

**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.
2. Consider Board administrative matters, including – David Kelly:
 - 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.
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.
5. Discuss and receive an Independent Audit Report on TRS-Care Service Providers – Yimei Zhao; Sally Reaves, Sagebrush Solutions, LLC.
6. Receive an update on the TRS health benefits programs – Betsey Jones.
7. Discuss and consider a plan design amendment to TRS-Care 1, the retiree health benefits program, regarding out-of-pocket maximums – Betsey Jones.
8. Receive a presentation on performance networks and accountable care organizations – Mike Nelson and Dr. Catherine Gaffigan, Aetna.
9. Discuss activities of the Retiree Advisory Committee (RAC) – Dr. Ignacio Salinas and Grace Mueller.

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.
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.
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.

Minutes of the Board of Trustees

October 17, 2014

The Board of Trustees of the Teacher Retirement System of Texas met on October 17, 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
David Corpus
Christopher Moss
Anita Palmer
Dolores Ramirez
Nanette Sissney

Others present:

Brian Guthrie, TRS	Ann Fickel, Texas Classroom Teachers Association
Ken Welch, TRS	Tim Lee, Texas Retired Teachers Association
Amy Barrett, TRS	Josh Sanderson, Association of Texas Professional Educators
Carolina de Onís, TRS	John Grey, Texas State Teachers Association
Don Green, TRS	Barbara Franklin, Texas State Teachers Association
Howard Goldman, TRS	Ted Melina Raab, Texas American Federation of Teachers
Ronnie Bounds, TRS	Dr. Carole Buchanan, Texas Retired Teachers Association
Amy Conrad, TRS	Graciela Herrera, Texas State Teachers Association
Jan Engler, TRS	Philip Mullins, Texas Retired Teachers Association
Edward Esquivel, TRS	Beaman Floyd, Texas Association of School Administrators
Michelle Fasel, TRS	Michael Clayton, State Auditor's Office
Dan Herron, TRS	Mark Wermes, ESI
Clarke Howard, TRS	Russ Harper, Aetna
Dan Junell, TRS	Dr. Catherine Gaffigan, Aetna
Lynn Lau, TRS	Jim Hickey, Aetna
Bob Jordan, TRS	Michael Nelson, Aetna
Jim Pinkard, TRS	Eric St. Pierre, Aetna
Vicki Rees, TRS	Becky Chmielewski, Aetna
Rebecca Smith, TRS	Patrick O'Brien, Aetna
Yimei Zhang, TRS	Pat Del Rio, Aetna
Steve Huff, Reinhart Boerner Van Deuren	Ross Puller, Aetna
Bill Hickman, Gabriel Roeder Smith and Company	Rick Edwards, Caremark
Amy Cohen, Gabriel Roeder Smith and Company	Joni Lozano, Caremark
Dr. Ignacio Salinas, Retirees Advisory Committee	Justin Emerson, Caremark
Grace Mueller, Retirees Advisory Committee	Dominic Giarratani
Meredyth Fowler, Speaker Joe Straus	Gerald Haschke, Texas State Teachers Association
Pattie Featherston, Legislative Budget Board	Tom Rogers, Austin Retired Teachers Association and Texas Retired Teachers Association
Ronnie Jung, Texas Retired Teachers Association	
Sally Reaves, Sagebrush Solutions	

Mr. Kelly called the meeting to order at 8:44 a.m.

1. Call roll of Board members.

Ms. Lau called the roll. A quorum was present. Mr. Colonna was absent.

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

A. Approval of the September 18-19, 2014 Board meeting minutes.

On a motion by Ms. Palmer, seconded by Ms. Ramirez, the board unanimously adopted the minutes of the September 18-19, 2014 meeting, as presented.

B. Setting, rescheduling, or canceling future Board meetings.

Mr. Kelly stated that he would be absent from the November 20-21 meeting. After discussion, the board decided to meet on November 20-21, as scheduled.

3. Provide opportunity for public comments – David Kelly.

Ms. Ann Fickel of Texas Classroom Teachers Association stated that she would like to receive a copy of the TRS-ActiveCare and TRS-Care study report before it was finalized. She suggested including in the report the impact each proposal would have on either retirees or active members in dollar amounts. She stated that the study should communicate to the legislature that a lack of additional state funds would lead to poor working and economic conditions for active employees that could undermine efforts to retain teachers.

Mr. Beaman Floyd of the Texas Association of School Administrators (TASA) concurred with Ms. Fickel that the report should include the financial impact each proposal would have on active members in dollar amounts. He stated that inflation rates for health care had reached a level that would need to be addressed by the legislature. He stated that research shows that the majority of school districts were contributing more than the statutory minimum and allowing employees to use salary increases as an offset to the increased cost of health care premiums. He noted that the state contribution had not increased since TRS-ActiveCare was created in 2001. He stated that TASA would discuss with the legislature how to help improve the financial situation of health care programs. Mr. Floyd also commented on the slides in the *TRS-Care Sustainability and TRS-ActiveCare Affordability Study* that compared employer contributions for state employees with those for public school employees. He stated that the district contribution to TRS-ActiveCare was presented as flat and did not include data showing the portion of salary increases that districts had used as an offset to increased health care costs. Mr. Guthrie stated that staff could present the slides with clarification.

Mr. Josh Sanderson of the Association of Texas Professional Educators addressed issues concerning workforce quality. He noted that a recent census report on public education shows that Texas spent significantly less than any other state on public education employee benefits on a per-pupil basis. Per Mr. Barth's request, Mr. Sanderson stated that he would provide the board with the report.

Mr. John Grey of the Texas State Teachers Association addressed issues relating to reduction of health care benefits, increases in premiums, and an insufficient state contribution. He stated that he hoped that the study would provide the legislature with facts that would help teachers and retirees receive good health care at a reasonable cost.

Mr. Tim Lee of the Texas Retired Teachers Association addressed topics relating to funding issues TRS-Care would face in the coming years. He spoke about topics that could be brought to the legislature's attention, including significant changes to potential retirement patterns for future retirees that would take place as a result of the enactment of Senate Bill 1458. He stated that the changes would affect TRS-Care and the compatibility of the revenue structure within the existing program.

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.

Mr. Guthrie stated that Senate Bill 1812, which was passed in the last legislative session, required that TRS certify the estimated amounts necessary to pay the state's contribution to the Optional Retirement Program. Mr. Green provided an overview of the program, including its participation, funding sources, and benefits.

On a motion by Mr. Moss, seconded by Mr. Corpus, the board unanimously adopted the following certification to the State Comptroller of Public Accounts:

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 Mr. Moss, seconded by Mr. Corpus, 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.

5. Discuss and receive an Independent Audit Report on TRS-Care Service Providers – Yimei Zhao; Sally Reaves, Sagebrush Solutions, LLC.

Ms. Sally Reaves of Sagebrush Solutions provided an overview of the audit of TRS-Care service providers, Aetna, Caremark, and Express Scripts, Inc. (ESI) and the Medicare Part D program. She laid out the audit's scope, methodology, results, and recommended actions. She stated that, except for one measure in 2012 relating to Aetna's turnaround time, all vendors met or exceeded contractual requirements and industry standards. She stated that Aetna had since improved its turnaround time to reach an acceptable level in 2013. Ms. Reaves confirmed for Mr. Barth that because of the complexity of medical and pharmacy payments, ESI still exceeded contractual and industry standards, despite the fact that two co-pay errors were identified. She provided further detail relating to the errors. She also explained for Mr. Corpus the sampling and statistical methods.

6. Receive an update on the TRS health benefits programs – Bob Jordan.

An update on TRS-ActiveCare, including recent enrollment, procurement activity, compound drug trend and projection, was presented by Mr. Jordan in Ms. Betsey Jones' absence. Mr. Jordan noted adjustments needed for changes made by participants after the enrollment deadline. Responding to a question from Mr. Moss regarding the issue of meeting the deadline, Mr. Jordan stated that staff was planning to provide clear guidelines regarding the enrollment deadline for third-party vendors. There was a discussion relating to compound drug cost issues and solutions. Mr. Jordan also introduced new TRS-ActiveCare benefits, including Teladoc and NeoCare Solutions.

Mr. Jordan provided an update on TRS-Care, including recent enrollment, procurement activity, and new initiatives. He confirmed for Ms. Palmer that premium rates for TRS-Care were guaranteed for calendar years 2013 and 2014; although rates had been increased for 2015, the increase would not impact plan participants but would rather impact how much the plan would need to pay Aetna. He confirmed for Ms. Palmer that adjustments to reimbursements to Medical Advantage (MA) plans were considered annually. He stated that staff planned to issue a request for proposal for a fully insured MA plan in January 2015 and make a recommendation to the board in June 2015. Mr. Jordan also introduced the new initiative involving the use of Medicare Part D Advisors for handling the Medicare Part D Retiree Drug Subsidy.

7. Discuss and consider a plan design amendment to TRS-Care 1, the retiree health benefits program, regarding out-of-pocket maximums – Clarke Howard.

Mr. Guthrie stated that the current item was needed to correct an oversight relating to the TRS-Care plan design adopted by the board in September. Mr. Howard recapped that no changes were made to TRS-Care 1 in September. He stated that staff subsequently determined that to make out-of-pocket maximums consistent with TRS-ActiveCare changes, adjustments would be needed to the out-of-pocket maximums in TRS-Care 1. He stated that staff's current proposal would lower out-of-pocket maximums to make them consistent with those in TRS-ActiveCare. He noted that the proposed resolution states that "TRS-Care is projected to remain financially solvent during the currently funded biennium." Mr. Howard confirmed for Mr. Kelly that claims filed by those who had already reached the out-of-pocket maximum would not be readjudicated.

On a motion by Ms. Sissney, seconded by Ms. Charleston, the board unanimously voted to approve the following resolution presented by the staff concerning premiums and plan design for TRS-Care 1:

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, Due to the funding available to TRS-Care, TRS staff and the TRS health benefits consultant, Gabriel, Roeder, Smith & Company ("GRS") have recommended that 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.

8. Receive a presentation on performance networks and accountable care organizations – Mike Nelson and Dr. Catherine Gaffigan, Aetna.

Mr. Mike Nelson and Dr. Catherine Gaffigan of Aetna provided a presentation on how value-based contracting models with health care providers improve health care quality, enhance patient experience, and reduce cost. Mr. Kelly asked whether the models would be portable and their benefits could be maintained if TRS contracted with another administrator in the future. Dr. Gaffigan stated that the Accountable Care Organization (ACO) models were not owned by Aetna and could possibly be sustained with another contractor, if TRS contracted with another vendor. Mr. Nelson stated that Aetna would strive to keep the service affordable. Mr. Guthrie stated that staff could require an ACO-type structure as part of a future procurement with a condition that the data would be TRS’ whenever there is a change of administrator. Dr. Gaffigan further explained collaboration and data sharing processes within Aetna’s ACO models.

9. Discuss activities of the Retiree Advisory Committee (RAC) – Dr. Ignacio Salinas and Grace Mueller.

Dr. Salinas and Ms. Mueller provided an update on the Retiree Advisory Committee meetings on April 10 and May 22. Dr. Salinas stated that the meetings were intended to inform the committee about health care issues and facilitate open conversations where individuals could ask questions and review possible options. He also recapped options discussed with the board at the February board meeting for attaining TRS-Care solvency.

After a recess at 11:30 a.m., the board reconvened the meeting at 12:11 p.m.

Mr. Kelly announced that the board would take up agenda item 3 to hear public comment.

3. Provide opportunity for public comments – David Kelly.

Mr. Ted Melina Raab of Texas American Federation of Teachers (AFT) stated that Texas AFT would only support options that would provide comprehensive, affordable health care to active and retired educators. He stated that the long-term solution would be to provide members with prefunded health care. He stated that TRS-ActiveCare plans and benefit levels should return to where they were at program inception. He stated that providing affordable health care is critical for public education.

10. Receive an update on the TRS Health Benefits Study – Brian Guthrie and William Hickman and Amy Cohen, Gabriel, Roeder, Smith & Co.

Mr. Guthrie provided an overview of the two-part study of TRS-Care and TRS-ActiveCare. He discussed the study process and timeline. He stated that the study included an updated study on TRS-Care sustainability and a new TRS-ActiveCare Affordability Study. He highlighted key findings from the TRS-Care report. He stated that a supplemental appropriation request for 2016-2017 for TRS-Care of \$746 million would be needed to sustain the program for the biennium without significant structural changes. He stated that TRS had taken other actions such as offering members Medicare Advantage and Medicare Part D plans and ensuring competitive vendor management to extend TRS-Care sustainability; however, help would be needed from the legislature going forward. Mr. Guthrie provided overviews of TRS-Care plan structure, enrollment, and funding structure, as well as previous sustainability initiatives. Discussing the funding projection, he stated that there would be a \$2 billion shortfall at the end of FY 2019 if cost and funding trends continued without changes. He noted non-Medicare retirees as one of the cost drivers. He stated that since the average age of retirees was about 61, there were a four-year delay before retirees were eligible for Medicare.

Mr. Guthrie explained in detail seven proposed options for attaining TRS-Care sustainability through funding strategies and plan structure changes. He noted that some options could be combined. He discussed the three funding option groups: (1) pre-funding, (2) biennial funding, and (3) 10-year funding. He confirmed for Ms. Sissney that the proposed increase to the state contribution under Option 2(a) would increase the total contribution per retiree from \$124 to \$289. Mr. Barth asked if comparative data on the funding requirements of other states could be included in a meaningful way in the study. Mr. Hickman stated that public and private sector employer data were available in the report. He also stated that TRS staff and GRS were in the process of reviewing the public sector data and could look into the possibility of refining the data to public education employees only. Mr. Hickman concurred with Mr. Guthrie that data gathering for the public sector could be difficult because of different funding and plan structures. Mr. Guthrie discussed four other options involving benefits modifications: (4) eliminating subsidy, (5) requiring mandatory purchase of Medicare Part B and participation in Medicare Advantage and Medicare Part D plans, and (6) a defined contribution approach. Mr. Guthrie confirmed to Mr. Kelly that TRS-Care's large enrollment gives the program a certain amount of purchasing power in the marketplace. Mr. Hickman confirmed that TRS-Care has been taking advantage of this purchasing power whenever possible. Mr. Guthrie noted that the advantage would not necessarily come into play when addressing younger enrollees who could purchase competitive coverage in

the public exchanges. Mr. Guthrie discussed option 7 involving a consumer-directed health care plan that would require members to take preventative action for health care issues. Mr. Kelly asked if data about quality and cost shifts over the years since the inception of TRS-Care could be included in the study. Mr. Hickman stated that it would be difficult to measure quality at inception. He noted that it would be possible to review quality metrics in the recent time period, as well as costs and value of benefits.

Mr. Guthrie highlighted key findings in the TRS-ActiveCare report. He stated that the main issue faced by the program was affordability. He noted benefit and premium disparities between TRS-ActiveCare and the Texas state employee plans. He stated that cost increases and plan design changes for TRS-ActiveCare were consistent with national trends. He confirmed for Ms. Sissney that data gathered from the Kaiser Family Foundation and the Health Research & Educational Trust Employee Benefits 2014 annual survey were from both public and private sectors. Mr. Hickman noted that it was about two-thirds of private sector data and one-third public sector data. Mr. Guthrie provided an overview of the TRS-ActiveCare plans, including plan structure and funding sources. Discussing enrollment trends over the years, he stated that cost shifts affected the distribution of employees by plan. He noted that currently the 1-HD plan, which has the highest deductible, was the most popular plan. He stated that the study also compared the 10 largest ActiveCare districts with the 10 largest non-ActiveCare districts (districts that do not participate in TRS-ActiveCare) in terms of monthly contributions towards premiums. He stated that results showed that half of the ActiveCare districts contributed \$260 or less and the lowest contribution among non-ActiveCare districts was \$317. He confirmed for Mr. Kelly that districts that paid \$350 or more were property-wealthy districts.

Mr. Guthrie discussed proposed options for the TRS-ActiveCare plans, including (1) increasing state and district/employer funding to restore the FY 2003 cost sharing ratio; (2) offering only a high deductible plan with a Health Savings Account (HSA) with defined contributions; (3) offering only a self-funded Exclusive Provider Organization (EPO) plan (a statewide HMO); (4) eliminating uniform statewide coverage; (5) eliminating spousal coverage; (6A) creating a new program for both active members and retirees that offers the same benefits as the state employee plan; and (6B) creating a new program for both active members and retirees and increases employer funding to \$400 per participant.

Concerning Option 5, Mr. Hickman confirmed for Ms. Sissney that the plan would be eliminated for employees and their families. He stated that about 11 percent of the enrollment was for employee-and-family coverage. Mr. Guthrie stated that eliminating spousal coverage might make some employees' spouses eligible for the subsidy offered by the exchanges. Further discussion followed on the experience of the exchanges and their projected trend.

Responding to a question from Mr. Barth concerning the timeline going forward, Mr. Guthrie stated that the plan was to provide a draft to the board next week for review and comment and provide the final document in mid-November. Responding to questions from Ms. Palmer concerning the amount that TRS could request for the health care programs through the Appropriation Act, Mr. Guthrie stated that as the administrator of TRS-Active-Care, TRS could not make an appropriation request for the active plans.

At the end of his presentation, Mr. Guthrie expressed his appreciation to Ms. Jones, who was not present at the meeting, for her significant contribution to the studies.

- 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.**

Mr. Kelly called for a motion to find that deliberating or conferring in an open meeting about the TRS-Care Pharmacy Benefits Manager contract renewal and related procurement issues would have a detrimental effect on TRS's position in negotiations with a third person. On a motion by Ms. Charleston, seconded by Ms. Ramirez, the board voted unanimously to enter into closed session on agenda item 11.

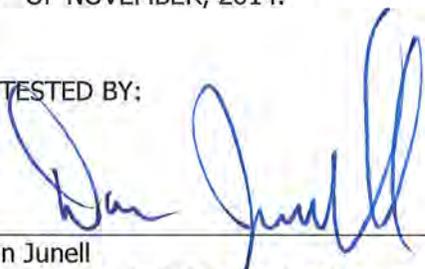
Mr. Kelly announced that the board would go into executive session on agenda item 11 under §825.115(e) of the Government Code to deliberate procurement matters and under §551.071 of the Government Code to seek advice of legal counsel, as needed. He asked all members of the public and staff not needed for executive session to leave the meeting room and take their belongings with them.

Whereupon, the open session of the board meeting recessed at 2:00 p.m. to go into executive session.

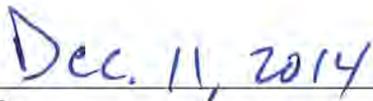
The board meeting reconvened in open session at 2:45 p.m. Mr. Kelly announced that the board would adjourn at that time. The meeting was adjourned at 2:50 p.m.

APPROVED BY THE BOARD OF TRUSTEES OF THE TEACHER RETIREMENT SYSTEM OF TEXAS ON THE 20TH OF NOVEMBER, 2014.

ATTESTED BY:



Dan Junell
Secretary to the TRS Board of Trustees



Date