

I. Executive Summary

Legislative Study Charge

In 2011, during the 82nd Texas Legislative session, funding projections for TRS-Care, the health care program for retired public educators, indicated that under the current funding structure the program would be solvent through the 2012-2013 biennium. At that time the financial shortfall for the 2014-2015 biennium was projected to be greater than \$800 million. To begin to address this near-term insolvency, the Legislature directed the Teacher Retirement System of Texas (TRS) to conduct a study. The study is to include a comprehensive review of potential plan design and other changes that would improve the sustainability of the program with a report of the findings and recommendations due by September 1, 2012.

Plan Options

Chapter 1575 of the Texas Insurance Code requires that a basic health care plan be offered at no cost to the retiree. Optional plans may be offered, including coverage for eligible dependents. Retirees selecting an optional plan pay a premium based on the plan selected, years of service, number of dependents and Medicare status. TRS-Care currently offers three plan options. TRS-Care 1, the basic plan, provides catastrophic coverage. TRS-Care 2 and TRS-Care 3 offer more comprehensive benefits, including a carve-out prescription drug benefit.

Funding

Funding for TRS-Care comes from a variety of sources:

- The law provides that the state contribute 1.0% of active district payroll. The General Appropriations Act reduced this contribution to .5% for FY 2013.
- School districts contribute between .25% and .75% of active district payroll. The current contribution rate is .55%.
- Active school district employees contribute .65% of payroll.
- Retirees pay premiums for any plan option other than TRS-Care 1 retiree only coverage.
- Medicare Part D Retiree Drug Subsidy (RDS).
- Investment income.

Initiatives

To help address the imminent shortfall projected for the next biennium, TRS re-bid its existing contract for a Pharmacy Benefit Manager (PBM), evaluated the cost-savings of an alternative to the RDS option under Medicare Part D, and explored the possibility of offering Medicare Advantage plans to eligible members.

As a result of these efforts, a new PBM was selected, achieving more favorable prescription drug pricing, and the Board approved offering Medicare Part D and Medicare Advantage plans. Projected savings from these initiatives are significant, but results are conditioned on participation rates.

Assuming an 80% participation rate, the fund is now projected to be solvent through the next biennium. However, **the shortfall for the 2016-2017 biennium is projected to be approximately \$1.2 billion.**

Considerations

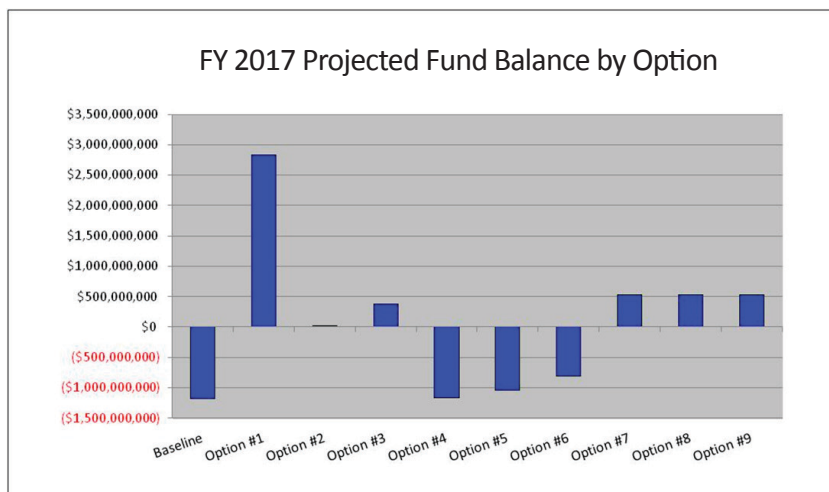
TRS-Care solvency can be looked upon as a three-legged stool representing the options available for extending the life of the program:

- Benefits/eligibility (including how benefits are managed)
- Retiree premiums
- Other contributions (state, school district, active employee, federal)

Non-Medicare retirees cost significantly more than Medicare eligible participants. Considering the savings attributable to the new Medicare Part D and Medicare Advantage plans, the plan costs for non-Medicare retirees are almost six times the costs of retirees with Medicare Parts A and B. Therefore, some of the options in the study focus separately on the two populations.

Summary of Options

The following is a summary of the options considered in the study and their impact on the financial condition of TRS-Care:



Many of the options presented in this study are not mutually exclusive. Some options may be combined to increase the positive financial impact on TRS-Care.

1. Pre-fund the long-term liability
2. Fund on a pay-as-you-go basis for the biennium
3. Retiree pays full cost for optional coverage
4. Require Medicare eligible enrollees to purchase Medicare Part B
5. Opt out consequence for participants eligible for the Medicare Advantage and Medicare Part D plans
6. Tighten eligibility requirements
7. TRS-Care 1 only for non-Medicare retirees
8. Defined contribution for non-Medicare retirees to shop in the private market
9. Move non-Medicare retirees to TRS-ActiveCare