR) elicitation sessions.

2. Reviewed completed Phase 2 DLR design documents and other technical deliverables such as Performance Test execution report and Security scan results.

3. Reviewed and provided feedback on the User Acceptance Testing (UAT) exit and go live quality gate criteria reports. Also continued to provide feedback on project schedules, common metrics measurements, and transparency reporting.

4. Reviewed and evaluated current DXC and TRS project schedules and progress against schedule. Reviewed and analyzed TEAM program logs such as: action, decision, issues, risks and Requirements Update Log (RUL).

5. Reviewed and analyzed LOB defects logged in Application Lifecycle Management (ALM) and related status and defect tracking reports.
Activities for Next Period

1. Attend and observe key TEAM project meetings such as weekly Enterprise Project Oversight Committee (EPOC) and other relevant project meetings.

2. Continue to review and analyze vendor deliverables for completeness, acceptance approvals. Verify that completed deliverables are accepted and that vendor invoices aligned with contractual agreement.

3. Continue to review and analyze the DXC and TRS MS Project schedules for accurate critical path and baseline variance reporting.

4. Continue to review and provide feedback on transparency reporting, and common metrics measurements.

5. Review and analyze requirements change logs, defect tracking and continue to monitor TRS risk mitigation activities.

6. Continue to observe Phase 2 detail level requirements (DLR) elicitation sessions and review completed DLR deliverables.
# IPA Financial Summary Status

Through May 15, 2017

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TAB 6
Executive Director’s Report, Brian Guthrie
June 1, 2017
• General Updates
• 2017 Shining Example Award and Executive Director’s Award of Excellence
• Engagement Consortium and Engagement Survey Results
• Legislative Updates
• Upcoming Agendas
General Updates
• Update on the April 19 & 20 – TRS Public and Private SPN Summit, Austin, TX
• Update on the April 27-28th – NASRA Executive Committee Meeting, La Jolla, CA
• Update on the May 8-11th – Aon Hewitt, Explore the Possibilities, Chicago, IL
• Update on the May 10-12th - Emerging Manager Conference, San Francisco, CA
• Update on the May 17-18th – NAA Meeting, Austin, TX
• July 23-26th – NCTR 17th Annual Trustee Workshop, Boston, MA
• August 5-9th – NASRA Annual Conference, Baltimore, MD
June 8-9th the Executive Council “Retreat”

• Strategic Planning
• Goals and Objectives
• Organizational Structure Review
2017 Shining Example Award
2017 Executive Director’s Award of Excellence
Winner of the 2017 Shining Example Award

Data Conditioning Business Team

The Data Conditioning Business Team works to condition data for the new pension line of business. In addition to analyzing data from the reports, they have learned technical information to assist with Scripts, and are now working through fatal errors that fall out of TRUST during data migration. They collaborate well with business and technical staff, and have logged many weekend hours to meet goals. The team members do a great job reviewing and conditioning data, and their work will continue through Phase2 and beyond.
Winner of the 2017 Executive Director’s Award of Excellence

London Team

• The London Team successfully launched first foreign office for any US public pension plan.

• The London Team was instrumental in placing TRICOT on the path to exceed goals for increased deal flows.
Engagement Consortium
Engagement Survey Results
• TRS is participating in an Engagement Consortium.

• Consortium members include:
  – CalSTRS
  – Arizona State Retirement System
  – Illinois Municipal Retirement Fund
  – Indiana Public Retirement System
  – Michigan Office of Retirement Services
  – HESTA (Australia)

• Members of the consortium compare results of engagement survey questions.
Engagement is a member’s emotional and rational attachment to an organization.

There is a difference between satisfaction and engagement.

Satisfaction is transactional.
- How fast was my retirement application processed?
- Did my retirement check get deposited into my account on time?

Engagement is about relationships (trust and loyalty).
- Do members trust TRS?
- Are members advocates for TRS?
Engagement Consortium

• Engagement Survey Questions
  1. How satisfied are you with TRS overall?
  2. I know TRS operates in my best interest.
  3. I feel confident my retirement is secure with TRS.
  4. TRS sends communications that are relevant to my needs.
  5. TRS acts ethically.

• Supplemental Survey Questions
  1. Information provided by TRS is easy to understand.
  2. How confident are you that you will have enough money to live comfortably throughout your retirement years?
Engagement Survey Results

• Engagement and supplemental questions were incorporated into the 2017 Member Satisfaction Survey (March-April 2017).

| RESULTS |
|----------------------------------|---------|---------|---------|
| **How satisfied are you with TRS overall?** | Satisfied | Neutral | Dissatisfied |
| Active | 67.4% | 21.9% | 10.5% |
| Retired | 82.4% | 10.6% | 6.9% |
| **I know TRS operates in my best interest.** | Agree | Neutral | Disagree |
| Active | 65.6% | 21.8% | 12.5% |
| Retired | 75.0% | 15.3% | 9.4% |
| **I feel confident my retirement is secure with TRS.** | Agree | Neutral | Disagree |
| Active | 60.2% | 13.1% | 26.6% |
| Retired | 72.4% | 11.6% | 15.4% |
## Engagement Survey Results

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<th>Agree</th>
<th>Neutral</th>
<th>Disagree</th>
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<th>Disagree</th>
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<tr>
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<td>6.2%</td>
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<td>TRS acts ethically.</td>
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<td>Retired</td>
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<td>Information provided by TRS is easy to understand.</td>
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<td>Active</td>
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<td>How confident are you that you will have enough money to live comfortably throughout your retirement years?</td>
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<td>Retired</td>
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Legislative Updates
May 29, 2017: Sine Die - Last day of 85th Regular Session.

June 18, 2017: Last day the governor can sign or veto bills passed during the regular session.

May 31, 2017:
• Number of bills introduced (HB, HJR, SB, SJR): 6,800
• Number of bills passed: 1,211
• Number of bills signed by Governor: 334
• Number of bills vetoed: 0
• Number of times before the 85th Legislature:
  – 14 public hearings,
  – 15 briefings.
• Number of interactions TRS Government Relations had with the 85th Legislature:
  – countless.
Upcoming Agendas
Upcoming Board Agendas

July 13, 2017

 Proposed Schedule:
  9:00 - 12:00 Executive Evaluations and Committee Meetings
  12:00 – 1:00 TEAM and Executive Director’s Report
  1:00 – 3:30 Select Pension Actuarial Consultant and Fiduciary Counsel

Committee Meetings:

 Audit Committee
  Evaluate the Chief Audit Executive
  Internal Audit Report

 Budget Committee
  Recommend adoption of FY 2018 Operating Budget
August 25, 2017

**Major Items Include:**

TEAM Update
Statutory Certifications of Estimated State Contributions
Select Board Proxy Advisor
403(b) Rulemaking Review of Public Comments
TAB 7
History and Background

• Fiduciary duty and Board Bylaws charge the Board with obtaining expert advice and assistance with respect to its investment functions.

• In 1993, the Board decided to engage an independent investment advisor in addition to the investment consultants retained at that time.

• Previous advisors were:
  • John Peavy who resigned to become the TRS Chief Investment Officer; and
  • Craig Hester who resigned to become the Chairman of the ERS Board

• Current advisor, Dr. Keith Brown, has served since 2002.
Dr. Brown’s scope of work includes:

- Attending Board meetings when investment reports are presented.
- Offering independent advice to the Board regarding staff and investment counsel recommendations, including providing a written opinion on such matters in Board materials.
- Providing advice to the Board regarding TRS investment matters, including advice on investment policies, asset allocation, and cash flow.
- Being available to Board members for questions or consultation regarding TRS investment matters.
- Bringing to the Board’s attention any IMD actions that Dr. Brown thinks necessitate Board discussion.
New Engagement Agreement

- September 1, 2012, Dr. Brown and TRS agreed to three year term agreement with two one year renewals. There are no further extensions available under the agreement. This contract expires August 31, 2017.

- Recommend procurement through Internal Assessment. Dr. Brown’s qualifications, past experience and knowledge of the TRS system provides the best overall value and is in the best interest of the Trustees and the system.

- Proposed resolution authorizes the Executive Director to conclude a new agreement with Dr. Brown on similar terms: five year term agreement with two one year renewals.

- The resolution also authorizes the Executive Director to increase Dr. Brown’s scope of work, if needed.
Board Resolution Authorizing the Executive Director to Negotiate and Execute Investment Consultant Agreement

Teacher Retirement System of Texas
Board of Trustees
June 1, 2017

Resolved, That the Board of Trustees (the “Board”) of the Teacher Retirement System of Texas (“TRS”) hereby selects Keith C. Brown, Ph.D., CFA to provide investment consulting services and to serve as an investment consultant to TRS and the Board because, in the Board’s judgment, engaging Dr. Brown represents the best overall value for TRS based on his qualifications, experience, proposed contract terms and conditions, proposed fees, and other relevant factors;

Resolved, That the Board hereby authorizes the Executive Director to negotiate, with the assistance and advice of legal counsel, an agreement with Dr. Brown, for an initial term not to exceed five (5) years in duration, with one or more options for extensions not to exceed a total of two (2) years, with terms and conditions that provide the best overall value to TRS; and

Resolved, That, if negotiations are deemed by the Executive Director, in his discretion to be successful, then the Executive Director is hereby authorized to execute a contract with Dr. Brown on such terms and conditions as the Executive Director may deem, in his discretion, to provide the best overall value to TRS, and further to execute and deliver all such other documents that the Executive Director and legal counsel may deem necessary or appropriate to implement this resolution, as conclusively evidenced by the taking of the action or the execution and delivery of the documents, and to incur, approve, and pay any budgeted expenses or costs associated with such contract and deemed in the discretion of the Executive Director to be reasonably necessary or advisable with respect to such contract.
TAB 8
Legislative Update
A total of 6,800 bills were filed in both the House and Senate during the 84th Legislature. Of those, only 1,181 passed both chambers and were sent to the Governor. Approximately 17% of the bills made it through the legislative process this session.

For example, a total of 55 bills were referred to the House Committee on Pensions. Of those, 9 were sent to the Governor’s office.

The Governor has three options: sign the bill into law, allow the bill to become law without his signature, or veto the bill.

The last day for the Governor to sign or veto legislation is Sunday, June 18th.
85th Legislative Topics

• Divestment
• Contracting
• Pension revocation
• Balance billing
• Cost-of-living adjustments
• TRS-ActiveCare
• Pension Studies
• Relating to the administration of and benefits payable under the Texas Public School Retired Employees Group Benefits Act.

• State contribution increases to 1.25% of active employee payroll.

• Establishes a high deductible plan and a Medicare Advantage plan.

• During the 2018-2021 plan years, TRS shall not charge a premium to disability retirees who: (1) retired as a disability retiree effective on or before January 1, 2017; (2) are currently receiving disability retirement benefits; and (3) are not eligible to enroll in Medicare.

• Eliminates statutory requirement to provide a no-premium healthcare plan.

• Provides $0 cost of generic preventive maintenance medications for enrollees in the high deductible plan.

• Provides statutory opt-in window for pre-65 retirees who choose coverage elsewhere to opt-in to Medicare Advantage Plan at age 65.
• Relating to participation in and contributions to the optional retirement program for certain employees of institutions of higher education.

• Allows ORP-eligible employees who are not notified properly additional time to elect ORP participation.

• The proposed bill creates a correction of error process for reporting an ORP employee to TRS when the employee is not eligible for TRS. The person would be restored to ORP participation and member, state, and employer contributions related to the incorrect reporting plus interest is paid to the employee’s ORP account. Amounts contributed to TRS that are in excess of participant contributions due to ORP are refunded to the individual.
• Relating to contributions to, benefits from, late fees imposed by, and the administration of systems and programs administered by the Teacher Retirement System of Texas.

• Provides member friendly benefit and administrative changes.

• Allows the TRS Board to go into executive session to discuss particular investment transactions, strategies, portfolios and other potential transactions related to private investments if the Board determines that deliberating or conferring in an open meeting would have a detrimental effect on TRS’s negotiations with third parties or place TRS at a competitive disadvantage in the market.

• Provides TRS with the authority to charge late fees on late reports by Reporting Entities.
• Allows TRS to add an additional five years of service credit when determining whether an early age reduction is applicable and the amount of the reduction, for a 100% joint and survivor annuity payable at the death of an active member.

• Amends current law to provide that disability retirees with less than 10 years of service credit who choose a $150 per month annuity for the number of months of membership, to now allow if the disability retiree dies before the period ends, the beneficiaries will receive any remaining member contributions as an additional death benefit.

• Establishes TRS sunset review in 2025.
• Relating to contributions to, benefits from, membership in, and the administration of systems and programs administered by the Teacher Retirement System of Texas.

• Provides IRS code compliance, statutory corrections, and member friendly benefit changes.

• Provides additional time for TRS members to purchase sick and personal leave service credit at retirement.

• Corrects an error referencing TRS Board rather than Higher Education Coordinating Board to certify state contribution to the ORP.
• Relating to the investment authority of the Teacher Retirement System of Texas.
• Continues the use of derivatives and external managers capped at 30% of total assets.
• Repeals the sunset dates on the authorities.
TAB 9
Executive Director Performance Incentive Pay Plan
Janet Bray, Chief Human Resources Officer
June 1, 2017
Incentive Plan Overview

Timeline

June 2017
• Present plan changes to Board
• Board reviews and approves 2017-2018 plan

July 2017
• ED performance evaluation conducted
• Plan year 2017-2018 begins

September 2017
• Incentive payment processed for ½ of plan year 2015-2016 (Pilot)
• Incentive payment processed for ½ of plan year 2016-2017

Process

• Performance data is collected and compiled at the end of plan year
• Each metric within the measure is calculated
• Each performance category receives an average score which is used to determine bonus potential
• Data is compiled by Human Resources and verified by Internal Audit
• Overall scores determine incentive payment
2017-2018 Goals and Measures

Leadership Effectiveness

• **360 Leadership Score**
  - Focus Consulting
  - Compares 3 year average to peers in database

• **Earned Value**
  - Provaliant Consulting
  - Compare expected costs and value of TEAM program performance versus actual spend to date

• **Legislative Goals**
  - Focus Consulting
  - Collects feedback from board on goals related to legislative initiatives

Operational Effectiveness

• **Cost per Member**
  - CEM
  - Compares cost trends (Cost per member and active annuitant) for front and back office activities for peer benchmarks

• **Productivity versus CEM benchmark**
  - CEM
  - Compares weighted transactions per front office FTE to evaluate productivity of TRS compared to peers
2017-2018 Goals and Measures

Member Satisfaction

• CEM Service Levels
  • CEM
  • Compares service offerings at TRS to peers

• Member Satisfaction Survey
  • CRM Consulting
  • Contact center survey evaluating customer service satisfaction

Employee Engagement

• Workplace Dynamics
  • Workplace Dynamics
  • Compares employee satisfaction and engagement scores with top Austin workplaces

• UT Survey of Employee Engagement
  • UT Austin School of Social Work
  • Compares employee engagement scores to state agencies

• Employee Turnover Rate
  • State Auditor’s Office
  • Compares voluntary turnover rate to the state average
<table>
<thead>
<tr>
<th>Performance Category and Source</th>
<th>Weight</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Member Satisfaction</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Benefit Administration Benchmarking Survey (CEM)</td>
<td>25%</td>
<td></td>
</tr>
<tr>
<td>• Member Satisfaction Survey (CRM)</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Leadership Effectiveness</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>• 360 Performance Evaluation Scores (Focus Consulting)</td>
<td>25%</td>
<td></td>
</tr>
<tr>
<td>• Legislative Goals (Focus Consulting)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>• TEAM - Earned Value versus Actual Cost (Provaliant)</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Operational Effectiveness</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Cost per member versus CEM benchmark</td>
<td>25%</td>
<td></td>
</tr>
<tr>
<td>• Productivity versus CEM benchmark (excluding major projects)</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Employee Engagement</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Survey of Employee Engagement (UT Austin)</td>
<td>25%</td>
<td></td>
</tr>
<tr>
<td>• Workplace Dynamics</td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Employee Turnover (State Auditor’s Office)</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Investment Management Oversight</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>• State Street (Custodial Bank)</td>
<td>Annual Salary x percent of target alpha achieved (MAO up to 25%)</td>
<td></td>
</tr>
<tr>
<td>• Measures the total fund level vs. TRS’ established passive total fund index</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Incentive Opportunities

Leadership Performance Categories

<table>
<thead>
<tr>
<th>Average Score</th>
<th>Incentive Award</th>
</tr>
</thead>
<tbody>
<tr>
<td>3.00</td>
<td>0.0%</td>
</tr>
<tr>
<td>3.50</td>
<td>5.0%</td>
</tr>
<tr>
<td>3.75</td>
<td>10.0%</td>
</tr>
<tr>
<td>4.00</td>
<td>15.0%</td>
</tr>
<tr>
<td>4.50</td>
<td>20.0%</td>
</tr>
<tr>
<td>4.75 and above</td>
<td>25.0%</td>
</tr>
</tbody>
</table>

Investment Management Oversight

<table>
<thead>
<tr>
<th>Annual Salary</th>
<th>Percent of Target Alpha Achieved</th>
<th>MAO</th>
<th>Incentive Award</th>
</tr>
</thead>
<tbody>
<tr>
<td>$ 325,000</td>
<td>12.50%</td>
<td>25.0%</td>
<td>$ 10,156</td>
</tr>
</tbody>
</table>

Calculation Example

Note: Incentives are paid out over a two-year period (50% each year)
Appendix: Executive Incentive Compensation Plan – Comparison

The following charts compare measures from the last two plan periods (2015-2016 Plan and 2016-2017 Plan) with proposed changes. Performance scores for the 2015-2016 plan are highlighted in gold.
## Member Satisfaction

### 2015-2017 Member Satisfaction Goals (Category Weight: 25%)

<table>
<thead>
<tr>
<th></th>
<th>3.00 and below</th>
<th>3.50</th>
<th>3.75</th>
<th>4.00</th>
<th>4.50</th>
<th>4.75+</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>CEM service levels</strong></td>
<td>At Median</td>
<td>Median +2</td>
<td>Median +3</td>
<td>Median +4</td>
<td>Median +5</td>
<td>Median +6</td>
</tr>
<tr>
<td><strong>Satisfaction with TRS member services (hurdle score of 95)</strong></td>
<td>Hurdle +1</td>
<td>Hurdle +1.5</td>
<td>Hurdle +2</td>
<td>Hurdle +2.5</td>
<td>Hurdle +3</td>
<td>Hurdle +3.5</td>
</tr>
<tr>
<td><strong>Satisfaction with TRS – Care and Active Care services (hurdle score of 90)</strong></td>
<td>Hurdle</td>
<td>Hurdle +1</td>
<td>Hurdle +2</td>
<td>Hurdle +3</td>
<td>Hurdle +4</td>
<td>Hurdle +5</td>
</tr>
</tbody>
</table>

**Notes on previous plan:**
- Scale does not capture full range from 3.00 to 5.00 in 0.25 increments
- CEM peer median for the last two years was 73
- Current member satisfaction survey (n=1,300) conducted by Texas A&M in conjunction with TRS Communications may not provide sufficient data related to customer experience; measures do not look at customer service

### 2017-2018 Member Satisfaction Goals (Category Weight: 25%)

<table>
<thead>
<tr>
<th></th>
<th>3.00 and below</th>
<th>3.25</th>
<th>3.50</th>
<th>3.75</th>
<th>4.00</th>
<th>4.25</th>
<th>4.50</th>
<th>4.75</th>
<th>5.00</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>CEM service levels</strong></td>
<td>70.00</td>
<td>71.00</td>
<td>72.00</td>
<td>73.00</td>
<td>74.00</td>
<td>75.00</td>
<td>76.00</td>
<td>77.00</td>
<td>78.00</td>
</tr>
<tr>
<td>(Peer scores range from 60-83)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Member Satisfaction Scores</strong></td>
<td>90.50</td>
<td>90.88</td>
<td>91.25</td>
<td>91.63</td>
<td>92.00</td>
<td>92.38</td>
<td>92.75</td>
<td>93.13</td>
<td>93.50</td>
</tr>
<tr>
<td>(% Delighted Callers)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Proposed Changes:**
- **CEM Data**
  - Peer service level scores, on average, range from 60 to 83; per CEM—high scores may not be achievable if cost effectiveness is a consideration
  - Perfect score (100) would require an average wait time of less than 20 seconds
  - Historically, TRS scores range from 69-73
- **CRM Customer Satisfaction Scores (% Delighted Callers)**
  - Replaces Member satisfaction survey questions and survey Instrument (see above) with a more robust survey that includes questions about satisfaction with TRS in addition to how satisfied members were with the customer service received. TRS has used CRM data for surveys since 2008. Surveys are offered to all customers who call our contact center employees. Last year, CRM had a dataset of 200,671 responses.
  - Historical scores for TRS have ranged from 90.9 to 92.2 from 2013 to present; average variation is 1.35
### 2015-2017 Leadership Effectiveness Goals (Category Weight: 25%)

<table>
<thead>
<tr>
<th>3.00 and below</th>
<th>3.50</th>
<th>3.75</th>
<th>4.00</th>
<th>4.50</th>
<th>4.75+</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>360 Leadership Score Improvement (Baseline – 3 year average 360 score)</strong></td>
<td>Achieve peer group average</td>
<td>4.1</td>
<td>4.25</td>
<td>4.5</td>
<td>4.75</td>
</tr>
<tr>
<td><strong>Expected earned value versus actual earned value</strong></td>
<td>10% below expected</td>
<td>8% below expected</td>
<td>6% below expected</td>
<td>4% below expected</td>
<td>2% below expected</td>
</tr>
<tr>
<td><strong>Legislative Goals</strong></td>
<td>Not Scored</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Notes on previous plan:**
- Scale does not capture full range from 3.00 to 5.00 in 0.25 increments
- Legislative goals currently not scored

### 2017-2018 Leadership Effectiveness Goals (Category Weight: 25%)

<table>
<thead>
<tr>
<th>3.00 and below</th>
<th>3.25</th>
<th>3.50</th>
<th>3.75</th>
<th>4.00</th>
<th>4.25</th>
<th>4.50</th>
<th>4.75</th>
<th>5.00</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>360 Leadership Score Improvement (Baseline – 3 year average 360 score)</strong></td>
<td>3.50</td>
<td>3.69</td>
<td>3.88</td>
<td>4.06</td>
<td>4.25</td>
<td>4.44</td>
<td>4.63</td>
<td>4.81</td>
</tr>
<tr>
<td><strong>Expected earned value versus actual earned value</strong></td>
<td>10% below expected</td>
<td>8.75% below expected</td>
<td>7.50% below expected</td>
<td>6.25% below expected</td>
<td>5.00% below expected</td>
<td>3.75% below expected</td>
<td>2.50% below expected</td>
<td>1.25% below expected</td>
</tr>
<tr>
<td><strong>Legislative Goals</strong></td>
<td>Serve as trusted resource</td>
<td>Engagement with policy makers</td>
<td>Expertise in public policy development</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Proposed Changes:**
- 360 Leadership Score - Same measure, scale adjusted to show full range from 3.00 to 5.00 in 0.25 increments
- TEAM - Expected earned value versus actual earned value - Same measure, scale adjusted to show full range from 3.00 to 5.00 in 0.25 increments
- Legislative Goals
  - Previously not scored; adds scoring to current measures; legislative questions are added to Focus Consulting’s performance process
  - Measurement matches scale on 360 score; but is a separate question
## Operational Effectiveness

### 2016-2017 Operational Effectiveness Goals (Category Weight: 25%)

<table>
<thead>
<tr>
<th>Cost per member v. CEM benchmark (four-year average)</th>
<th>3.00 and below</th>
<th>3.50</th>
<th>3.75</th>
<th>4.00</th>
<th>4.50</th>
<th>4.75+</th>
</tr>
</thead>
<tbody>
<tr>
<td>At level</td>
<td></td>
<td>-1.00%</td>
<td>-2.00%</td>
<td>-3.00%</td>
<td>-4.00%</td>
<td>-5.00%</td>
</tr>
</tbody>
</table>

| Productivity v. CEM benchmark                      | 130%           | 135% | 140% | 145% | 150% | 155% |

Notes on previous plan:
- Scale does not capture full range from 3.00 to 5.00 in 0.25 increments
- CEM – Cost per member – measure confusing to calculate due to "at level" terminology
- Legislative goals currently not scored

### 2017-2018 Operational Effectiveness Goals (Category Weight: 25%)

<table>
<thead>
<tr>
<th>Cost per member (CEM) – (% of peer average; 4-year average – excluding major projects)</th>
<th>3.00 and below</th>
<th>3.25</th>
<th>3.50</th>
<th>3.75</th>
<th>4.00</th>
<th>4.25</th>
<th>4.50</th>
<th>4.75</th>
<th>5.00</th>
</tr>
</thead>
<tbody>
<tr>
<td>50.00%</td>
<td>47.50%</td>
<td>45.00%</td>
<td>42.50%</td>
<td>40.00%</td>
<td>37.50%</td>
<td>35.00%</td>
<td>32.50%</td>
<td>30.00%</td>
<td></td>
</tr>
</tbody>
</table>

| Productivity v. CEM benchmark                                                                 | 120.00%        | 124.38% | 128.75% | 133.13% | 137.50% | 141.88% | 146.25% | 150.63% | 155.00% |

Proposed Changes:
- Cost per Member (CEM)
  - Previously looked at the % change from previous year using a 4-year average
  - Revised measure looks at % of peer average (4-year average, excludes major projects)
  - Scale ranges from 50% of peers (3.0) to 30% of peers (5.0)
  - Historically TRS scores range from 36% to 43% of peer average (excluding major projects) – goal is to encourage minimal changes in cost per active member and annuitant
- Productivity versus CEM benchmark
  - Same measure, scale adjusted to show full range from 3.00 to 5.00 in 0.25 increments
  - Historically, TRS scores range from 116% to 147% versus peer benchmark
# Employee Engagement

## 2016-2017 Employee Engagement Goals (Category Weight: 25%)

<table>
<thead>
<tr>
<th>Workplace Dynamics (Note: performance data not included for initial pilot)</th>
<th>3.00 and below</th>
<th>3.50</th>
<th>3.75</th>
<th>4.00</th>
<th>4.50</th>
<th>4.75+</th>
</tr>
</thead>
<tbody>
<tr>
<td>3.83 (Public Sector)</td>
<td>4.0</td>
<td>4.36 (Austin Top 15)</td>
<td>4.5</td>
<td>4.75</td>
<td>5.0</td>
<td></td>
</tr>
</tbody>
</table>

| UT Survey of Employee Engagement | 350 | 375 | 400 | 425 | 450 | 475 |
| Voluntary turnover compared to the state | 12% | 10% | 8% | 6% | 4% | Below 4% |

Notes on previous plan:
- Some measures and targets may not be consistent with data, or attainable based on feedback from 3rd party sources
- Linkage to peer or 3rd party comparator groups could be strengthened
- Some measures were confusing to calculate, and could be subject to differing interpretations

## 2017-2018 Employee Engagement Goals (Category Weight: 25%)

<table>
<thead>
<tr>
<th>Workplace Dynamics</th>
<th>3.00 and below</th>
<th>3.25</th>
<th>3.50</th>
<th>3.75</th>
<th>4.00</th>
<th>4.25</th>
<th>4.50</th>
<th>4.75</th>
<th>5.00</th>
</tr>
</thead>
<tbody>
<tr>
<td>4.00</td>
<td>4.06</td>
<td>4.13</td>
<td>4.19</td>
<td>4.25</td>
<td>4.31</td>
<td>4.38</td>
<td>4.44</td>
<td>4.50</td>
<td></td>
</tr>
</tbody>
</table>

| UT Survey of Employee Engagement (Engagement Construct Score) | 400.00 | 402.50 | 405.00 | 407.50 | 410.00 | 412.50 | 415.00 | 417.50 | 420.00 |

| Voluntary turnover rate (% of state average; excludes retirements) | 100.00% | 93.75% | 87.50% | 81.25% | 75.00% | 68.75% | 62.50% | 56.25% | 50.00% |

Proposed Changes:
- Workplace Dynamics
  - Scale adjusted to show full range from 3.00 to 5.00 in 0.25 increments
  - Scale adjusted to reflect range of scores for top 15 large Austin employers
- UT Survey of Employee Engagement
  - In lieu of using overall climate score; new scoring will be based on the employee engagement construct
  - Scale adjusted to reflect range of engagement scores for top employees
- Voluntary Turnover Rate
  - Scale adjusted to clarify turnover percentages
  - Excludes retirement; focus is on regrettable/preventable turnover
TAB 10
Teacher Retirement System of Texas

Performance Review: First Quarter 2017

Aon Hewitt
Retirement and Investment

Investment advice and consulting services provided by Aon Hewitt Investment Consulting, Inc., an Aon Company.
Global asset markets produced positive returns for the first quarter with generally positive returns for non-US equities, modest gains for US equities, and appreciation in fixed income securities.

The TRS investment portfolio returned 4.8% for the quarter which outperformed its benchmark by 0.3 percentage points.

- Both asset allocation positioning and manager value-add contributed to relative returns, the manager selection in Energy and Natural Resources had the single largest positive impact.

For the trailing twelve months, TRS returned 10.8%, outperforming its performance benchmark by 1.1 percentage points.

- Asset allocation and manager value-add both contributed positively, underweight positioning to long Treasuries added most but was offset slightly by negative manager value-add in US and non-US developed equities.
# 1. Market Summary – First Quarter 2017

<table>
<thead>
<tr>
<th></th>
<th>First Quarter</th>
<th>One Year</th>
<th>Three Years</th>
<th>Five Years</th>
<th>Ten Years</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Global Equity:</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>MSCI U.S.A. IMI Index</td>
<td>5.9%</td>
<td>18.2%</td>
<td>9.8%</td>
<td>13.2%</td>
<td>7.7%</td>
</tr>
<tr>
<td>MSCI EAFE + Canada Index</td>
<td>6.8</td>
<td>11.9</td>
<td>0.4</td>
<td>5.4</td>
<td>1.1</td>
</tr>
<tr>
<td>MSCI Emerging Markets Index</td>
<td>11.4</td>
<td>17.2</td>
<td>1.2</td>
<td>0.8</td>
<td>2.7</td>
</tr>
<tr>
<td>HFRI Fund of Funds Composite Index</td>
<td>2.0</td>
<td>6.2</td>
<td>1.8</td>
<td>3.2</td>
<td>1.2</td>
</tr>
<tr>
<td>State Street Private Equity Index (qtr lagged)</td>
<td>2.6</td>
<td>10.1</td>
<td>8.3</td>
<td>11.1</td>
<td>7.9</td>
</tr>
<tr>
<td>Global Equity Policy Benchmark</td>
<td>6.3</td>
<td>14.0</td>
<td>5.4</td>
<td>8.2</td>
<td>--</td>
</tr>
<tr>
<td><strong>Stable Value:</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Bloomberg Barclays Long Treasury Index</td>
<td>1.4%</td>
<td>-5.0%</td>
<td>5.8%</td>
<td>4.0%</td>
<td>6.6%</td>
</tr>
<tr>
<td>HFRI Fund of Funds Conservative Index</td>
<td>1.4</td>
<td>5.4</td>
<td>1.8</td>
<td>3.2</td>
<td>1.1</td>
</tr>
<tr>
<td>3 Month LIBOR + 2%</td>
<td>0.8</td>
<td>2.9</td>
<td>2.5</td>
<td>2.4</td>
<td>3.1</td>
</tr>
<tr>
<td>90 Day U.S. Treasury Bill</td>
<td>0.1</td>
<td>0.4</td>
<td>0.2</td>
<td>0.1</td>
<td>0.6</td>
</tr>
<tr>
<td>Stable Value Policy Benchmark</td>
<td>1.3</td>
<td>-2.2</td>
<td>4.8</td>
<td>3.8</td>
<td>--</td>
</tr>
<tr>
<td><strong>Real Return:</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Bloomberg Barclays U.S. TIPS Index</td>
<td>1.3%</td>
<td>1.5%</td>
<td>2.0%</td>
<td>1.0%</td>
<td>4.2%</td>
</tr>
<tr>
<td>NCREIF ODCE (qtr lagged)</td>
<td>1.9</td>
<td>7.8</td>
<td>11.0</td>
<td>11.2</td>
<td>4.8</td>
</tr>
<tr>
<td>Energy, Natural Resources &amp; Infrastructure Benchmark</td>
<td>3.4</td>
<td>--</td>
<td>--</td>
<td>--</td>
<td>--</td>
</tr>
<tr>
<td>Goldman Sachs Commodities Index</td>
<td>-5.1</td>
<td>8.4</td>
<td>-22.7</td>
<td>-15.0</td>
<td>-9.0</td>
</tr>
<tr>
<td>Real Return Policy Benchmark</td>
<td>2.0</td>
<td>7.0</td>
<td>7.4</td>
<td>7.7</td>
<td>--</td>
</tr>
<tr>
<td><strong>Risk Parity:</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Risk Parity Benchmark</td>
<td>3.8</td>
<td>11.3</td>
<td>2.7</td>
<td>3.8</td>
<td>--</td>
</tr>
<tr>
<td>TRS Policy Benchmark</td>
<td>4.5%</td>
<td>9.6%</td>
<td>5.8%</td>
<td>7.4%</td>
<td>5.3%</td>
</tr>
</tbody>
</table>
2. Market Value Change

![Graph showing the change in market value from January 1, 2017 to March 31, 2017](chart)

**Summary of Cash Flow**

<table>
<thead>
<tr>
<th></th>
<th>1 Quarter</th>
<th>1 Year</th>
<th>3 Years</th>
<th>5 Years</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Total Fund</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Beginning Market Value</td>
<td>132,538,691,260</td>
<td>128,233,730,674</td>
<td>126,121,547,729</td>
<td>110,289,379,226</td>
</tr>
<tr>
<td>+ Additions / Withdrawals</td>
<td>-982,526,809</td>
<td>-3,994,846,126</td>
<td>-12,274,898,842</td>
<td>-20,605,039,103</td>
</tr>
<tr>
<td>+ Investment Earnings</td>
<td>6,335,589,815</td>
<td>13,652,869,720</td>
<td>24,045,105,380</td>
<td>48,207,414,144</td>
</tr>
<tr>
<td><strong>= Ending Market Value</strong></td>
<td>137,891,754,267</td>
<td>137,891,754,267</td>
<td>137,891,754,267</td>
<td>137,891,754,267</td>
</tr>
</tbody>
</table>
### 3. Asset Allocation Detail

<table>
<thead>
<tr>
<th>Asset Category</th>
<th>Market Value ($ in millions) as of 3/31/2017</th>
<th>Interim Policy Target</th>
<th>Relative Allocation to Interim Policy Target</th>
<th>Long Term Policy Target</th>
<th>Long Term Policy Ranges</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Total Fund</strong></td>
<td>$137,892</td>
<td>100%</td>
<td>---</td>
<td>100%</td>
<td>--</td>
</tr>
<tr>
<td>Total U.S.A.</td>
<td>$24,613</td>
<td>17.8%</td>
<td>18.7%</td>
<td>-1.0%</td>
<td>18%</td>
</tr>
<tr>
<td>Non-U.S. Developed</td>
<td>$20,190</td>
<td>14.6%</td>
<td>13.7%</td>
<td>+0.8%</td>
<td>13%</td>
</tr>
<tr>
<td>Emerging Markets</td>
<td>$13,847</td>
<td>10.0%</td>
<td>9.7%</td>
<td>+0.2%</td>
<td>9%</td>
</tr>
<tr>
<td>Directional Hedge Funds</td>
<td>$5,397</td>
<td>3.9%</td>
<td>4.0%</td>
<td>-0.1%</td>
<td>4%</td>
</tr>
<tr>
<td>Private Equity</td>
<td>$16,902</td>
<td>12.3%</td>
<td>12.4%</td>
<td>+0.3%</td>
<td>13%</td>
</tr>
<tr>
<td><strong>Global Equity</strong></td>
<td>$80,948</td>
<td>58.7%</td>
<td>58.4%</td>
<td>+0.3%</td>
<td>57%</td>
</tr>
<tr>
<td>Long Treasuries</td>
<td>$13,007</td>
<td>9.4%</td>
<td>11.7%</td>
<td>-2.4%</td>
<td>11%</td>
</tr>
<tr>
<td>Stable Value Hedge Funds</td>
<td>$5,481</td>
<td>4.0%</td>
<td>4.0%</td>
<td>+0.0%</td>
<td>4%</td>
</tr>
<tr>
<td>Absolute Return (including OAR)</td>
<td>$2,597</td>
<td>1.9%</td>
<td>0.0%</td>
<td>+1.9%</td>
<td>0%</td>
</tr>
<tr>
<td>Cash</td>
<td>$1,604</td>
<td>1.2%</td>
<td>1.0%</td>
<td>+0.2%</td>
<td>1%</td>
</tr>
<tr>
<td><strong>Stable Value</strong></td>
<td>$22,690</td>
<td>16.5%</td>
<td>16.7%</td>
<td>-0.3%</td>
<td>16%</td>
</tr>
<tr>
<td>TIPS</td>
<td>$4,851</td>
<td>3.5%</td>
<td>3.7%</td>
<td>-0.3%</td>
<td>3%</td>
</tr>
<tr>
<td>Real Assets</td>
<td>$16,989</td>
<td>12.3%</td>
<td>12.6%</td>
<td>-0.3%</td>
<td>16%</td>
</tr>
<tr>
<td>Energy, Natural Resource and Infrastructure</td>
<td>$5,475</td>
<td>4.0%</td>
<td>3.7%</td>
<td>+0.7%</td>
<td>3%</td>
</tr>
<tr>
<td>Commodities</td>
<td>$53</td>
<td>0.0%</td>
<td>0.0%</td>
<td>+0.0%</td>
<td>0%</td>
</tr>
<tr>
<td><strong>Real Return</strong></td>
<td>$27,368</td>
<td>19.8%</td>
<td>19.9%</td>
<td>+0.1%</td>
<td>22%</td>
</tr>
<tr>
<td>Risk Parity</td>
<td>$6,886</td>
<td>5.0%</td>
<td>5.0%</td>
<td>+0.0%</td>
<td>5%</td>
</tr>
<tr>
<td><strong>Risk Parity</strong></td>
<td>$6,886</td>
<td>5.0%</td>
<td>5.0%</td>
<td>+0.0%</td>
<td>5%</td>
</tr>
</tbody>
</table>

*Note: Asset allocation information shown above is based upon PureView reporting.*

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4. Total TRS Performance Ending 3/31/2017

Note: The excess returns shown above may not be a perfect difference between the actual and benchmark returns due entirely to rounding.
5. Total Fund Attribution - Quarter Ending 3/31/2017

Total Fund Performance

- Total Value Added: 0.28%
- Total Fund Benchmark: 4.49%
- Total Fund: 4.77%

Total Value Added: 0.28%

- Asset Allocation: 0.06%
- Manager Value Added: 0.21%
- Other: 0.01%

Total Asset Allocation: 0.06%

- Total USA: 0.53%
- Non-U.S. Developed: -0.05%
- Emerging Markets: 0.33%
- Directional Hedge Funds: 0.08%
- Private Equity: 0.01%
- Long Treasuries: -1.91%
- Stable Value Hedge Funds: -0.05%
- Other Absolute Return: -0.35%
- Cash Equivalents: -0.21%
- U.S. TIPS: -0.11%
- Real Estate: 0.05%
- Commodities: 0.02%
- Energy and Natural Resources: 0.02%

Total Manager Value Added: 0.21%

- Average Active Weight
- Asset Allocation Value Added
- Manager Value Added

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5. Total Fund Attribution – Trailing One Year Ending 3/31/2017
6. Risk Profile: Total Fund Risk-Return vs. Peers

Plan Sponsor Peer Group composed of 24 public funds with total assets in excess of $10B as of 3/31/2017. An analytic outlining the asset allocation of the peer portfolios has been included in the appendix of this report.
6. Risk Profile: Trailing 3-Year and 5-Year Risk Metrics Peer Comparison

Plan Sponsor Peer Group composed of 24 public funds with total assets in excess of $10B as of 3/31/2017. An analytic outlining the asset allocation of the peer portfolios has been included in the appendix of this report.
## 7. Global Equity: Performance Summary Ending 3/31/2017

<table>
<thead>
<tr>
<th></th>
<th>First Quarter</th>
<th>One Year</th>
<th>Three Years</th>
<th>Five Years</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Total Global Equity</strong></td>
<td>6.1%</td>
<td>14.2%</td>
<td>5.5%</td>
<td>8.7%</td>
</tr>
<tr>
<td>Global Equity Benchmark</td>
<td>6.3</td>
<td>14.0</td>
<td>5.4</td>
<td>8.1</td>
</tr>
<tr>
<td>Difference</td>
<td>-0.2</td>
<td>+0.2</td>
<td>+0.1</td>
<td>+0.5</td>
</tr>
<tr>
<td><strong>Total U.S. Equity</strong></td>
<td>5.8</td>
<td>17.0</td>
<td>8.0</td>
<td>11.8</td>
</tr>
<tr>
<td>Total U.S. Equity Benchmark</td>
<td>5.9</td>
<td>18.2</td>
<td>10.0</td>
<td>13.2</td>
</tr>
<tr>
<td>Difference</td>
<td>-0.1</td>
<td>-1.2</td>
<td>-2.0</td>
<td>-1.4</td>
</tr>
<tr>
<td><strong>Non-U.S. Equity</strong></td>
<td>8.2</td>
<td>14.0</td>
<td>1.8</td>
<td>4.6</td>
</tr>
<tr>
<td>Non-U.S. Benchmark</td>
<td>8.7</td>
<td>14.2</td>
<td>0.8</td>
<td>3.6</td>
</tr>
<tr>
<td>Difference</td>
<td>-0.5</td>
<td>-0.2</td>
<td>+1.0</td>
<td>+1.0</td>
</tr>
<tr>
<td><strong>Non-U.S. Developed</strong></td>
<td>5.8</td>
<td>10.2</td>
<td>1.4</td>
<td>6.5</td>
</tr>
<tr>
<td>MSCI EAFE + Canada</td>
<td>6.8</td>
<td>11.9</td>
<td>0.4</td>
<td>5.4</td>
</tr>
<tr>
<td>Difference</td>
<td>-1.0</td>
<td>-1.7</td>
<td>+1.0</td>
<td>+1.1</td>
</tr>
<tr>
<td><strong>Emerging Markets</strong></td>
<td>11.5</td>
<td>19.5</td>
<td>2.3</td>
<td>2.2</td>
</tr>
<tr>
<td>MSCI Emerging Markets</td>
<td>11.4</td>
<td>17.2</td>
<td>1.2</td>
<td>0.8</td>
</tr>
<tr>
<td>Difference</td>
<td>+0.1</td>
<td>+2.3</td>
<td>+1.1</td>
<td>+1.4</td>
</tr>
</tbody>
</table>

Note: The excess returns shown in this presentation may differ from State Street statements due entirely to rounding. These differences are generally within a few basis points and are not material.
7. Global Equity: Performance Summary Ending 3/31/2017 (cont’d)

<table>
<thead>
<tr>
<th></th>
<th>First Quarter</th>
<th>One Year</th>
<th>Three Years</th>
<th>Five Years</th>
</tr>
</thead>
<tbody>
<tr>
<td>Directional Hedge Funds</td>
<td>2.6%</td>
<td>13.6%</td>
<td>1.7%</td>
<td>4.4%</td>
</tr>
<tr>
<td>HFRI Fund of Funds Composite Index</td>
<td>2.4</td>
<td>6.2</td>
<td>1.8</td>
<td>3.2</td>
</tr>
<tr>
<td>Difference</td>
<td>+0.2</td>
<td>+7.4</td>
<td>-0.1</td>
<td>+1.2</td>
</tr>
<tr>
<td>Total Public Equity</td>
<td>6.7</td>
<td>15.2</td>
<td>4.4</td>
<td>7.6</td>
</tr>
<tr>
<td>Public Equity Benchmark</td>
<td>7.0</td>
<td>15.2</td>
<td>4.6</td>
<td>7.5</td>
</tr>
<tr>
<td>Difference</td>
<td>-0.3</td>
<td>+0.0</td>
<td>-0.2</td>
<td>+0.1</td>
</tr>
<tr>
<td>Total Private Equity</td>
<td>3.7</td>
<td>10.4</td>
<td>10.5</td>
<td>14.1</td>
</tr>
<tr>
<td>Private Equity Benchmark</td>
<td>3.7</td>
<td>9.6</td>
<td>8.6</td>
<td>11.1</td>
</tr>
<tr>
<td>Difference</td>
<td>+0.0</td>
<td>+0.8</td>
<td>+1.9</td>
<td>+3.0</td>
</tr>
</tbody>
</table>

Note: The excess returns shown in this presentation may differ from State Street statements due entirely to rounding. These differences are generally within a few basis points and are not material.
8. Stable Value: Performance Summary Ending 3/31/2017

<table>
<thead>
<tr>
<th></th>
<th>First Quarter</th>
<th>One Year</th>
<th>Three Years</th>
<th>Five Years</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Stable Value</td>
<td>1.4%</td>
<td>-0.8%</td>
<td>6.9%</td>
<td>5.4%</td>
</tr>
<tr>
<td>Total Stable Value Benchmark</td>
<td>1.3</td>
<td>-2.2</td>
<td>4.8</td>
<td>3.8</td>
</tr>
<tr>
<td>Difference</td>
<td>+0.1</td>
<td>+1.4</td>
<td>+2.1</td>
<td>+1.6</td>
</tr>
<tr>
<td>Long Treasuries</td>
<td>1.4</td>
<td>-6.1</td>
<td>6.4</td>
<td>4.5</td>
</tr>
<tr>
<td>Treasury Benchmark</td>
<td>1.4</td>
<td>-5.0</td>
<td>5.8</td>
<td>4.0</td>
</tr>
<tr>
<td>Difference</td>
<td>+0.0</td>
<td>-1.1</td>
<td>+0.6</td>
<td>+0.5</td>
</tr>
<tr>
<td>Stable Value Hedge Funds</td>
<td>1.5</td>
<td>6.6</td>
<td>5.1</td>
<td>4.6</td>
</tr>
<tr>
<td>Hedge Funds Benchmark</td>
<td>1.3</td>
<td>5.4</td>
<td>1.8</td>
<td>3.2</td>
</tr>
<tr>
<td>Difference</td>
<td>+0.2</td>
<td>+1.2</td>
<td>+3.3</td>
<td>+1.4</td>
</tr>
<tr>
<td>Other Absolute Return</td>
<td>1.7</td>
<td>8.8</td>
<td>9.7</td>
<td>13.3</td>
</tr>
<tr>
<td>Other Absolute Return Benchmark</td>
<td>0.8</td>
<td>2.9</td>
<td>2.5</td>
<td>2.4</td>
</tr>
<tr>
<td>Difference</td>
<td>+0.9</td>
<td>+5.9</td>
<td>+7.2</td>
<td>+10.9</td>
</tr>
<tr>
<td>Cash Equivalents</td>
<td>0.5</td>
<td>1.0</td>
<td>2.9</td>
<td>2.2</td>
</tr>
<tr>
<td>Cash Benchmark</td>
<td>0.1</td>
<td>0.4</td>
<td>0.2</td>
<td>0.1</td>
</tr>
<tr>
<td>Difference</td>
<td>+0.4</td>
<td>+0.6</td>
<td>+2.7</td>
<td>+2.1</td>
</tr>
</tbody>
</table>

Note: Performance of Cash Equivalents is shown net of fees paid to TRS Strategic Partners.

Note: The excess returns shown in this presentation may differ from State Street statements due entirely to rounding. These differences are generally within a few basis points and are not material.

<table>
<thead>
<tr>
<th></th>
<th>First Quarter</th>
<th>One Year</th>
<th>Three Years</th>
<th>Five Years</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Total Real Return</strong></td>
<td>3.7%</td>
<td>9.5%</td>
<td>8.4%</td>
<td>7.8%</td>
</tr>
<tr>
<td>Real Return Benchmark</td>
<td>2.0</td>
<td>7.0</td>
<td>7.4</td>
<td>7.7</td>
</tr>
<tr>
<td><strong>Difference</strong></td>
<td>+1.7</td>
<td>+2.5</td>
<td>+1.0</td>
<td>+0.1</td>
</tr>
<tr>
<td><strong>TIPS</strong></td>
<td>1.4</td>
<td>1.7</td>
<td>2.2</td>
<td>1.1</td>
</tr>
<tr>
<td>U.S. TIPS Benchmark</td>
<td>1.3</td>
<td>1.5</td>
<td>2.0</td>
<td>1.0</td>
</tr>
<tr>
<td><strong>Difference</strong></td>
<td>+0.1</td>
<td>+0.2</td>
<td>+0.2</td>
<td>+0.1</td>
</tr>
<tr>
<td><strong>Real Assets</strong></td>
<td>2.9</td>
<td>9.5</td>
<td>11.9</td>
<td>12.0</td>
</tr>
<tr>
<td>Real Asset Benchmark</td>
<td>1.9</td>
<td>7.8</td>
<td>11.0</td>
<td>11.2</td>
</tr>
<tr>
<td><strong>Difference</strong></td>
<td>+1.0</td>
<td>+1.7</td>
<td>+0.9</td>
<td>+0.8</td>
</tr>
<tr>
<td>Energy, Natural Resource and Infrastructure</td>
<td>8.1</td>
<td>--</td>
<td>--</td>
<td>--</td>
</tr>
<tr>
<td>Energy and Natural Resources Benchmark</td>
<td>3.4</td>
<td>--</td>
<td>--</td>
<td>--</td>
</tr>
<tr>
<td><strong>Difference</strong></td>
<td>+4.7</td>
<td>--</td>
<td>--</td>
<td>--</td>
</tr>
<tr>
<td><strong>Commodities</strong></td>
<td>34.6</td>
<td>46.4</td>
<td>-10.7</td>
<td>-14.8</td>
</tr>
<tr>
<td>Commodities Benchmark</td>
<td>-5.1</td>
<td>8.4</td>
<td>-22.7</td>
<td>-15.0</td>
</tr>
<tr>
<td><strong>Difference</strong></td>
<td>+39.7</td>
<td>+38.0</td>
<td>+12.0</td>
<td>+0.2</td>
</tr>
</tbody>
</table>

Note: The excess returns shown in this presentation may differ from State Street statements due entirely to rounding. These differences are generally within a few basis points and are not material.

<table>
<thead>
<tr>
<th></th>
<th>First Quarter</th>
<th>One Year</th>
<th>Three Years</th>
<th>Five Years</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Total Risk Parity</strong></td>
<td>4.1%</td>
<td>13.1%</td>
<td>4.5%</td>
<td>5.2%</td>
</tr>
<tr>
<td>Risk Parity Benchmark</td>
<td>3.8</td>
<td>11.3</td>
<td>2.7</td>
<td>3.8</td>
</tr>
<tr>
<td><strong>Difference</strong></td>
<td>+0.3</td>
<td>+1.8</td>
<td>+1.8</td>
<td>+1.4</td>
</tr>
</tbody>
</table>

*Note: The excess returns shown in this presentation may differ from State Street statements due entirely to rounding. These differences are generally within a few basis points and are not material.*
Appendix – Supplemental Reporting
The chart above depicts the asset allocation of peer public funds with assets greater than $10 billion.
- The ends of each line represent the 95th and 5th percentile of exposures, the middle light blue and grey lines represent the 25th and 75th percentile of exposures, the purple square represents the median, and the green dot represents TRS exposure.

Note: The peer universe had 29 observations.
Historical Excess Performance Ending 3/31/2017

Quarterly and Cumulative Excess Performance
Total Fund vs. Total Fund Benchmark

<table>
<thead>
<tr>
<th>Quarterly Excess Performance</th>
<th>Ratio of Cumulative Wealth - 10 Years</th>
</tr>
</thead>
</table>

- Quarterly Out Performance
- Quarterly Under Performance

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TRS Asset Growth

Total Fund Historical Growth (September 1997 - March 2017)

Market Value (Billions)

$137.9
## External Manager Program:
### Public Equity Performance as of 3/31/2017

<table>
<thead>
<tr>
<th>Allocation ($ in billions)</th>
<th>First Quarter</th>
<th>One Year</th>
<th>Three Years</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>EP Total Global Equity</strong></td>
<td>$32.5</td>
<td>7.1%</td>
<td>16.6%</td>
</tr>
<tr>
<td>EP Global Equity Benchmark</td>
<td>--</td>
<td>7.0</td>
<td>14.3</td>
</tr>
<tr>
<td><strong>Difference</strong></td>
<td>--</td>
<td>+0.1</td>
<td>+2.3</td>
</tr>
<tr>
<td><strong>EP U.S.A.</strong></td>
<td>$6.5</td>
<td>4.9</td>
<td>18.1</td>
</tr>
<tr>
<td>EP U.S.A. Benchmark</td>
<td>--</td>
<td>5.9</td>
<td>18.2</td>
</tr>
<tr>
<td><strong>Difference</strong></td>
<td>--</td>
<td>-1.0</td>
<td>-0.1</td>
</tr>
<tr>
<td><strong>EP Non-U.S. Developed</strong></td>
<td>$5.7</td>
<td>6.6</td>
<td>11.9</td>
</tr>
<tr>
<td>MSCI EAFE + Canada Index</td>
<td>--</td>
<td>6.8</td>
<td>11.9</td>
</tr>
<tr>
<td><strong>Difference</strong></td>
<td>--</td>
<td>-0.2</td>
<td>+0.0</td>
</tr>
<tr>
<td><strong>EP Emerging Markets</strong></td>
<td>$8.5</td>
<td>12.3</td>
<td>20.4</td>
</tr>
<tr>
<td>MSCI Emerging Markets Index</td>
<td>--</td>
<td>11.4</td>
<td>17.2</td>
</tr>
<tr>
<td><strong>Difference</strong></td>
<td>--</td>
<td>+0.9</td>
<td>+3.2</td>
</tr>
<tr>
<td><strong>EP World Equity</strong></td>
<td>$6.4</td>
<td>7.3</td>
<td>16.7</td>
</tr>
<tr>
<td>EP World Equity Benchmark</td>
<td>--</td>
<td>7.0</td>
<td>15.4</td>
</tr>
<tr>
<td><strong>Difference</strong></td>
<td>--</td>
<td>+0.3</td>
<td>+1.3</td>
</tr>
<tr>
<td><strong>EP Directional Hedge Funds</strong></td>
<td>$5.4</td>
<td>2.6</td>
<td>13.6</td>
</tr>
<tr>
<td>HFRI Fund of Funds Composite Index</td>
<td>--</td>
<td>2.4</td>
<td>6.2</td>
</tr>
<tr>
<td><strong>Difference</strong></td>
<td>--</td>
<td>+0.2</td>
<td>+7.4</td>
</tr>
</tbody>
</table>

**Note:** The excess returns shown in this presentation may differ from State Street statements due entirely to rounding. These differences are generally within a few basis points and are not material.
External Manager Program:
Stable Value/Total Program Performance as of 3/31/2017

<table>
<thead>
<tr>
<th>Allocations</th>
<th>First Quarter</th>
<th>One Year</th>
<th>Three Years</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>EP Total Stable Value</strong></td>
<td>$5.8</td>
<td>1.7%</td>
<td>6.9%</td>
</tr>
<tr>
<td><strong>EP Stable Value Benchmark</strong></td>
<td>--</td>
<td>1.2</td>
<td>5.3</td>
</tr>
<tr>
<td><strong>Difference</strong></td>
<td>--</td>
<td>+0.5</td>
<td>+1.6</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Allocations</th>
<th>First Quarter</th>
<th>One Year</th>
<th>Three Years</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>EP Stable Value Hedge Funds</strong></td>
<td>$5.5</td>
<td>1.5</td>
<td>6.6</td>
</tr>
<tr>
<td><strong>EP Stable Value Hedge Funds Benchmark</strong></td>
<td>--</td>
<td>1.3</td>
<td>5.4</td>
</tr>
<tr>
<td><strong>Difference</strong></td>
<td>--</td>
<td>+0.2</td>
<td>+1.2</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Allocations</th>
<th>First Quarter</th>
<th>One Year</th>
<th>Three Years</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>EP Absolute Return</strong></td>
<td>$0.3</td>
<td>5.0</td>
<td>17.8</td>
</tr>
<tr>
<td><strong>EP Absolute Return Benchmark</strong></td>
<td>--</td>
<td>0.8</td>
<td>2.9</td>
</tr>
<tr>
<td><strong>Difference</strong></td>
<td>--</td>
<td>+4.2</td>
<td>+14.9</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Allocations</th>
<th>First Quarter</th>
<th>One Year</th>
<th>Three Years</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Total External Public Program</strong></td>
<td>$38.3</td>
<td>6.3</td>
<td>15.0</td>
</tr>
<tr>
<td><strong>EP External Public Benchmark</strong></td>
<td>--</td>
<td>6.1</td>
<td>12.9</td>
</tr>
<tr>
<td><strong>Difference</strong></td>
<td>--</td>
<td>+0.2</td>
<td>+2.1</td>
</tr>
</tbody>
</table>

*Note: The excess returns shown in this presentation may differ from State Street statements due entirely to rounding. These differences are generally within a few basis points and are not material.*
Public Strategic Partnership Program (SPN): Performance Summary as of 3/31/2017

- The Public SPNs in aggregate outperformed the benchmark during the fourth quarter but have underperformed over the trailing one and three-year periods
  - Two managers, BlackRock and J.P. Morgan, have trailing three-year returns above the benchmark while Neuberger Berman and Morgan Stanley trail the benchmark.

<table>
<thead>
<tr>
<th>Allocation ($ in billions)</th>
<th>First Quarter</th>
<th>One Year</th>
<th>Three Years</th>
</tr>
</thead>
<tbody>
<tr>
<td>Public Strategic Partnership</td>
<td>$7.1</td>
<td>5.8%</td>
<td>10.6%</td>
</tr>
<tr>
<td>Public SPN Benchmark</td>
<td>--</td>
<td>5.4</td>
<td>10.0</td>
</tr>
<tr>
<td>Difference</td>
<td>--</td>
<td>+0.4</td>
<td>+0.6</td>
</tr>
<tr>
<td>Blackrock</td>
<td>$1.8</td>
<td>5.4%</td>
<td>11.2%</td>
</tr>
<tr>
<td>J.P. Morgan</td>
<td>$1.9</td>
<td>6.1%</td>
<td>11.7%</td>
</tr>
<tr>
<td>Neuberger Berman</td>
<td>$1.7</td>
<td>6.2%</td>
<td>10.2%</td>
</tr>
<tr>
<td>Morgan Stanley</td>
<td>$1.7</td>
<td>5.5%</td>
<td>9.1%</td>
</tr>
</tbody>
</table>

Note: The excess returns shown in this presentation may differ from State Street statements due entirely to rounding. These differences are generally within a few basis points and are not material. Returns are shown on a before-fees basis.
**Benchmarks**

- **Total Fund Performance Benchmark** – 18.7% MSCI U.S.A. IMI, 9.7% MSCI Emerging Markets, 13.7% MSCI EAFE plus Canada, 4.0% HFRI FoF Composite Index, 12.4% State Street Private Equity (1 qtr lagged), 11.7% BC Long Term Treasury, 4.0% HFRI FoF Conservative Index, 1.0% Citigroup 3 Mo T-Bill, 3.7% BC U.S. TIPS, 12.6% NCREIF ODCE (1 qtr lagged), 3.7% Energy and Natural Resources Benchmark, and 4.3% Risk Parity Benchmark.

- **Global Equity Benchmark** – 23.4% MSCI EAFE plus Canada, 31.9% MSCI U.S.A. IMI, 16.5% MSCI Emerging markets index, 6.9% HFRI FoF Composite Index, and 21.3% State Street Private Equity (1 qtr lagged)
  - U.S, Equity Benchmark - MSCI U.S.A. IMI Index
  - Emerging Markets Equity Benchmark – MSCI Emerging Markets
  - Non-US Developed Equity Benchmark – MSCI EAFE plus Canada
  - Directional Hedge Funds – HFRI Fund of Funds (FoF) Composite Index
  - Private Equity Benchmark - State Street Private Equity (1 qtr lagged)

*Note: Returns and market values (based on account level) reported are provided by State Street. Net additions/withdrawals are reported on a gross (adjusted for expenses) total fund level as provided by State Street. All rates of return for time periods greater than one year are annualized. The excess returns shown in this presentation may differ from State Street statements due entirely to rounding. These differences are generally within a few basis points and are not material.*
**Benchmarks (cont’d)**

- Stable Value Benchmark – 23.6% HFRI FoF Conservative Index, 70.5% Barclays Long Term Treasury, and 5.9% Citigroup 3 mo T-Bill.
  - US Treasuries Benchmark – Barclays Long Term Treasury
  - Stable Value Hedge Funds – HFRI Fund of Funds (FoF) Conservative Index
  - Other Absolute Return Benchmark - 3 Mo LIBOR + 2%
  - Cash Benchmark - Citigroup 3 Mo T-Bill

- Real Return Benchmark – 19.6% Barclays U.S. TIPS, 71.0% NCREIF ODCE, and 9.5% Energy & Natural Resources Benchmark
  - US TIPS Benchmark – Barclays U.S. TIPS Index
  - Real Assets Benchmark – NCREIF ODCE (1qtr lagged)
  - Energy and Natural Resources – 75% Cambridge Associates Natural Resources (reweighted) / 25% quarterly Seasonally-Adjusted Consumer Price Index (1qtr lagged)
  - Commodities Benchmark – Goldman Sachs Commodity Index

*Note: Returns and market values (based on account level) reported are provided by State Street. Net additions/withdrawals are reported on a gross (adjusted for expenses) total fund level as provided by State Street. All rates of return for time periods greater than one year are annualized. The excess returns shown in this presentation may differ from State Street statements due entirely to rounding. These differences are generally within a few basis points and are not material.*
Description of Performance Attribution

- A measure of the source of the deviation of a fund's performance from that of its policy benchmark. Each bar on the attribution graph represents the contribution made by the asset class to the total difference in performance. A positive value for a component indicates a positive contribution to the aggregate relative performance. A negative value indicates a detrimental impact. The magnitude of each component's contribution is a function of (1) the performance of the component relative to its benchmark, and (2) the weight (beginning of period) of the component in the aggregate.

- The individual Asset Class effect, also called Selection Effect, is calculated as
  \[ \text{Actual Weight of Asset Class} \times (\text{Actual Asset Class Return} - \text{Asset Class Benchmark Return}) \]

- The bar labeled Allocation Effect illustrates the effect that a Total Fund's asset allocation has on its relative performance. Allocation Effect calculation = \((\text{Asset Class Benchmark Return} - \text{Total Benchmark Return}) \times (\text{Actual Weight of Asset Class} - \text{Target Policy Weight of Asset Class})\).

- The bar labeled Other is a combination of Cash Flow Effect and Benchmark Effect:
  - Cash Flow Effect describes the impact of asset movements on the Total Fund results. Cash Flow Effect calculation = \((\text{Total Fund Actual Return} - \text{Total Fund Policy Return}) - \text{Current Selection Effect} - \text{Current Allocation Effect})\)
  - Benchmark Effect results from the weighted average return of the asset classes' benchmarks being different from the Total Funds' policy benchmark return. Benchmark Effect calculation = \(\text{Total Fund Policy Return} - (\text{Asset Class Benchmark Return} \times \text{Target Policy Weight of Asset Class})\).

- Cumulative Effect
  Cumulative Effect calculation = \(\text{Current Effect } t \times (1+\text{Cumulative Total Fund Actual Return } t-1) + \text{Cumulative Effect } t-1 \times (1+\text{Total Fund Benchmark Return } t)\)
Disclaimers and Notes
Disclaimers and Notes

Disclaimers:

 Please review this report and notify Aon Hewitt Investment Consulting (AHIC) with any issues or questions you may have with respect to investment performance or any other matter set forth herein.

 The client portfolio data presented in this report have been obtained from the custodian. AHIC has compared this information to the investment managers’ reported returns and believes the information to be accurate. AHIC has not conducted additional audits and cannot warrant its accuracy or completeness. This document is not intended to provide, and shall not be relied upon for, accounting and legal or tax advice.

 Refer to Hedge Fund Research, Inc www.hedgefundresearch.com for more information on HFR indices

Notes:

 The rates of return contained in this report are shown on an after-fees basis unless otherwise noted. They are geometric and time weighted. Returns for periods longer than one year are annualized.

 Universe percentiles are based upon an ordering system in which 1 is the best ranking and 100 is the worst ranking.

 Due to rounding throughout the report, percentage totals displayed may not sum up to 100.0%. Additionally, individual fund totals in dollar terms may not sum up to the plan totals.
General Disclosures

- Investment advice and consulting services provided by Aon Hewitt Investment Consulting, Inc. (“AHIC”), which is an Aon Company.
- The information contained herein is confidential and provided for information purposes only. It is not complete and does not contain certain material information about making investment in securities including important disclosures and risk factors. All securities transactions involve substantial risk of loss. Under no circumstances does the information in this report represent a recommendation to buy or sell stocks, limited partnership interests, or other investment instruments.
- AHIC is a federally registered investment advisor with the U.S. Securities and Exchange Commission (“SEC”), AHIC is also registered with the Commodity Futures Trade Commission as a commodity pool operator and a commodity trading advisor, and is a member of the National Futures Association. The AHIC ADV Form Part 2A disclosure statement is available upon written request to:
  Aon Hewitt Investment Consulting, Inc.
  200 E. Randolph Street
  Suite 1500
  Chicago, IL 60601
  ATTN: AHIC Compliance Officer
TAB 11
Teacher Retirement System of Texas

Board of Trustees 2017 Election

Teacher Retirement System of Texas

Election-America
In the business of perfection
TRS of Texas
Board of Trustees 2017 Election

1. Preparing
2. Mailing
3. Tallying and Reporting
Preparing
Preparing:

• Design Paper Ballot
• Design Online Voting Site
Races

- Retiree Position
- At-Large Position
Races

- Retiree Position
- At-Large Position

Voters (1,399,998)

- Retirees vote in both races
- Active members vote in only the At-Large race
Paper Ballot:
Paper Ballot:
Election Code and Voting PIN

- Election Code: 000000
- Voting PIN: 000000
Paper Ballot:
Instructions for voting online

**To Vote Online:**
1. To vote online, please go to:
   [https://vote.election-america.com/TRSTX](https://vote.election-america.com/TRSTX)
2. Enter your Election Code and Voting PIN (above)
3. Follow the on-screen instructions.
4. Online voting ends at 5:00 pm Central on May 5, 2017.
Paper Ballot:
Instructions for online and by mail

<table>
<thead>
<tr>
<th>To Vote Online:</th>
<th>To Vote By Mail:</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. To vote online, please go to:</td>
<td>1. Fill in the bubble to the left of the candidate of your choice.</td>
</tr>
<tr>
<td><a href="https://vote.election-america.com/TRSTX">https://vote.election-america.com/TRSTX</a></td>
<td>2. Detach the ballot on the perforated line and insert into the prepaid envelope provided.</td>
</tr>
<tr>
<td>2. Enter your Election Code and Voting PIN (above)</td>
<td>3. All ballots must be received by Election-America by May 5, 2017.</td>
</tr>
<tr>
<td>3. Follow the on-screen instructions.</td>
<td></td>
</tr>
<tr>
<td>4. Online voting ends at 5.00 pm Central on May 5, 2017.</td>
<td></td>
</tr>
</tbody>
</table>
Paper Ballot:
Active Members

- Greg Poole
- Karen Charleston
- Nanette Sisney
- Hiram Burguete
- Write In. ___________
Paper Ballot: Retirees

At-Large Position
Vote for no more than one.

- Greg Poole
- Karen Charleston
- Nanette Sisney
- Hiram Burguete
- Write In: ________________

Retiree Position
Vote for no more than one.

- James D. Nance
- Fran Piemmons
- Write In: ________________
Online Ballot
Online Ballot:
Login

Teacher Retirement System of Texas Board of Trustees 2017 Election
The election ends at 5:00 pm Central on May 5, 2017.

Please enter your Election Code and Voting PIN below. (Your Election Code and Voting PIN can be found on the paper ballot that was mailed to you with the TRS News.) Then click Enter.

Election Code: 
Voting PIN: 

Enter

For assistance, please contact: help@trs.tx.gov
Powered by Election-America, Inc.
Online Ballot:
For Active Members

Teacher Retirement System of Texas Board of Trustees 2017 Election

Please review the candidate statements in the TRS News that came with your paper ballot.
To make a selection, click in the box to the left of your choice. When you're done, click Submit to review your ballot.

TRS Board of Trustees 2017 Official Ballot

At-Large Position
Vote for no more than one.

- Greg Poole
- Karan Charleston
- Nanette Sissney
- Hiram Burguete

(Write-in)

Submit
Online Ballot:
For Retirees

Teacher Retirement System of Texas Board of Trustees 2017 Election

Please review the candidate statements in the TRS News that came with your paper ballot.

To make a selection, click in the box to the left of your choice. When you're done, click Submit to review your ballot.

**TRS Board of Trustees 2017 Official Ballot**

**At-Large Position**
Vote for no more than one.

- [ ] Greg Poole
- [ ] Karen Charleston
- [ ] Nanette Sissney
- [ ] Hiram Burguete
- [ ] (Write-in)

**Retiree Position**
Vote for no more than one.

- [ ] James D. Nance
- [ ] Fran Plemmons
- [ ] (Write-in)

Submit
Online Ballot: Confirmation

Teacher Retirement System of Texas Board of Trustees 2017 Election

Please review your ballot. To make a change, click Return. To cast your vote, click Vote. Once you cast your vote, you cannot change or withdraw it.

At-Large Position
Karen Charleston

[Return] [Vote]
Online Ballot: Final Screen

Teacher Retirement System of Texas Board of Trustees 2017 Election

Thank you for voting!
Your vote was successfully submitted on February 23, 2017 at 7:53 a.m. CST.

Return

Powered by Election-America, Inc.
Mailing:
Outgoing Envelope
Mailing:
Return Envelope
Mailing:

1,399,998 ballots were mailed along with the TRS Newsletter.
Tallying and Reporting
Tallying:

50,682 ballots were received
  8,753 by internet
  41,929 by mail
Tallying:

Ballots not counted:

- Received after deadline
- Voted for (0 / 2+ candidates)
- Mutilated
- Duplicate mail ballot
- Voted by web - sent ballot
Reporting:

Final Report
Reporting:

Final Report
• Results
• Write-ins
• Statistics
• Votes by method (internet and paper)
Reporting:

Final Steps:
- Independent Committee Review
- Presentation to Board
## Official Declaration of the Vote

### 2017 TRS TX Election

Certified Results

Provided by Election-America, Inc.

<table>
<thead>
<tr>
<th>Race</th>
<th>Candidate</th>
<th>Votes</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>At-Large Position</strong></td>
<td>Nanette Sissney</td>
<td>21,885</td>
</tr>
<tr>
<td></td>
<td>Greg Poole</td>
<td>12,154</td>
</tr>
<tr>
<td></td>
<td>Karen Charleston</td>
<td>10,583</td>
</tr>
<tr>
<td></td>
<td>Hiram Burguete</td>
<td>4,549</td>
</tr>
<tr>
<td></td>
<td><strong>Total Write-ins</strong></td>
<td><strong>504</strong></td>
</tr>
<tr>
<td><strong>Retiree Position</strong></td>
<td>Fran Plemmons</td>
<td>16,713</td>
</tr>
<tr>
<td></td>
<td>James D. Nance</td>
<td>13,646</td>
</tr>
<tr>
<td></td>
<td><strong>Total Write-ins</strong></td>
<td><strong>272</strong></td>
</tr>
</tbody>
</table>
DATE: June 1, 2017

TO: TRS Board of Trustees
    Brian Guthrie, Executive Director
    Ken Welch, Deputy Director

FROM: Howard Goldman, Director of Communications

SUBJECT: Update on 2017 Board of Trustees Elections

The spring 2017 TRS Board of Trustees elections have concluded, and the names of candidates who received the most votes in each of the two elections have been certified to the governor. Governor Abbott will appoint one of three individuals who received the most votes in the at-large election and one of two individuals who received the most votes in the retiree election.

A total of 30,629 eligible votes were cast in the retiree election. This represents a 22.6 percent decrease from the 39,555 eligible votes cast in the 2011 retiree election. One reason for the reduced turnout in this year’s election may be that only two candidates qualified to appear on the 2017 ballot compared with three candidates on the 2011 ballot.

This was the first year that an at-large election was held, and 49,675 votes were cast. Listed below are the final vote counts.

<table>
<thead>
<tr>
<th>Race</th>
<th>2017 TRS TX Election</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Candidate</td>
</tr>
<tr>
<td><strong>At-Large Position</strong></td>
<td>Nanette Sissney</td>
</tr>
<tr>
<td></td>
<td>Greg Poole</td>
</tr>
<tr>
<td></td>
<td>Karen Charleston</td>
</tr>
<tr>
<td></td>
<td>Hiram Burguete</td>
</tr>
<tr>
<td></td>
<td>Total Write-ins</td>
</tr>
<tr>
<td><strong>Retiree Position</strong></td>
<td>Fran Plemmons</td>
</tr>
<tr>
<td></td>
<td>James D. Nance</td>
</tr>
<tr>
<td></td>
<td>Total Write-ins</td>
</tr>
</tbody>
</table>

TRS contracted with Election-America to manage this year’s election. An election timeline is attached. Election Partner Michael Caputo, of Election-America, will provide further election details at the June board meeting. If you have additional questions, please let us know.

Thank you.
## Timeline for the 2017 TRS Trustee Election

<table>
<thead>
<tr>
<th>Date</th>
<th>Event Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>July 2016</td>
<td>Members were also notified through MyTRS email and on the TRS website explaining how to obtain 2017 board nominating petitions.</td>
</tr>
<tr>
<td>August 2016</td>
<td>The August TRS News informed members of the 2017 board election and how to submit nominations.</td>
</tr>
<tr>
<td>Sept. 2016</td>
<td>The September Update newsletter publicized how to submit nominations.</td>
</tr>
<tr>
<td>Oct. 2016</td>
<td>The October Update newsletter publicized how to submit nominations.</td>
</tr>
<tr>
<td>Nov. 2016</td>
<td>The November Update newsletter publicized how to submit nominations.</td>
</tr>
<tr>
<td>Dec. 2016</td>
<td>The December TRS News reminded TRS participants that they could nominate candidates to appear on 2017 retiree and at-large election ballots. Information also added to the TRS website and sent via MyTRS email.</td>
</tr>
<tr>
<td>Jan. 8, 2017</td>
<td>A reminder of nominations deadline sent to member associations.</td>
</tr>
<tr>
<td>Jan. 20, 2017</td>
<td>Deadline for submitting nominating petitions to TRS.</td>
</tr>
<tr>
<td>Following week</td>
<td>Drawing held to determine the order of candidates’ names on the ballot.</td>
</tr>
<tr>
<td>March 15, 2017</td>
<td>Ballots mailed out on or before this date along with the March TRS News containing candidate biographical information and postage-paid envelopes.</td>
</tr>
<tr>
<td>May 5, 2017</td>
<td>Deadline for receiving returned completed ballots (hard copy or electronic).</td>
</tr>
<tr>
<td>May 8–15</td>
<td>Ballots counted, sorted, and verified.</td>
</tr>
<tr>
<td>May 23, 2017</td>
<td>An independent committee reviews the election procedures and ballot count, including a visual inspection of ballots, to attest to the election results.</td>
</tr>
<tr>
<td>Late May 2017</td>
<td>Names of up to three candidates who received the most votes in each election certified to the governor.</td>
</tr>
<tr>
<td>Summer 2017</td>
<td>Normally during the summer (at the governor’s discretion), the governor appoints the new board members.</td>
</tr>
<tr>
<td>Sept. 1, 2017</td>
<td>Earliest date that new board members will take office.</td>
</tr>
</tbody>
</table>
MEMORANDUM

To: TRS Board of Trustees

Through: Brian Guthrie, Executive Director

From: Rebecca Merrill, Director of Strategic Initiatives

Date: June 1, 2017

Subject: Evaluation of Gabriel, Roeder, Smith & Company Pension Fund Actuarial Services for the period May 2016 through May 2017

Summary of Work Performed

During this period, Gabriel, Roeder, Smith & Company (GRS) provided continued professional advice and technical support for Pension related matters to TRS staff in a timely manner. Services performed included the following:

- Prepared the annual valuation;
- Presented results of valuation to the Board and Legislative staff, associations and interested parties;
- Prepared actuarial impact statements for the 85th Legislative session;
- Presented on funding policy design at the Board’s February educational meeting;
- Prepared information for GASB/CAFR reporting, including allocation schedules necessary for GASB 68; and
- Assisted with preparation of survey information regarding pension fund assumptions and methodology.

Assessment of Performance

The working relationship between GRS and TRS continues to be positive. Over the past year, GRS has been responsive and timely in preparing actuarial impact statements and assisting TRS in analyzing proposed legislation from an actuarial perspective. TRS and GRS’ working relationship on GASB reporting has continued to improve. GRS was responsive to TRS concerns raised last year about the timeliness of GASB schedules, and GRS adjusted accordingly. GRS has readily made themselves available for conference calls and meetings on short notice. Finally, GRS is skilled in presenting and is able to make difficult actuarial concepts easier to understand.

The current GRS contract expires September 2017. TRS has issued a Request For Proposals (RFP) for pension fund actuarial and consulting services. Staff is currently evaluating the RFP responses and will bring a recommendation for selection at the July 2017 Board of Trustees meeting.
Memorandum

To: TRS Board of Trustees

Through: Brian Guthrie, Executive Director
         Ken Welch, Deputy Director

From: Katrina Daniel, Chief Health Care Officer
       Yimei Zhao, Assistant Director

Date: June 2, 2017

Re: Selection of a Health Care Consulting and Actuarial Services Firm for TRS-Care and TRS-ActiveCare

Introduction
Chapter 1575, Texas Insurance Code, establishes the TRS-Care program, the statewide health benefits program for retired Texas public school employees and their eligible dependents. Chapter 1579, Texas Insurance Code, establishes the TRS-ActiveCare program, the statewide health benefits program for Texas public school employees and their eligible dependents.

As trustee of TRS-Care and TRS-ActiveCare, the Teacher Retirement System of Texas (TRS) published a request for proposals (RFP) on January 30, 2017, seeking a health care consultant and actuarial services firm for TRS-Care and TRS-ActiveCare. Under the RFP, the consulting and actuarial services will become effective on September 1, 2017.

The major services to be provided by the selected health care consultant and actuarial services firm include conducting actuarial valuations in accordance with GASB requirements, providing health care and pharmacy consulting services, and providing data warehousing services.

As facilitated by TRS Procurement and Contracts, Health Insurance and Benefits (HIB) staff evaluated the proposals submitted by interested respondents.

Eligibility for Consideration
The selected respondents must exhibit conclusively their experience and capabilities to fulfill the complex actuarial and consulting services for TRS-Care and TRS-ActiveCare. Rules adopted by the Board of Trustees, TRS plan features, and industry best practices establish the minimum requirements for interested carriers:

- The actuarial services firm has provided actuarial valuations for retiree health care programs, provided health care consulting services for a minimum of five (5) years, and has a single client with at least 100,000 covered lives.
- Key actuary and consulting personnel have at least 5-10 years of experience and experience with public plans with membership greater than 50,000 – 100,000 covered lives. Actuary staff must also be a Fellow or Associate of the Society of Actuaries. Please note, minimum requirements vary by position.
**Responses**
The following firms responded by the March 10, 2017 deadline:

- Arthur J. Gallagher & Co.
- Gabriel, Roeder, Smith & Company
- Segal Consulting

**Evaluation Methodology**
All three (3) respondents met the minimum qualifications and their responses were evaluated individually by the evaluation team. The evaluation team consisted of four (4) voting senior staff members from TRS HIB with assistance from Legal Services, Internal Audit, Information Technology, and Procurement and Contracts. In its review, among other factors, the evaluation team considered the following:

- Experience and qualifications of the firm,
- Experience and qualifications of the personnel,
- The approach to providing services, and
- Cost

The voting members from TRS independently scored the proposals and the respondent with the highest overall evaluation score was invited to meet with TRS on May 12, 2017 and to provide best and final pricing.

**Recommendation to the TRS Board of Trustees**
The final recommendation of the evaluation team will be presented to the Board of Trustees during its June 1 - 2, 2017 meeting.
Teacher Retirement System of Texas

RESOLUTION SELECTING THE HEALTH CARE CONSULTANT AND ACTUARY FOR THE TRS-ACTIVECARE AND TRS-CARE PROGRAMS

June 1 - 2, 2017

Whereas, Chapter 1575, Texas Insurance Code, governs the Texas Public School Retired Employees Group Benefits Program (the “TRS-Care program”) and authorizes the Teacher Retirement System of Texas (“TRS”), as trustee, to implement the group coverage program described in the statute;

Whereas, Chapter 1579, Texas Insurance Code, governs the Texas School Employees Uniform Group Health Coverage Program (the “TRS-ActiveCare program”) and authorizes the Teacher Retirement System of Texas (“TRS”), as trustee, to implement the group coverage program described in the statute;

Whereas, TRS issued a Request for Proposals (“RFP”) to interested entities for health care consulting and actuarial services for the TRS-ActiveCare and TRS-Care programs;

Whereas, TRS received and evaluated responsive proposals to provide health care consulting and actuarial services for the TRS-ActiveCare and TRS-Care programs;

Whereas, TRS staff has provided relevant information to the TRS Board of Trustees (the “Board”), discussed the proposals with the Board, and presented an evaluation to the Board concerning the selection of a health care consultant and actuary for the TRS-ActiveCare and TRS-Care programs;

Whereas, The Board has considered the evaluation made by TRS staff; now, therefore, be it

Resolved, That the Board hereby selects ____________________ to be the health care consultant and actuary for the TRS-ActiveCare and TRS-Care programs, subject to successful negotiation and execution of a final agreement for the implementation and provision of health care consulting and actuarial services for the TRS-ActiveCare and TRS-Care programs, for a two-year term to commence on September 1, 2017, with four optional one-year renewals;

Resolved, That the Board authorizes the Executive Director to expend funds and to take all actions deemed by him to be necessary or advisable to implement the Board’s selection of ____________________ and to negotiate and finalize a contract with
on the same or better financial terms presented to the Board and on such other terms and conditions deemed by the Executive Director to be in the best interest of the TRS-ActiveCare and TRS-Care programs, and from time to time to amend, modify, or extend the contract as deemed by the Executive Director to be in the best interest of the TRS-ActiveCare and TRS-Care programs, it being understood that the Board’s selection of ____________________ pursuant to this resolution shall not be construed as a binding agreement or obligation to contract, and there shall be no binding agreement among the parties until a full and final written contract is successfully negotiated and executed by both parties.
TAB 21
Introduction
Chapter 1575, Texas Insurance Code, establishes the TRS-Care program, the statewide health benefits program for retired Texas public school employees and their eligible dependents. Chapter 1579, Texas Insurance Code, establishes the TRS-ActiveCare program, the statewide health benefits program for Texas public school employees and their eligible dependents.

As trustee of TRS-Care and TRS-ActiveCare, the Teacher Retirement System of Texas (TRS) published a Request for Proposals (RFP) on November 30, 2016, seeking a Pharmacy Benefit Manager (PBM) for TRS-Care and for TRS-ActiveCare. The intent of the RFP was to leverage the joint economies of scale for TRS-Care and TRS-ActiveCare to select one or more PBMs who are able to bring the best value to each plan independently. Under the RFP, TRS-Care’s self-funded pharmacy benefits services will become effective on September 1, 2017 for the standard plan and January 1, 2018 for the Medicare Part D plan; TRS-ActiveCare’s self-funded pharmacy benefits services will become effective on September 1, 2017.

The major services to be provided by the selected PBM(s) include pharmacy claims adjudication, network maintenance, clinical and cost management, communications, customer services, and reporting.

As facilitated by TRS Procurement and Contracts, Health Insurance and Benefits (HIB) staff, together with Gabriel Roeder Smith & Company (GRS), have evaluated the proposals submitted by interested respondents.

Eligibility for Consideration
The selected PBM(s) must exhibit conclusively their financial and non-financial capabilities to fulfill the complex pharmacy benefits operations for TRS-Care or TRS-ActiveCare. Depending on independently demonstrated best value to TRS-Care or TRS-ActiveCare, different respondents may be awarded TRS-Care and TRS-ActiveCare PBM contracts; likewise, the same vendor may be awarded the TRS-Care and TRS-ActiveCare contracts. Rules adopted by the Board of Trustees, TRS plan features, and industry best practices establish the minimum requirements for interested vendors:

Requirements for TRS-Care Standard and TRS-ActiveCare:
- Have at least one million (1,000,000) covered lives across the respondent’s pharmacy benefit management book of business.
- Have at least one billion dollars ($1,000,000,000) in annual pharmacy benefits processed and services fees.
- Have at least five (5) years of experience providing pharmacy benefit management services, and five (5) years of experience in the administration of a retail pharmacy network.
Have at least one (1) employer group of sufficient size (200,000 covered lives or more) and composition (active employees) as TRS-ActiveCare, and one (1) employer group of sufficient size (100,000 covered lives or more) and composition (non-Medicare retirees) as TRS-Care.
Have at least three (3) government clients with a minimum of 50,000 covered lives under a commercial prescription drug plan.
Must provide proof of current URAC accreditation; and

**Additional Requirements for TRS-Care Medicare Part D.**
- Have at least one million (1,000,000) covered lives across the respondent’s Medicare Part D book of business with at least five hundred thousand (500,000) covered lives in an EGWP Plan with a commercial wrap benefit.
- Have at least five (5) years of experience providing Medicare Part D prescription drug benefit services.
- Have at least one (1) employer group of sufficient size (75,000 covered lives or more) and composition (Medicare retirees) as TRS-Care.
- Have at least three (3) government clients with at least 25,000 covered lives under an Indirect EGWP with commercial wrap plan.
- Must currently be approved by CMS to contract with plan sponsors to administer an Indirect EGWP with commercial wrap plan.

**Responses**
The following PBMs responded by the February 21, 2017 deadline:
- CVS Caremark
- Express Scripts, Inc.
- OptumRx, Inc.

All three PBMs were identified as finalists and invited to finalist meetings on April 11 - 13, 2017 to discuss additional questions and provide additional clarifying information and data for consideration by TRS. The finalists were invited to submit a final clarification and best pricing proposal by April 28, 2017 and to demonstrate consumer engagement and communication tools in the month of May. A conference call was also conducted on May, 15, 2017 with each of the top two finalists to confirm their financial proposals.

**Evaluation Methodology**
The evaluation team, consisting of TRS senior staff members and personnel from the Legal Services, Internal Audit, and TRS Procurement and Contracts, along with GRS, reviewed the finalists’ proposals, responses during the finalist meetings, and subsequent information provided to TRS by the finalists. In its review, among other factors, the evaluation team considered the following:
- Ability to service the entire contract
- Account management services
- Claims processing capability
- Clinical and cost management programs
- Cost
- Flexibility to modify services and networks as may be required by TRS or by Texas law
- Qualifications (proven experience for similar populations)
- Other specialized services described in the RFP

The three voting members from TRS independently scored the proposals.

**Recommendation to the TRS Board of Trustees**
The final recommendation of the evaluation team will be presented to the Board of Trustees during its June 1 - 2, 2017 meeting.
June 2, 2017

Mr. Brian Guthrie  
Executive Director  
Teacher Retirement System of Texas  
1000 Red River Street  
Austin, Texas 78701  

Re: Selection of TRS-ActiveCare Pharmacy Benefit Manager

Dear Mr. Guthrie:

As authorized by Chapter 1579, Texas Insurance Code, the Teacher Retirement System of Texas (TRS) with the assistance of its consultant, Gabriel Roeder smith (GRS), solicited and evaluated proposals to select a pharmacy benefit manager (PBM) for TRS-ActiveCare, the statewide health benefits plan for active Texas school employees. The PBM will work closely with the health plan administrator and will provide pharmacy benefit services to eligible TRS-ActiveCare participants. These services include network and clinical management, claims adjudication, communications and reporting. The Request for Proposals (RFP) was posted and published November 30, 2016.

Eligibility for Consideration

The PBM must have demonstrated conclusively the capability to manage the pharmacy benefits for plans as large and complex as TRS-ActiveCare. Rules adopted by the Board of Trustees and minimum requirements recommended by GRS for organizations submitting proposals include the following:

- Must have at least one million (1,000,000) covered lives across the Respondent’s pharmacy benefit management book of business as of the Proposal submission date.
- Must have at least one billion dollars ($1,000,000,000) in annual pharmacy benefit processed and service fees.
- Must have at least five (5) years’ experience providing pharmacy benefit management services and must also have at least five (5) years’ experience in the administration of a retail pharmacy network.
- Must have at least one employer group with similar composition to TRS-ActiveCare with at least 200,000 covered lives.
- Must have at least three (3) government clients with at least 50,000 covered lives each under a commercial prescription drug plan.
- Must provide proof of current URAC accreditation.

Responses

The following organizations responded by the February 21, 2017 deadline:
• CaremarkPCS Health, LLC ("CVS Caremark")
• Express Scripts, Inc.
• OptumRx, Inc.

All three were identified as finalists and invited to the competitive field meetings conducted April 11-13, 2017. Each respondent was asked additional questions during the competitive field meeting and to provide additional clarifying information and data for consideration by TRS.

**Evaluation Methodology**

The evaluation team consisting of TRS staff members, supported by GRS consultants, reviewed the finalists’ proposals, responses during the competitive field meetings, and subsequent information provided to TRS by the respondents. In its review the team considered, among other factors, the following:

- Financial proposal
- Network adequacy
- Quality of service
- Consumer tools
- Clinical management
- Performance guarantees

The non-financial portions of each of the three proposals were evaluated by a review team consisting of three voting TRS senior staff members supported by Legal, Internal Audit, Purchasing and a team provided by GRS. The GRS team consisted of Bill Hickman, Amy Cohen, ASA, Wendy Scaggs, RPh. Mike Madalena and Kevin DeStefino, RPh. Each voting team member independently scored the proposals.

The financial portions of each of the proposals were evaluated by the GRS team, which presented their analysis to TRS for inclusion in the overall evaluation of each proposal.

**Recommendation to the TRS Board of Trustees**

The final recommendation of the evaluation team will be presented to the Trustees during their June 2, 2017 meeting.

Please let us know if you have any questions or if additional information is needed.

Sincerely,

William J. Hickman
Senior Health Care Consultant

Amy E. Cohen, ASA, MAAA
Health Care Consultant
June 2, 2017

Mr. Brian Guthrie  
Executive Director  
Teacher Retirement System of Texas  
1000 Red River Street  
Austin, Texas 78701  

Re: Selection of TRS-Care Pharmacy Benefit Manager  

Dear Mr. Guthrie:

The Teacher Retirement System of Texas (TRS) with the assistance of its consultant, Gabriel Roeder Smith (GRS), solicited and evaluated proposals to select a pharmacy benefit manager (PBM) for TRS-Care, the statewide health benefits plan for retired Texas school employees. The PBM will work closely with the health plan administrator and will provide pharmacy benefit services to eligible TRS-Care participants. These services include network and clinical management, claims adjudication, communications and reporting. The Request for Proposals (RFP) was posted and published November 30, 2016.

Eligibility for Consideration

The PBM must have demonstrated conclusively the capability to manage the pharmacy benefits for plans as large and complex as TRS-Care. Rules adopted by the Board of Trustees and minimum requirements recommended by GRS for organizations submitting proposals include the following:

- Must have at least 1,000,000 covered lives across the organization’s pharmacy management book of business as of the Proposal submission date.
- Must have at least 1,000,000 covered lives across the organization’s Medicare Part D book of business; which contains at least 500,000 lives covered under an EGWP Plan with a commercial wrap.
- Must have at least one billion dollars ($1,000,000,000) in annual pharmacy benefit premiums, services, or product income.
- Must have at least five years’ experience providing pharmacy benefit management services, five years’ experience providing Medicare Part D prescription drug benefit services, and must also have at least five years’ experience in the administration of a retail pharmacy network.
- Must have at least one employer group with similar composition to TRS-Care with at least 100,000 covered lives (non-Medicare retirees) and one employer group with similar composition to TRS-Care with at least 75,000 covered lives (Medicare retirees).
- Must have at least three government clients with at least 50,000 covered lives each under a commercial prescription drug plan.
- Must have at least three government clients with at least 25,000 covered lives each under an indirect EGWP plan arrangement.
Must provide proof of current URAC accreditation.
Must be approved by CMS to contract with plan sponsors to administer an Indirect EGWP with commercial wrap plan.

Responses
The following organizations responded by the February 21, 2017 deadline:
• CaremarkPCS Health, LLC (“CVS Caremark”), SilverScript Insurance Company
• Express Scripts, Inc.
• OptumRx, Inc.

All three were identified as finalists and invited to competitive field meetings conducted April 11-13, 2017. Each respondent was asked additional questions during the competitive field meeting and to provide additional clarifying information and data for consideration by TRS.

Evaluation Methodology
The evaluation team consisting of TRS staff members, supported by GRS consultants, reviewed the finalists’ proposals, responses during the competitive field meetings, and subsequent information provided to TRS by the respondents. In its review the team considered, among other factors, the following:
• Financial proposal
• Network adequacy
• Quality of service
• Consumer tools
• Clinical management
• Performance guarantees

The non-financial portions of each of the three proposals were evaluated by a review team consisting of three voting TRS senior staff members supported by Legal, Internal Audit, Purchasing and a team provided by GRS. The GRS team consisted of Bill Hickman, Amy Cohen, ASA, Wendy Scaggs, RPh. Mike Madalena and Kevin DeStefino, RPh. Each voting team member independently scored the proposals.

The financial portions of each of the proposals were evaluated by the GRS team, which presented its analysis to TRS for inclusion in the overall evaluation of each proposal.

Recommendation to the TRS Board of Trustees
The final recommendation of the evaluation team will be presented to the Trustees during their June 2, 2017 meeting.

Please let us know if you have any questions or if additional information is needed.
Sincerely,

William J. Hickman
Senior Health Care Consultant

Amy E. Cohen, ASA, MAAA
Health Care Consultant
Whereas, Chapter 1575, Texas Insurance Code, governs the Texas Public School Retired Employees Group Benefits Program (the “TRS-Care program”) and authorizes the Teacher Retirement System of Texas (“TRS”), as trustee, to implement the group coverage program described in the statute;

Whereas, TRS issued a Request for Proposals (“RFP”) to interested entities for pharmacy benefit management services for the Medicare Part D plan in the TRS-Care program;

Whereas, TRS received and evaluated responsive proposals to provide pharmacy benefit management services for the Medicare Part D plan in the TRS-Care program;

Whereas, TRS staff and the TRS healthcare consultant, Gabriel, Roeder, Smith & Company (“GRS”), have provided relevant information to the TRS Board of Trustees (the “Board”), discussed the proposals with the Board, and presented an evaluation to the Board concerning the selection of a pharmacy benefit manager for the Medicare Part D plan in the TRS-Care program;

Whereas, The Board has considered the evaluation made by TRS staff and GRS; now, therefore, be it

Resolved, That the Board hereby selects ____________________(primary selection) to be the pharmacy benefit manager for the Medicare Part D plan in the TRS-Care program, subject to successful negotiation and execution of a final agreement for the implementation and provision of pharmacy benefit management services for the Medicare Part D plan in the TRS-Care program, for a two-year term to commence on January 1, 2018, with four optional one-year renewals;

Resolved, That the Board authorizes the Executive Director to expend funds and to take all actions deemed by him to be necessary or advisable to implement the Board’s selection of ____________________(primary selection) and to negotiate and finalize a contract with ____________________(primary selection) on the same or better financial terms presented to the Board and on such other terms and conditions deemed by the Executive Director to be in the best interest of the TRS-Care program, and from time to
time to amend, modify, or extend the contract as deemed by the Executive Director to be in the best interest of the TRS-Care program, it being understood that the Board’s selection of _________________ (primary selection) pursuant to this resolution shall not be construed as a binding agreement or obligation to contract, and there shall be no binding agreement among the parties until a full and final written contract is successfully negotiated and executed by both parties.

Resolved, That if for any reason, the Executive Director concludes in his sole judgment that TRS is not reasonably likely to negotiate a binding agreement with _________________ (primary selection), then the Board hereby selects _________________ (secondary selection) to be the pharmacy benefit manager for the Medicare Part D plan in the TRS-Care program, subject to successful negotiation and execution of a final agreement for the implementation and provision of pharmacy benefit management services for the Medicare Part D plan in the TRS-Care program, for a two-year term to commence on January 1, 2018, with four optional one-year renewals;

Resolved, That once the Executive Director concludes in his sole judgment that TRS is not reasonably likely to negotiate a binding agreement with _________________ (primary selection), the Board authorizes the Executive Director to expend funds and to take all actions deemed by him to be necessary or advisable to implement the Board’s selection of _________________ (secondary selection) and to negotiate and finalize a contract with _________________ (secondary selection) on the same or better financial terms presented to the Board and on such other terms and conditions deemed by the Executive Director to be in the best interest of the TRS-Care program, and from time to time to amend, modify, or extend the contract as deemed by the Executive Director to be in the best interest of the TRS-Care program, it being understood that the Board’s selection of _________________ (secondary selection) pursuant to this resolution shall not be construed as a binding agreement or obligation to contract, and there shall be no binding agreement among the parties until a full and final written contract is successfully negotiated and executed by both parties.
Whereas, Chapter 1575, Texas Insurance Code, governs the Texas Public School Retired Employees Group Benefits Program (the “TRS-Care program”) and authorizes the Teacher Retirement System of Texas (“TRS”), as trustee, to implement the group coverage program described in the statute;

Whereas, TRS issued a Request for Proposals (“RFP”) to interested entities for pharmacy benefit management services for the standard plans (i.e., the non-Medicare plans) in the TRS-Care program;

Whereas, TRS received and evaluated responsive proposals to provide pharmacy benefit management services for the standard plans in the TRS-Care program;

Whereas, TRS staff and the TRS healthcare consultant, Gabriel, Roeder, Smith & Company (“GRS”), have provided relevant information to the TRS Board of Trustees (the “Board”), discussed the proposals with the Board, and presented an evaluation to the Board concerning the selection of a pharmacy benefit manager for the standard plans in the TRS-Care program;

Whereas, The Board has considered the evaluation made by TRS staff and GRS; now, therefore, be it

Resolved, That the Board hereby selects ____________________(primary selection) to be the pharmacy benefit manager for the standard plans (i.e., the non-Medicare plans) in the TRS-Care program, subject to successful negotiation and execution of a final agreement for the implementation and provision of pharmacy benefit management services for the standard plans in the TRS-Care program, for a two-year four-month term to commence on September 1, 2017, with four optional one-year renewals;

Resolved, That the Board authorizes the Executive Director to expend funds and to take all actions deemed by him to be necessary or advisable to implement the Board’s selection of ____________________(primary selection) and to negotiate and finalize a contract with ____________________(primary selection) on the same or better financial terms presented to the Board and on such other terms and conditions deemed by the Executive Director to be in the best interest of the TRS-Care program, and from time to
time to amend, modify, or extend the contract as deemed by the Executive Director to be in the best interest of the TRS-Care program, it being understood that the Board’s selection of __________________ (primary selection) pursuant to this resolution shall not be construed as a binding agreement or obligation to contract, and there shall be no binding agreement among the parties until a full and final written contract is successfully negotiated and executed by both parties.

**Resolved**, That if for any reason, the Executive Director concludes in his sole judgment that TRS is not reasonably likely to negotiate a binding agreement with __________________ (primary selection), then the Board hereby selects __________________ (secondary selection) to be the pharmacy benefit manager for the standard plans (i.e., the non-Medicare plans) in the TRS-Care program, subject to successful negotiation and execution of a final agreement for the implementation and provision of pharmacy benefit management services for the standard plans in the TRS-Care program, for a two-year four-month term to commence on September 1, 2017, with four optional one-year renewals;

**Resolved**, That once the Executive Director concludes in his sole judgment that TRS is not reasonably likely to negotiate a binding agreement with __________________ (primary selection), the Board authorizes the Executive Director to expend funds and to take all actions deemed by him to be necessary or advisable to implement the Board’s selection of __________________ (secondary selection) and to negotiate and finalize a contract with __________________ (secondary selection) on the same or better financial terms presented to the Board and on such other terms and conditions deemed by the Executive Director to be in the best interest of the TRS-Care program, and from time to time to amend, modify, or extend the contract as deemed by the Executive Director to be in the best interest of the TRS-Care program, it being understood that the Board’s selection of __________________ (secondary selection) pursuant to this resolution shall not be construed as a binding agreement or obligation to contract, and there shall be no binding agreement among the parties until a full and final written contract is successfully negotiated and executed by both parties.
RESOLUTION SELECTING THE PHARMACY BENEFIT MANAGER FOR THE TRS-ACTIVECARE PROGRAM

June 1 - 2, 2017

Whereas, Chapter 1579, Texas Insurance Code, governs the Texas School Employees Uniform Group Health Coverage Program (the “TRS-ActiveCare program”) and authorizes the Teacher Retirement System of Texas (“TRS”), as trustee, to implement the group coverage program described in the statute;

Whereas, TRS issued a Request for Proposals (“RFP”) to interested entities for pharmacy benefit management services for the TRS-ActiveCare program;

Whereas, TRS received and evaluated responsive proposals to provide pharmacy benefit management services for the TRS-ActiveCare program;

Whereas, TRS staff and the TRS healthcare consultant, Gabriel, Roeder, Smith & Company (“GRS”), have provided relevant information to the TRS Board of Trustees (the “Board”), discussed the proposals with the Board, and presented an evaluation to the Board concerning the selection of a pharmacy benefit manager for the TRS-ActiveCare program;

Whereas, The Board has considered the evaluation made by TRS staff and GRS; now, therefore, be it

Resolved, That the Board hereby selects ____________________(primary selection) to be the pharmacy benefit manager for the TRS-ActiveCare program, subject to successful negotiation and execution of a final agreement for the implementation and provision of pharmacy benefit management services for the TRS-ActiveCare program, for a two-year term to commence on September 1, 2017, with four optional one-year renewals;

Resolved, That the Board authorizes the Executive Director to expend funds and to take all actions deemed by him to be necessary or advisable to implement the Board’s selection of ____________________(primary selection) and to negotiate and finalize a contract with ____________________(primary selection) on the same or better financial terms presented to the Board and on such other terms and conditions deemed by the Executive Director to be in the best interest of the TRS-ActiveCare program, and from time to time to amend, modify, or extend the contract as deemed by the Executive Director to be in the best interest of the TRS-ActiveCare program, it being understood that the Board’s selection of ____________________(primary selection) pursuant to this
Resolved, That if for any reason, the Executive Director concludes in his sole judgment that TRS is not reasonably likely to negotiate a binding agreement with ____________________ (primary selection), then the Board hereby selects ____________________ (secondary selection) to be the pharmacy benefit manager for the TRS-ActiveCare program, subject to successful negotiation and execution of a final agreement for the implementation and provision of pharmacy benefit management services for the TRS-ActiveCare program, for a two-year term to commence on September 1, 2017, with four optional one-year renewals;

Resolved, That once the Executive Director concludes in his sole judgment that TRS is not reasonably likely to negotiate a binding agreement with ____________________ (primary selection), the Board authorizes the Executive Director to expend funds and to take all actions deemed by him to be necessary or advisable to implement the Board’s selection of ____________________ (secondary selection) and to negotiate and finalize a contract with ____________________ (secondary selection) on the same or better financial terms presented to the Board and on such other terms and conditions deemed by the Executive Director to be in the best interest of the TRS-ActiveCare program, and from time to time to amend, modify, or extend the contract as deemed by the Executive Director to be in the best interest of the TRS-ActiveCare program, it being understood that the Board’s selection of ____________________ (secondary selection) pursuant to this resolution shall not be construed as a binding agreement or obligation to contract, and there shall be no binding agreement among the parties until a full and final written contract is successfully negotiated and executed by both parties.
TAB 22A
TRS-Care Rates and Benefits for FY2018
Katrina Daniel, Bill Hickman and Amy Cohen
June 2, 2017
HB 3976
- Single, high deductible health plan for non-Medicare participants
- Medicare Advantage and Medicare Part D plan for Medicare participants
- Increase the required State contribution from 1% to 1.25% of active employee payroll
- Eliminate the requirement that TRS offer a basic plan at no cost for Retiree Only coverage
- $0 retiree contribution for disability retirees who are: (1) retired as a disability retiree on or before 1/1/2017; (2) currently receiving disability retirement benefits; and (3) not eligible to enroll in Medicare.
- Provide an open enrollment opportunity for retirees aging into Medicare to enroll in the TRS-Care Medicare plan even if he/she did not participate in TRS-Care’s non-Medicare plan.
- Provide no-cost coverage for certain generic maintenance drugs.

SB 1
- Increase the required District contribution from 0.55% to 0.75% of active employee payroll
- Increase the required State contribution from 1% to 1.25% of active employee payroll
- Provide supplemental State funding of $182.6M
- Eliminate legislative intent to not increase retiree premium contributions
85th Legislative Session

- New ongoing funding per biennium

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<td>2018-2019 Biennium</td>
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- One-time State supplemental funding of $182.6M
### TRS-Care
### April 2017 Enrollment

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<th>Relationship to Insured</th>
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</table>
TRS-Care
Enrollment History

All Participants

<table>
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<tr>
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<tr>
<td>TRS-Care 2</td>
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</tbody>
</table>
- Historical medical trends have typically been between 2.5 and 9%.
- Projections include a 6.75% trend rate assumption.

- Recent pharmacy trends have been between 4 and 15%.
- Projections include an 11.5% trend rate assumption.
TRS-Care Funding Projection
as of March 31, 2017 without Legislative changes

Fiscal
Year

FY 1986
FY 1987
FY 1988
FY 1989
FY 1990
FY 1991
FY 1992
FY 1993
FY 1994
FY 1995
FY 1996
FY 1997
FY 1998
FY 1999
FY 2000
FY 2001
FY 2002
FY 2003
FY 2004
FY 2005
FY 2006
FY 2007
FY 2008
FY 2009
FY 2010
FY 2011
FY 2012
FY 2013
FY 2014
FY 2015
FY 2016

$0
$22,617,624
$23,948,600
$25,428,632
$37,556,561
$46,563,787
$56,395,797
$65,154,653
$80,128,944
$89,006,331
$82,622,236
$87,657,784
$91,390,173
$96,474,107
$120,227,960
$131,213,445
$143,797,748
$162,954,010
$248,552,679
$322,780,191
$326,844,982
$323,957,945
$328,505,433
$329,723,191
$332,481,933
$345,164,271
$363,348,030
$355,685,504
$363,631,292
$369,066,459
$374,736,269

FY 2017
FY 2018
FY 2019
FY 2020
FY 2021

$383,674,538
$390,139,720
$395,628,377
$400,523,507
$402,414,835

NOTES

7

Retiree Contributions












State
Contributions

$0
$25,931,680
$31,357,632
$37,420,711
$44,369,915
$47,277,743
$50,392,512
$54,029,406
$56,912,083
$59,849,850
$63,634,087
$67,616,395
$72,210,190
$76,488,424
$85,505,637
$90,118,787
$94,792,026
$98,340,798
$198,594,194
$202,397,566
$215,666,940
$238,190,720
$254,722,174
$267,471,299
$279,250,547
$282,782,431
$271,925,242
$139,213,557
$290,775,235
$304,917,343
$320,895,370
$332,126,708
$343,751,143
$350,626,166
$357,638,689
$364,791,463

Supplemental
Appropriations

Contributions
Active Employee
Contributions

Expenditures

District Contributions

Investment Income

CMS& Part D
Subsidies

$250,000
$0
$0
$0
$0
$0
$0
$0
$0
$0
$0
$0
$0
$0
$0
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$768,100,754
$0

$17,625,194
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$19,598,520
$20,789,215
$22,184,958
$23,638,871
$25,196,592
$27,014,703
$28,456,041
$29,924,925
$31,817,043
$33,808,197
$36,105,095
$38,244,213
$42,738,069
$45,059,394
$47,378,092
$49,170,399
$99,297,097
$101,198,783
$140,183,511
$154,823,968
$165,569,413
$173,856,344
$181,512,856
$183,808,580
$176,751,407
$180,824,522
$189,003,903
$198,196,273
$208,581,991

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$189,111,901

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$5,703,832
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$0

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$209,497,720
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$689,716
$0
$0
$0

$191,421,356
$226,422,511
$259,182,231
$294,398,372
$332,208,544

Invoice data through Arpil 30, 2017
This purpose of this report is to project revenue and expenses on an incurred basis and should not be used as a projection of cash flow.
68% participation in Medicare Advantage and 100% participation in Part D plan
State Contribution rate of 1%; District Contribution rate of 0.55%; and Active Contribution rate of 0.65%.
Enrollment assumptions based on headcounts assumed in annual Other Post Employment Benefits (OPEB) valuation report.
3.5% payroll growth in FY2017 and FY2018; 2% increase in payroll growth thereafter.
Medical trends: 7.0% for Care 1; 7.0% for Care 2; 7.0% for Care 3 through FY2017; reduced by 0.25 each year thereafter.
Pharmacy trends: 12% for Care 2; 12% for Care 3; 12% for Medicare Part D plans, reduced by 0.50 each year thereafter.
Interest Rate = 0.4%
Medicare Part D Risk Score of 0.840 beginning January 1, 2017

ERRP Subsidy

$0
$0
$0
$0
$0
$0
$0
$0
$0
$0
$0
$0
$0
$0
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$70,629,797
($2,941,996)
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$0
$0

Medical Incurred

Drug Incurred

Medicare Advantage
Premiums

Administrative
Costs

Ending Balance
(Incurred Basis)

$0
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$50,171,919
$82,697,189
$74,307,953
$101,627,864
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$122,054,551
$135,982,304
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$156,537,913
$184,398,533
$203,029,971
$250,691,898
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$687,987,585
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$746,668,738
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$93,459,890
$110,903,247
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$163,979,754
$203,281,400
$214,514,500
$229,522,988
$259,532,887
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$334,742,500
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$99,631,646
$24,256,451
($35,950,521)
$71,945,978
($82,967,487)
$238,285,158
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$55,559,355
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$57,523,514
$58,118,102
$59,126,351

$271,657,428
($276,540,813)
($994,042,935)
($1,888,803,016)
($2,968,402,534)


September 1, 2017 to December 31, 2017

- Maintain current TRS-Care 1, TRS-Care 2 and TRS-Care 3 plans such that FY2017 will be an extended 16-month plan year.
  - Deductibles and out-of-pocket accumulators will not re-start on 9/1/2017
- Maintain current retiree premium contributions by plan, Medicare status, family size and years of service.
# FY2018 TRS-Care
## Rates and Benefits Recommendation

<table>
<thead>
<tr>
<th>Medicare Status of Participant</th>
<th>FY2017 through December 31, 2017</th>
<th>CY2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Non-Medicare</td>
<td>TRS-Care 1</td>
<td></td>
</tr>
<tr>
<td></td>
<td>TRS-Care 2</td>
<td></td>
</tr>
<tr>
<td></td>
<td>TRS-Care 3</td>
<td></td>
</tr>
</tbody>
</table>

**TRS-Care Standard**
- In-Network
  - $3,000/$6,000 Deductible
  - $7,150/$14,300 Maximum Out-of-Pocket
  - 80/20% Coinsurance
- Out-of-Network
  - $6,000/$12,000 Deductible
  - $14,300/$28,600 Maximum Out-of-Pocket
  - 60/40% Coinsurance

<table>
<thead>
<tr>
<th>Medicare Part B Only</th>
<th>TRS-Care 1</th>
<th>TRS-Care Medicare Advantage/Medicare Part D Plan</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>TRS-Care 2/Part D-2</td>
<td>$500 Deductible</td>
</tr>
<tr>
<td></td>
<td>TRS-Care 3/Part D-3</td>
<td>$3,500 Maximum Out-of-Pocket</td>
</tr>
</tbody>
</table>

**TRS-Care Medicare Advantage/Medicare Part D Plan**
- $500 IP Hospital copay per stay
- $250 OP Hospital copay per visit
- $65 ER copay
- $35 Urgent Care copay
- $5 PCP Office Visit copay
- $10 Specialist Office Visit copay
- $0 Preventive Services copay
- $5/$25/$50 Retail Pharmacy copay
- $15/$70/$125 Mail Order Pharmacy copay

<table>
<thead>
<tr>
<th>Medicare Parts A &amp; B</th>
<th>TRS-Care 1</th>
<th>MA for TRS-Care 2/Part D-2</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>TRS-Care 2/Part D-2</td>
<td>MA for TRS-Care 3/Part D-3</td>
</tr>
<tr>
<td></td>
<td>TRS-Care 3/Part D-3</td>
<td>MA for TRS-Care 2/Part D-2</td>
</tr>
<tr>
<td></td>
<td>MA for TRS-Care 3/Part D-3</td>
<td>MA for TRS-Care 3/Part D-3</td>
</tr>
</tbody>
</table>

- TRS will make an alternative plan available for certain participants who are Medicare eligible but not enrolled in either Medicare Part A or Medicare Part B, or cannot access a provider through the TRS-Care Medicare Advantage plan.
**FY2018 TRS-Care Rates and Benefits Recommendation**

<table>
<thead>
<tr>
<th></th>
<th>FY2017 September 1, 2016 – December 31, 2017</th>
<th>Recommendation January 1 – December 31, 2018</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>TRS-Care-1</td>
<td>TRS-Care-2</td>
</tr>
<tr>
<td><strong>Deductible (Individual/Family)</strong></td>
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</tr>
<tr>
<td>In-Network</td>
<td>Part A&amp;B</td>
<td>$2,350/$4,700</td>
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<tr>
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<td>$3,900/$7,800</td>
<td>Non-Medicare</td>
</tr>
<tr>
<td>Out-of-Network</td>
<td>Part A&amp;B</td>
<td>$6,250/$12,500</td>
</tr>
<tr>
<td></td>
<td>$7,800/$15,600</td>
<td>Non-Medicare</td>
</tr>
<tr>
<td></td>
<td>$14,300/$28,600</td>
<td></td>
</tr>
<tr>
<td><strong>Maximum Out-of-Pocket Limits (Individual/Family)</strong></td>
<td></td>
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</tr>
<tr>
<td>In-Network</td>
<td>Part A&amp;B</td>
<td>$80/20%</td>
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<tr>
<td></td>
<td>$60/40%</td>
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</tr>
<tr>
<td>Out-of-Network</td>
<td>60/40%</td>
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</tr>
</tbody>
</table>

- TRS will make an alternative plan available for certain participants who are Medicare eligible but not enrolled in either Medicare Part A or Medicare Part B, or cannot access a provider through the TRS-Care Medicare Advantage plan.
# FY2018 TRS-Care Rates and Benefits Recommendation

## FY2017

<table>
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<tr>
<th></th>
<th>September 1, 2016 – December 31, 2017</th>
<th>Recommendation January 1 – December 31, 2018</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>TRS-Care-2</td>
<td>TRS-Care-3</td>
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<tr>
<td>Generic</td>
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<td>$13</td>
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<tr>
<td>Preferred Brand</td>
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<td>$30</td>
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<tr>
<td>Non-Preferred Brand</td>
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<td>$50</td>
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</table>

### Retail Pharmacy – Maintenance Drugs

<p>| | | | | | | |</p>
<table>
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</thead>
<tbody>
<tr>
<td>Generic</td>
<td>$23</td>
<td></td>
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<tr>
<td>Preferred Brand</td>
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<tr>
<td>Non-Preferred Brand</td>
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</tbody>
</table>

### Mail Order/Retail 90 Pharmacy

<p>| | | | | | | |</p>
<table>
<thead>
<tr>
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</thead>
<tbody>
<tr>
<td>Generic</td>
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<td>Preferred Brand</td>
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<tr>
<td>Non-Preferred Brand</td>
<td>$165</td>
<td>$105</td>
<td>$125</td>
<td>$80</td>
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</tbody>
</table>

- Prescription drug benefits for non-Medicare participants will be integrated with medical benefits and subject to the plan's deductible and out-of-pocket maximums.
- Prescription drug benefits for Medicare participants will be provided through a Medicare Part D plan.
FY2018 TRS-Care
Rates and Benefits Recommendation

- January 1, 2018 to December 31, 2018
  - Discontinue current retiree contribution schedule, including the $0 premium plan option.
  - Implement retiree contribution schedule based on family size and Medicare status of the retiree.
  - Monthly contributions from non-Medicare retirees who are disabled as of 1/1/2017 will be $0 for Retiree Only coverage beginning 1/1/2018 and ending when the retiree reaches Medicare status or 8/31/2021, whichever is earlier. Other coverage tiers will be reduced by $200 per month.

<table>
<thead>
<tr>
<th>Coverage Tier</th>
<th>TRS-Care 1</th>
<th>TRS-Care 2</th>
<th>TRS-Care 3</th>
<th>Medicare Advantage for TRS-Care 2</th>
<th>Medicare Advantage for TRS-Care 3</th>
<th>Non-Medicare Retiree</th>
<th>Medicare Retiree</th>
</tr>
</thead>
<tbody>
<tr>
<td>Retiree Only</td>
<td>$0</td>
<td>$60 – $210</td>
<td>$90 - $310</td>
<td>$45 – $65</td>
<td>$75 - $95</td>
<td>$200</td>
<td>$146</td>
</tr>
<tr>
<td>Retiree &amp; Spouse</td>
<td>$20 - $140</td>
<td>$160 - $450</td>
<td>$235 - $665</td>
<td>$130 - $305</td>
<td>$205 - $460</td>
<td>$739</td>
<td>$590</td>
</tr>
<tr>
<td>Retiree &amp; Child(ren)</td>
<td>$28 - $41</td>
<td>$122 - $272</td>
<td>$172 - $392</td>
<td>$92 - $257</td>
<td>$142 - $377</td>
<td>$433</td>
<td>$504</td>
</tr>
<tr>
<td>Retiree &amp; Family</td>
<td>$58 - $168</td>
<td>$222 - $512</td>
<td>$317 - $747</td>
<td>$177 - $497</td>
<td>$272 - $732</td>
<td>$1,074</td>
<td>$1,106</td>
</tr>
</tbody>
</table>
Retiree Contributions

<table>
<thead>
<tr>
<th>Fiscal Year</th>
<th>State Contributions</th>
<th>Supplemental Appropriations</th>
<th>Active Employee Contributions</th>
<th>District Contributions</th>
<th>Investment Income</th>
<th>CMS Part D Subsidies</th>
<th>ERPF Subsidy</th>
</tr>
</thead>
<tbody>
<tr>
<td>FY 2000</td>
<td>$120,277,960</td>
<td>$85,505,637</td>
<td>$4,728,069</td>
<td>$6,683,437</td>
<td>$0</td>
<td>$0</td>
<td>$0</td>
</tr>
<tr>
<td>FY 2001</td>
<td>$131,213,445</td>
<td>$90,118,787</td>
<td>$76,281,781</td>
<td>$45,059,394</td>
<td>$0</td>
<td>$0</td>
<td>$0</td>
</tr>
<tr>
<td>FY 2002</td>
<td>$124,775,747</td>
<td>$94,792,026</td>
<td>$74,278,092</td>
<td>$47,100,370</td>
<td>$0</td>
<td>$0</td>
<td>$0</td>
</tr>
<tr>
<td>FY 2003</td>
<td>$122,700,566</td>
<td>$98,340,798</td>
<td>$74,100,370</td>
<td>$47,100,370</td>
<td>$0</td>
<td>$0</td>
<td>$0</td>
</tr>
<tr>
<td>FY 2004</td>
<td>$146,844,982</td>
<td>$215,666,940</td>
<td>$140,885,511</td>
<td>$97,607,327</td>
<td>$0</td>
<td>$0</td>
<td>$0</td>
</tr>
<tr>
<td>FY 2005</td>
<td>$133,957,945</td>
<td>$238,190,720</td>
<td>$154,823,968</td>
<td>$136,008,512</td>
<td>$0</td>
<td>$0</td>
<td>$0</td>
</tr>
<tr>
<td>FY 2006</td>
<td>$128,935,433</td>
<td>$254,722,174</td>
<td>$165,569,413</td>
<td>$147,300,394</td>
<td>$0</td>
<td>$0</td>
<td>$0</td>
</tr>
<tr>
<td>FY 2007</td>
<td>$129,713,161</td>
<td>$247,524,999</td>
<td>$173,856,629</td>
<td>$153,698,253</td>
<td>$0</td>
<td>$0</td>
<td>$0</td>
</tr>
<tr>
<td>FY 2008</td>
<td>$132,483,911</td>
<td>$257,540,347</td>
<td>$181,512,547</td>
<td>$155,918,241</td>
<td>$0</td>
<td>$0</td>
<td>$0</td>
</tr>
<tr>
<td>FY 2009</td>
<td>$134,166,271</td>
<td>$275,820,920</td>
<td>$183,808,580</td>
<td>$158,720,624</td>
<td>$0</td>
<td>$0</td>
<td>$0</td>
</tr>
<tr>
<td>FY 2010</td>
<td>$136,349,570</td>
<td>$271,967,292</td>
<td>$176,751,407</td>
<td>$157,775,942</td>
<td>$0</td>
<td>-$2,941,996</td>
<td>$0</td>
</tr>
<tr>
<td>FY 2011</td>
<td>$135,668,504</td>
<td>$157,751,407</td>
<td>$195,607,926</td>
<td>$181,939,855</td>
<td>$0</td>
<td>$0</td>
<td>$0</td>
</tr>
<tr>
<td>FY 2012</td>
<td>$133,361,212</td>
<td>$290,775,235</td>
<td>$180,809,033</td>
<td>$167,844,477</td>
<td>$0</td>
<td>$0</td>
<td>$0</td>
</tr>
<tr>
<td>FY 2013</td>
<td>$308,000,000</td>
<td>$304,725,438</td>
<td>$230,976,145</td>
<td>$204,332,156</td>
<td>$0</td>
<td>$0</td>
<td>$0</td>
</tr>
<tr>
<td>FY 2014</td>
<td>$374,364,269</td>
<td>$320,895,370</td>
<td>$208,581,991</td>
<td>$189,911,101</td>
<td>$0</td>
<td>$0</td>
<td>$0</td>
</tr>
<tr>
<td>FY 2015</td>
<td>$383,834,578</td>
<td>$332,126,708</td>
<td>$215,882,360</td>
<td>$195,466,131</td>
<td>$2,443,842</td>
<td>$191,411,358</td>
<td>$0</td>
</tr>
<tr>
<td>FY 2016</td>
<td>$368,575,271</td>
<td>$248,498,828</td>
<td>$239,438,243</td>
<td>$230,699,798</td>
<td>$1,544,957</td>
<td>$233,720,198</td>
<td>$0</td>
</tr>
<tr>
<td>FY 2017</td>
<td>$368,146,078</td>
<td>$438,282,707</td>
<td>$227,907,008</td>
<td>$275,766,065</td>
<td>$1,674,447</td>
<td>$273,129,007</td>
<td>$0</td>
</tr>
<tr>
<td>FY 2019</td>
<td>$577,182,073</td>
<td>$455,989,328</td>
<td>$237,114,451</td>
<td>$286,390,038</td>
<td>$1,579,997</td>
<td>$484,293,860</td>
<td>$0</td>
</tr>
</tbody>
</table>

According to the data, the total amount for FY 2017 was $1,352,410,794, which shows a decrease from the previous year. The trend indicates a gradual decrease in contributions over the years, possibly due to changes in legislative policies or financial constraints.
- Law requires that retirees pay at least 30% of the total costs.
- Reasonable interpretation is that retirees share is a combination of both premiums and out-of-pocket costs of covered charges.
TRS-Care Medicare Advantage is a PPO plan network with an out-of-network benefit equivalent to the in-network benefit.

- Providers do not need to be in network
- As long as a provider accepts Medicare and agrees to bill our vendor:
  - Member benefits are the same in and out of network
  - Provider payment is the same in and out of network
- Retirees can ask Humana to assist in reaching out to providers to accept MA
- Data analysis shows limited provider disruption
OPPORTUNITY

- better health care decisions
- future plan sustainability
- proactive participant education
OBJECTIVES

We want to ensure that participants

KNOW about available resources

UNDERSTAND the changes to health benefits

EMPOWERED and informed consumers
PHASE 1 PREPARE
for change

PHASE 2 EDUCATE
participants about their health plan

PHASE 3 ENGAGE
participants in consumer education

2017

2018
Ongoing participant education campaign

LAUNCH
monthly e-newsletter

PROVIDE
ongoing information

HOST
educational outreach with Aetna and Humana

SEND
targeted mailings via plan partners

OPTIMIZE
web content and plan guides
new ways to engage

Hello, retirees.

We know that navigating the health care portion can be a challenge, and of course, we encourage you to keep us informed. We're here to help, with weekly information articles and tips.

If you have a question about your benefits, visit www.trs.texas.gov and use our online call center.

The Pulse

TRC Care Advantage – bronze (1921)

TRC Care Advantage – silver (1923)

TRC Care Advantage – gold (1924)

TRC Care Advantage – platinum (1925)

www.trs.texas.gov

Does your doctor take TRS-Care Medicare Advantage?

We encourage you to visit your local doctor or pharmacist to find out. Find a doctor at www.trs.texas.gov.

Follow us on:

www.trs.texas.gov

1000 Red River St.
Austi, Texas 78701
June 2, 2017

Mr. Brian Guthrie
Executive Director
Teacher Retirement System of Texas
1000 Red River Street
Austin, Texas 78701

Re: TRS-Care Plan Design and Funding

Dear Mr. Guthrie:

We have reviewed the TRS-Care Health Care Program and are pleased to offer our observations regarding the status of the plan and our recommendations regarding retiree contributions and benefit levels for the 2018 fiscal year. We have taken into account the provisions of HB 3976 and SB 1. In addition, plan experience through March 2017 has been included in our analysis.

Plan Funding

Our review and analysis has included recognition of an increase in the State and District contribution rates for fiscal year 2018 and beyond. The State contribution will increase from 1.0% to 1.25%; the District contribution will increase from 0.55% to 0.75%. Active public education contributions were assumed to remain at 0.65% of public education payroll. For projection purposes, an annual increase in active public education payroll has been assumed.

Additional funding of $186.2 million has also been recognized in the projection for fiscal year 2018 as a result of supplemental appropriations included in a rider to the Appropriations Bill.

Benefit Levels

In our analysis, we have assumed that the current plans offered by TRS-Care will continue to be offered through December 31, 2017 as an extension of the FY2017 benefits for those in the standard TRS-Care medical plans. Deductibles and maximum out-of-pocket accumulators will not re-start on September 1, 2017. Beginning January 1, 2018, all plans offered through TRS-Care will operate on a calendar year basis. This change will align the plan year for non-Medicare participants with that of the Medicare participants.

HB 3976, passed by the 85th Legislature on May 24, 2017, requires that TRS offer a high deductible plan option to non-Medicare participants enrolled in TRS-Care. The recommended
benefit design for this population includes a $3,000 individual deductible and a $7,150 individual maximum out-of-pocket limit. Similar to the current TRS-Care 1 plan, both medical and prescription drug claim costs accumulate towards the deductible and maximum out-of-pocket limit.

<table>
<thead>
<tr>
<th>TRS-Care Standard Plan</th>
<th>TRS-Care Medicare Advantage and Medicare Part D Plan</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>For Non-Medicare Participants</strong></td>
<td><strong>for Medicare Participants</strong></td>
</tr>
<tr>
<td><strong>In-Network Benefits</strong></td>
<td><strong>Medical Benefits</strong></td>
</tr>
<tr>
<td>$3,000/$6,000 Deductible</td>
<td>$500 Deductible</td>
</tr>
<tr>
<td>$7,150/$14,300 Max Out-of-Pocket Limit</td>
<td>$3,500 Max Out-of-pocket Limit</td>
</tr>
<tr>
<td>20% Coinsurance</td>
<td>95%/5% Coinsurance</td>
</tr>
<tr>
<td><strong>Out-of-Network Benefits</strong></td>
<td><strong>Prescription Drug Benefits</strong></td>
</tr>
<tr>
<td>$6,000/$12,00 Deductible</td>
<td><strong>Retail Pharmacy</strong></td>
</tr>
<tr>
<td>$14,300/$28,600 Max Out-of-Pocket Limit</td>
<td>$5 Generic copay</td>
</tr>
<tr>
<td>40% Coinsurance</td>
<td>$25 Preferred Brand copay</td>
</tr>
</tbody>
</table>

*Deductibles and Maximum Out-of-Pocket Limits are shown on an Individual/Family basis.*

A Medicare Advantage and Medicare Part D plan will be available for TRS-Care participants enrolled in Medicare Part A and/or B. The proposed plan design is equivalent to the current TRS-Care 2 level of benefits under the Medicare Advantage plan.

<table>
<thead>
<tr>
<th>TRS-Care Medicare Advantage and Medicare Part D Plan</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>for Medicare Participants</strong></td>
</tr>
<tr>
<td><strong>Medical Benefits</strong></td>
</tr>
<tr>
<td>$500 Deductible</td>
</tr>
<tr>
<td>$3,500 Max Out-of-pocket Limit</td>
</tr>
<tr>
<td>95%/5% Coinsurance</td>
</tr>
<tr>
<td>$500 copay per Inpatient Hospital stay</td>
</tr>
<tr>
<td>$250 copay per Outpatient Hospital visit</td>
</tr>
<tr>
<td>$35 copay per Urgent Care Facility visit</td>
</tr>
<tr>
<td>$65 copay per Emergency Room visit</td>
</tr>
<tr>
<td>$0 copay Preventive Services</td>
</tr>
<tr>
<td>$5 copay per PCP Office visit</td>
</tr>
<tr>
<td>$10 copay per Specialist Office visit</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th><strong>Prescription Drug Benefits</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Retail Pharmacy</strong></td>
</tr>
<tr>
<td>$5 Generic copay</td>
</tr>
<tr>
<td>$25 Preferred Brand copay</td>
</tr>
<tr>
<td>$50 Non-preferred Brand copay</td>
</tr>
<tr>
<td>$50 Specialty drug copay</td>
</tr>
<tr>
<td><strong>Mail Order Pharmacy</strong></td>
</tr>
<tr>
<td>$15 Generic copay</td>
</tr>
<tr>
<td>$70 Preferred Brand copay</td>
</tr>
<tr>
<td>$125 Non-preferred Brand copay</td>
</tr>
<tr>
<td>$125 Specialty drug copay</td>
</tr>
</tbody>
</table>

Alternative medical and prescription drug plans will be available to TRS-Care enrollees who are eligible to enroll in Medicare, but would suffer a hardship, as determined by TRS, by being enrolled in the Medicare Advantage and/or Medicare Part D plans shown above. The following table outlines the benefits of the alternative plans, which are similar to the current TRS-Care 2 traditional benefits in place today.
### TRS-Care Alternative Medical Plan
for Medicare eligible participants

<table>
<thead>
<tr>
<th>Eligibility</th>
<th>Enrolled in Medicare Part A and B</th>
<th>All other participants enrolled in the Alternative Medical Plan¹</th>
</tr>
</thead>
<tbody>
<tr>
<td>Deductible</td>
<td>$1,300/$2,600</td>
<td>$1,300/$2,600</td>
</tr>
<tr>
<td>Maximum Out-of-Pocket Limit</td>
<td>$7,150/$14,150</td>
<td>$7,150/$14,150</td>
</tr>
<tr>
<td>In-network Coinsurance</td>
<td>80%/20%</td>
<td>80%/20%</td>
</tr>
<tr>
<td>Out-of-network Coinsurance</td>
<td>60%/40%</td>
<td>60%/40%</td>
</tr>
<tr>
<td>Preventive Services</td>
<td>$0 copay</td>
<td>$0 copay</td>
</tr>
<tr>
<td>Inpatient Hospital Stay</td>
<td></td>
<td>$500 copay</td>
</tr>
<tr>
<td>Outpatient Hospital Visit</td>
<td></td>
<td>$250 copay</td>
</tr>
<tr>
<td>Urgent Care Facility Visit</td>
<td></td>
<td>$35 copay</td>
</tr>
<tr>
<td>Emergency Room Visit</td>
<td></td>
<td>$65 copay</td>
</tr>
<tr>
<td>PCP Office Visit</td>
<td></td>
<td>$25 copay</td>
</tr>
<tr>
<td>Specialist Office Visit</td>
<td></td>
<td>$35 copay</td>
</tr>
</tbody>
</table>

¹ Medicare Part B enrollment is assumed for claims adjudication purposes.

### TRS-Care Alternative Prescription Drug Plan
for Medicare eligible participants

<table>
<thead>
<tr>
<th>Retail Pharmacy¹</th>
<th>For Medicare eligible participants</th>
</tr>
</thead>
<tbody>
<tr>
<td>Generic</td>
<td>$13 copay</td>
</tr>
<tr>
<td>Preferred Brand</td>
<td>$40 copay</td>
</tr>
<tr>
<td>Non-preferred Brand</td>
<td>$65 copay</td>
</tr>
<tr>
<td>Mail Order &amp; Retail Pharmacy</td>
<td></td>
</tr>
<tr>
<td>Generic</td>
<td>$25 copay</td>
</tr>
<tr>
<td>Preferred Brand</td>
<td>$100 copay</td>
</tr>
<tr>
<td>Non-preferred Brand</td>
<td>$165 copay</td>
</tr>
</tbody>
</table>

¹ For maintenance medications filled at a retail pharmacy, there will be a $10 convenience fee added to the copay on the second and subsequent refills.

### Retiree Contributions

With an effective date of January 1, 2018, HB3976 eliminated the statutory requirement that TRS provide a no-premium healthcare plan. Our modeling assumes that current retiree contribution rates are continued through December 31, 2017.

In order to maintain solvency of the TRS-Care fund, we have assumed the following monthly retiree premium contributions beginning January 1, 2018.
<table>
<thead>
<tr>
<th>Coverage Tier</th>
<th>Non-Medicare Retirees</th>
<th>Non-Medicare, Disability Retirees¹</th>
<th>Medicare Retirees</th>
</tr>
</thead>
<tbody>
<tr>
<td>Retiree Only</td>
<td>$200</td>
<td>$0</td>
<td>$146</td>
</tr>
<tr>
<td>Retiree &amp; Spouse</td>
<td>$739</td>
<td>$539</td>
<td>$590</td>
</tr>
<tr>
<td>Retiree &amp; Child(ren)</td>
<td>$433</td>
<td>$233</td>
<td>$504</td>
</tr>
<tr>
<td>Retiree &amp; Family</td>
<td>$1,074</td>
<td>$874</td>
<td>$1,106</td>
</tr>
<tr>
<td>Surviving Child(ren)</td>
<td>$233</td>
<td>$233</td>
<td>$233</td>
</tr>
</tbody>
</table>

¹ $0 retiree contribution for disability retirees who: (1) are retired as a disability retiree on or before 1/1/2017; (2) are currently receiving disability retirement benefits; and (3) are not eligible to enroll in Medicare.

Beginning January 1, 2019, the above non-Medicare contribution rates are expected to increase in a manner consistent with the intent of the 85th Legislature.

Our analysis also indicates that, in accordance with statutory requirements, the retiree share of total plan cost continues to be greater than 30%. Please let us know if you have questions.

**Summary**

Taking into consideration the savings to TRS-Care resulting from the recent Pharmacy Benefit Manager procurement, the redesign of TRS-Care’s benefit levels, the redesign of retiree premium contributions and the additional funding provided by the State and Districts, current projections indicate that the TRS-Care fund will be adequately funded through the end of calendar year 2018.

Please let us know if you have any questions or if additional information is needed.

Sincerely,

William J. Hickman
Senior Health Care Consultant

Amy E. Cohen, ASA, MAAA
Health Care Consultant
RESOLUTION ADJUSTING THE PLANS OFFERED UNDER TRS-CARE AND APPROVING PREMIUM RATES AND BENEFIT PLAN DESIGNS

June 1 - 2, 2017

Whereas, Chapter 1575, Insurance Code, authorizes the Teacher Retirement System of Texas ("TRS"), as trustee, to implement and administer the uniform group health benefits program ("TRS-Care") under the Texas Public School Retired Employees Group Benefits Act, as described in the statute;

Whereas, TRS-Care currently offers coverage in three standard plans (i.e., TRS-Care 1, TRS-Care 2, and TRS-Care 3), offers coverage in two fully insured Medicare Advantage plans (i.e., the TRS-Care 2 Medicare Advantage plan and the TRS-Care 3 Medicare Advantage plan), and offers coverage in two Medicare Prescription Drug plans (i.e., the TRS-Care 2 Medicare Prescription Drug plan and the TRS-Care 3 Medicare Prescription Drug plan);

Whereas, due to the passage of recent legislation, TRS staff and the TRS health benefits consultant, Gabriel, Roeder, Smith & Company ("GRS") have recommended that the current Fiscal Year 2017 plan year of the existing TRS-Care standard plans be extended through December 31, 2017 and the TRS-Care standard plans themselves be continued through December 31, 2017, under their current premium rate structure and current benefit plan designs;

Whereas, due to the passage of recent legislation, TRS staff and GRS have recommended that the existing TRS-Care standard plans be discontinued at the end of Calendar Year 2017;

Whereas, due to the passage of recent legislation, TRS staff and GRS have recommended that the existing TRS-Care Medicare Advantage plans and the existing TRS-Care Medicare Prescription Drug plans be discontinued at the end of Calendar Year 2017;

Whereas, due to the passage of recent legislation, TRS staff and GRS have recommended that beginning January 1, 2018, TRS establish and make available a high deductible health plan for TRS-Care enrollees who are not eligible to enroll
in Medicare, with the major benefit plan designs set out in Exhibit A, attached to 
this resolution and incorporated herein by reference;

Whereas, due to the passage of recent legislation, TRS staff and GRS have 
recommended that beginning January 1, 2018, TRS establish and make available 
a new Medicare Advantage plan and a new Medicare Prescription Drug plan 
(together, the “New Medicare Plans”) for TRS-Care enrollees who are eligible to 
enroll in Medicare, with the major benefit plan designs set out in Exhibit A;

Whereas, due to the passage of recent legislation, TRS staff and GRS have 
recommended that beginning January 1, 2018, TRS establish and make available 
a non-Medicare medical plan (the “Alternative Medical Plan”) and a non-Medicare 
Prescription Drug plan (the “Alternative Prescription Drug Plan”) (together, the 
“Alternative Plans”) that will only be available to TRS-Care enrollees who are 
eligible to enroll in Medicare, but would suffer a hardship, as determined by TRS, 
by being enrolled in the New Medicare Plans, with the major benefit plan designs 
set out in Exhibit A;

Whereas, TRS staff and GRS have recommended that for the Calendar Year 2018 
plan year, beginning on January 1, 2018, premium rates in the high deductible 
health plan, in the New Medicare Plans, and in the Alternative Plans, be set at the 
amounts found in Exhibit B;

Whereas, TRS staff and GRS have recommended that the transition in enrollment 
from TRS-Care plans in existence as of December 31, 2017, to TRS-Care plans in 
existence as of January 1, 2018, shall take place on January 1, 2018, in accordance 
with enrollment criteria and enrollment procedures established by law or by TRS; 
and

Whereas, the TRS Board of Trustees (“Board”) desires to adopt the 
recommendations of TRS staff and GRS; now, therefore, be it

Resolved, That the Board hereby adopts and authorizes the extension of the 
current Fiscal Year 2017 plan year of the existing TRS-Care standard plans through 
December 31, 2017 and the continuation of TRS-Care standard plans themselves 
through December 31, 2017, under their current premium rate structure and 
current benefit plan designs;

Resolved, That the Board hereby adopts and authorizes staff to discontinue the 
existing TRS-Care standard plans at the end of Calendar Year 2017;

Resolved, That the Board hereby adopts and authorizes staff to discontinue the 
existing TRS-Care Medicare Advantage plans and the existing TRS-Care Medicare 
Prescription Drug plans at the end of Calendar Year 2017;
Resolved, That the Board hereby adopts and authorizes staff to establish and make available a high deductible health plan for TRS-Care enrollees who are not eligible to enroll in Medicare, beginning January 1, 2018 and until further action of the Board, with the major benefit plan designs set out in Exhibit A, attached to this resolution and incorporated herein by reference;

Resolved, That the Board hereby adopts and authorizes staff to establish and make available a new Medicare Advantage plan and a new Medicare Prescription Drug plan (together, the “New Medicare Plans”) for TRS-Care enrollees who are eligible to enroll in Medicare, beginning January 1, 2018 and until further action of the Board, with the major benefit plan designs set out in Exhibit A;

Resolved, That the Board hereby adopts and authorizes staff to establish and make available a non-Medicare medical plan (the “Alternative Medical Plan”) and a non-Medicare prescription drug plan (the “Alternative Prescription Drug Plan”) (together, the “Alternative Plans”) that will only be available to TRS-Care enrollees who are eligible to enroll in Medicare, but would suffer a hardship, as determined by TRS, by being enrolled in the New Medicare Plans, beginning January 1, 2018 and until further action of the Board, with the major benefit plan designs set out in Exhibit A;

Resolved, That beginning on January 1, 2018, and until further action of the Board, the Board hereby adopts and authorizes the premium rates in the high deductible health plan, in the New Medicare Plans, and in the Alternative Plans, set at the amounts found in Exhibit B;

Resolved, That the Board authorizes and directs the transition in enrollment from TRS-Care plans in existence as of December 31, 2017, to TRS-Care plans in existence as of January 1, 2018, shall take place on January 1, 2018, in accordance with enrollment criteria and enrollment procedures established by law or by TRS;

Resolved, That the Board finds that, considering the actions taken in the resolutions above, TRS-Care is projected to remain financially solvent during the currently funded biennium; and

Resolved, That until further action by the Board, the Board authorizes the Executive Director or his designees to take any actions that he or his designee in his or their discretion deem to be necessary or advisable to implement this resolution, and to otherwise implement, administer, and continue the TRS-Care program until further action by the Board.
Exhibit A

TO THE RESOLUTION ADJUSTING THE
PLANS OFFERED UNDER TRS-CARE AND APPROVING
PREMIUM RATES AND BENEFIT PLAN DESIGNS

Major Benefit Plan Designs

High Deductible Health Plan

The Board hereby approves and adopts the following major benefit plan design elements for the High Deductible Health Plan, subject to all other plan requirements and restrictions, beginning in the Calendar Year 2018 plan year commencing on January 1, 2018 and for all plan years thereafter, until further action by the Board:

<table>
<thead>
<tr>
<th>Benefits</th>
<th>For the Calendar Year 2018 Plan Year</th>
</tr>
</thead>
<tbody>
<tr>
<td>In-Network</td>
<td></td>
</tr>
<tr>
<td>Individual Deductible</td>
<td>$3,000</td>
</tr>
<tr>
<td>Family Deductible</td>
<td>$6,000</td>
</tr>
<tr>
<td>Individual Out-of-Pocket Maximum</td>
<td>$7,150</td>
</tr>
<tr>
<td>Family Out-of-Pocket Maximum</td>
<td>$14,300</td>
</tr>
<tr>
<td>Coinsurance</td>
<td>80% / 20%</td>
</tr>
<tr>
<td>Out-of-Network</td>
<td></td>
</tr>
<tr>
<td>Individual Deductible</td>
<td>$6,000</td>
</tr>
<tr>
<td>Family Deductible</td>
<td>$12,000</td>
</tr>
<tr>
<td>Individual Out-of-Pocket Maximum</td>
<td>$14,300</td>
</tr>
<tr>
<td>Family Out-of-Pocket Maximum</td>
<td>$28,600</td>
</tr>
<tr>
<td>Coinsurance</td>
<td>60% / 40%</td>
</tr>
<tr>
<td>Retail Pharmacy</td>
<td>80% / 20%</td>
</tr>
<tr>
<td>Retail Pharmacy Maintenance Drugs</td>
<td>80% / 20% ($0 copay for certain generic preventive maintenance medications)</td>
</tr>
<tr>
<td>Mail Order / Retail 90 Pharmacy</td>
<td>80% / 20% ($0 copay for certain generic preventive maintenance medications)</td>
</tr>
</tbody>
</table>
New Medicare Advantage Plan

The Board hereby approves and adopts the following major benefit plan design elements for the New Medicare Advantage Plan, subject to all other plan requirements and restrictions, beginning in the Calendar Year 2018 plan year commencing on January 1, 2018 and for all plan years thereafter, until further action by the Board:

<table>
<thead>
<tr>
<th>Benefits</th>
<th>For the Calendar Year 2018 Plan Year</th>
</tr>
</thead>
<tbody>
<tr>
<td>Individual Deductible</td>
<td>$500</td>
</tr>
<tr>
<td>Individual Out-of-pocket maximum</td>
<td>$3,500</td>
</tr>
<tr>
<td>Coinsurance</td>
<td>95% / 5%</td>
</tr>
<tr>
<td>In Patient Hospital Copay per Stay</td>
<td>$500</td>
</tr>
<tr>
<td>Out Patient Hospital Copay per Visit</td>
<td>$250</td>
</tr>
<tr>
<td>ER Copay</td>
<td>$65</td>
</tr>
<tr>
<td>Urgent Care Copay</td>
<td>$35</td>
</tr>
<tr>
<td>Primary Care Physician Office Visit Copay</td>
<td>$5</td>
</tr>
<tr>
<td>Specialist Office Visit Copay</td>
<td>$10</td>
</tr>
<tr>
<td>Preventive Services Copay</td>
<td>$0</td>
</tr>
</tbody>
</table>

New Medicare Prescription Drug Plan

The Board hereby approves and adopts the following major benefit plan design elements for the New Medicare Prescription Drug Plan, subject to all other plan requirements and restrictions, beginning in the Calendar Year 2018 plan year commencing on January 1, 2018 and for all plan years thereafter, until further action by the Board:

<table>
<thead>
<tr>
<th>Benefits</th>
<th>For the Calendar Year 2018 Plan Year</th>
</tr>
</thead>
<tbody>
<tr>
<td>Retail Pharmacy Copay</td>
<td></td>
</tr>
<tr>
<td>Generic</td>
<td>$5</td>
</tr>
<tr>
<td>Preferred Brand</td>
<td>$25</td>
</tr>
<tr>
<td>Non-Preferred Brand</td>
<td>$50</td>
</tr>
<tr>
<td>Specialty</td>
<td>$50</td>
</tr>
<tr>
<td>Mail Order Pharmacy Copay</td>
<td></td>
</tr>
<tr>
<td>Generic</td>
<td>$15</td>
</tr>
<tr>
<td>Preferred Brand</td>
<td>$70</td>
</tr>
<tr>
<td>Non-Preferred Brand</td>
<td>$125</td>
</tr>
<tr>
<td>Specialty</td>
<td>$125</td>
</tr>
</tbody>
</table>
Alternative Medical Plan

The Board hereby approves and adopts the following major benefit plan design elements for the medical benefits under the Alternative Medical Plan, subject to all other plan requirements and restrictions, beginning in the Calendar Year 2018 plan year commencing on January 1, 2018 and for all plan years thereafter, until further action by the Board:

<table>
<thead>
<tr>
<th>Medicare Status</th>
<th>Benefits</th>
<th>For the Calendar Year 2018 Plan Year</th>
</tr>
</thead>
<tbody>
<tr>
<td>Enrolled in Medicare Parts A and B</td>
<td>Individual Deductible $1,300</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Family Deductible $2,600</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Individual Out-of-pocket maximum $7,150</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Family Out-of-pocket maximum $14,300</td>
<td></td>
</tr>
<tr>
<td></td>
<td>In-Network Coinsurance 80%/20% after Medicare</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Out-of-Network Coinsurance 60%/40% after Medicare</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Preventive Services Copay $0</td>
<td></td>
</tr>
<tr>
<td>All other participants</td>
<td>Individual Deductible $1,300</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Family Deductible $2,600</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Individual Out-of-pocket maximum $7,150</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Family Out-of-pocket maximum $14,300</td>
<td></td>
</tr>
<tr>
<td></td>
<td>In-Network Coinsurance 80%/20%</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Out-of-Network Coinsurance 60%/40%</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Inpatient Hospital Stay $500 copay</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Outpatient Hospital Visit $250 copay</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Urgent Care Facility Visit $35 copay</td>
<td></td>
</tr>
<tr>
<td></td>
<td>ER Visit $65 copay</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Physician Office Visit Copay $35</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Preventive Services Copay $0</td>
<td></td>
</tr>
</tbody>
</table>

1 Medicare Part B enrollment is assumed for claims adjudication purposes.
The Board hereby approves and adopts the following major benefit plan design elements for the drug benefits under the Alternative Prescription Drug Plan, subject to all other plan requirements and restrictions, beginning in the Calendar Year 2018 plan year commencing on January 1, 2018 and for all plan years thereafter, until further action by the Board:

<table>
<thead>
<tr>
<th>Benefits</th>
<th>For the Calendar Year 2018 Plan Year</th>
</tr>
</thead>
<tbody>
<tr>
<td>Retail Pharmacy Copay*</td>
<td></td>
</tr>
<tr>
<td>Generic</td>
<td>$13</td>
</tr>
<tr>
<td>Preferred Brand</td>
<td>$40</td>
</tr>
<tr>
<td>Non-Preferred Brand</td>
<td>$65</td>
</tr>
<tr>
<td>Mail Order Pharmacy Copay</td>
<td></td>
</tr>
<tr>
<td>Generic</td>
<td>$25</td>
</tr>
<tr>
<td>Preferred Brand</td>
<td>$100</td>
</tr>
<tr>
<td>Non-Preferred Brand</td>
<td>$165</td>
</tr>
</tbody>
</table>

*For maintenance medications filled at a retail pharmacy, there will be a $10 convenience fee added to the copay on the second and subsequent refills.
Exhibit B

TO THE RESOLUTION ADJUSTING THE
PLANS OFFERED UNDER TRS-CARE AND APPROVING
PREMIUM RATES AND BENEFIT PLAN DESIGNS

Monthly Premium Rates

High Deductible Health Plan

The Board hereby approves and adopts the following monthly premium rates* for the High Deductible Health Plan beginning in the Calendar Year 2018 plan year commencing on January 1, 2018 and for all plan years thereafter, until further action by the Board:

<table>
<thead>
<tr>
<th></th>
<th>Non-Medicare Retiree Premiums</th>
<th>*Non-Medicare Disability Retiree Premiums</th>
</tr>
</thead>
<tbody>
<tr>
<td>Employee / Surviving Spouse Only</td>
<td>$200</td>
<td>$0</td>
</tr>
<tr>
<td>Employee and Spouse</td>
<td>$739</td>
<td>$539</td>
</tr>
<tr>
<td>Employee and Child(ren)</td>
<td>$433</td>
<td>$233</td>
</tr>
<tr>
<td>Employee and Family</td>
<td>$1,074</td>
<td>$874</td>
</tr>
<tr>
<td>Surviving Child(ren)</td>
<td>$233</td>
<td>$233</td>
</tr>
</tbody>
</table>

* No monthly premium is due for a retiree himself for herself who has taken a disability retirement under the TRS pension on or before January 1, 2017, is receiving disability retirement benefits from the TRS pension, and is not eligible to enroll in Medicare.

New Medicare Plans and Alternative Plans

The Board hereby approves and adopts the following monthly premium rates for the New Medicare Plans and the Alternative Plans beginning in the Calendar Year 2018 plan year commencing on January 1, 2018 and for all plan years thereafter, until further action by the Board:

- Employee / Surviving Spouse Only $146
- Employee and Spouse $590
- Employee and Child(ren) $504
- Employee and Family $1,106
- Surviving Child(ren) $233
TRS-ActiveCare Funding

- Self-funded program
- Sole source of funding is premiums for coverage selected
  - State contributes $75 per month per employee through school finance formulas.
  - Districts contribute a minimum of $150 per month per employee (some districts may contribute more).
  - Employees contribute the remainder of projected gross premiums.
- Funding requirements for the State and Districts have not changed since program inception, September 1, 2002.
There has been a significant shift in enrollment as premiums have increased and benefits have been reduced.
Historical medical trends have typically been between 4 and 8%.

Projections include a 6.75% trend rate assumption.

Recent pharmacy trends have been in excess of 10%.

Projections include a 11.5% trend rate assumption.
### Funding Projection as of March 31, 2017

<table>
<thead>
<tr>
<th>Fiscal Year</th>
<th>State/District Contributions</th>
<th>Supplemental Appropriations</th>
<th>Employee Contributions</th>
<th>HMO Contributions</th>
<th>Investment Income</th>
<th>Other Income</th>
<th>Total Revenue</th>
</tr>
</thead>
<tbody>
<tr>
<td>FY 2003</td>
<td>$409,407,553</td>
<td>$0</td>
<td>$175,165,299</td>
<td>$0</td>
<td>$2,456,654</td>
<td>$0</td>
<td>$587,029,506</td>
</tr>
<tr>
<td>FY 2004</td>
<td>$364,167,552</td>
<td>$0</td>
<td>$353,684,461</td>
<td>$184,937</td>
<td>$636,361,138</td>
<td>$0</td>
<td>$709,101,225</td>
</tr>
<tr>
<td>FY 2005</td>
<td>$401,876,520</td>
<td>$0</td>
<td>$379,275,180</td>
<td>$8949,525</td>
<td>$709,101,225</td>
<td>$0</td>
<td>$789,404,654</td>
</tr>
<tr>
<td>FY 2006</td>
<td>$420,918,887</td>
<td>$0</td>
<td>$391,079,168</td>
<td>$18,650,516</td>
<td>$308,648,571</td>
<td>$0</td>
<td>$829,282,084</td>
</tr>
<tr>
<td>FY 2007</td>
<td>$458,147,275</td>
<td>$0</td>
<td>$422,804,390</td>
<td>$58,742,363</td>
<td>$26,016,400</td>
<td>$0</td>
<td>$749,609,078</td>
</tr>
<tr>
<td>FY 2008</td>
<td>$503,908,813</td>
<td>$0</td>
<td>$533,242,466</td>
<td>$184,844</td>
<td>$2,164,640</td>
<td>$61,894</td>
<td>$790,101,225</td>
</tr>
<tr>
<td>FY 2009</td>
<td>$542,055,282</td>
<td>$0</td>
<td>$565,305,545</td>
<td>$187,813</td>
<td>$11,597,992</td>
<td>$64,975</td>
<td>$830,101,225</td>
</tr>
<tr>
<td>FY 2010</td>
<td>$598,289,950</td>
<td>$0</td>
<td>$667,574,367</td>
<td>$125,321</td>
<td>$6,421,269</td>
<td>$64,328</td>
<td>$737,404,687</td>
</tr>
<tr>
<td>FY 2011</td>
<td>$657,163,904</td>
<td>$0</td>
<td>$813,516,808</td>
<td>$135,917</td>
<td>$3,878,062</td>
<td>$67,373</td>
<td>$755,304,687</td>
</tr>
<tr>
<td>FY 2012</td>
<td>$695,964,277</td>
<td>$0</td>
<td>$894,264,139</td>
<td>$136,325</td>
<td>$1,697,553</td>
<td>$72,094</td>
<td>$775,004,687</td>
</tr>
<tr>
<td>FY 2013</td>
<td>$696,866,543</td>
<td>$0</td>
<td>$1,010,749,438</td>
<td>$137,630</td>
<td>$746,936</td>
<td>$75,664</td>
<td>$781,404,687</td>
</tr>
<tr>
<td>FY 2014</td>
<td>$690,143,479</td>
<td>$0</td>
<td>$1,083,838,126</td>
<td>$139,608</td>
<td>$940,021</td>
<td>$79,792</td>
<td>$785,404,687</td>
</tr>
<tr>
<td>FY 2015</td>
<td>$711,336,225</td>
<td>$0</td>
<td>$1,054,420,572</td>
<td>$141,534</td>
<td>$1,537,408</td>
<td>$95,215</td>
<td>$790,404,687</td>
</tr>
<tr>
<td>FY 2016</td>
<td>$719,495,387</td>
<td>$0</td>
<td>$1,124,339,259</td>
<td>$156,054</td>
<td>$3,079,039</td>
<td>$200,000</td>
<td>$739,404,687</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Revenue</th>
<th>Medical Incurred</th>
<th>Drug Incurred (includes Rebates)</th>
<th>HMO Premium Payments</th>
<th>Administrative Costs</th>
<th>Total Expenses</th>
<th>Ending Balance</th>
</tr>
</thead>
<tbody>
<tr>
<td>FY 2003</td>
<td>$473,450,544</td>
<td>$44,140,954</td>
<td>$571,591,498</td>
<td>$136,293,600</td>
<td>$116,293,600</td>
<td></td>
</tr>
<tr>
<td>FY 2004</td>
<td>$520,988,423</td>
<td>$54,734,283</td>
<td>$575,732,602</td>
<td>$240,371,304</td>
<td>$212,471,304</td>
<td></td>
</tr>
<tr>
<td>FY 2006</td>
<td>$708,972,484</td>
<td>$54,587,233</td>
<td>$763,559,716</td>
<td>$379,198,205</td>
<td>$349,398,205</td>
<td></td>
</tr>
<tr>
<td>FY 2007</td>
<td>$699,478,760</td>
<td>$49,953,608</td>
<td>$909,444,393</td>
<td>$435,290,063</td>
<td>$399,290,063</td>
<td></td>
</tr>
<tr>
<td>FY 2008</td>
<td>$678,240,087</td>
<td>$56,413,785</td>
<td>$764,653,872</td>
<td>$476,470,624</td>
<td>$400,470,624</td>
<td></td>
</tr>
<tr>
<td>FY 2009</td>
<td>$934,733,927</td>
<td>$56,413,785</td>
<td>$764,653,872</td>
<td>$476,470,624</td>
<td>$400,470,624</td>
<td></td>
</tr>
<tr>
<td>FY 2010</td>
<td>$1,092,107,916</td>
<td>$56,413,785</td>
<td>$764,653,872</td>
<td>$476,470,624</td>
<td>$400,470,624</td>
<td></td>
</tr>
<tr>
<td>FY 2011</td>
<td>$1,235,354,127</td>
<td>$56,413,785</td>
<td>$764,653,872</td>
<td>$476,470,624</td>
<td>$400,470,624</td>
<td></td>
</tr>
<tr>
<td>FY 2012</td>
<td>$1,450,574,875</td>
<td>$56,413,785</td>
<td>$764,653,872</td>
<td>$476,470,624</td>
<td>$400,470,624</td>
<td></td>
</tr>
<tr>
<td>FY 2013</td>
<td>$1,697,553,127</td>
<td>$56,413,785</td>
<td>$764,653,872</td>
<td>$476,470,624</td>
<td>$400,470,624</td>
<td></td>
</tr>
<tr>
<td>FY 2014</td>
<td>$1,945,723,422</td>
<td>$56,413,785</td>
<td>$764,653,872</td>
<td>$476,470,624</td>
<td>$400,470,624</td>
<td></td>
</tr>
<tr>
<td>FY 2015</td>
<td>$2,148,634,160</td>
<td>$56,413,785</td>
<td>$764,653,872</td>
<td>$476,470,624</td>
<td>$400,470,624</td>
<td></td>
</tr>
<tr>
<td>FY 2016</td>
<td>$2,148,634,160</td>
<td>$56,413,785</td>
<td>$764,653,872</td>
<td>$476,470,624</td>
<td>$400,470,624</td>
<td></td>
</tr>
</tbody>
</table>

### Notes
- Actual data through March 31, 2017.
- Medical trends: 7% through FY2017 for all plans; reduced by 0.25% each year thereafter.
- Pharmacy trends: 12% through FY2017 for all plans, reduced by 0.50% each year thereafter.
- State contributions are equal to $75 PEPM. District contributions are equal to $150 PEPM.
- Interest rate is assumed to be 0.4%.
Goal is to balance premium increases against the need to build the fund balance to protect the plan.

The target fund balance at the end of FY2018 is one month of claims, $158 million.

Without plan design changes an average rate increase of 9.9% is required to achieve the target ending fund balance.
Historical Premiums
TRS-ActiveCare 2 - Employee Only Coverage Tier

The employee share of the premium has more than doubled since the inception of the plan.

*Assumes a $75 state and $150 minimum district contribution per month toward the cost of coverage.
## MEDICAL BENEFITS

<table>
<thead>
<tr>
<th></th>
<th>FY2017</th>
<th>FY2018</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>TRS-ActiveCare-1HD</td>
<td>TRS-ActiveCare-Select</td>
</tr>
<tr>
<td><strong>In-Network Deductible</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Individual</td>
<td>$2,500</td>
<td>$1,200</td>
</tr>
<tr>
<td>Family</td>
<td>$5,000</td>
<td>$3,600</td>
</tr>
<tr>
<td><strong>In-Network Maximum Out-of-Pocket Limit</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Individual</td>
<td>$6,550</td>
<td>$6,850</td>
</tr>
<tr>
<td>Family</td>
<td>$13,100</td>
<td>$13,700</td>
</tr>
<tr>
<td><strong>Out-of-Network Deductible</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Individual</td>
<td>Included in the in-network deductible</td>
<td>N/A</td>
</tr>
<tr>
<td>Family</td>
<td>$10,000</td>
<td>N/A</td>
</tr>
<tr>
<td><strong>Out-of-Network Maximum Out-of-Pocket Limit</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Individual</td>
<td>Included in the in-network maximum</td>
<td>N/A</td>
</tr>
<tr>
<td>Family</td>
<td>$26,200</td>
<td>N/A</td>
</tr>
<tr>
<td><strong>Other</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>ER Copay</td>
<td>20% after deductible</td>
<td>$150 copay plus 20% after deductible</td>
</tr>
</tbody>
</table>
### PRESCRIPTION DRUG BENEFITS

<table>
<thead>
<tr>
<th></th>
<th>FY2017</th>
<th>FY2018</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>MAIL ORDER &amp; RETAIL-PLUS</strong> (up to 90 days supply)</td>
<td><strong>TR-ActiveCare-1HD</strong></td>
<td><strong>TR-ActiveCare-Select</strong></td>
</tr>
<tr>
<td>Generic</td>
<td>$45 copay</td>
<td>$45 copay</td>
</tr>
<tr>
<td>Preferred Brand</td>
<td>$105 copay</td>
<td>$105 copay</td>
</tr>
<tr>
<td>Non-Preferred Brand</td>
<td>50% coinsurance</td>
<td>$180 copay</td>
</tr>
<tr>
<td>Specialty</td>
<td>20% coinsurance</td>
<td>$200 (up to 31 day fill)</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th><strong>RETAIL MAINTENANCE</strong> (after 1st fill; up to 31 days supply)</th>
<th><strong>TR-ActiveCare-1HD</strong></th>
<th><strong>TR-ActiveCare-Select</strong></th>
<th><strong>TR-ActiveCare-2</strong></th>
<th><strong>TR-ActiveCare-1HD</strong></th>
<th><strong>TR-ActiveCare-Select</strong></th>
<th><strong>TR-ActiveCare-2</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td>Generic</td>
<td>$35 copay</td>
<td>$35 copay</td>
<td>$35 copay</td>
<td>$35 copay</td>
<td>$35 copay</td>
<td>$35 copay</td>
</tr>
<tr>
<td>Preferred Brand</td>
<td>$60 copay</td>
<td>$60 copay</td>
<td>$60 copay</td>
<td>$60 copay</td>
<td>$60 copay</td>
<td>$60 copay</td>
</tr>
<tr>
<td>Non-Preferred Brand</td>
<td>50% coinsurance</td>
<td>$90 copay</td>
<td>50% coinsurance</td>
<td>$90 copay</td>
<td>50% coinsurance</td>
<td>$90 copay</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th><strong>RETAIL</strong> (up to 31 days supply)</th>
<th><strong>TR-ActiveCare-1HD</strong></th>
<th><strong>TR-ActiveCare-Select</strong></th>
<th><strong>TR-ActiveCare-2</strong></th>
<th><strong>TR-ActiveCare-1HD</strong></th>
<th><strong>TR-ActiveCare-Select</strong></th>
<th><strong>TR-ActiveCare-2</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td>Generic</td>
<td>$20 copay</td>
<td>$20 copay</td>
<td>$20 copay</td>
<td>$20 copay</td>
<td>$20 copay</td>
<td>$20 copay</td>
</tr>
<tr>
<td>Preferred Brand</td>
<td>$40 copay</td>
<td>$40 copay</td>
<td>$40 copay</td>
<td>$40 copay</td>
<td>$40 copay</td>
<td>$40 copay</td>
</tr>
<tr>
<td>Non-Preferred Brand</td>
<td>50% coinsurance</td>
<td>$65 copay</td>
<td>50% coinsurance</td>
<td>$65 copay</td>
<td>50% coinsurance</td>
<td>$65 copay</td>
</tr>
</tbody>
</table>

- There will be no changes in the prescription drug benefits for the FY2018 plan year.
With the recommended medical benefit changes the overall average rate increase of 9.9% is reduced to 8.1%. Recommended changes by plan and coverage tier are shown below.

<table>
<thead>
<tr>
<th>Plan</th>
<th>FY2017 Premium</th>
<th>Proposed FY2018 Premium</th>
<th>Percent Change</th>
<th>Number of Employees</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>TRS-ActiveCare-1HD</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Employee Only</td>
<td>$341</td>
<td>$351</td>
<td>2.9%</td>
<td>123,076</td>
</tr>
<tr>
<td>Employee &amp; Spouse</td>
<td>$914</td>
<td>$991</td>
<td>8.4%</td>
<td>4,345</td>
</tr>
<tr>
<td>Employee &amp; Children</td>
<td>$615</td>
<td>$671</td>
<td>9.1%</td>
<td>25,837</td>
</tr>
<tr>
<td>Employee &amp; Family</td>
<td>$1,231</td>
<td>$1,316</td>
<td>6.9%</td>
<td>4,611</td>
</tr>
<tr>
<td><strong>TRS-ActiveCare-Select</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Employee Only</td>
<td>$484</td>
<td>$514</td>
<td>6.2%</td>
<td>43,620</td>
</tr>
<tr>
<td>Employee &amp; Spouse</td>
<td>$1,147</td>
<td>$1,264</td>
<td>10.2%</td>
<td>1,883</td>
</tr>
<tr>
<td>Employee &amp; Children</td>
<td>$779</td>
<td>$834</td>
<td>7.1%</td>
<td>15,978</td>
</tr>
<tr>
<td>Employee &amp; Family</td>
<td>$1,361</td>
<td>$1,589</td>
<td>16.8%</td>
<td>3,766</td>
</tr>
<tr>
<td><strong>TRS-ActiveCare-2</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Employee Only</td>
<td>$645</td>
<td>$714</td>
<td>10.7%</td>
<td>36,795</td>
</tr>
<tr>
<td>Employee &amp; Spouse</td>
<td>$1,552</td>
<td>$1,694</td>
<td>9.1%</td>
<td>1,578</td>
</tr>
<tr>
<td>Employee &amp; Children</td>
<td>$1,042</td>
<td>$1,062</td>
<td>1.9%</td>
<td>10,736</td>
</tr>
<tr>
<td>Employee &amp; Family</td>
<td>$1,597</td>
<td>$2,004</td>
<td>25.5%</td>
<td>7,420</td>
</tr>
</tbody>
</table>
## TRS-ActiveCare

### Summary of Recommendations

<table>
<thead>
<tr>
<th></th>
<th>No Changes</th>
<th>Recommendation</th>
</tr>
</thead>
</table>
| **Medical**         | None       | ▪ Increase in maximum out-of-pocket Limit for TRS-ActiveCare Select and TRS-ActiveCare 2 plans  
|                     |            | ▪ Implement separate out-of-network deductible and maximum out-of-pocket accumulators for TRS-ActiveCare 1-HD and TRS-ActiveCare 2 plans  
|                     |            | ▪ Increase ER Copay for TRS-ActiveCare Select plans                            |
| **Pharmacy**        | None       | ▪ No changes                                                                    |
| **Gross Premium Increase** | 9.9%       | 8.1%                                                                           |
| **Average Employee Increase** | 16.5%       | 13.4%                                                                           |

* Assumes the school district contributes the minimum $150 per employee per month.
## TRS-ActiveCare Funding Projection
### as of March 31, 2017

<table>
<thead>
<tr>
<th>Fiscal Year</th>
<th>State/District Contributions</th>
<th>Supplemental Appropriations</th>
<th>Employee Contributions</th>
<th>HMO Contributions</th>
<th>LTC</th>
<th>Investment Income</th>
<th>Other Income</th>
<th>Total Revenue</th>
<th>Medical Incurred</th>
<th>Drug Incurred (includes Rebates)</th>
<th>HMO Premium Payments</th>
<th>Administrative Costs</th>
<th>Total Expenses</th>
<th>Ending Balance (Incrurred Basis)</th>
</tr>
</thead>
<tbody>
<tr>
<td>FY 2003</td>
<td>$409,407,553</td>
<td>$0</td>
<td>$175,165,299</td>
<td>$0</td>
<td>$0</td>
<td>$2,456,654</td>
<td>$0</td>
<td>$587,029,506</td>
<td>$473,450,544</td>
<td>$44,140,954</td>
<td>$517,591,498</td>
<td>$331,844,544</td>
<td>$136,293,600</td>
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</tr>
<tr>
<td>FY 2004</td>
<td>$364,167,552</td>
<td>$0</td>
<td>$353,644,461</td>
<td>$0</td>
<td>$0</td>
<td>($38,041,707)</td>
<td>$0</td>
<td>$679,810,306</td>
<td>$520,998,423</td>
<td>$54,734,179</td>
<td>$575,732,602</td>
<td>$240,371,304</td>
<td>$240,371,304</td>
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</tr>
<tr>
<td>FY 2005</td>
<td>$401,876,520</td>
<td>$0</td>
<td>$379,275,180</td>
<td>$0</td>
<td>$0</td>
<td>$8,949,525</td>
<td>$0</td>
<td>$790,101,225</td>
<td>$663,361,138</td>
<td>$55,264,847</td>
<td>$718,625,985</td>
<td>$311,844,544</td>
<td>$311,844,544</td>
<td></td>
</tr>
<tr>
<td>FY 2006</td>
<td>$420,918,887</td>
<td>$0</td>
<td>$391,079,168</td>
<td>$0</td>
<td>$0</td>
<td>$18,650,516</td>
<td>$0</td>
<td>$830,648,571</td>
<td>$708,972,484</td>
<td>$54,587,233</td>
<td>$765,559,716</td>
<td>$378,198,205</td>
<td>$378,198,205</td>
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</tr>
<tr>
<td>FY 2007</td>
<td>$458,147,275</td>
<td>$0</td>
<td>$422,804,390</td>
<td>$58,742,363</td>
<td>$184,937</td>
<td>$26,016,380</td>
<td>$46,446</td>
<td>$965,941,792</td>
<td>$659,478,760</td>
<td>$141,670,202</td>
<td>$58,742,363</td>
<td>$49,953,608</td>
<td>$453,295,063</td>
<td></td>
</tr>
<tr>
<td>FY 2008</td>
<td>$503,908,813</td>
<td>$0</td>
<td>$524,423,466</td>
<td>$68,204,743</td>
<td>$186,844</td>
<td>$21,164,640</td>
<td>$61,894</td>
<td>$1,117,950,400</td>
<td>$788,240,087</td>
<td>$163,916,252</td>
<td>$68,204,743</td>
<td>$56,413,758</td>
<td>$476,470,624</td>
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</tr>
<tr>
<td>FY 2009</td>
<td>$542,055,282</td>
<td>$0</td>
<td>$565,305,545</td>
<td>$64,820,440</td>
<td>$187,813</td>
<td>$11,597,992</td>
<td>$64,975</td>
<td>$1,184,032,047</td>
<td>$934,733,927</td>
<td>$187,913,031</td>
<td>$64,820,440</td>
<td>$62,796,381</td>
<td>$410,238,892</td>
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</tr>
<tr>
<td>FY 2010</td>
<td>$598,289,950</td>
<td>$0</td>
<td>$667,574,367</td>
<td>$64,532,253</td>
<td>$135,321</td>
<td>$6,421,269</td>
<td>$64,328</td>
<td>$1,337,007,488</td>
<td>$1,092,107,916</td>
<td>$221,006,281</td>
<td>$64,532,253</td>
<td>$69,789,802</td>
<td>$299,810,127</td>
<td></td>
</tr>
<tr>
<td>FY 2011</td>
<td>$657,163,904</td>
<td>$0</td>
<td>$813,516,808</td>
<td>$76,270,706</td>
<td>$135,917</td>
<td>$3,387,062</td>
<td>$67,373</td>
<td>$1,550,541,770</td>
<td>$1,242,673,156</td>
<td>$267,417,825</td>
<td>$76,270,706</td>
<td>$1,662,282,470</td>
<td>$188,069,427</td>
<td></td>
</tr>
<tr>
<td>FY 2012</td>
<td>$695,964,277</td>
<td>$0</td>
<td>$964,264,139</td>
<td>$89,706,406</td>
<td>$136,325</td>
<td>$1,697,553</td>
<td>$72,094</td>
<td>$1,751,840,794</td>
<td>$1,450,574,875</td>
<td>$268,328,770</td>
<td>$89,706,406</td>
<td>$85,522,832</td>
<td>$45,777,337</td>
<td></td>
</tr>
<tr>
<td>FY 2013</td>
<td>$696,866,543</td>
<td>$0</td>
<td>$1,010,749,438</td>
<td>$100,905,703</td>
<td>$137,630</td>
<td>$746,936</td>
<td>$75,664</td>
<td>$1,809,481,913</td>
<td>$1,512,262,090</td>
<td>$272,807,678</td>
<td>$100,905,703</td>
<td>$87,254,903</td>
<td>($117,971,123)</td>
<td></td>
</tr>
<tr>
<td>FY 2014</td>
<td>$690,143,479</td>
<td>$0</td>
<td>$1,083,838,126</td>
<td>$154,913,860</td>
<td>$139,608</td>
<td>$940,021</td>
<td>$79,792</td>
<td>$1,930,054,886</td>
<td>$1,242,335,376</td>
<td>$279,499,122</td>
<td>$154,913,860</td>
<td>$112,495,803</td>
<td>$223,839,113</td>
<td></td>
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<tr>
<td>FY 2015</td>
<td>$711,336,225</td>
<td>$0</td>
<td>$1,054,420,572</td>
<td>$178,192,468</td>
<td>$141,534</td>
<td>$1,537,408</td>
<td>$95,215</td>
<td>$1,945,723,422</td>
<td>$1,301,110,229</td>
<td>$264,145,730</td>
<td>$178,192,468</td>
<td>$137,298,832</td>
<td>$87,815,276</td>
<td></td>
</tr>
<tr>
<td>FY 2016</td>
<td>$719,495,387</td>
<td>$0</td>
<td>$1,124,339,259</td>
<td>$217,184,160</td>
<td>$156,054</td>
<td>$3,079,039</td>
<td>$200,000</td>
<td>$2,064,453,900</td>
<td>$1,430,266,708</td>
<td>$235,475,112</td>
<td>$214,529,160</td>
<td>$128,446,902</td>
<td>$53,550,894</td>
<td></td>
</tr>
</tbody>
</table>

**Note:** All amounts are in USD.
OPPORTUNITY

proactive participant education

better health care decisions

future plan sustainability
OBJECTIVES

We want to ensure that participants

- KNOW about available resources
- UNDERSTAND the changes to health benefits
- EMPOWERED and informed consumers
APPROACH

PHASE 1
PREPARE for change

PHASE 2
EDUCATE participants about their options

PHASE 3
PROMPT participants to enroll

PHASE 4
ENGAGE participants in consumer education

2017
Ongoing participant education campaign

LAUNCH
monthly
e-newsletter

PROVIDE
ongoing
information

SHARE
information
and resources
with principals
and administrators

OPTIMIZE
web content
and plan guides

DEVELOP
targeted
education and
engagement
campaigns
new ways to engage
June 2, 2017

Mr. Brian Guthrie  
Executive Director  
Teacher Retirement System of Texas  
1000 Red River Street  
Austin, Texas 78701

Re: FY2018 TRS-ActiveCare Rates and Benefits

Dear Mr. Guthrie:

We have analyzed TRS-ActiveCare experience through March 31, 2017 in order to project overall funding and benefit level requirements for the plan year beginning September 1, 2017 (FY 2018). Throughout the process, we have worked closely with staff to identify and prioritize potential courses of action.

Our analysis indicates that in the absence of increased monthly rates and/or benefit design changes, TRS-ActiveCare will complete FY 2017 with a projected surplus approximately $68 million. To protect the program from unforeseen contingencies such as an increase in catastrophic claims or the introduction of new high cost specialty drugs, it is our recommendation that an FY 2018 ending surplus reserve equal to approximately one month of medical and prescription drug claims, estimated to be $158 million, to account for contingencies.

It is our recommendation that desired FY 2018 surplus reserve be achieved by a combination of increased monthly rates coupled with plan changes effective September 1, 2017. Recommended benefit changes are provided as follow:

**TRS-ActiveCare1- HD**

<table>
<thead>
<tr>
<th>Plan Feature</th>
<th>From 2016-2017 Plan Year</th>
<th>To 2017-2018 Plan Year</th>
</tr>
</thead>
<tbody>
<tr>
<td>In-Network Benefits</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Individual/Family Deductible</td>
<td>$2,500/$5,000</td>
<td>$2,500/$5,000</td>
</tr>
<tr>
<td>Individual/Family Max Out-of-Pocket</td>
<td>$6,550/$13,100</td>
<td>$6,550/$13,100</td>
</tr>
<tr>
<td>Out-of-Network Benefits</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Individual/Family Deductible</td>
<td>Included with in-network limit</td>
<td>$5,000/$10,000</td>
</tr>
<tr>
<td>Individual/Family Max Out-of-Pocket</td>
<td>Included with in-network limit</td>
<td>$13,100/$26,200</td>
</tr>
</tbody>
</table>
The balance of the necessary funding would then be generated by the rate changes shown in the attached exhibit. Shifts in enrollment in response to changes in the rates and benefits are not expected to have a significant effect on plan experience.

Rates recommended for fiscal year 2018 for TRS-ActiveCare are shown in the attached exhibit.

We are pleased to provide this information. Please let us know if you have any questions.

Sincerely,

William J. Hickman
Senior Health Care Consultant

Amy E. Cohen, ASA, MAAA
Health Care Consultant
## Exhibit A

<table>
<thead>
<tr>
<th></th>
<th>Current FY 2017 Rates</th>
<th>Proposed FY 2018 Rates</th>
<th>Percent Change</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>TRS ActiveCare 1-HD</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Employee Only</td>
<td>$341</td>
<td>$351</td>
<td>2.9%</td>
</tr>
<tr>
<td>Employee and Spouse</td>
<td>$914</td>
<td>$991</td>
<td>8.4%</td>
</tr>
<tr>
<td>Employee and Child(ren)</td>
<td>$615</td>
<td>$671</td>
<td>9.1%</td>
</tr>
<tr>
<td>Employee and Family</td>
<td>$1,231</td>
<td>$1,316</td>
<td>6.9%</td>
</tr>
<tr>
<td><strong>TRS ActiveCare Select</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Employee Only</td>
<td>$484</td>
<td>$514</td>
<td>6.2%</td>
</tr>
<tr>
<td>Employee and Spouse</td>
<td>$1,147</td>
<td>$1,264</td>
<td>10.2%</td>
</tr>
<tr>
<td>Employee and Child(ren)</td>
<td>$779</td>
<td>$834</td>
<td>7.1%</td>
</tr>
<tr>
<td>Employee and Family</td>
<td>$1,361</td>
<td>$1,589</td>
<td>16.8%</td>
</tr>
<tr>
<td><strong>TRS ActiveCare 2</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Employee Only</td>
<td>$645</td>
<td>$714</td>
<td>10.7%</td>
</tr>
<tr>
<td>Employee and Spouse</td>
<td>$1,552</td>
<td>$1,694</td>
<td>9.1%</td>
</tr>
<tr>
<td>Employee and Child(ren)</td>
<td>$1,042</td>
<td>$1,062</td>
<td>1.9%</td>
</tr>
<tr>
<td>Employee and Family</td>
<td>$1,597</td>
<td>$2,004</td>
<td>25.5%</td>
</tr>
</tbody>
</table>
RESOLUTION APPROVING BENEFITS AND PREMIUM RATES FOR TRS-ACTIVECARE 1-HD, TRS-ACTIVECARE SELECT, AND TRS-ACTIVECARE 2

June 1 - 2, 2017

Whereas, Chapter 1579, Insurance Code, authorizes the Teacher Retirement System of Texas (TRS), as trustee, to implement and administer the uniform group health benefits program (TRS-ActiveCare) under the Texas School Employees Uniform Group Health Coverage Act, as described in the statute;

Whereas, TRS staff and the TRS health benefits consultant, Gabriel, Roeder, Smith & Company ("GRS"), have recommended that benefit changes, as indicated below, be made to TRS-ActiveCare 1-HD, TRS-ActiveCare Select, and TRS-ActiveCare 2 for the Fiscal Year 2018 plan year commencing on September 1, 2017;

Whereas, TRS staff and GRS have recommended that for the Fiscal Year 2018 plan year commencing on September 1, 2017, premium rates at all levels of coverage in TRS-ActiveCare 1-HD, TRS-ActiveCare Select, and TRS-ActiveCare 2 be set at the gross premium amounts set out in Exhibit A, attached to this resolution and incorporated herein by reference; and

Whereas, The TRS Board of Trustees ("Board") desires to adopt the recommendations of TRS staff and GRS; now, therefore, be it

THE REMAINDER OF THIS PAGE HAS INTENTIONALLY BEEN LEFT BLANK
Resolved, That the Board hereby adopts and authorizes the following benefit changes, subject to all other plan requirements and restrictions, for TRS-ActiveCare 1-HD, beginning in the Fiscal Year 2018 plan year commencing on September 1, 2017 and thereafter, until further action by the Board:

<table>
<thead>
<tr>
<th>Plan Feature</th>
<th>2016-2017 Plan Year</th>
<th>2017-2018 Plan Year</th>
</tr>
</thead>
<tbody>
<tr>
<td>In-Network</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Individual Deductible</td>
<td>$2,500</td>
<td>$2,500</td>
</tr>
<tr>
<td>Family Deductible</td>
<td>$5,000</td>
<td>$5,000</td>
</tr>
<tr>
<td>Individual Out-of-Pocket Maximum</td>
<td>$6,550</td>
<td>$6,550</td>
</tr>
<tr>
<td>Family Out-of-Pocket Maximum</td>
<td>$13,100</td>
<td>$13,100</td>
</tr>
<tr>
<td>Out-of-Network</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Individual Deductible</td>
<td>Included in the in-network deductible</td>
<td>$5,000</td>
</tr>
<tr>
<td>Family Deductible</td>
<td></td>
<td>$10,000</td>
</tr>
<tr>
<td>Individual Out-of-Pocket Maximum</td>
<td>Included in the in-network maximum</td>
<td>$13,100</td>
</tr>
<tr>
<td>Family Out-of-Pocket Maximum</td>
<td></td>
<td>$26,200</td>
</tr>
</tbody>
</table>

Resolved, That the Board hereby adopts and authorizes the following benefit changes, subject to all other plan requirements and restrictions, for TRS-ActiveCare Select, beginning in the Fiscal Year 2018 plan year commencing on September 1, 2017 and thereafter, until further action by the Board:

<table>
<thead>
<tr>
<th>Plan Feature</th>
<th>2016-2017 Plan Year</th>
<th>2017-2018 Plan Year</th>
</tr>
</thead>
<tbody>
<tr>
<td>In-Network</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Individual Out-of-Pocket Maximum</td>
<td>$6,850</td>
<td>$7,150</td>
</tr>
<tr>
<td>Family Out-of-Pocket Maximum</td>
<td>$13,700</td>
<td>$14,300</td>
</tr>
<tr>
<td>Emergency Room Copay</td>
<td>$150 + 20% after deductible</td>
<td>$200 + 20% after deductible</td>
</tr>
</tbody>
</table>
Resolved, That the Board hereby adopts and authorizes the following benefit changes, subject to all other plan requirements and restrictions, for TRS-ActiveCare 2, beginning in the Fiscal Year 2018 plan year commencing on September 1, 2017 and thereafter, until further action by the Board:

<table>
<thead>
<tr>
<th>Plan Feature</th>
<th>2016-2017 Plan Year</th>
<th>2017-2018 Plan Year</th>
</tr>
</thead>
<tbody>
<tr>
<td>In-Network</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Individual Deductible</td>
<td>$1,000</td>
<td>$1,000</td>
</tr>
<tr>
<td>Family Deductible</td>
<td>$3,000</td>
<td>$3,000</td>
</tr>
<tr>
<td>Individual Out-of-Pocket Maximum</td>
<td>$6,850</td>
<td>$7,150</td>
</tr>
<tr>
<td>Family Out-of-Pocket Maximum</td>
<td>$13,700</td>
<td>$14,300</td>
</tr>
<tr>
<td>Out-of-Network</td>
<td>Included in the in-network deductible</td>
<td></td>
</tr>
<tr>
<td>Individual Deductible</td>
<td>$2,000</td>
<td></td>
</tr>
<tr>
<td>Family Deductible</td>
<td>$6,000</td>
<td></td>
</tr>
<tr>
<td>Individual Out-of-Pocket Maximum</td>
<td>Included in the in-network maximum</td>
<td>$14,300</td>
</tr>
<tr>
<td>Family Out-of-Pocket Maximum</td>
<td>$28,600</td>
<td></td>
</tr>
<tr>
<td>Emergency Room Copay</td>
<td>$150 + 20% after deductible</td>
<td>$200 + 20% after deductible</td>
</tr>
</tbody>
</table>

Resolved, That the Board hereby adopts and authorizes the gross premium rates for TRS-ActiveCare 1-HD, TRS-ActiveCare Select, and TRS-ActiveCare 2 contained in Exhibit A, for the Fiscal Year 2018 plan year commencing on September 1, 2017 and thereafter, until further action by the Board; and

Resolved, That the Board authorizes the Executive Director or his designees to take any actions that are necessary or advisable to implement the benefit structure and premium rates, as adopted or authorized herein, and to continue the existing approved plans of coverage for TRS-ActiveCare 1-HD, TRS-ActiveCare Select, and TRS-ActiveCare 2, until further action by the Board.
### Exhibit A
TO THE RESOLUTION APPROVING BENEFITS AND PREMIUM RATES FOR TRS-ACTIVECARE 1-HD, TRS-ACTIVECARE SELECT, AND TRS-ACTIVECARE 2

Summary of Proposed FY 2018 Monthly Premium Rates

<table>
<thead>
<tr>
<th></th>
<th>Current FY 2017 Rate</th>
<th>Proposed FY 2018 Rate</th>
<th>Percent Change</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>TRS-ActiveCare 1-HD</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Employee Only</td>
<td>$341.00</td>
<td>$351.00</td>
<td>2.9%</td>
</tr>
<tr>
<td>Employee and Spouse</td>
<td>$914.00</td>
<td>$991.00</td>
<td>8.4%</td>
</tr>
<tr>
<td>Employee and Child(ren)</td>
<td>$615.00</td>
<td>$671.00</td>
<td>9.1%</td>
</tr>
<tr>
<td>Employee and Family</td>
<td>$1,231.00</td>
<td>$1,316.00</td>
<td>6.9%</td>
</tr>
<tr>
<td><strong>TRS-ActiveCare Select</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Employee Only</td>
<td>$484.00</td>
<td>$514.00</td>
<td>6.2%</td>
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<td>Employee and Spouse</td>
<td>$1,147.00</td>
<td>$1,264.00</td>
<td>10.2%</td>
</tr>
<tr>
<td>Employee and Child(ren)</td>
<td>$779.00</td>
<td>$834.00</td>
<td>7.1%</td>
</tr>
<tr>
<td>Employee and Family</td>
<td>$1,361.00</td>
<td>$1,589.00</td>
<td>16.8%</td>
</tr>
<tr>
<td><strong>TRS-ActiveCare 2</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Employee Only</td>
<td>$645.00</td>
<td>$714.00</td>
<td>10.7%</td>
</tr>
<tr>
<td>Employee and Spouse</td>
<td>$1,552.00</td>
<td>$1,694.00</td>
<td>9.1%</td>
</tr>
<tr>
<td>Employee and Child(ren)</td>
<td>$1,042.00</td>
<td>$1,062.00</td>
<td>1.9%</td>
</tr>
<tr>
<td>Employee and Family</td>
<td>$1,597.00</td>
<td>$2,004.00</td>
<td>25.5%</td>
</tr>
</tbody>
</table>
Overview of Changes

- Premium increases range from approximately 2.5% to 9.1% depending on the HMO and coverage tier.

<table>
<thead>
<tr>
<th>Coverage Tier</th>
<th>BCBSTX (compared to Allegian)</th>
<th>FirstCare</th>
<th>Scott &amp; White</th>
</tr>
</thead>
<tbody>
<tr>
<td>Employee Only</td>
<td>2.5%</td>
<td>9.0%</td>
<td>5.8%</td>
</tr>
<tr>
<td>Employee &amp; Spouse</td>
<td>2.6%</td>
<td>9.1%</td>
<td>5.9%</td>
</tr>
<tr>
<td>Employee &amp; Child(ren)</td>
<td>2.5%</td>
<td>9.0%</td>
<td>5.9%</td>
</tr>
<tr>
<td>Employee &amp; Family</td>
<td>2.6%</td>
<td>9.1%</td>
<td>5.9%</td>
</tr>
</tbody>
</table>

- Allegian’s HMO contract is assigned to BCBSTX. Benefits and service area remain similar under BCBSTX.
### BCBSTX (replaces Allegian): 2017-2018 Plan

<table>
<thead>
<tr>
<th>Coverage Tier</th>
<th>Allegian 2016-2017 Premiums</th>
<th>BCBSTX 2017-2018 Premiums</th>
</tr>
</thead>
<tbody>
<tr>
<td>Employee Only</td>
<td>$449.08</td>
<td>$460.50</td>
</tr>
<tr>
<td>Employee &amp; Spouse</td>
<td>$1,085.74</td>
<td>$1,113.72</td>
</tr>
<tr>
<td>Employee &amp; Child(ren)</td>
<td>$702.84</td>
<td>$720.86</td>
</tr>
<tr>
<td>Employee &amp; Family</td>
<td>$1,151.60</td>
<td>$1,181.28</td>
</tr>
</tbody>
</table>

#### Medical Benefits

- **Deductible**
  - Individual - $500
  - Family - $1,000
- **Out-of-Pocket Maximum**
  - Individual - $4,500
  - Family - $9,000
- **Copay / Coinsurance**
  - Primary Care - $25
  - Specialist - $60
  - Urgent Care - $75
- **ER / Hospital**
  - Plan pays 80% after deductible
- **Preventive Care**
  - Plan pays 100%

#### Pharmacy Benefits

- **Deductible**
  - $100
- **Copay / Coinsurance**
  - Tier Retail / Mail Order
    - Generic - $10 / $30
    - Preferred Brand - $40 / $120
    - Non-Preferred Brand - $65 / $195
    - Specialty - 20% / Not Covered

#### Approved Service Area:

- Cameron, Hidalgo, Starr, and Willacy Counties
FirstCare: 2017-2018 Changes

FirstCare Premium Changes

<table>
<thead>
<tr>
<th>Coverage Tier</th>
<th>2016-2017 Premiums</th>
<th>2017-2018 Premiums</th>
</tr>
</thead>
<tbody>
<tr>
<td>Employee Only</td>
<td>$472.50</td>
<td>$514.82</td>
</tr>
<tr>
<td>Employee &amp; Spouse</td>
<td>$1,180.50</td>
<td>$1,287.60</td>
</tr>
<tr>
<td>Employee &amp; Child(ren)</td>
<td>$748.50</td>
<td>$816.07</td>
</tr>
<tr>
<td>Employee &amp; Family</td>
<td>$1,190.50</td>
<td>$1,298.52</td>
</tr>
</tbody>
</table>

FirstCare Benefit Changes

<table>
<thead>
<tr>
<th>Benefit</th>
<th>2016-2017 Plan Year</th>
<th>2017-2018 Plan Year</th>
</tr>
</thead>
<tbody>
<tr>
<td>Deductible</td>
<td>Individual - $500</td>
<td>Individual - $750</td>
</tr>
<tr>
<td></td>
<td>Family - $1,500</td>
<td>Family - $2,250</td>
</tr>
</tbody>
</table>

The proposed service area is the same as last year.
Scott & White: 2017-2018 Changes

Scott & White Premium Changes

<table>
<thead>
<tr>
<th>Coverage Tier</th>
<th>2016-2017 Premiums</th>
<th>2017-2018 Premiums</th>
</tr>
</thead>
<tbody>
<tr>
<td>Employee Only</td>
<td>$530.16</td>
<td>$561.04</td>
</tr>
<tr>
<td>Employee &amp; Spouse</td>
<td>$1,192.82</td>
<td>$1,263.08</td>
</tr>
<tr>
<td>Employee &amp; Child(ren)</td>
<td>$839.16</td>
<td>$888.42</td>
</tr>
<tr>
<td>Employee &amp; Family</td>
<td>$1,322.98</td>
<td>$1,400.98</td>
</tr>
</tbody>
</table>

Scott & White Benefit Changes

<table>
<thead>
<tr>
<th>Benefit</th>
<th>2016-2017 Plan Year</th>
<th>2017-2018 Plan Year</th>
</tr>
</thead>
<tbody>
<tr>
<td>Out-of-Pocket Maximum</td>
<td>Individual - $5,000</td>
<td>Individual - $6,550</td>
</tr>
<tr>
<td></td>
<td>Family - $10,000</td>
<td>Family - $13,100</td>
</tr>
<tr>
<td>Pharmacy Benefits</td>
<td>Deductible - $100</td>
<td>Deductible - $150</td>
</tr>
<tr>
<td></td>
<td>Generic Retail Copay - $3</td>
<td>Generic Retail Copay - $6</td>
</tr>
<tr>
<td></td>
<td>Generic Maintenance Copay - $5</td>
<td>Generic Maintenance Copay - $10</td>
</tr>
</tbody>
</table>

The proposed service area is the same as last year.
June 2, 2017

Mr. Brian Guthrie  
Executive Director  
Teacher Retirement System of Texas  
1000 Red River Street  
Austin, Texas 78701

Re: FY2018 HMO Renewals for TRS-ActiveCare

Dear Mr. Guthrie:

We have reviewed the fiscal year 2018 HMO renewal notices received from the three HMO plans currently offered to TRS-ActiveCare participants. Renewals submitted by SHA, L.L.C. d/b/a FIRSTCARE, Scott & White Health Plan, and Blue Cross Blue Shield of Texas (formerly Allegian Insurance Company). Each included proposed premium rates and plan design changes.

The proposed premiums and major plan design changes are summarized below for the three HMO plans. Each rate includes a $10 TRS administrative fee. Other minor plan design changes will be reflected in the TRS-ActiveCare Enrollment Guide and the Evidence of Coverage issued by each respective HMO.

**BLUE CROSS BLUE SHIELD OF TEXAS (formerly ALLEGIAN HEALTH PLANS)**

Blue Cross Blue Shield of Texas proposes the following premium rates and plan design changes:

**Proposed Premium Rates**

<table>
<thead>
<tr>
<th>Coverage Tier</th>
<th>FY 2017</th>
<th>FY 2018</th>
<th>% Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Employee Only</td>
<td>$449.08</td>
<td>$460.50</td>
<td>+ 2.5%</td>
</tr>
<tr>
<td>Employee &amp; Spouse</td>
<td>$1,085.74</td>
<td>$1,113.72</td>
<td>+ 2.6%</td>
</tr>
<tr>
<td>Employee &amp; Children</td>
<td>$702.84</td>
<td>$720.86</td>
<td>+ 2.6%</td>
</tr>
<tr>
<td>Employee &amp; Family</td>
<td>$1,151.60</td>
<td>$1,181.28</td>
<td>+ 2.6%</td>
</tr>
</tbody>
</table>

**Proposed Plan Changes**

- No maximum for specialty drugs, the 20% coinsurance will apply to the overall $4,500 out-of-pocket maximum;
Visit, day and dollar limits removed for home health, skilled nursing facilities, accidental dental care, prosthetics, orthotics, spinal manipulation and durable medical equipment; Hearing aids covered at one per 36 months; and Pharmacy network will exclude CVS.

FIRSTCARE

FIRSTCARE proposes the following premium rates and changes to plan design:

Proposed Premium Rates

<table>
<thead>
<tr>
<th>Coverage Tier</th>
<th>FY 2017</th>
<th>FY 2018</th>
<th>% Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Employee Only</td>
<td>$472.50</td>
<td>$514.82</td>
<td>+ 9.0%</td>
</tr>
<tr>
<td>Employee &amp; Spouse</td>
<td>$1,180.50</td>
<td>$1,287.60</td>
<td>+ 9.1%</td>
</tr>
<tr>
<td>Employee &amp; Children</td>
<td>$748.50</td>
<td>$816.07</td>
<td>+ 9.0%</td>
</tr>
<tr>
<td>Employee &amp; Family</td>
<td>$1,190.50</td>
<td>$1,298.52</td>
<td>+ 9.1%</td>
</tr>
</tbody>
</table>

Proposed Plan Changes

- Increase deductible for Individual coverage from $500 to $750; and
- Increase deductible for Family coverage from $1,500 to $2,250;

SCOTT & WHITE HEALTH PLAN

Scott & White Health Plan proposes the following premium rates and changes to plan design:

Proposed Premium Rates

<table>
<thead>
<tr>
<th>Coverage Tier</th>
<th>FY 2017</th>
<th>FY 2018</th>
<th>% Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Employee Only</td>
<td>$530.16</td>
<td>$561.04</td>
<td>+ 5.8%</td>
</tr>
<tr>
<td>Employee &amp; Spouse</td>
<td>$1,192.82</td>
<td>$1,263.08</td>
<td>+ 5.9%</td>
</tr>
<tr>
<td>Employee &amp; Children</td>
<td>$839.16</td>
<td>$888.42</td>
<td>+ 5.9%</td>
</tr>
<tr>
<td>Employee &amp; Family</td>
<td>$1,322.98</td>
<td>$1,400.98</td>
<td>+ 5.9%</td>
</tr>
</tbody>
</table>

Proposed Plan Changes

- Increase maximum out-of-pocket limit for Individual coverage from $5,000 to $6,550;
- Increase maximum out-of-pocket limit for Family coverage from $10,000 to $13,100;
- Increase the pharmacy benefit deductible from $100 to $150;
- Increase the generic retail pharmacy copay from $3 to $6 per script; and
- Increase the generic maintenance retail pharmacy copay from $6 to $10 per script.
SUMMARY

Each of the three current HMO contracts contains a provision that allows TRS to continue the contract for an additional one-year term, subject to approval by TRS. Given the proposed benefits, premium, enrollment levels, and recent performance, acceptance of each of the renewals without exception is recommended.

Please let us know if you have any questions or if additional information is needed.

Sincerely,

William J. Hickman
Senior Health Care Consultant

Amy E. Cohen, ASA, MAAA
Health Care Consultant
RESOLUTION APPROVING BENEFITS AND PREMIUM RATES FOR TRS-ACTIVECARE 1-HD, TRS-ACTIVECARE SELECT, AND TRS-ACTIVECARE 2

June 1 - 2, 2017

Whereas, Chapter 1579, Insurance Code, authorizes the Teacher Retirement System of Texas (TRS), as trustee, to implement and administer the uniform group health benefits program (TRS-ActiveCare) under the Texas School Employees Uniform Group Health Coverage Act, as described in the statute;

Whereas, TRS staff and the TRS health benefits consultant, Gabriel, Roeder, Smith & Company (“GRS”), have recommended that benefit changes, as indicated below, be made to TRS-ActiveCare 1-HD, TRS-ActiveCare Select, and TRS-ActiveCare 2 for the Fiscal Year 2018 plan year commencing on September 1, 2017;

Whereas, TRS staff and GRS have recommended that for the Fiscal Year 2018 plan year commencing on September 1, 2017, premium rates at all levels of coverage in TRS-ActiveCare 1-HD, TRS-ActiveCare Select, and TRS-ActiveCare 2 be set at the gross premium amounts set out in Exhibit A, attached to this resolution and incorporated herein by reference; and

Whereas, The TRS Board of Trustees (“Board”) desires to adopt the recommendations of TRS staff and GRS; now, therefore, be it

THE REMAINDER OF THIS PAGE HAS INTENTIONALLY BEEN LEFT BLANK
Resolved, That the Board hereby adopts and authorizes the following benefit changes, subject to all other plan requirements and restrictions, for TRS-ActiveCare 1-HD, beginning in the Fiscal Year 2018 plan year commencing on September 1, 2017 and thereafter, until further action by the Board:

<table>
<thead>
<tr>
<th>Plan Feature</th>
<th>2016-2017 Plan Year</th>
<th>2017-2018 Plan Year</th>
</tr>
</thead>
<tbody>
<tr>
<td>In-Network</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Individual Deductible</td>
<td>$2,500</td>
<td>$2,500</td>
</tr>
<tr>
<td>Family Deductible</td>
<td>$5,000</td>
<td>$5,000</td>
</tr>
<tr>
<td>Individual Out-of-Pocket Maximum</td>
<td>$6,550</td>
<td>$6,550</td>
</tr>
<tr>
<td>Family Out-of-Pocket Maximum</td>
<td>$13,100</td>
<td>$13,100</td>
</tr>
<tr>
<td>Out-of-Network</td>
<td>Included in the in-network deductible</td>
<td>$5,000</td>
</tr>
<tr>
<td>Individual Deductible</td>
<td></td>
<td>$10,000</td>
</tr>
<tr>
<td>Family Deductible</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Individual Out-of-Pocket Maximum</td>
<td>Included in the in-network maximum</td>
<td>$13,100</td>
</tr>
<tr>
<td>Family Out-of-Pocket Maximum</td>
<td></td>
<td>$26,200</td>
</tr>
</tbody>
</table>

Resolved, That the Board hereby adopts and authorizes the following benefit changes, subject to all other plan requirements and restrictions, for TRS-ActiveCare Select, beginning in the Fiscal Year 2018 plan year commencing on September 1, 2017 and thereafter, until further action by the Board:

<table>
<thead>
<tr>
<th>Plan Feature</th>
<th>2016-2017 Plan Year</th>
<th>2017-2018 Plan Year</th>
</tr>
</thead>
<tbody>
<tr>
<td>In-Network</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Individual Out-of-Pocket Maximum</td>
<td>$6,850</td>
<td>$7,150</td>
</tr>
<tr>
<td>Family Out-of-Pocket Maximum</td>
<td>$13,700</td>
<td>$14,300</td>
</tr>
<tr>
<td>Emergency Room Copay</td>
<td>$150 + 20% after deductible</td>
<td>$200 + 20% after deductible</td>
</tr>
</tbody>
</table>
Resolved, That the Board hereby adopts and authorizes the following benefit changes, subject to all other plan requirements and restrictions, for TRS-ActiveCare 2, beginning in the Fiscal Year 2018 plan year commencing on September 1, 2017 and thereafter, until further action by the Board:

<table>
<thead>
<tr>
<th>Plan Feature</th>
<th>2016-2017 Plan Year</th>
<th>2017-2018 Plan Year</th>
</tr>
</thead>
<tbody>
<tr>
<td>In-Network</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Individual Deductible</td>
<td>$1,000</td>
<td>$1,000</td>
</tr>
<tr>
<td>Family Deductible</td>
<td>$3,000</td>
<td>$3,000</td>
</tr>
<tr>
<td>Individual Out-of-Pocket Maximum</td>
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<td>$7,150</td>
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<td>$14,300</td>
</tr>
<tr>
<td>Out-of-Network</td>
<td>Included in the in-network deductible</td>
<td>$2,000</td>
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<tr>
<td>Individual Deductible</td>
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<tr>
<td>Family Deductible</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Individual Out-of-Pocket Maximum</td>
<td>Included in the in-network maximum</td>
<td>$14,300</td>
</tr>
<tr>
<td>Family Out-of-Pocket Maximum</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Emergency Room Copay</td>
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</tr>
</tbody>
</table>
# Exhibit A

TO THE RESOLUTION APPROVING BENEFITS AND PREMIUM RATES FOR TRS-ACTIVECARE 1-HD, TRS-ACTIVECARE SELECT, AND TRS-ACTIVECARE 2

Summary of Proposed FY 2018 Monthly Premium Rates

<table>
<thead>
<tr>
<th></th>
<th>Current FY 2017 Rate</th>
<th>Proposed FY 2018 Rate</th>
<th>Percent Change</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>TRS-ActiveCare 1-HD</strong></td>
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<td></td>
<td></td>
</tr>
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<td>Employee Only</td>
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<td>Employee and Child(ren)</td>
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<td>Employee and Family</td>
<td>$1,361.00</td>
<td>$1,589.00</td>
<td>16.8%</td>
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<tr>
<td><strong>TRS-ActiveCare 2</strong></td>
<td></td>
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<td>Employee Only</td>
<td>$645.00</td>
<td>$714.00</td>
<td>10.7%</td>
</tr>
<tr>
<td>Employee and Spouse</td>
<td>$1,552.00</td>
<td>$1,694.00</td>
<td>9.1%</td>
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<tr>
<td>Employee and Child(ren)</td>
<td>$1,042.00</td>
<td>$1,062.00</td>
<td>1.9%</td>
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<tr>
<td>Employee and Family</td>
<td>$1,597.00</td>
<td>$2,004.00</td>
<td>25.5%</td>
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TAB 23
MEMORANDUM

To: TRS Board of Trustees
Through: Brian Guthrie, Executive Director
From: Katrina Daniel, Chief Health Care Officer
Date: June 2, 2017
Re: Group Long-Term Care Insurance Program / Benefit Administrative Services / Contract Renewal with Genworth Life Insurance Company

In its capacity as trustee of the Group Long-Term Care Insurance Program (the “Program”), TRS staff recommends the Board of Trustees (the “Board”) authorize staff to renew its contract (the “Contract”) with Genworth Life Insurance Company (“Genworth”) for one additional year, through August 31, 2018.

On December 12, 2008, the Board authorized TRS to enter into a six-year contract with Genworth to provide long-term care insurance to its members. In November 2015, the Board voted to extend the contract one additional year and did so again in July 2016. In March 2017, staff completed research on the long-term care market and determined that only Genworth continues to offer long-term care insurance benefits and underwriting, such as guaranteed issue, typically seen in group products.

During the past decade, the number of vendors offering products and services in the long-term care market has diminished substantially. Genworth has remained in the group long-term care market, providing long-term care benefits and administrative services to eligible TRS participants and their family members enrolled in the Program. Given the changing dynamics in the long-term care market, TRS Staff will continue to evaluate the viability and value of providing long-term care benefits through the Program.

In addition to market research, staff worked with Genworth to determine renewal terms. Genworth confirmed that current benefits and rates remain in place and no changes are being planned.

As a result, staff recommends the extension of the contract for another year to continue to provide long-term care benefits while staff continues to evaluate the market.

Under the TRS Board Procurement Policy, the Board may authorize renewals or extensions of contracts that are nearing their scheduled expiration dates, without requiring a new acquisition process, if the Board first determines that the renewal or extension continues to provide the best overall value to TRS and serves the best interests of TRS.

Staff believes that the requested one-year extension of the Contract provides the best overall value to TRS and serves the best interests of TRS. An extension of one year allows staff to continue to evaluate the viability and value of continuing to provide long-term care benefits through TRS.

Staff is eager to respond to any questions or requests concerning this matter from members of the Benefits Committee and the Board.
RESOLUTION APPROVING THE EXTENSION OF THE CONTRACT WITH GENWORTH LIFE INSURANCE COMPANY

June 1 - 2, 2017

Whereas, Chapter 1576 of the Insurance Code, authorizes the Teacher Retirement System of Texas (TRS), as trustee, to establish a group long-term care insurance program (the “Program”) to provide long-term care insurance coverage for eligible active employees and retirees, and their eligible family members;

Whereas, Chapter 1576, Insurance Code, also provides that TRS may contract with a carrier authorized to provide long-term care insurance;

Whereas, TRS currently has a contract (the “Contract”) with Genworth Life Insurance Company (“Genworth”), a carrier authorized to provide long-term care insurance, to underwrite the Program and, thereby, to offer benefits to participants in this Program;

Whereas, TRS staff recommends that the Contract be extended for an additional one (1) year period, effective from September 1, 2017 through August 31, 2018;

Whereas, The TRS Board of Trustees (“Board”) desires to adopt the recommendations of TRS staff; now, therefore, be it

Resolved, That the Board, pursuant to Chapter 1576 of the Insurance Code, hereby authorizes a one-year extension of the Contract with Genworth, beginning on September 1, 2017 through August 31, 2018, unless sooner terminated, subject to negotiation and execution of an extension agreement;

Resolved, That the Board finds that the requested one-year extension of the Contract continues to provide the best overall value to TRS and serves the best interests of TRS; and

Resolved, That the Board hereby authorizes the Executive Director or his designees to expend funds and to take all actions deemed necessary or advisable to implement this resolution and to negotiate, with the assistance and advice of legal counsel, a one (1) year extension, effective from September 1, 2017 through August 31, 2018, of the
Contract with Genworth to underwrite the Program and, thereby, to offer benefits to participants in the Program; and, if negotiations are deemed by the Executive Director, in his discretion to be successful, then the Executive Director is hereby authorized to execute the one (1) year extension of the Contract with Genworth on such terms and conditions as the Executive Director deems, in his discretion, to be in the best interest of TRS, and further to execute and deliver all such other documents that the Executive Director may deem necessary or appropriate to effect this resolution, as conclusively evidenced by the taking of the action or the execution and delivery of the documents, and to incur, approve and pay any budgeted expenses or costs reasonably necessary or advisable with respect to such contract extension, it being understood that the Board’s approval of a contract extension pursuant to this resolution shall not be construed as a binding agreement or obligation to extend the Contract, and there shall be no binding agreement among the parties until a full and final written contract extension is negotiated and signed by both parties.