



TRS Board of Trustees Meeting

October 17, 2014

**TEACHER RETIREMENT SYSTEM OF TEXAS MEETING
BOARD OF TRUSTEES**

AGENDA

October 17, 2014 – 8:30 a.m.

TRS East Building, 5th Floor, Boardroom

NOTE: The Board may take up in any order the items posted on the agenda during its meeting on Friday, October 17, 2014.

The open portions of the October 17, 2014, Board meetings are being broadcast over the Internet. Access to the Internet broadcast of the Board meeting is provided on TRS' website at www.trs.state.tx.us.

1. Call roll of Board members. *[Estimated time 8:30 – 8:45]*
2. Consider Board administrative matters, including – David Kelly: *[Estimated time 8:30 – 8:45]*
 - A. Approval of the September 18-19, 2014 Board meeting minutes.
 - B. Setting, rescheduling, or canceling future Board meetings.
3. Provide opportunity for public comments – David Kelly. *[Estimated time 8:30 – 8:45]*
4. Consider certifying to the State Comptroller of Public Accounts the estimated amount of state contributions necessary to pay the state's contributions for those individuals participating in the Optional Retirement Program Fiscal Years 2016 and 2017 – Don Green and Toni Alexander and Tonia Scaperlanda, Higher Education Coordinating Board. *[Estimated time 8:45 – 9:00]*
5. Discuss and receive an Independent Audit Report on TRS-Care Service Providers – Yimei Zhao; Sally Reaves, Sagebrush Solutions, LLC. *[Estimated time 9:00 – 9:30]*
6. Receive an update on the TRS health benefits programs – Betsey Jones. *[Estimated time 9:30 – 10:00]*
7. Discuss and consider a plan design amendment to TRS-Care 1, the retiree health benefits program regarding out-of-pocket maximums – Betsey Jones. *[Estimated time 10:00 – 10:15]*
8. Receive a presentation on performance networks and accountable care organizations – Mike Nelson and Dr. Catherine Gaffigan, Aetna. *[Estimated time 10:15 – 11:00]*
9. Discuss activities of the Retiree Advisory Committee (RAC) – Dr. Ignacio Salinas and Grace Mueller. *[Estimated time 11:00 – 11:30]*

NOTE: *The Board meeting likely will recess after the last item above for a lunch break and resume after lunch to take up the items listed below.*

10. Receive an update on the TRS Health Benefits Study – Betsey Jones and William Hickman and Amy Cohen, Gabriel, Roeder, Smith & Co. *[Estimated time 12:00 – 2:00]*
11. Discuss and receive information from staff on the TRS-Care pharmacy benefits manager contract, including considering a finding that deliberating or conferring on the pharmacy benefits manager contract in open meeting would have a detrimental effect on the position of the retirement system negotiations with a third person – Betsey Jones. *[Estimated time 2:00 – 2:30]*
12. 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.
13. 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

September 18-19, 2014

The Board of Trustees of the Teacher Retirement System of Texas met on September 18, 2014 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
Todd Barth
Karen Charleston
Joe Colonna
David Corpus
Anita Palmer
Dolores Ramirez
Nanette Sissney

Others present:

Brian Guthrie, TRS	James Nield, TRS
Ken Welch, TRS	Mike Pia, TRS
Carolina de Onís, TRS	Neil Randall, TRS
Don Green, TRS	Rebecca Smith, TRS
Howard Goldman, TRS	Ken Stanley, TRS
T. Britton Harris IV, TRS	Daniel Ting, TRS
Jerry Albright, TRS	Grant Walker, TRS
Jase Auby, TRS	Dr. Keith Brown, Investment Advisor
Michael Aluko, TRS	Steve Huff, Reinhart Boerner Van Deuren
Dr. Mohan Balachandran, TRS	Steve Voss, Hewitt EnnisKnupp
Ashley Baum, TRS	John Claisse, Albourne
Ronnie Bounds, TRS	Tathata Lohachitkul, Albourne
Vaughn Brock, TRS	Bill Barnes, Texas Retired Teachers Association
Robert Dunn, TRS	Ronnie Jung, Texas Retired Teachers Association
Michelle Fasel, TRS	John Ide, JPM
Dan Herron, TRS	Ann Fickel, Texas Classroom Teachers Association
Janis Hydak	Josh Sanderson, Association of Texas Professional Educators
Dan Junell, TRS	John Grey, Texas State Teachers Association
Eric Lang, TRS	Barbara Franklin, Texas State Teachers Association
Lynn Lau, TRS	Ted Melina Raab, Texas American Federation of Teachers
Rebecca Merrill, TRS	

Mr. Kelly called the meeting to order at 2:30 p.m.

1. Call roll of Board members.

Ms. Lau called the roll. A quorum was present. Mr. Moss was absent during roll call and joined the meeting later via telephone conferencing under section 551.130 of the Government Code.

2. Consider Board administrative matters, including – David Kelly:

A. Approval of the July 10-11, 2014 Board meeting minutes.

On a motion by Mr. Barth, seconded by Ms. Ramirez, the board unanimously adopted the minutes of the July 10-11, 2014 meeting, as presented.

B. Consider the election of the Board Vice-Chair.

On a motion by Mr. Kelly, seconded by Mr. Corpus, the board unanimously elected Ms. Sissney to be the board vice-chair by a voice vote.

C. Consider consenting to the Board Chair's appointment of committee members, and receive the Board Chair's public announcement of committee chairs.

On a motion by Ms. Palmer, seconded by Ms. Sissney, the board unanimously approved the following appointment of committee members:

Audit Committee

Christopher Moss, Chair
Karen Charleston
David Corpus
Anita Palmer
Nanette Sissney

Investment Management Committee

Todd Barth, Chair
Joe Colonna
David Corpus
David Kelly
Nanette Sissney

Benefits Committee

Anita Palmer, Chair
Karen Charleston
Christopher Moss
Dolores Ramirez
Nanette Sissney

Risk Management Committee

Karen Charleston, Chair
Todd Barth
David Corpus
David Kelly
Christopher Moss

Budget Committee

Nanette Sissney, Chair
Todd Barth
Karen Charleston
Christopher Moss
Dolores Ramirez

Ethics Committee

(Committee of the Whole)
Nanette Sissney, Chair

Policy Committee

Joe Colonna, Chair
Todd Barth
David Corpus
David Kelly
Dolores Ramirez

Compensation Committee

Nanette Sissney, Chair
Joe Colonna
David Kelly
Anita Palmer
Dolores Ramirez

Board Vice-Chair

Nanette Sissney

D. Consider Board and committee meeting dates for calendar year 2015.

On a motion by Ms. Ramirez, seconded by Mr. Barth, the board unanimously approved the following board and committee meeting dates for calendar year 2015:

February 11 – 13, 2015 (educational meeting)
March 26 – 27, 2015 (quarterly meeting)

May 1, 2015
June 11 – 12, 2015 (quarterly meeting)
July 24, 2015
September 24 – 25, 2015 (quarterly meeting)
October 23, 2015
November 19 – 20, 2015 (quarterly meeting)

3. Provide opportunity for public comments – David Kelly.

Mr. Kelly called for public comment. No comment was received.

4. Discuss and consider investment matters, including the following items:

A. Final Phase Review of the 2014 Asset Allocation Study – Britt Harris and Mohan Balachandran.

Dr. Balachandran presented the proposed changes to the asset allocation. He highlighted three proposed increased allocations: a 2 percent increase in private equity; a 3 percent increase in real assets; and a new allocation of 5 percent to risk parity strategies. Those allocations, he explained, would be funded by the following reductions: 2 percent out of US large cap and US small cap; 2 percent out of non-U.S. developed countries' markets; 1 out of emerging markets; 1 percent out of directional hedge funds; 2 percent out of US Treasuries; and 2 percent out of global inflation-linked bonds. Dr. Balachandran discussed with board members the rationale for the proposed changes. He addressed the following areas: increased expected returns; slightly increased volatility and illiquidity; and improved Sharpe ratio and risk adjusted returns. Mr. Harris and Dr. Balachandran discussed liquidity scores with Mr. Barth. They assured him that the liquidity of the fund under either the current allocation or the proposed one was more than adequate.

In response to the finding that TRS' fund had higher risk-adjusted returns than other public and private funds and endowments, Dr. Brown noted that endowments measure the inflation rate with the Higher Education Price Index (HEPI), which is higher than the Consumer Price Index (CPI) used by public and private funds.

Dr. Balachandran stated that adding risk parity strategies and using leverage would result in higher long-term investment returns and lower volatility. Per Mr. Colonna's request, he clarified that the 2.1x leverage refers to the leverage added to the risk parity strategies, primarily to bonds. Responding to a question from Dr. Brown, Dr. Balachandran stated that the leverage would be applied primarily through futures exposure but not borrowed money.

Dr. Balachandran presented the transition plan. He estimated that it would take about five years to deploy the target allocation to private equity and real assets, and the internally managed portfolios would take longer.

Dr. Balachandran concluded his presentation with a summary of the proposed changes as follows:

- Increase private markets allocation by 5 percent;
- Add 5 percent to Risk Parity;

- Dynamic asset allocation weights for real assets, private equity, energy and natural resources, and risk parity based on the actual holdings;
- Consolidate US Large Cap and US Small Cap into a single asset class; and
- Allow non-US developed sovereign bonds to be held in the US Treasury portfolio for the purposes of underweighting non-US sovereign bonds only.

B. Performance Review: Second Quarter 2014 – Brady O’Connell and Steve Voss, Hewitt EnnisKnupp.

Mr. Voss presented the trust fund performance review for the second quarter of 2014. Mr. Barth asked why TRS continued to invest in hedge funds while other public funds decided to eliminate them from their asset allocation. Mr. Harris stated that large funds like California Public Employee Retirement System had a 1 percent allocation to hedge funds with a 7 percent return, which were inconsequential to both their total asset value and returns. He stated that TRS’ 5 percent allocation to hedge funds and its 12.5 percent return from the portfolio were more significant. With little incremental risk added to the total fund, he said, hedge funds fit well into the overall portfolio and provide a diversifier against the U.S. equity market. He stated that hedge funds had performed as staff expected. Mr. Kelly stated that staff had built a good platform for the Hedge Fund Portfolio.

Mr. Voss presented the fund’s annualized returns for the five-year period ending June 30, 2014. The report compared TRS’ returns with a peer universe composed of 68 public funds with total assets in excess of \$1 billion. He stated that the fund outperformed the public fund universe median, on both the return and risk bases. He confirmed for Dr. Brown that the data did not include the peer group’s actual performances relative to their policies. Mr. Harris noted that the data indicated TRS took on less risk than other funds. Ms. Sissney stated that an \$8 billion fund should not be included in the peer universe. Mr. Harris and Mr. Voss concurred.

Mr. Voss concluded with a performance summary ending June 30, 2014. He reported that the fund had an excess return in 15 out of 20 quarters and ended the last quarter with \$130.2 billion in total assets, an all-time-high. Further discussion followed in response to a question from Mr. Barth concerning the reasons behind the underperformance in five of the 20 quarters reported. Mr. Harris discussed some major market events that could have led to underperformance in those quarters.

5. Review and discuss the Executive Director's report on the following matters – Brian Guthrie:

A. Administrative operational matters, including goals for Fiscal Year 2015 and updates on financial, audit, legal, staff services, board administration activities, special projects, long-term space planning, and strategic planning.

Mr. Guthrie provided an overview of the fiscal year 2015 goals and objectives in strategic planning. In response to a question from Mr. Kelly concerning the applicable regulatory framework for managing the TRS fund, Ms. de Onís stated that the fund is subject to different regulations that govern different types of investments and functions; as a pension fund, it is subject to the regulations of the Pension Review Board. Mr. Kelly stated that he would like to have an

overview of the regulations governing both the public and private funds. Mr. Guthrie stated that staff could include the topic in the February board meeting. Ms. de Onís stated that she planned to have the new compliance officer take a holistic approach and produce and implement a compliance plan covering all the investment activities within a year. She also noted that she would like the new compliance officer to review the Code of Ethics for Contractors and provide recommendations during the board's next review of the policy.

Mr. Guthrie stated that because of the significant investment outperformance over the past year, the fund was expected to be actuarially sound this year. He said that excess returns would allow deferred loss to be recognized earlier and result in a funding period between 25 and 27 years. He also recapped commitments made through the enactment of Senate Bill 1458.

Mr. Guthrie discussed the goal of enhancing customer service through a customer satisfaction survey, online videos, publications, and online tools. In response to a question from Ms. Sissney concerning customer satisfaction measurement, Mr. Guthrie confirmed that the survey would filter out responses from members who had not used TRS services in the past year and ask those members why they did not contact TRS. Mr. Goldman confirmed that the survey is conducted every two years with a sample consisting of 800 retirees and 1,200 active members and compares prior years' performance. Mr. Guthrie also discussed the goal of improving overall satisfaction with TRS healthcare programs.

Mr. Kelly suggested providing educational materials to members relating to financial planning. Mr. Guthrie stated that TRS could provide financial education, but should avoid giving advice. He stated that Ms. Merrill and her division were preparing a financial education video that would cover topics relating to the 403(b) and 401(k) programs. Ms. Sissney stated that active members in their first 20 years of career typically would not be engaged in topics relating to retirement planning. Ms. Ramirez concurred and stated the financial education video should reach out to teachers and make them more aware of the importance of retirement planning. Mr. Corpus stated that having a spokesperson who has gone through the same experience would help draw awareness. Ms. Merrill laid out the process of making the video and the topics to be covered. Mr. Harris suggested encouraging school principals to educate their employees on retirement planning once a year. Ms. Sissney suggested broadening the spectrum of members by including support staff and presenting the video at the beginning of the year. Ms. Charleston stated that current information and communications were insufficient and she would like to see more being offered to members. Mr. Guthrie stated that staff would keep the board apprised about the production of the video and would present the video for the board's advance screening before its official release.

Mr. Guthrie provided an update on the TEAM project and the new Chief Information Officer (CIO) search. He stated that T. A. Miller had taken over the role of interim CIO. Mr. Welch provided an update on the status of the search process for the CIO. He stated that the goal was to fill the position by the first week of October.

Mr. Guthrie discussed TRS' continued plan to address the TRS-Care funding issues. He stated that staff would provide proposed recommended solutions to the board in October and release the final report in November, giving staff two additional months of experience with the Affordable Care Act programs. He stated that staff would provide the legislature with helpful information that would provide for a better understanding of the issues. He stated that he would strive for the best

outcome possible in the next legislative session to resolve those challenges.

Mr. Guthrie reiterated his plan to develop effective personnel recruitment and retention strategies and his commitment to increase the use of Historically Underutilized Businesses (HUB).

Mr. Guthrie provided an update on long-term space planning. He discussed the building renovation plan and stated that staff would provide trustees with blueprints for review. Mr. Green confirmed for Ms. Palmer that staff would stay within the budget appropriated for the project. Mr. Guthrie stated that staff was trying to obtain the most efficient outcome with minimum change.

Mr. Guthrie provided an overview of professional development opportunities. He highlighted the Claritas Investment Certificate program that provides financial and investment education. He also shared his experience attending the HEK Aon client conference and the National Association of State Retirement Administrators conference. He announced that he was being considered for a board position with the National Conference on Teacher Retirement.

Mr. Guthrie discussed the *MyTRS Rewards* program, a member discount program available to members who access the online *MyTRS* application. He stated that the reward program would offer money-saving opportunities in areas such as auto insurance, wireless phones, and restaurants. He stated that the program was designed to encourage members to sign up for *MyTRS*. He noted that the program would not incur any cost to the fund. He stated that staff would evaluate whether the program enhances *MyTRS* registration and would provide the board with data when available. Ms. Palmer stated that she would not like TRS to be in competition with similar programs provided by some member organizations. Mr. Guthrie confirmed for Mr. Kelly that Mr. Tim Lee of Texas Retired Teachers Association (TRTA) expressed concern that the program would be competing with TRTA's similar program. Ms. de Onís stated that the program can only be justified if it provides better and more efficient customer service by encouraging members to enroll in *MyTRS*. Without that objective, she said, it cannot be legally justified.

Per Mr. Kelly's request, the board took up item 3 to hear public comments from Mr. Tim Lee of TRTA concerning the program.

3. Provide opportunity for public comments – David Kelly.

Mr. Tim Lee of TRTA stated that he believes TRTA and other organizations can play a role in sending messages to members about *MyTRS*. He stated that TRTA would like to be in partnership with TRS in promoting *MyTRS*.

The board took up agenda 5A to further discuss the *MyTRS Rewards* program.

5. Review and discuss the Executive Director's report on the following matters – Brian Guthrie:

A. Administrative operational matters, including goals for Fiscal Year 2015 and updates on financial, audit, legal, staff services, board administration activities, special projects, long-term space planning, and strategic planning.

Mr. Kelly asked about the possibility of creating a collaborative and mutually beneficial program

with member organizations. Mr. Guthrie stated that the program would need to be discontinued if it was not solely for increasing enrollment in *MyTRS*. Concerning collaborating with TRTA, he stated that TRS would not be able to lobby for the program offered by TRTA. Ms. de Onis confirmed that the program would need to be offered to all TRS members without excluding anyone and that TRS and TRTA would not be able to have a joint website for a joint program. Mr. Guthrie confirmed for Ms. Sissney that one purpose of the initiative was to eliminate paper publication by encouraging members to access online information, resulting in cost savings for the system.

Mr. Kelly asked that the topic be added to the agenda in October, if possible, or in November and discussed in closed session.

B. Board operational matters, including a review of draft agendas for upcoming meetings.

Mr. Guthrie highlighted items in the October and November meeting agendas. He noted that a Retirees Advisory Committee meeting may be conducted after the board meeting to discuss the health care study. He stated that staff would discuss the health care studies and seek feedback from the board and member organizations in October. He stated that staff would discuss options for the TRS-Care pharmacy benefit manager procurement in executive session.

Mr. Harris clarified for Mr. Barth that Dr. Balachandran's team would discuss the tactical asset allocation process and the quantitative portfolios and Mr. Auby's group would discuss the risk bubble reports, risk monitoring systems, and risk parity strategies. Per Mr. Kelly's request, Mr. Harris would provide a CIO presentation to the board in February.

Mr. Kelly announced that the board would take up agenda item 15.

15. Review the reports of the Chief Financial Officer – Don Green:

A. Anticipated year-end overview.

Mr. Green presented an estimated year-end financial report for fiscal year 2014 by division and category of expense. He confirmed for Ms. Palmer that several budget item balances, including TEAM and capital projects, could be carried forward to the next year. He confirmed for Ms. Sissney that the travel item includes both national and international travel which are tracked separately. He also clarified for Ms. Sissney that the air handler project was started in the last quarter and the remainder of the project would be spent in FY 2015; the stairwell pressurization project would be a new project and was within the amounts allowable for fire safety. He confirmed for Ms. Palmer that those two items would not be allowed to be re-appropriated into another type of budget but can be carried over to the same type of budget for the following year. He explained for Ms. Sissney that the \$5.4 million lapse was the amount budgeted in the FY 2014 pension fund budget that was not spent. Mr. Green stated that staff was planning to move forward \$4 million of the \$5.4 million lapse into the TEAM budget for FY 2015. He noted that staff had asked for the authority to carry forward the lapse fund into the next biennium in the legislative appropriation request (LAR) and that the legislature did not allow that in the last session.

B. Report of expenditures that exceed the amount of operating expenses appropriated from the general revenue fund and are required to perform the fiduciary duties of the Board.

Mr. Green presented the fiscal year-end cash disbursements report. He noted that the statute no longer required staff to present a monthly cash disbursement report to the board.

Mr. Kelly announced that the board would take up agenda item 17.

17. Review and discuss the Deputy Director's Report, including matters related to administrative, financial, and staff services operations – Ken Welch

Mr. Welch presented matters relating to TRS operations. He stated that the production of end-of-year annual financial statements was going well. In regards to the call center and office visit performance, he stated that the hold time stayed within 2 minutes in August, typically the busiest time of the year, and that the wait for an office-visit appointment was currently six weeks. Mr. Barth stated that necessary actions would need to be taken to hire and train staff to ease the wait time. Mr. Welch also provided a brief update on a few community events, including the State Employees Charitable Contribution Campaign, the Austin Independent School District Partners in Education Program, and the quarterly blood drive.

After a recess at 11:51 a.m., the board reconvened the meeting at 3:20 p.m.

Mr. Kelly announced that the board would take up agenda item 9.

9. Review the report of the Compensation Committee on its September 18, 2014 meeting, and consider related matters, including amendments to and ratification of the Performance Incentive Pay Plan for the period beginning October 1, 2014 – Committee Chair.

Ms. Sissney, Committee Chair, provided the following committee report:

The Compensation Committee met on September 18, 2014. The committee adopted the minutes of its July 11, 2014 meeting. The committee received a presentation on amendments to the Performance Incentive Pay Plan (plan). The committee recommended to the board adoption of these amendments and ratification of the amended plan but did not amend the Chief Investment Officer's maximum award opportunity in the plan.

On a motion by Ms. Sissney as the committee chair, the board unanimously adopted the amendments to the Performance Incentive Pay Plan and ratified the amended plan as recommended by the Compensation Committee.

6. Review the report of the Investment Management Committee on its September 18, 2014 meeting, and consider related matters – Committee Chair.

Mr. Barth, Committee Chair, provided the following committee report:

The Investment Management Committee met today, September 18, 2014. The first

presentation was a review of the Public Strategic Partnership Network update presented by David Veal and Grant Birdwell. Next, Dale West, Susanne Gealy, Brad Gilbert, and Katy Hoffman presented a review of the external Public Markets Portfolio.

- 8. Review the report of the Policy Committee on its September 18, 2014 meeting, and consider the following related matters – Committee Chair:**
 - A. Consider proposed amendments to the Investment Policy Statement.**
 - B. Consider proposed amendments to the General Authority Resolutions.**
 - C. Consider proposed amendments to the TRS Board of Trustees Bylaws.**

Before Mr. Colonna, Committee Chair, provided the committee report, he asked Mr. Auby to address an error staff found in the asset allocation table included in the proposed Investment Policy Statement presented at the Policy Committee meeting. Mr. Auby stated that the typo occurred in the minimum range for the total real return line item, which should be 17 percent instead of 18 percent.

Mr. Colonna presented the following committee report:

The Policy Committee met today, September 18, and adopted the minutes of the June 5 meeting. The committee considered and recommended adoption of amendments to the Investment Policy Statement, including adjustments to the strategic asset allocation. The committee also conducted the required review of the General Authority Resolutions and recommended amendments to the board. The committee began the review of the required Code of Ethics for Contractors and related documents. The committee will consider amendments to the Code of Ethics at a future meeting. The committee authorized public comment publication of proposed amended rules in Chapters 25 through 51 of TRS rules. The committee recommended board adoption of amendments to the Board of Trustees Bylaws. Finally, the committee adopted an updated policy review schedule.

On a motion by Mr. Colonna, the board unanimously voted to adopt the revised Investment Policy Statement, as recommended by the Policy Committee, including the necessary correction identified and described by staff subsequent to the Policy Committee meeting.

On a motion by Mr. Colonna, the board unanimously adopted the proposed amendments to the TRS Board of Trustees Bylaws, as recommended by the Policy Committee.

Mr. Kelly announced that the board would take up agenda item 18 to consider personnel matters.

- 18. 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 and the adoption of a resolution regarding salary limits for certain TRS employees listed as exempt positions in the 2014 - 2015 General Appropriations Act – David Kelly.**

Mr. Guthrie recapped that the board took action in July on the certain exempt positions listed in

the appropriations bill, including increasing the deputy director's salary by two percent and directing the executive director to remove the deputy director from the exempt position list, so that he would be subject to the State Classification Plan. He stated that staff found out after the meeting that such an action would limit the executive director's discretion over the deputy director's salary. Therefore, staff would like to request that the deputy director's exempt position be increased to the state classification maximum for a Deputy Director III position. He also noted that the current proposed resolution also includes limiting the increase for the Chief Investment Officer's salary to 8%.

On a motion by Mr. Barth, seconded by Mr. Corpus, the board adopted the following resolution by a majority vote (8-1) with Ms. Charleston voting against the motion:

Whereas, Section 825.208 of the Texas Government Code provides that, notwithstanding any other law, the Board of Trustees (Board) shall approve the rate of compensation of all persons it employs;

Whereas, The Bylaws of the Board of Trustees delegate authority to the Executive Director and Bylaw subsection 4.1.2(c) specifically provides that the Executive Director assumes responsibility for the compensation of all TRS personnel, with limited exceptions for the Executive Director and Chief Audit Executive whose salaries are set by the board;

Whereas, The General Provisions in the TRS Budget provide discretion to the Executive Director regarding salaries and specifically authorize the Executive Director to set the annual base salary rate for all exempt positions, other than the Executive Director position, within the not-to-exceed amounts listed in the General Appropriations Act that became effective September 1, 2013 ("GAA"), or any amended limits adopted by the board from time to time;

Whereas, The GAA, consistent with general law, provides that notwithstanding the compensation amounts set in the GAA, the board may determine the not-to-exceed amounts of the positions listed in the Schedule of Exempt Positions without limitation;

Whereas, For the majority of positions listed in the Schedule of Exempt Positions, the GAA not-to-exceed amounts are sufficient for the Executive Director to exercise his discretion in setting salaries under Bylaw subsection 4.1.2(c) and under the General Provisions of the TRS Budget, but the GAA not-to-exceed amounts for the Deputy Administrative Officer and Chief Investment Officer are not sufficient for the Executive Director to exercise his discretion in setting the salary for those positions;

Whereas, in order to allow the Executive Director greater discretion in setting the Deputy Administrative Officer's salary, the Board on July 11, 2014 increased the not-to-exceed amount for the Deputy Administrative Officer by 2% and directed the Executive Director to move the Deputy Administrative Officer out of the Schedule of Exempt Positions and into the State Classification Plan under Deputy Director III;

Whereas, The Executive Director has subsequently determined that meaningful discretion over the Deputy Administrative Officer's salary necessitates setting the GAA not-to-exceed amount for the Deputy Administrative Officer to the maximum salary amount for the Deputy Director III position on the State Classification Plan prior to moving the Deputy Administrative Officer onto the State Classification Plan, and the Board desires to grant the Executive Director such discretion;

Whereas, In order to allow the Executive Director greater discretion in setting the salary of the Chief Investment Officer under Bylaw subsection 4.1.2(c) and under the General Provisions of the

TRS Budget, the Board desires to adopt an adjusted GAA not-to-exceed amount for this position effective September 1, 2014; now, therefore be it

Resolved, That effective September 18, 2014, the board hereby adopts the following GAA not-to-exceed amount for the Deputy Administrative Officer:

Deputy Administrative Officer (incumbent Ken Welch): Increase the GAA not-to-exceed amount to the maximum salary amount for the Deputy Director III on the State Classification Schedule;

Resolved, That the Board directs the Executive Director to move the incumbent Deputy Administrative Officer out of the Schedule of Exempt positions and to the Deputy Director III classified position as soon as possible after September 18, 2014;

Resolved, That effective September 1, 2014, the board hereby adopts the following GAA not-to-exceed amount for the Chief Investment Officer:

Chief Investment Officer (incumbent Britt Harris): Increase the GAA not-to-exceed amount by 8%; and

Resolved, That nothing in the adoption of this resolution alters the at-will nature of employment that TRS has with its employees, creates a contract between TRS and any TRS employee, or confers on any TRS employee the right to continued employment with TRS, including any employee holding a position in the Schedule of Exempt Positions.

19. 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.

At 3:30 p.m., Mr. Kelly announced that the board would go into executive session on agenda item 19 under section 551.071 of the Government Code to seek advice from the board's legal counsel about litigation and related legal matters. He asked all members of the public and staff not needed for the executive session to leave the meeting room and take their belongings with them.

After completion of the executive session, Mr. Kelly announced that the open session was reconvened at 3:46 p.m. Whereupon the board meeting recessed at 3:47 p.m.

The Board of Trustees of the Teacher Retirement System of Texas reconvened on September 19, 2014 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
Todd Barth
Karen Charleston
Joe Colonna
David Corpus
Christopher Moss
Anita Palmer
Dolores Ramirez
Nanette Sissney

Others present:

Brian Guthrie, TRS	Steve Huff, Reinhart Boerner Van Deuren
Ken Welch, TRS	Michael Johnson, Bridgepoint Consulting
Carolina de Onís, TRS	Matt Strom, FSA
Don Green, TRS	Joe Newton, Gabriel Roeder Smith & Co.
Howard Goldman, TRS	Ann Fickel, Texas Classroom Teachers Association
Marianne Woods Wiley, TRS	Josh Sanderson, Association of Texas Professional Educators
Ronnie Bounds, TRS	Ted Melina Raab, Texas American Federation of Teachers
Michelle Fasel, TRS	Victor Ferrero, HP
Dan Herron, TRS	Brian Kitzmiller, HP
Dan Junell, TRS	Ernie Sanders, HP
Lynn Lau, TRS	Melinda Maczko, HP
Jay Masci, Provaliant	Prashant Jaiswal, HP
Rebecca Merrill, TRS	Murali Kyasa, HP
David Cook, TRS	Gary Fuchs, HP
Barbie Pearson, TRS	Mike Freese, HP
Adam Fambrough, TRS	Matt Strom, Segal Consulting
Jamie Pierce, TRS	Brad Ramirez, Segal Consulting
	Jim Bauer, United Here

Mr. Kelly called the meeting to order at 2:30 p.m.

1. Call roll of Board members.

Ms. Lau called the roll. A quorum was present. Mr. Colonna was absent during roll call and joined the meeting shortly after.

10. Provide opportunity for public comments – David Kelly.

Mr. Kelly called for public comment. No public comment was received

11. Receive an update on the TEAM Program, including MyTRS changes – Adam Fambrough; Barbie Pearson; David Cook; and Jay Masci, Provaliant.

Mr. Masci provided an update on the progress of the TEAM projects, including the website redesign project, the financial system replacement (FSR) project, and project interdependencies.

Mr. Cook provided an update on the budget and project timeline. Mr. Cook confirmed for Mr. Barth that the project is still operating within the overall program budget. Responding to a question from Mr. Kelly concerning the timeline, Mr. Guthrie confirmed that 2016 would be the effective start date and testing would be conducted a year before that. Mr. Masci provided a projected timeline for testing before launching. Mr. Guthrie noted that two phases would involve the reporting entities and active members, respectively. Mr. Kelly suggested including the testing and launching dates for each project for tracking purposes. Mr. Welch concurred with Mr. Kelly's suggestion and stated that staff would provide the timeline tracking data as suggested by Mr. Kelly.

Mr. Fambrough provided an update on the pension line of business (LOB) project. He introduced Mr. Victor Ferrero, Vice President of Hewlett Packard (HP) Business Development. Mr. Ferrero introduced his colleagues, Brian Kitzmiller, Melinda Maczko, Ernie Sanders, Mike Freese, Prashant Jaiswal, Murali Kyasa, and Gary Fuchs. Mr. Fambrough reported the performance issue

relating to the HP business analyst. Mr. Kelly asked how long it took to identify the issue and solution and to resolve it. Mr. Cook stated that staff worked with HP and it took about six weeks in total. Mr. Fambrough also reported a delay due to an unexpected leave of absence of a key TRS subject matter expert. Mr. Kelly asked who oversees Quality Control in the project. Mr. Cook stated that both TRS and HP have a quality control process. Mr. Cook pointed out the delay in getting the components and stated that the project could further be delayed because of the challenge of fitting the components together. Ms. Sissney emphasized that it is more important to do it right, than be on schedule. Mr. Kelly asked staff to focus on quality assurance and ensuring that the vendor is providing all the expertise and man power to resolve the issues. Mr. Fambrough continued presenting the contact management system and workflow management. He addressed a software upgrade on Microsoft Dynamic that caused some contact and workflow management functions to be unavailable in 2013. Mr. Cook confirmed for Ms. Sissney that Microsoft would not support the older version, MS Dynamic 2011, which offered those two functions. Mr. Fambrough stated that staff was evaluating the functionality of an alternative software and potential cost adjustments needed. Trustees discussed the issues caused by the software upgrade. Mr. Welch stated that, as a norm of the current computer industry, software upgrade is inevitable. He stated that staff would do their due diligence to make the best decision to meet the system's needs. Mr. Fambrough confirmed for Ms. Sissney that staff would only look at the 2013 version. Mr. Fambrough presented accomplishments. Ms. Pearson provided an update on changes to the online MyTRS application. She explained that new functions and special features provide for member self-service and provided an implementation timeline.

12. Receive a presentation from the TEAM Program Independent Program Assessment (IPA) Vendor – Michael Johnson, Bridgepoint Consulting.

Mr. Johnson recapped the objectives and role of Bridgepoint as the independent program assessment vendor in association with the TEAM project.

Mr. Johnson provided an overview of the observations and strengths for this period. He highlighted the observation that the project needs a resource allocated project plan which would assign specific resources to execute specific tasks, key leads for each of the subject areas, and backup leads for each area. Mr. Cook concurred with that recommendation and stated that staff had completed a preliminary pass-through of detailed requirements and assigned specific individuals at the individual task level. He stated that there were currently 3,500 tasks. He further explained the approach of implementing the recommendation. Mr. Johnson confirmed for Mr. Kelly that the current delay and obstacles are typical for projects of this size. Mr. Welch stated that staff was taking a very measured, deliberate approach to address the issues that had been identified. Mr. Kelly stated that the board had total confidence in staff and would provide necessary resources to meet project needs.

Mr. Kelly announced that the board would take up agenda items 8 and 13.

7. Review the report of the Risk Management Committee on its September 18, 2014 meeting, and consider related matters – Committee Chair.

Ms. Charleston, Committee Chair, provided the following committee report:

The Risk Management Committee met on September 18, 2014. The presentation was given, a review of the investment risk report, which was presented by Jase Auby.

- 14. Review the report of the Audit Committee on its September 19, 2014 meeting, and discuss and consider the following items – Committee Chair:**
 - A. Proposed revisions to the Internal Audit Charter.**
 - B. Adoption of the proposed Audit Plan for Fiscal Year 2015.**

Mr. Moss, Committee Chair, provided the following committee report:

The Audit Committee met at 8:00 a.m. on Friday, September 19, 2014, in the board room. State Auditor's Office (SAO) staff presented their plan to conduct the audit of the TRS Comprehensive Annual Financial Report for fiscal year 2014. SAO staff also presented the results of the audit of TRS incentive compensation. Internal Audit staff presented the results of the Purchasing and Contract Administration audit, semiannual, of benefit payments, fourth quarter testing and Investment Management Division controls, the overall opinion on Investment Management Division internal controls, quarterly investment testing, the status of prior audit and consulting recommendations, including the information security follow-up audit, and audit administrative matters. The committee approved the recommendation to the Board of Trustees to approve the proposed revisions to the Internal Audit Charter, and approve the proposed Audit Plan for the fiscal year 2015.

On a motion by Mr. Moss, the board unanimously approved the proposed revisions to the Internal Audit Charter.

On a motion by Mr. Moss, the board unanimously approved the proposed Audit Plan for fiscal year 2015.

- 13. Receive a report from Segal Consulting on the 2014 Actuarial Audit of Gabriel, Roeder, Smith & Co. – Kim Nichols and Matthew Strom, Segal Consulting; Joseph Newton, Gabriel, Roeder, Smith & Co.**

Mr. Matt Strom and Mr. Brad Ramirez of Segal Consulting presented the findings from the actuarial audit of the August 31, 2013 actuarial valuation conducted by Gabriel, Roeder, Smith & Co. The calculations of the various liability measures and funding metrics were found to be within a reasonable range and provided a reasonable basis for setting actuarial assumptions. Mr. Strom stated that GRS' economic assumptions on inflation and investment return were found to be reasonable. Concerning the mortality assumption, Mr. Ramirez suggested building a table based on the current mortality scale to project future mortality improvement. He stated that some minor assumptions were not disclosed, including pay increases for inactive vested members and interest assumption on account balances.

Mr. Ramirez highlighted suggested improvements on the format of the valuation report. He stated that it would be useful to show results under both the current and ultimate member contribution rates in light of a 4-year period gap between the report date and the date that ultimate contribution rates take effect. He also commented that the actuarial asset valuation method could be simplified.

Mr. Newton of GRS stated that GRS would review audit findings and recommendations for the next experience study and include items that were not disclosed in the next study.

16. Review the report of the Chief Benefit Officer, and consider the following related matters – Marianne Woods Wiley:

A. Approve members qualified for retirement.

Ms. Woods Wiley presented the list of members and beneficiaries receiving initial benefit payments during the reporting period from June 1, 2014, through August 31, 2014. She referred the board to the detailed list of payments made available for their review.

On a motion by Mr. Moss, seconded by Ms. Ramirez, the board unanimously approved the list of members and beneficiaries who qualified for retirement, disability, DROP, PLSO, survivor, or death benefits initiated during the reporting period.

B. Approve minutes of Medical Board meetings.

Ms. Woods Wiley stated that Dr. Wilson provided a brief report on the typical ailments faced by the member population. She also reported positive comments received from visitors on the new furniture in the lobby.

Ms. Woods Wiley presented the minutes of the May 13, 2014 Medical Board meeting. On a motion by Ms. Charleston, seconded by Ms. Palmer, the board approved the minutes of the Medical Board meeting as presented, thereby ratifying the actions of the Medical Board reflected in those minutes.

20. 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.

The board took up no further business under agenda item 20.

The meeting was adjourned at 11:55 a.m.

Tab 4

Teacher Retirement System of Texas



Optional Retirement Program (ORP)

Don Green, Chief Financial Officer

October 2014



Overview

- Created in 1967 for university faculty to provide a portable retirement savings option allowing institutions of higher education to attract national talent
- Irrevocable choice during first 90 days of employment
- An individualized defined contribution plan in which each participant selects from a variety of investments through annuity contracts or mutual fund investments; basically a mandatory 403(b)



Contributions

FY2013	Participants	Employee Contributions	Employer Contributions
2 year Institutions	7,208	35,824,034	37,796,714
4 year Institutions	30,196	227,789,614	272,928,609
All Institutions	37,404	\$ 263,613,648	\$ 310,725,323

- Contributions made by both individual (6.65%) and state (6.6%); local supplement of up to 1.9% can be added
- State contributions are vested after 1 year of participation



Source of Funds

FY2013	Participants	Employer Contributions
General Revenue	21,414	\$139,097,661
Educational and General	2,814	35,962,103
Non-Educational and General	8,013	90,151,129
Federal Funds and Private Grants	5,051	40,722,185
Other	112	4,792,245
Total	37,404	\$310,725,323



Why is this an issue for TRS?

- SB1812, passed during the last legislative session, created a 50/50 funding agreement between the state and community colleges (CC) for benefits
- TRS was directed to include only 50% of eligible CC employees for state funding in its certification; the same language was included in the ORP statute
- Government Code, Section 830.201(h) has been interpreted to require the TRS Board of Trustees to certify an estimate for ORP funding



The Estimate

- The estimate was developed using data from the Texas Higher Education Coordinating Board, the statewide coordinator of ORP
- Based on historical participation rates, expected participant growth and projected changes in funding sources
- Includes a funding growth limitation based on the change in student enrollment as required by Government Code, Section 830.201(i)

STATE OF TEXAS

§
§
§

COUNTY OF TRAVIS

At its meeting on October 17, 2014, the Board of Trustees of the Teacher Retirement System (TRS), in compliance with Texas Government Code, Section 830.201(h), on a motion by _____, seconded by _____, voted to certify the following estimated amounts as necessary to pay the state's contributions from General Revenue to the optional retirement system for the 2016–2017 biennium:

Fiscal Year 2016	\$ 112,980,622
Fiscal Year 2017	\$ 111,111,995

To the best of the Board's knowledge and belief, these amounts are based on the existing state contribution rate and account for contribution changes as stipulated in Government Code, Section 830.201(g). The analysis supporting these amounts was a joint effort between staff of TRS and the Texas Higher Education Coordinating Board (THECB) based on data collected by THECB and reviewed by TRS staff for reasonableness.

SIGNED: _____
R. David Kelly
Chairman, Board of Trustees
October 17, 2014

SIGNED: _____
Brian Guthrie
Executive Director
October 17, 2014

Tab 5

Independent Audit Report on TRS-Care Service Providers

For the period September 1, 2011 through August 31, 2013

Audit Conducted by Sagebrush Solutions for TRS Health Insurance and Benefits Department

Audit Objective

Determine that the TRS-Care (medical plan) Health Plan Administrator (HPA), Aetna, claims administration services are functioning effectively and in compliance with TRS contract requirements for plan years 2012 and 2013.

Audit Scope & Methodology

Scope:

Aetna - HPA, TRS-Care benefit program was reviewed for the period September 2011 – August 2013 (plan years 2012 and 2013).

Methodology:

Claims Audit Review

- Verify that total dollar amount of claims are consistent with amount reported to TRS
- Audit randomly selected sample claims
- Review and verify accuracy and appropriateness of claims payments
- Test reasonableness of system edits, processing controls, “allowable charges”
- Compare eligibility to claims payments

Operational Review

- Verify correctness & appropriateness of performance guarantee data reported to TRS
- Verify that Aetna followed its procedures to identify potential areas of claims abuse & fraud
- Assess vendor responses to a Claims Administration Questionnaire

Results

Claim Financial, Payment, and Procedural Accuracy

- Financial Accuracy – Aetna met the financial accuracy guarantee of 99 percent for both plan years.
- Payment Accuracy – Aetna met the payment accuracy guarantee of 97 percent for both plan years. Two payment errors were identified for each plan year 2012 and 2013, a net overpayment of \$1,270 and a net underpayment of \$793.46, respectively. Incorrect payments were mostly caused by processor errors.
- Procedural Accuracy – Aetna met the procedural or non-payment accuracy rate of 96 percent.

Claims Processing Timeliness – Aetna satisfied the turnaround time performance standard for processing 95 percent of claims within fourteen calendar days for plan year 2012 but did not meet contract turnaround time standard for plan year 2013. Aetna had self-reported this issue to TRS and paid the penalty.

Fraud – Aetna has comprehensive and appropriate fraud control programs and procedures.

Recommended Actions

Payment Accuracy – Aetna should initiate steps to correct over and under payments and provide additional/repetitive training for processors of manually processed claims. A review of its policies to determine if member has other insurance, and which carrier would be the primary payer may be necessary.

Vendor Responses

Aetna agrees with the recommendations and has taken steps to correct the over and under payments including a review of policies related to determining primary or secondary coverage. In addition, Aetna is providing staff training as appropriate.

Legend of Results:

Red - Significant to TRS
Yellow - Other Reportable Issue

Orange - Significant to Business Objectives
Green - Positive Finding or No Issue

Independent Audit Report on TRS-Care Service Providers

For the period September 1, 2011 through August 31, 2012

Audit Conducted by Sagebrush Solutions for TRS Health Insurance and Benefits Department

Audit Objective	Determine that the TRS-Care Pharmacy Benefits Manager (PBM), Caremark claims administration services are functioning effectively and in compliance with TRS contract requirements for plan year 2012.
Audit Scope & Methodology	<p>Scope: Caremark - PBM (pharmacy), TRS-Care benefit program was reviewed for the period September 2011 through August 2012, plan year 2012.</p> <p>Methodology:</p> <p>Claims Audit Review</p> <ul style="list-style-type: none">• Verify that the total dollar amount of claims are consistent with amount reported to TRS• Audit randomly selected sample claims• Verify accuracy and appropriateness of claims payments• Test reasonableness of "allowable charges"• Compare eligibility to claims payments <p>Operational Review</p> <ul style="list-style-type: none">• Verify correctness & appropriateness of performance guarantee data reported to TRS• Verify that the PBM followed its procedures to identify potential areas of claims abuse & fraud• Assess vendor responses to a Claims Administration Questionnaire
Results	<p>Financial, Payment, and Procedural Accuracy – Caremark’s administration of TRS-Care pharmacy claims exceeds financial, payment and procedural accuracy goals for contractual and generally accepted industry standards.</p> <p>Claims Processing Timeliness – Caremark met its contractual turnaround time goal (performance guarantees) for claims processing.</p> <p>Customer Service – The Caremark call center did not meet the fiscal year 2012 Average Speed of Answer (ASA) contract performance standard. This has been reported to TRS during the quarterly meetings and penalty payment was received.</p> <p>Fraud – Caremark has comprehensive and appropriate fraud control programs and procedures.</p>
Recommended Actions	None
Vendor Responses	Not Applicable

Legend of Results: **Red** - Significant to TRS **Orange** - Significant to Business Objectives
Yellow - Other Reportable Issue **Green** - Positive Finding or No Issue

Independent Audit Report on TRS-Care Service Providers

For the period September 1, 2012 through August 31, 2013

Audit Conducted by Sagebrush Solutions for TRS Health Insurance and Benefits Department

Audit Objective

Determine that the TRS-Care Pharmacy Benefits Manager (PBM), Express Scripts Inc. (ESI) (traditional prescription drug plan) claims administration services are functioning effectively and in compliance with TRS contract requirements for plan year 2013.

Audit Scope & Methodology

Scope:

Express Scripts Inc. (ESI) - PBM (pharmacy), TRS-Care benefit program (traditional prescription drug plan) was reviewed for the period September 2012 through August 2013, plan year 2013.

Methodology:

Claims Audit Review

- Verify that the total dollar amount of claims are consistent with amount reported to TRS
- Audit randomly selected sample claims
- Verify accuracy and appropriateness of claims payments
- Test reasonableness of "allowable charges"
- Compare eligibility to claims payments

Operational Review

- Verify correctness & appropriateness of performance guarantee data reported to TRS
- Verify that the PBM followed its procedures to identify potential areas of claims abuse & fraud
- Assess vendor responses to a Claims Administration Questionnaire

Results

Financial, Payment, and Procedural Accuracy – ESI's administration of TRS-Care pharmacy claims exceeds financial, payment and procedural accuracy goals for contractual and generally accepted industry standards. However, in testing, two participants, who were confirmed by Aetna as inactive in TRS' pilot disease management (DM) program (through Aetna), had copayments waived improperly, resulting in two payment errors being assessed.

Claims Processing Timeliness – ESI met its contractual turnaround time goal for claims processing.

Customer Service – The ESI call center met the Average Speed of Answer (ASA) contract performance standard for fiscal year 2013.

Fraud – ESI has comprehensive and appropriate fraud control programs and procedures.

Recommended Actions

ESI should take appropriate steps to reimburse TRS for copayments that were not collected.

Vendor Responses

ESI is working with Aetna to determine the cause of inaccuracy with the list of participants qualifying for the DM copay waiver. TRS will be reimbursed by Aetna/ESI for the total of improperly waived copayments.

Legend of Results:

Red - Significant to TRS
Yellow - Other Reportable Issue

Orange - Significant to Business Objectives
Green - Positive Finding or No Issue

Independent Audit Report on TRS-Care Service Providers

For the period January 1, 2013 through August 31, 2013

**Audit Conducted by Sagebrush Solutions for
TRS Health Insurance and Benefits Department**

Audit Objective	Determine that the TRS-Care Pharmacy Benefits Manager (PBM) for Medicare Part D, Express Scripts Inc. (ESI) claims administration services are functioning effectively and in compliance with TRS contract requirements.
Audit Scope & Methodology	<p>Scope: Express Scripts Inc. (ESI) - PBM (pharmacy, Medicare Part D), TRS-Care benefit program was reviewed for the period January 1, 2013 through August 31, 2013.</p> <p>Methodology:</p> <p>Claims Audit Review</p> <ul style="list-style-type: none">• Verify that the total dollar amount of claims are consistent with amount reported to TRS• Audit randomly selected sample claims• Verify accuracy and appropriateness of claims payments• Test reasonableness of "allowable charges"• Compare eligibility to claims payments <p>Operational Review</p> <ul style="list-style-type: none">• Verify correctness & appropriateness of performance guarantee data reported to TRS• Verify that the PBM followed its procedures to identify potential areas of claims abuse & fraud• Assess vendor responses to a Claims Administration Questionnaire
Results	<p>For the audit period January 2013 through August 2013:</p> <p>Financial, Payment, and Procedural Accuracy – ESI's administration of TRS-Care Medicare Part D pharmacy claims exceeds financial, payment and procedural accuracy goals for contractual and generally accepted industry standards.</p> <p>Claims Processing Timeliness – ESI met its contractual turnaround time goal for claims processing.</p> <p>Customer Service – The ESI call center met the Average Speed of Answer (ASA) contract performance standard.</p> <p>Fraud – ESI has comprehensive and appropriate fraud control programs and procedures.</p>
Recommended Actions	None
Vendor Responses	Not Applicable

Legend of Results: **Red** - Significant to TRS **Orange** - Significant to Business Objectives
Yellow - Other Reportable Issue **Green** - Positive Finding or No Issue

Tab 6

Teacher Retirement System of Texas



TRS-Care and TRS-ActiveCare Update

Bob Jordan
October 17, 2014

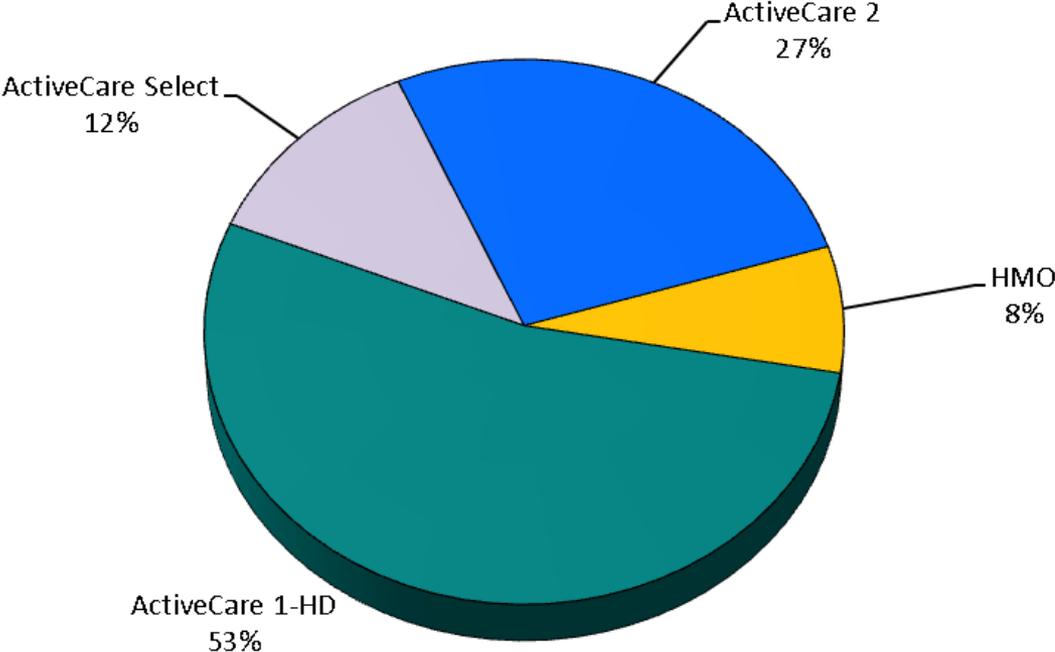


TRS-Activecare Enrollment

- Transition to Aetna/WellSystems & Caremark
 - New I.D. cards issued to all employees
 - Number of districts submitting enrollment through third party administrators more than doubled
- 8/31/14 cut-off
 - Thousands of new enrollments and changes submitted after cut-off

TRS-ActiveCare Enrollment

FY 2015 Distribution of Participants





TRS-ActiveCare Enrollment

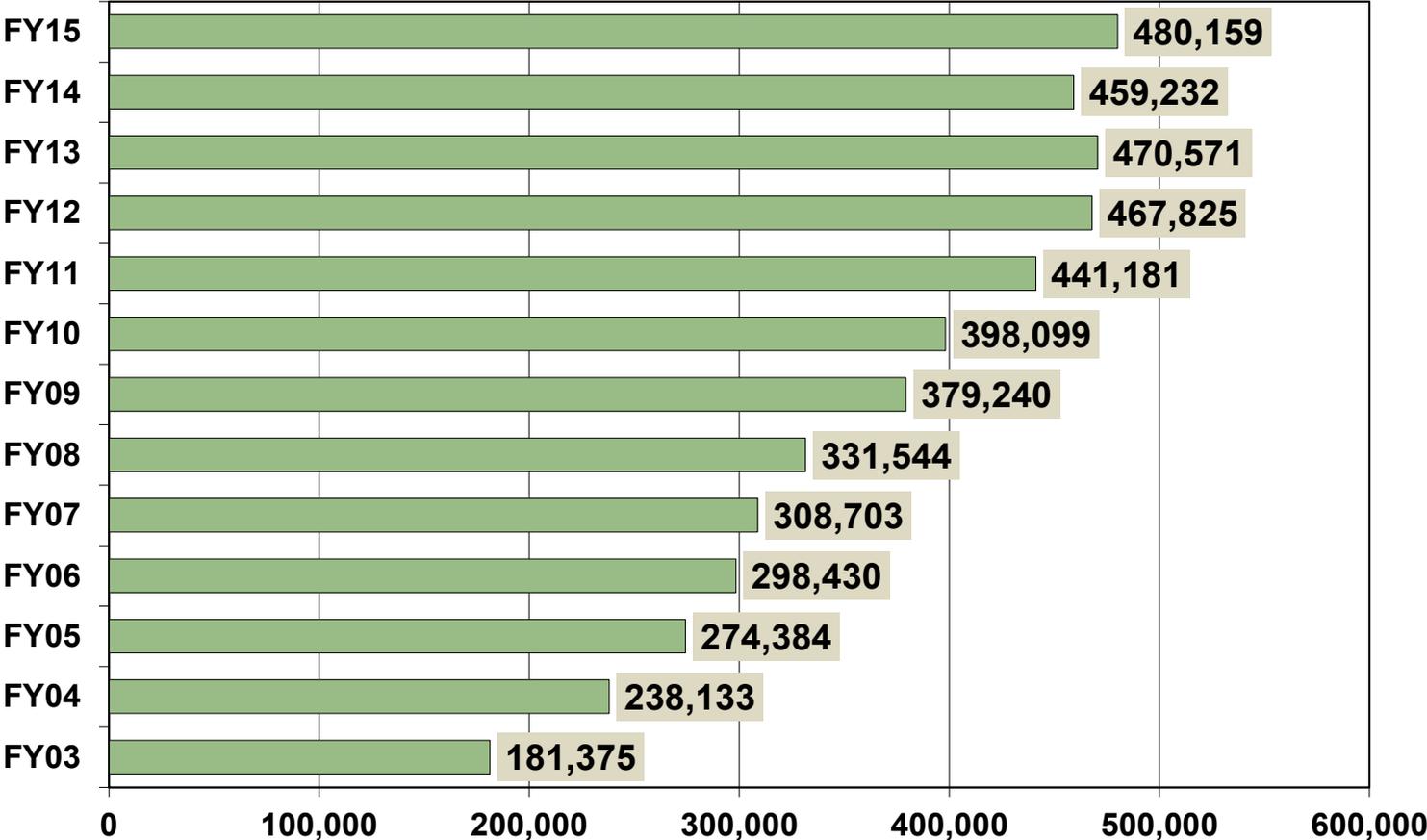
- Comparison of the number of employees enrolled by plan.

Plan	FY2014	FY2015*
TRS-ActiveCare 1-HD	126,054	128,807
TRS-ActiveCare 2	128,831	94,352
TRS-ActiveCare 3	4,309	0
TRS-ActiveCare Select	0	43,873
<u>HMO Plans</u>	<u>23,740</u>	<u>26,831</u>
Total	282,934	293,863

* As of October 15, 2014

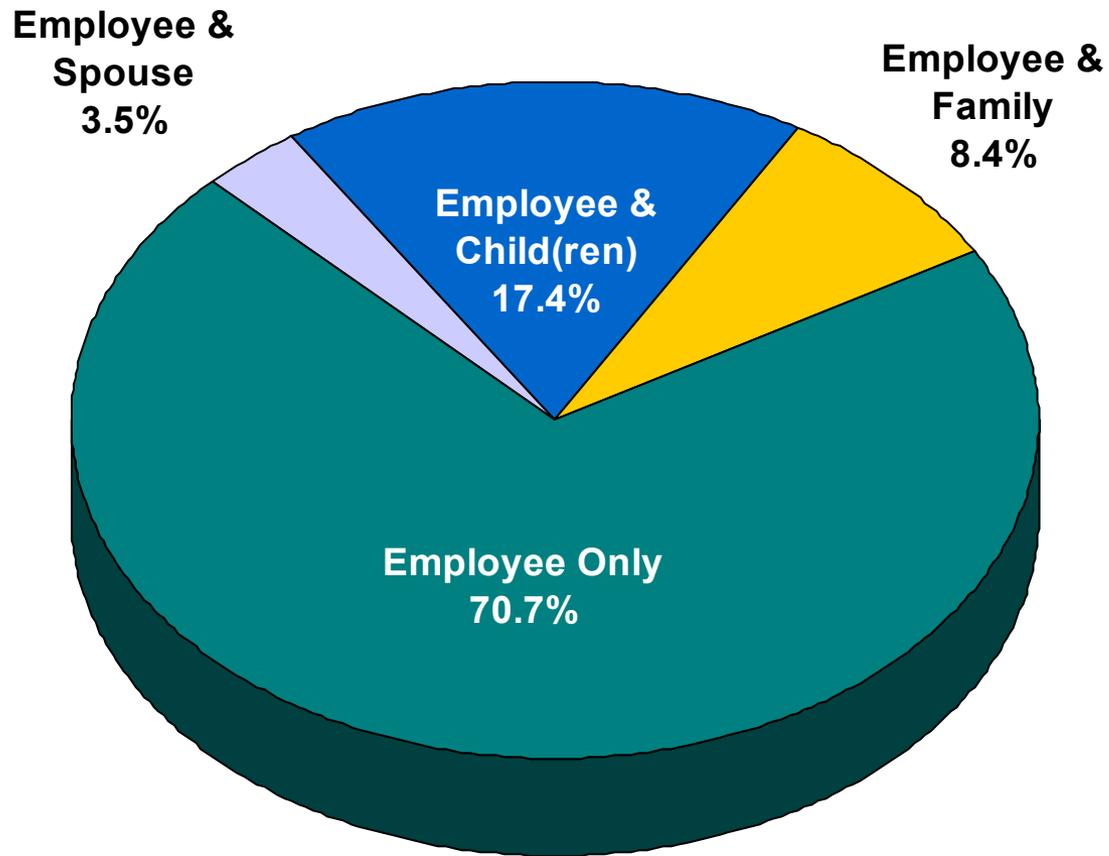
TRS-ActiveCare Enrollment

- Enrollment comparison chart





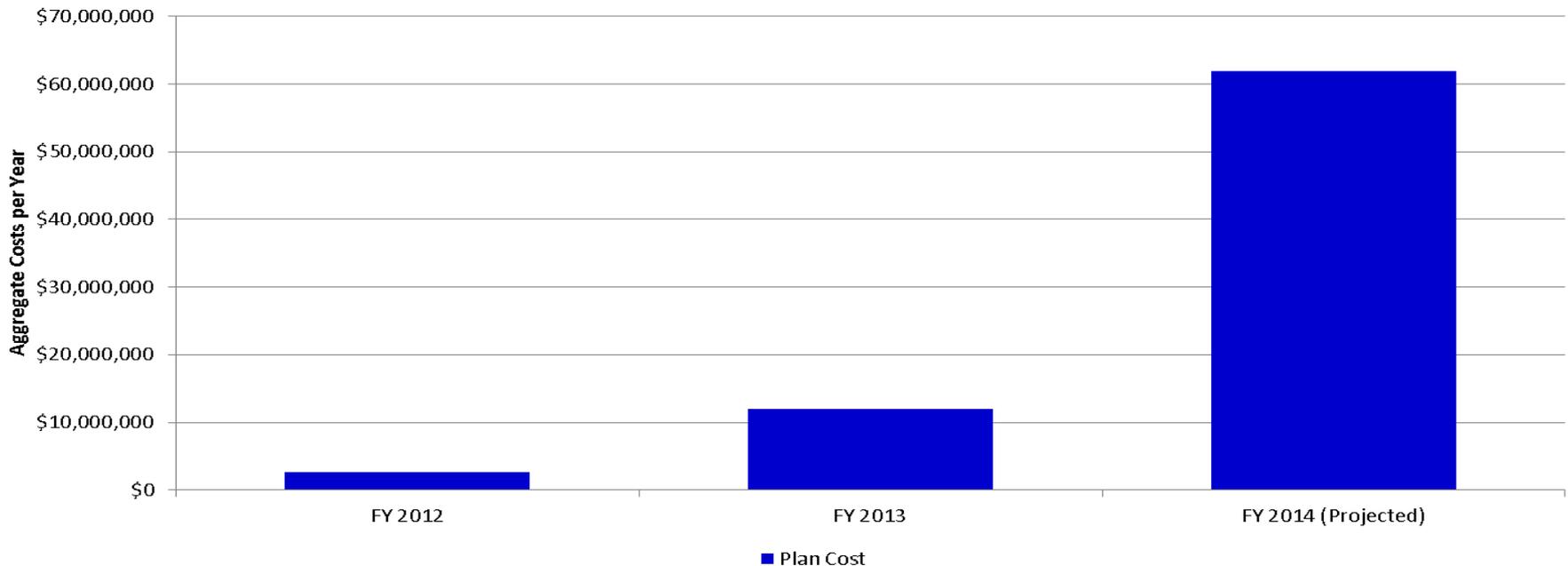
TRS-ActiveCare Enrollment



Compound Drugs

- Utilization grew exponentially from last quarter FY 2013 forward
- TRS-ActiveCare hit the hardest
- Original projection for FY 14 without cost containment strategy

Cost of Compound Drugs by Fiscal Year





Compound Drugs

- April 15, 2014 - Implemented Prior Authorization (PA) for 5 bulk chemicals
- May 1, 2014 - Added PA for 5 additional bulk chemicals
- July 15, 2014 - Exclude coverage of over 1,100 bulk chemicals
- September 1, 2014 – For TRS-ActiveCare only
 - Exclude coverage of all compounds containing bulk chemicals
 - PA for all other compounds >\$300



Compound Drugs

TRS-ActiveCare Compound Drug Utilization

Time Period	# of Claims	Plan Cost
4/1 - 4/14/14	1,206	\$2,229,619
4/15 - 4/30/14	991	\$1,488,587
5/1 - 5/14/14	850	\$609,341
7/1 - 7/14/14	1,113	\$1,211,838
7/15 - 7/31/14	756	\$195,688
8/1 - 8/14/14	189	\$63,500
8/15 - 8/31/14	221	\$85,985



TRS-ActiveCare New Benefit

- Teladoc-Employees can obtain treatment, including prescriptions, for common ailments, such as the flu
 - \$0 copay for AC Select and AC 2
 - \$40 consult fee for AC 1-HD
- Benefits the employee, the district, and the plan
 - 2,969 employees and dependents have registered
 - 1,694 consultations to date

- TRS-ActiveCare considering - NeoCare Solutions
 - Neo iPad with app, free to participant
 - Neo coach provides emotional and educational support to parents to become expert caregivers
 - Estimated ROI 2.0
 - Savings
 - Reduced length of stay
 - Preventable readmissions

- Open enrollment for Medicare Advantage and Part D plans
 - Enrollment period October 15-November 15
 - January 1, 2015 effective date
 - 57K postcards mailed 10/3-10/10



TRS-Care Procurement

- Medicare Advantage plans have been offered since January 1, 2013
- First two years had guaranteed rates
- Renewal rates for calendar 2015 increased
- Premiums paid by enrollees unchanged



TRS-Care Procurement

- TRS-Care will issue a Request For Proposal (RFP) for fully-insured Medicare Advantage product
 - Optional participation
 - Mandatory participation
- RFP will be issued in January 2015
- Recommendation to the Board in June 2015
- New contract effective January 1, 2016

- TRS-Care - Part D Advisors
 - Re-open Medicare Part D Retiree Drug Subsidy (RDS) applications
 - Analyze eligibility and claims submissions
 - Estimate \$750K in savings for FY2008

Tab 7



Teacher Retirement System of Texas

**RESOLUTION APPROVING
BENEFIT PLAN DESIGN FOR THE
TRS-CARE 1 STANDARD PLAN**

October 17, 2014

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, during its June 2014 meeting, the TRS Board of Trustees ("Board") adopted a resolution maintaining the current plan design for TRS-Care 1 for the 2015 plan year;

Whereas, with sufficient funds available to TRS-Care, TRS staff and the TRS health benefits consultant, Gabriel, Roeder, Smith & Company ("GRS") have recommended that to be consistent with changes implemented for TRS-ActiveCare to conform with the requirements of the federal Patient Protection and Affordable Care Act, for the 2015 plan year, beginning September 1, 2014, the benefit plan design for the TRS-Care 1 Standard plan be changed from the current plan design to decrease the Individual Out-of-pocket maximum from \$7,000 to \$6,350, to decrease the Family Out-of-pocket maximum from \$14,000 to \$12,700, and to include deductibles within the Out-of-pocket maximums, resulting in the elimination of the Individual Co-Insurance Limit and the Family Co-Insurance Limit; and

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

Resolved, That for the TRS-Care 1 Standard plan, for the 2015 plan year beginning September 1, 2014, and for all plan years thereafter, until further action by the Board, the Board hereby adopts and authorizes the current benefit plan design for this plan in place for the 2014 plan year, subject to the following benefit plan design changes - the Individual Out-of-pocket maximum is changed from \$7,000 to \$6,350, the Family Out-of-pocket maximum is changed from \$14,000 to \$12,700, and the Out-of-pocket maximums now include deductibles, resulting in

the elimination of the Individual Co-Insurance Limit and the Family Co-Insurance Limit;

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 for the 2015 plan year commencing on September 1, 2014 for the TRS-Care 1 Standard plan, and for all plan years thereafter, 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 and continue the TRS-Care 1 Standard plan until further action by the Board.

Tab 8

Quality health plans & benefits
Healthier living
Financial well-being
Intelligent solutions

aetna®

Deriving value from value-based contracting models

Mike Nelson
Aetna Market President, South Texas

Mike is responsible for the overall development and implementation of business strategy for South Texas. Mike has responsibility for local and regional Medicare and commercial business; national and regional provider contracting; commercial sales and service; and ensuring local market operations.



Changing how we pay providers helps improve cost and quality for all

How we achieve better costs and quality

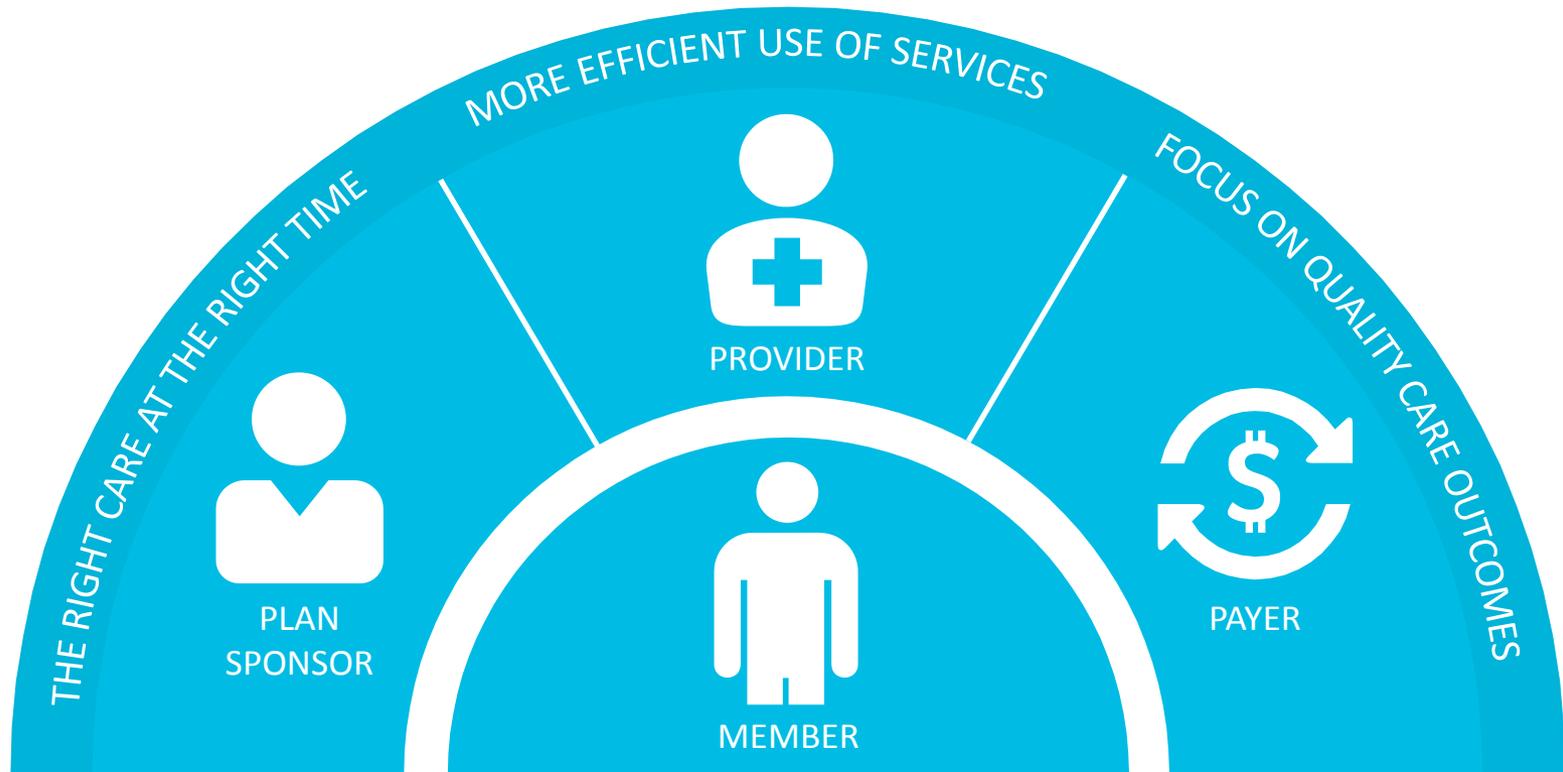


We have 22% of spend in **value-based payment models**, touching more than 2.5 million lives

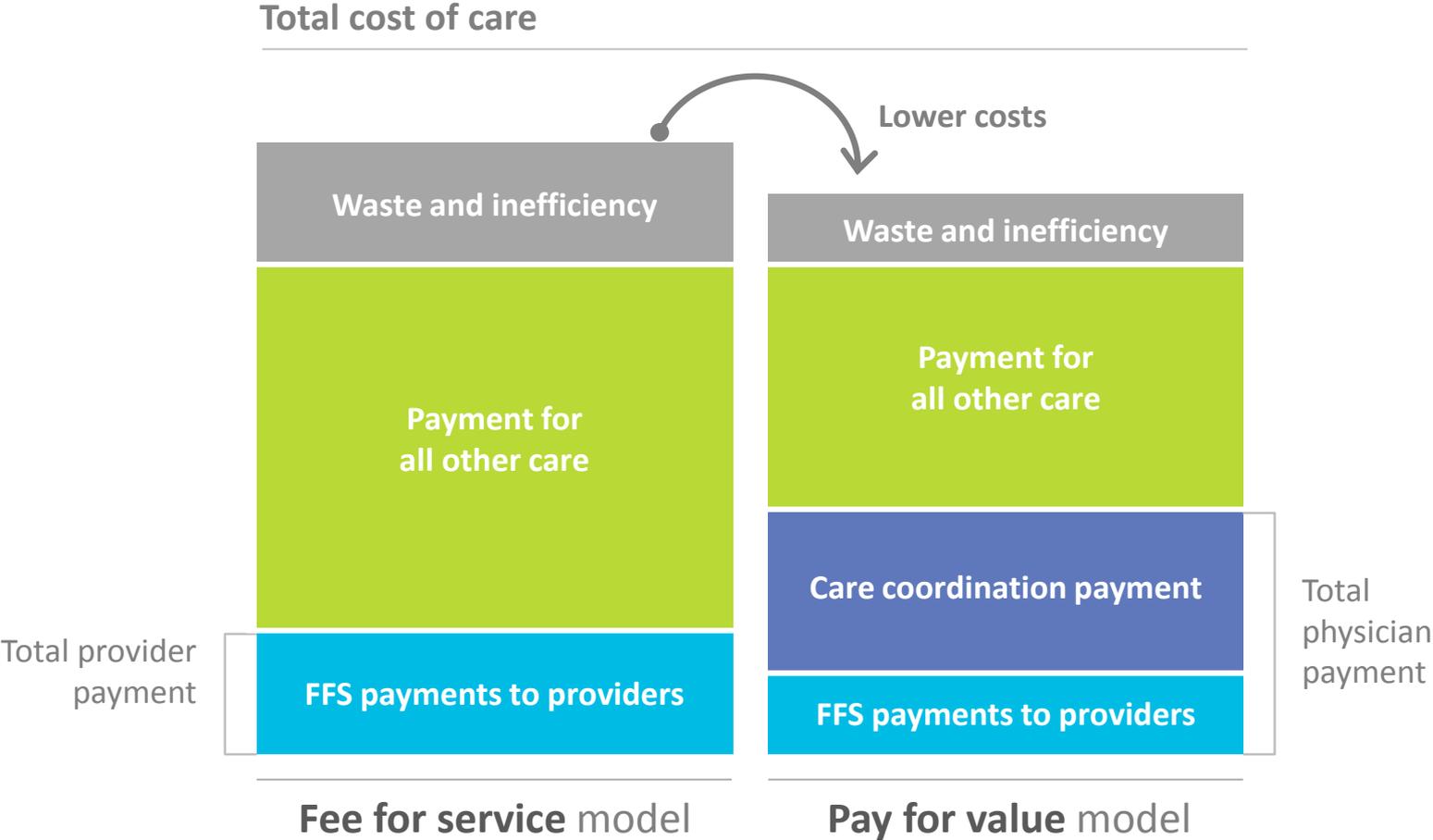
The Spectrum of Collaborative Contracting



We align all the stakeholders to enable better outcomes for your members



An upshot of aligning incentives for better quality and outcomes is lower costs

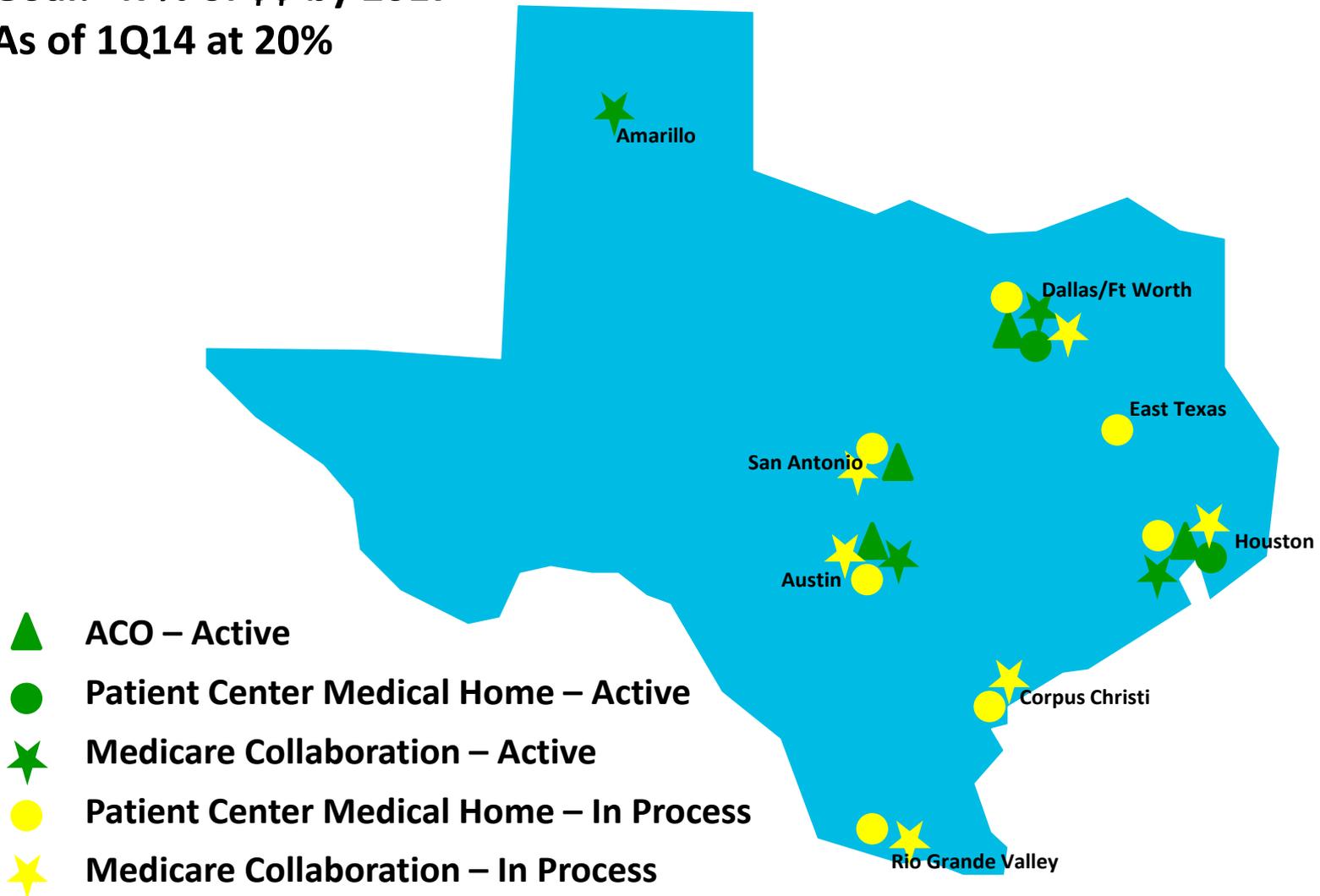


Illustration

Texas Collaboration Agreements

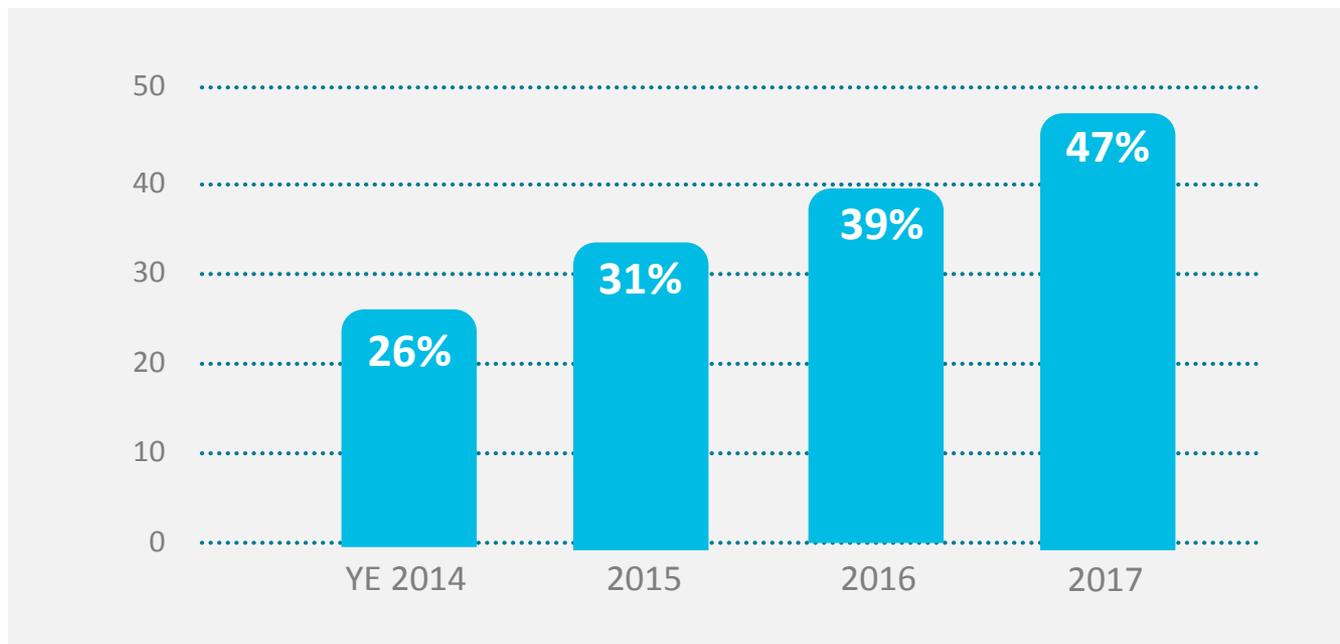
Goal: 47% of \$\$ by 2017

As of 1Q14 at 20%



Value-based contracting penetration

% of spend under value-based contracting
(Current projections)



We have developed a well-thought out, aggressive roadmap to **increase value-based models in our contracts** and are working systematically to achieve it.



**We are also
changing
how health
care is
delivered...**

Catherine Gaffigan, MD
**Executive Director, Aetna Accountable Care
Solutions**

Catherine is responsible for the development, implementation, and operations of Aetna's accountable care solutions for Mid-America, including Texas. Her team owns the relationship with each accountable care collaborator and is responsible for orchestrating all Aetna's resources to ensure the success of each collaboration.

Value-based contracting models benefit our members and their employers in many ways

Improved employee health

- Fewer sick days
- Fewer doctor visits for preventable issues

Lower costs

- Fewer hospital/ER visits
- Increased use of generic Rx

Improved employee experience

- More productive workforce
- Healthier workforce

Sample Patient-Centered Medical Home (PCMH) results, to date:

- Gross medical costs savings \$23.91 per employee per month (6.2%)
- 12.6% fewer avoidable emergency room (ER) visits
- 6.7% more generic prescription medicine prescribing
- 24% fewer impactable in-patient admissions.
- Our PCMH model includes reduction or elimination of standard rate increases.

Source: Three-year multi-payer PCMH Collaborative in CO. Attributed membership for the measurement period is 3,476 adult members. Comparisons are to the rest of Aetna's adult population in the market – ~80,000 members. Measurement Dates: April 1, 2012 – March 31, 2013.

Healthcare is evolving — Aetna is at the forefront of this evolution

Our value-based contracting started with collaborations, advanced to the patient centered medical home and now include Accountable Care.

Collaboration
.....
Early stage P4P,
Medicare



PCMH
Patient centered
medical home
.....
Physician focused

Savings based on
quality and
efficiency



ACO
Attribution
.....
Usually hospital
system-wide
collaboration

Savings based on
quality and
efficiency



ACO
Plan Design
.....

Products built
around ACO network
of physicians and
facilities

Savings based on
price reduction,
quality and
efficiency



In our ACO model, physicians and hospitals take mutual accountability with Aetna

Our ACO model requires Aetna, physicians, and hospitals to take **mutual accountability** for:

- **Cost** through a 50/50 risk share on a medical cost target
- **Quality** through targets on a variety of quality measures
- **Member experience** through a more coordinated care experience

This is enabled through **collaboration and data sharing** that optimizes:

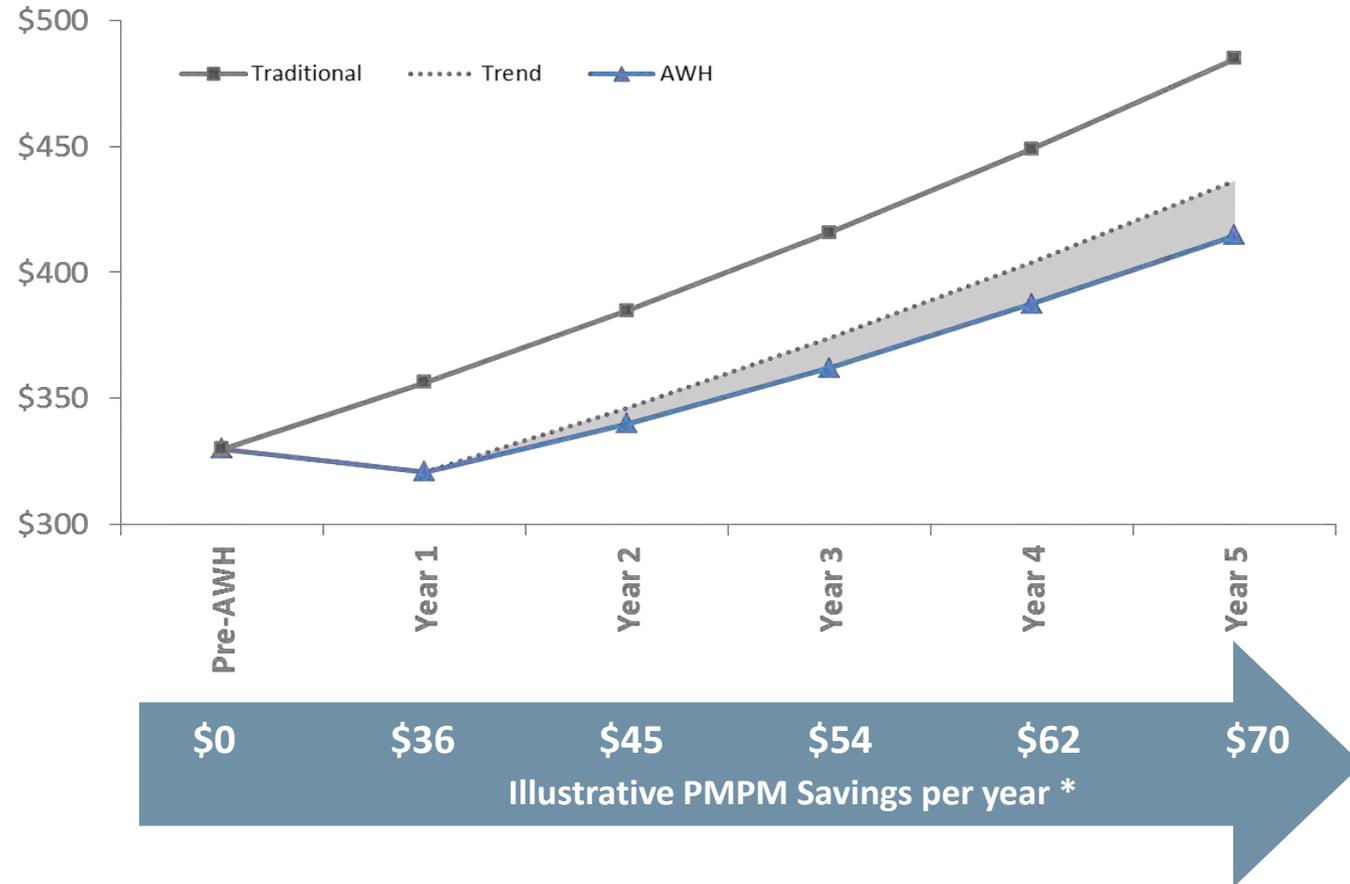
- Population Health Management
- Care Coordination
- Patient Engagement



Our risk share model creates mutual accountability for sustainable medical cost trend

- Each year we set a medical cost target for our ACO members
- If the ACO beats the target, they receive a bonus of 50% of the difference
- If the ACO misses the target, the ACO must pay back 50% of the difference
- Note: Some ACOs are gain share only in the early years of their risk arrangement

Sustained savings year over year



* Illustrative example. Actual results may vary

We track performance across a variety of measures and bonuses are tied to meeting quality measures

Preventive Care

- Tobacco use and cessation
- Colorectal cancer screening
- High blood pressure screening
- Flu vaccine
- BMI screening and follow up
- Mammograms
- Cervical cancer screening

Chronic Heart Conditions

- CAD: lipid control
- Hypertension: high blood pressure control
- IVD: Lipid profile, low density lipoprotein control, Aspirin or other antithrombotic treatment
- Heart Failure: LVSD

Other Chronic Conditions

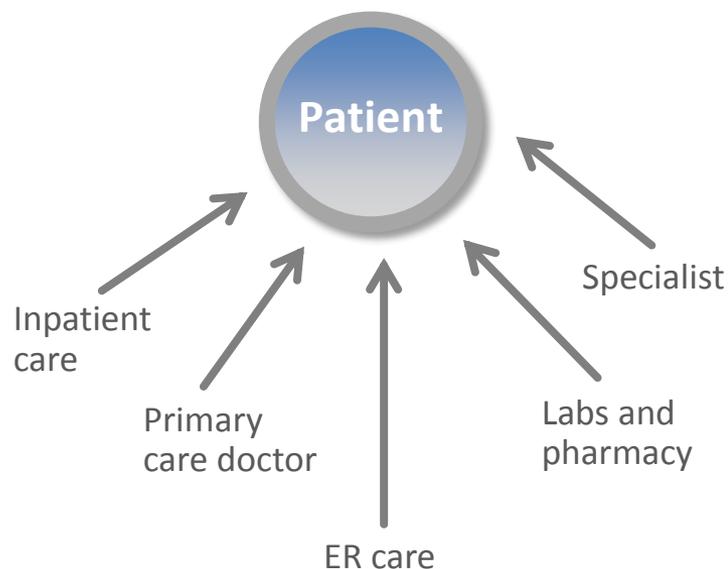
- Diabetes: LDL, blood pressure management, HA1c, tobacco non-use, Aspirin treatment for IVD patients
- ACO Care: Screening for future fall risk

Efficiency Metrics

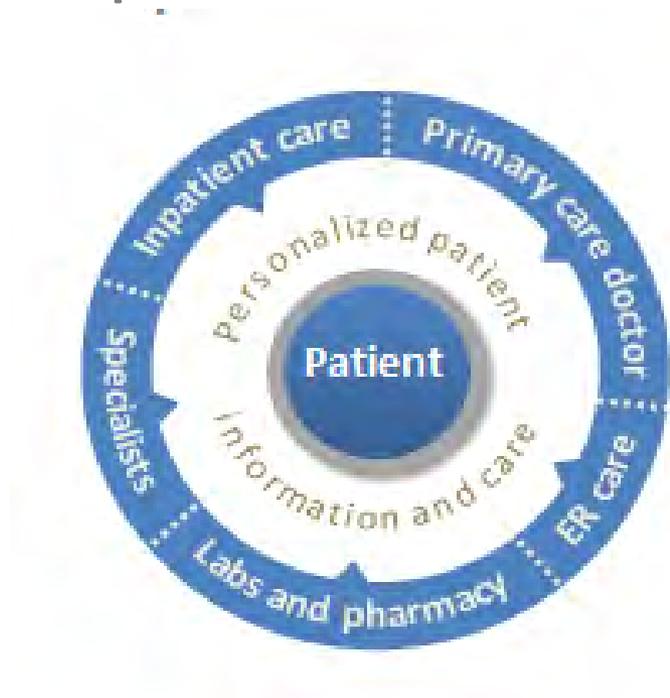
- **Impactable admits/1000**
- **Readmission rates**
- **Avoidable ER visits/1000**
- **Outpatient surgery steerage**
- **Outpatient lab steerage**
- **Outpatient radiology service reduction**
- **Generic prescribing rate**

Improving the member experience through more seamless care coordination is critical to success

In the traditional approach, the patient is on their own



In the new paradigm, the patient is at the center



What this means for TRS members: new value through the ACO product

To improve quality, enhance patient experience and reduce cost

At Risk Patients Identified

- Integrated claim and clinical data for 360 patient view. Allows in-depth analyses to **identify at-risk patients early**
- **Aetna and our ACOs work together as one team**, to analyze, identify trends, and develop improvement plans

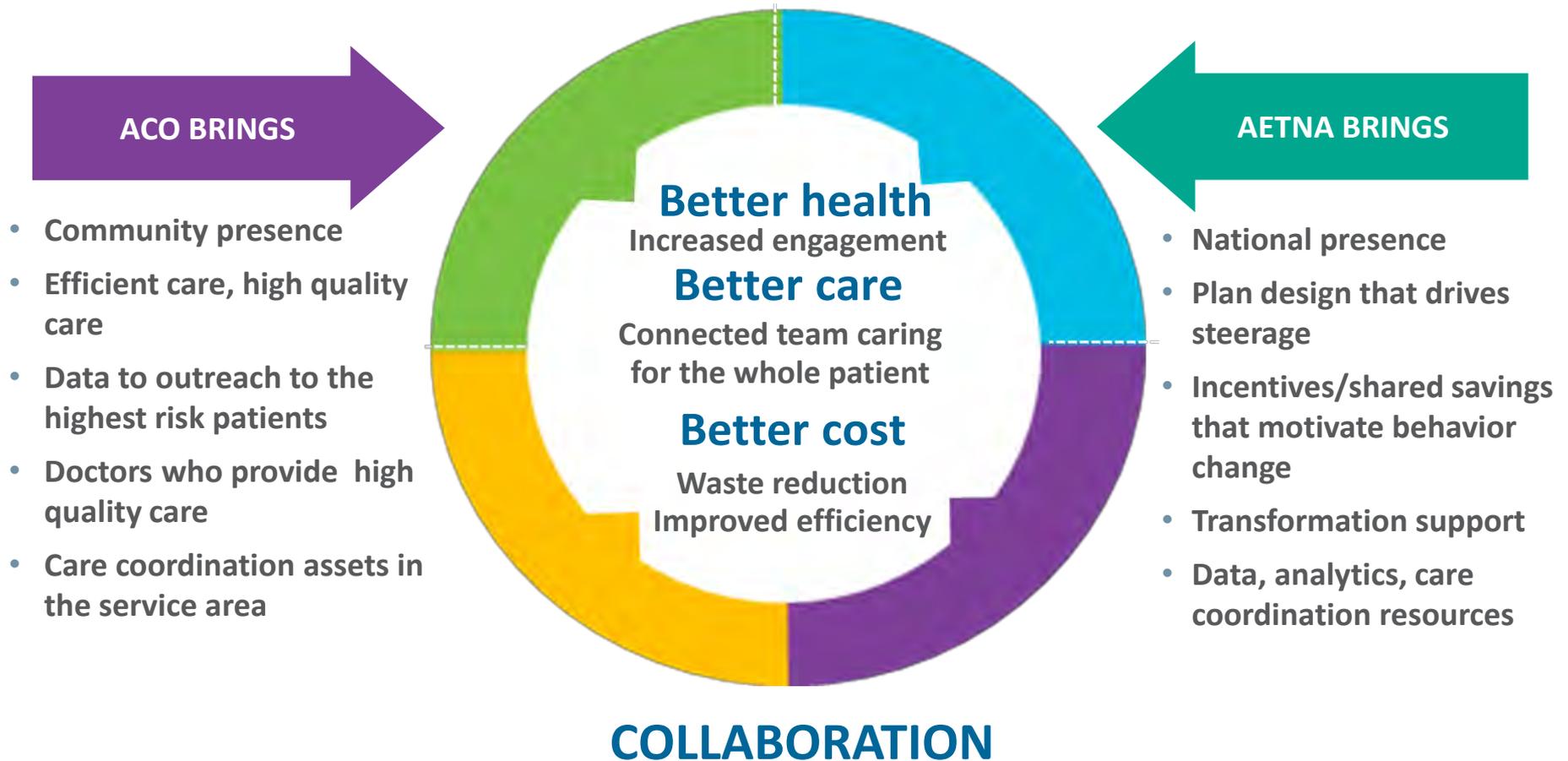
Doctor-Driven Outreach

- **Provider outreach to at-risk patients** to enroll them in Care Delivery programs
- Doctor-driven outreach to **increase patient engagement** so employees can be healthier

Aligned Incentives

- Provider **incentives based on efficiency and quality, not volume** of services
- **Measured by specific quality and efficiency metrics**

Aetna and our ACOs take advantage of each other's strengths to meet the ACO Triple Aim





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