

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

**AGENDA**

**February 12, 2014 – 9:00 a.m.**

**February 13, 2014 – 8:00 a.m.**

**February 14, 2014 – 8:00 a.m.**

**Region 2, Educational Service Center – Room 3-23  
209 North Water St., Corpus Christi, TX 78401**

*NOTE: Any item posted on the agenda may be taken up during the Board meeting on Wednesday, February 12, 2014, or during the continuation of the meeting on Thursday, February 13, 2014, or Friday, February 14, 2014, beginning at the times and place specified on this agenda.*

*The open portions of the February 12-14, 2014 Board meetings are being broadcast over the Internet. Access to the Internet broadcast of the Board meeting is provided on TRS' web site at [www.trs.state.tx.us](http://www.trs.state.tx.us).*

1. Call roll of Board members.
2. Consider the approval of the December 12–13, 2013 Board meeting minutes – David Kelly.
3. Provide opportunity for public comment – David Kelly.
4. Overview of the February 12-14, 2014 TRS Board meeting, including an introduction of issues and instructions for participating in the afternoon TRS health care town hall discussion – Brian Guthrie.
5. Receive presentation on and discuss national and state health care history and trends and the TRS health benefits plans – Betsey Jones; William Hickman and Amy Cohen, Gabriel, Roeder, Smith & Company.
6. Panel Discussion on health care matters and the federal Patient Protection and Affordable Care Act (PPACA) – Betsey Jones (Moderator); Jeff Bernhard and Sally Imig, Aetna; Dr. Dan McCoy and Ethan Baumfeld, Blue Cross and Blue Shield of Texas; Kevin DeStefino, RPh, Towers Watson; and Dr. Steve Miller, Express Scripts.
7. Meet with representative(s) from the Retirees Advisory Committee (RAC) and discuss the role of the RAC and issues regarding TRS-Care – Ignacio Salinas, Jr. Ph.D., Chair and Bill Barnes, Member

8. Conduct the TRS health care town hall meeting –Brian Guthrie (Moderator); Betsey Jones and William Hickman, Gabriel, Roeder, Smith & Company:
  - A. Receive an introduction on the health care town hall meeting, including instructions for participation.
  - B. Discuss the TRS health benefits studies.
  - C. Respond to in-person and web-cast audience questions on health care matters.
9. Discuss and consider selecting a TRS-ActiveCare Health Plan Administrator (HPA) and Pharmacy Benefit Manager (PBM), including considering a finding that deliberating or conferring on the selection of the HPA and PBM in open meeting would have a detrimental effect on the position of the retirement system in negotiations with a third person – Betsey Jones.

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

10. Provide opportunity for public comment – David Kelly.
11. Review and discuss the Executive Director's report on the following matters – Brian Guthrie:
  - A. Overview of the agenda for February 13, 2014.
  - B. Review TRS functions and organizational structure, including a workforce overview and a discussion of agency accomplishments and goals.
  - C. Preview draft agendas for upcoming Board meetings.
  - D. Receive the Board training calendar.
12. Discuss strategic planning – Brian Guthrie; Rebecca Merrill; and Keith Robinson, Focus Consulting Group.
13. Discuss preparation for the upcoming 2015 Texas legislative session – Ken Welch and Don Green.
14. Receive an update and discuss TRS long-term space planning issues – Don Green and Jerry Albright

15. Review the report under § 825.314(b), Government Code, 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 – Don Green.
16. Receive a presentation by Focus Consulting Group (FCG) on the process for executive personnel evaluations – Keith Robinson, Focus Consulting Group.
17. Receive presentations on the TRS investment management and functions, including the following matters:
  - A. Panel discussion on asset allocation – Dr. Keith Brown, (Moderator); Steve Voss and Brady O’Connell, Hewitt EnnisKnupp; Joseph Newton, Gabriel, Roeder, Smith & Company; Britt Harris; Mohan Balachandran; and Ashley Baum.
  - B. Receive an update on the Emerging Manager Program – Stuart Bernstein.
  - C. Discuss the 2014 priorities for the Investment Management Division – Britt Harris.
  - D. Receive market update and discuss results of the Investment Management Division’s Best Ideas Survey – Britt Harris and James Nield.
  - E. Receive a report on the investments in private investment fund CVC European Equity Partners IV L.P. and a direct investment in restricted securities – Rich Hall and Carolina de Onís.
  - F. Discuss possible co-investment opportunities involving a foreign pension fund, including potential investments in private investment funds or the purchase, holding, or disposal of restricted securities or a private investment fund’s investment in restricted securities – David Kelly.
  - G. Receive legal advice on certain securities related to the legacy fixed income portfolio – Carolina de Onís.

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

18. Provide opportunity for public comment – David Kelly.
19. Review the agenda items to be taken up on February 14, 2014 – Brian Guthrie.
20. Receive an overview of the TEAM Program, including the program’s goals, history, and budget – TRS TEAM Program Core Management Team (CMT); David Cook, and Jay Masci, Provaliant.

21. Receive an update on open government matters and review trustee roles, responsibilities, and fiduciary duties; qualifications for office and governance – Dan Junell, Ronnie Bounds, Carolina de Onís; and Steve Huff, Reinhart Boerner Van Deuren, s.c.
22. 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.
23. 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

February 12-14, 2014

The Board of Trustees of the Teacher Retirement System of Texas met on February 12, 2014, in the Room 3-23, Region 2 Educational Service Center at 209 North Water Street, Corpus Christi, Texas. The following board members were present:

David Kelly, Chair  
Todd Barth  
Karen Charleston  
David Corpus  
Chris Moss  
Anita Palmer  
Dolores Ramirez  
Nanette Sissney

### Others present:

Brian Guthrie, TRS  
Ken Welch, TRS  
Amy Barrett, TRS  
Janet Bray, TRS  
Carolina de Onís, TRS  
Howard Goldman, TRS  
Don Green, TRS  
Betsey Jones, TRS  
Ray Spivey, TRS  
Ronnie Bounds, TRS  
Edward Esquivel, TRS  
Dan Herron, TRS  
Clarke Howard, TRS  
Bob Jordan, TRS  
Dan Junell, TRS  
Rebecca Merrill, TRS  
Rhonda Price, TRS  
Yimei Zhao, TRS  
Ignacio Salinas, Jr., Retirees Advisory Committee  
Bill Barnes, Retirees Advisory Committee  
Bill Hickman, Gabriel, Roeder, Smith & Company  
Amy Cohen, Gabriel, Roeder, Smith & Company  
Joe Newton, Gabriel, Roeder, Smith & Company  
Eric St. Pierre, Aetna  
Jeff Bernhard, Aetna  
Sally Imig, Aetna  
Ethan Baumfeld, Blue Cross and Blue Shield of Texas  
Dr. Dan McCoy, Blue Cross and Blue Shield of Texas  
Steve Kunz, CVS Caremark  
Kevin DeStefino, Towers Watson  
Dr. Steve Miller, Express Scripts  
David Runyan, Express Scripts  
Craig Kessler, Express Scripts  
Brenda Dominguez, Del Valle ISD  
Art Granado, GG Inc.

Abel Herrero, State Representative for District 34  
Beverly Moore, Representative Lozano's Office  
Ronnie Jung  
Steve Huff, Reinhart Boerner Van Deuren  
Steve Voss, Hewitt EnnisKnupp  
Brady O'Connell, Hewitt EnnisKnupp  
Jody Wright, Legislative Budget Board  
Tim Lee, Texas Retired Teachers Association  
Ann Fickel, Texas Classroom Teachers Association  
Ted Melina-Raab, Texas American Federation of Teachers  
Beaman Floyd, Texas Association of School Personnel Administrators  
Josh Sanderson, Association of Texas Professional Educators  
Noel Candelaria, Texas State Teachers Association  
John Grey, Texas State Teachers Association  
Linda DeHaven, Texas Retired Teachers Association  
Leroy DeHaven, Texas Retired Teachers Association  
Lanette Fox, Texas Retired Teachers Association  
Stacy Stoll, Texas State Teachers Association  
Susan Seaton, Texas State Teachers Association  
Katie Plemmons, Texas State Teachers Association  
Michelle Cardenas, Texas State Teachers Association  
Sandra Chesnutt, Texas Retired Teachers Association  
David Palacios, West Oso ISD  
Olga Mendes, West Oso ISD  
Nancy Byler, Texas Retired Teachers Association  
Barbara Meador, Texas Retired Teachers Association  
Bob Meador, Texas Retired Teachers Association  
Fran Plemmons, Texas Retired Teachers Association  
Cora Elliot, Texas Retired Teachers Association  
Mary Jane Hamilton, Texas Retired Teachers Association  
Jean Bounds, Texas Retired Teachers Association  
Dennis Harrod, Texas Retired Teachers Association  
Ann Caffey, Texas Retired Teachers Association  
Mack Caffey, Texas Retired Teachers Association

Norinne Holman, Rockport Retired Teachers Association  
 David Holman, Rockport Retired Teachers Association  
 Margaret DeVelli, Texas Retired Teachers Association  
 Paula Stone, San Patricio County Retired Teachers Association  
 Marian Salge, Corpus Christi Area Retired Teachers Association  
 Zula Langley, Corpus Christi Area Retired Teachers Association  
 Dino Castello, Kingsville Tri-City Retired Teachers Association  
 Dorthie Hicks, Corpus Christi Area Retired Teachers Association  
 Ryan Johnston, ESC-2  
 Esther Reab, Corpus Christi Area Retired Teachers Association  
 Ray Loiselle  
 Gracie Yrube-Cano, Tri-County Retired Teachers Association  
 Clark Adkin, Corpus Christi Area Retired Teachers Association  
 Sayelynn Nesloney, ACISD  
 Liz Flinn, ACISD  
 Anson Nash, Corpus Christi Area Retired Teachers Association  
 Tim Mulinix, Corpus Christi Area Retired Teachers Association  
 Julie Kluge, Corpus Christi Area Retired Teachers Association  
 Paula Dear, Corpus Christi Area Retired Teachers Association  
 Harriet Lellman, Corpus Christi Area Retired Teachers Association  
 Beverly Peters, Corpus Christi Area Retired Teachers Association  
 Michael Briones, Corpus Christi Area Retired Teachers Association  
 Marianne Robert  
 Robin Moore, Skidmore-Tynan ISD  
 Charles Schooley  
 Linda O'Connell, Beeville ISD  
 Janette Rode  
 Diana Dopp  
 Susan Zeller  
 Carol Sue Hipp, Port Aransas ISD  
 Sherry Henderson, Port Aransas ISD  
 Roberta Davis  
 Jodi Schroedter, Orange Grove ISD  
 Sherry Schooley  
 Karen Gillen  
 Gerry Stuhrenberg  
 Jan Trujillo, Corpus Christi Area Retired Teachers Association  
 Nancy Ware, Corpus Christi Area Retired Teachers Association

Toni P. Garcia, Texas Retired Teachers Association  
 Herb Norris, Texas Retired Teachers Association  
 Kathleen A. Haynes, Texas Retired Teachers Association  
 Joyce Cessae, Texas Retired Teachers Association  
 Diane Brady, San Patricio County Retired Teachers Association  
 Elizabeth Mokry, San Patricio County Retired Teachers Association  
 Stanley Cole  
 Sylvia M. Flores  
 Anparo Quintanillo, Kingsville Tri-City Retired Teachers Association  
 Dottie Pettman, Corpus Christi Area Retired Teachers Association  
 Gaye White  
 Beverly Jackett, Corpus Christi Area Retired Teachers Association  
 Yvonne Landin  
 Barbara Agan, Corpus Christi Retired Teachers Association  
 Kathy Werner, Corpus Christi Retired Teachers Association  
 Cheryl Stephens, GPISD  
 Misty Kuyatt, GPISD  
 Lamar E. Childress, Corpus Christi Area Retired Teachers Association  
 Cathy Redinger, Corpus Christi Area Retired Teachers Association  
 Janet Lumley, Corpus Christi Area Retired Teachers Association  
 Maria Meurer, Corpus Christi Area Retired Teachers Association  
 Olivia Barrera, Corpus Christi Area Retired Teachers Association  
 Ella C. Qualls, Corpus Christi Area Retired Teachers Association  
 Drusilla Knight Villarreal, Corpus Christi Area Retired Teachers Association  
 Debra Robinson  
 Michael Broines, Corpus Christi Area Retired Teachers Association  
 Michael Burns, South Dallas County RSP  
 Dianne Burns, South Dallas County RSP  
 Lela Hayek, Calallen ISD  
 Ken Cherniss  
 Sandy Cherniss  
 Phyllis McBride  
 Don McBride  
 Norma Hinojosa, Corpus Christi Area Retired Teachers Association  
 Maria D. Díaz, Corpus Christi Area Retired Teachers Association  
 Tony Díaz, Corpus Christi Area Retired Teachers Association  
 Jann Dueitt, Corpus Christi Area Retired Teachers Association

Cynthia Weber  
Jim O. Littlefield  
Kathryn Littlefield  
Homero Villarreal  
Janet Hester  
Al Pulchen  
Jeanette Allbright  
H. J. Tijerina  
George Wilkinson  
Thelma Morehead  
Sonia Heil, Corpus Christi Area Retired  
Teachers Association  
Deborah Barrera, Corpus Christi Area Retired  
Teachers Association  
Benito Barrera  
Delia Gonzalez  
Guillermo Gonzalez  
Patricia Hopkins

Linda Guerrero  
Fran Pinckles, Corpus Christi Area Retired  
Teachers Association  
Ron McMury, Corpus Christi Area Retired  
Teachers Association  
Doyal Marek  
Deborah Ravenburg  
Elida Benavides  
Linda Strand, Corpus Christi Area Retired  
Teachers Association  
Laura W. Jones, Corpus Christi Area Retired  
Teachers Association  
Esther Figeren  
Sharon Erskine  
John D. Gaskins  
Anne Veech  
Eloisa Garaia  
Hal Roberts

Mr. Kelly called the meeting to order at 9:05 a.m.

**1. Call roll of Board members.**

Mr. Junell called the roll. A quorum was present. Mr. Colonna was absent.

**2. Consider the approval of the December 12-13, 2013 Board meeting minutes – David Kelly.**

On a motion by Mr. Moss, seconded by Mr. Corpus, the board unanimously approved the minutes of the December 12-13, 2013 board meeting.

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

Mr. Guthrie introduced State Representative for District 34, The Honorable Abel Herrero. Representative Herrero gave some brief remarks.

Mr. Leroy DeHaven of Texas Retired Teachers Association (TRTA) introduced retirees from the Texas Retired Teachers Association Aransas County, Corpus Christi, Falfurrias-Premont, Kingsville County, San Patricio County, and Tri-County Local Units.

Ms. Stacy Stoll from Killeen Independent School District stated that her district opted out of TRS-ActiveCare, and she hoped that TRS would ally with district employees to find more affordable health benefits, which would help retain teachers in the classroom.

Ms. Susan Seaton from San Marcos commented on the impact of high health care costs on public education employees. She said she hope that TRS would ally with employees to find a more affordable health care plan. She noted that the state's contribution had remained at \$75 since 2002.

Ms. Katie Plemmons from Del Valle High School commented on the negative impact of high health care costs on teacher retention. She expressed her hope that TRS would ally with teachers to find more affordable health care options.

Ms. Michelle Cardenas of Del Valle Education Association commented on the deprived living conditions in the Del Valle area and how public education employees struggled with high health care costs. She expressed her hope that TRS would partner with the public education organizations to improve the situation.

Mr. David Palacios of West Oso Independent School District expressed his concerns about the high health care costs being unaffordable to school employees, which had caused school districts difficulties in retaining teachers.

**4. Overview of the February 12-14, 2014 TRS Board meeting, including an introduction of issues and instructions for participating in the afternoon TRS health care town hall discussion – Brian Guthrie.**

Mr. Guthrie provided an overview of the February 12-14, 2014 board meeting agenda.

**5. Receive presentation on and discuss national and state health care history and trends and the TRS health benefits plans – Betsey Jones; William Hickman and Amy Cohen, Gabriel, Roeder, Smith & Company.**

Mr. Hickman, Ms. Cohen, and Ms. Jones provided an overview of the U.S. health care history, health care trends in Texas, and the plans administered by TRS-Care and TRS-ActiveCare. Ms. Jones noted that in addition to premium increases, health care benefits also had been significantly reduced, which further increased participants' out-of-pocket costs. Mr. Hickman stated that the high premiums for TRS-ActiveCare 2 and 3 were needed in order to not have to raise the premiums for TRS-ActiveCare 1-HD even more. Mr. Barth asked staff to compile the data on the average out-of-pocket cost members had paid by year. He also asked that the data be compared with other employer-provided health coverage. Ms. Charleston also suggested comparing the health care costs with members' disposable income. Ms. Jones stated that staff could survey the districts and gather those data.

After a brief recess at 11:09 a.m., the board reconvened at 11:30 a.m.

Before the board took up agenda item 6, Mr. Kelly announced that the board would take up agenda item 3 to let another member of the public provide the board comments.

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

Ms. Brenda Dominguez commented on the financial challenges high health care expenses created for public school employees. She urged the board to consider the public comments presented at this meeting and to find a solution that would help retain teachers.



- 6. Panel Discussion on health care matters and the federal Patient Protection and Affordable Care Act (PPACA) – Betsey Jones (Moderator); Jeff Bernhard and Sally Imig, Aetna; Dr. Dan McCoy and Ethan Baumfeld, Blue Cross and Blue Shield of Texas; Kevin DeStefino, RPh, Towers Watson; and Dr. Steve Miller, Express Scripts.**

The panelists introduced themselves and discussed the Affordable Care Act, future health care trends, cost drivers, and strategies to control health care costs.

After a recess at 12:55 p.m., the board reconvened at 1:24 p.m.

- 7. Meet with representative(s) from the Retirees Advisory Committee (RAC) and discuss the role of the RAC and issues regarding TRS-Care – Ignacio Salinas, Jr. Ph.D., Chair and Bill Barnes, Member**

Mr. Guthrie introduced Dr. Ignacio Salinas, Retirees Advisory Committee (RAC) Chair, and Mr. Bill Barnes, RAC member.

Dr. Salinas and Mr. Barnes expressed their appreciation for the opportunity to serve the retired community and to the TRS staff for arranging the opportunity to speak to the board. Dr. Salinas discussed long-term issues involving TRS-Care. He acknowledged the value of staff's assistance in helping retirees make health care decisions. Mr. Barnes urged that TRS keep retirees informed, seek their opinions and input, listen to their concerns, and involve the RAC in the process.

Ms. Jones recapped that, at the February 3, 2014 RAC meeting, the committee discussed the TRS-Care sustainability study, which staff would discuss again with the RAC and receive the committee's input before presenting the finalized study at the RAC's June 2014 meeting.

- 8. Conduct the TRS health care town hall meeting –Brian Guthrie (Moderator); Betsey Jones and William Hickman, Gabriel, Roeder, Smith & Company:**

- A. Receive an introduction on the health care town hall meeting, including instructions for participation.**

Mr. Guthrie provided instructions to the audience, including online viewers, for participating in the health care town hall meeting. He invited to the table the representatives of the following associations: Noel Candelaria of the Texas State Teachers Association; Ann Fickel of the Texas Classroom Teachers Association; Tim Lee of the Texas Retired Teachers Association; Ted Melina Raab of the Texas American Federation of Teachers; Beaman Floyd of the Texas Association of School Personnel Administrators; and Josh Sanderson of the Association of Texas Professional Educators. The representatives provided remarks and suggestions to the board concerning health care issues. They noted the negative impact of high health care costs on education and emphasized the need to involve active members and retirees in the decision-making process.

**B. Discuss the TRS health benefits studies.**

Ms. Jones recapped the options in the TRS-Care study presented to the Legislature in 2013. She laid out the potential areas of consideration to be included in the next health benefits study, which will also include TRS-ActiveCare. She provided a comparison of TRS-Care benefits with those provided by the Employees Retirement System (ERS) health benefits program for retired state employees.

**C. Respond to in-person and web-cast audience questions on health care matters.**

Mr. Guthrie presented each of the following questions from the audience regarding TRS-ActiveCare:

- Responding to a question concerning local health-care providers not participating in TRS-ActiveCare, Ms. Jones stated that it was the nature of the business and an ongoing issue that required negotiation between the providers and the vendors who administer health benefits under the program.
- Responding to questions concerning the timing of setting premiums and enrollment periods, Ms. Jones stated that enrollment was moved to summer when additional experience data would be available for setting more accurate premium rates.
- Responding to a question regarding the impact of health care costs on teacher retention, Mr. Guthrie stated that the public comments given at this meeting indicated that the cost of health care was a significant driver in teacher retention. He agreed that high health care costs were a fundamental concern for most of the active members.
- Responding to a suggestion to establish a committee of benefit administrators from around the state who could gather members' feedback on TRS-ActiveCare issues, Mr. Guthrie and Ms. Jones both agreed that it was a good idea.
- Responding to a question concerning whether districts could opt out of TRS-ActiveCare after they had opted in, Mr. Guthrie stated that TRS-ActiveCare was established to provide health insurance to district employees and to let the participating districts share health care costs. Allowing districts to opt out of the program would undermine its purpose and further increase premium costs for those staying in the plan. Ms. Jones stated that having a mandatory pool would help stabilize the experience across the broad spectrum and sustain the plan for members. Ms. de Onís confirmed for Mr. Kelly that a TRS health care rule prohibited participating districts from opting out of TRS-ActiveCare.
- Responding to a suggestion that one program be established requiring all districts to participate, Mr. Hickman stated that the current pool of participating districts was large enough to give the program an advantage because of size in negotiating with providers. Setting up a program mandating all districts to participate would require the law to be

restructured. He noted that claims in large districts could have a significant impact on the experience of the entire membership.

- Regarding whether claims experience data were available to districts, Ms. Jones stated that such information was not readily available, but it could be compiled in some form if needed. She cautioned that experience data for any particular period could fluctuate and may not accurately reflect future claims.

Mr. Guthrie confirmed that materials relating to the history of health-care benefits presented at this meeting were available upon request and on TRS' website.

- Responding to a suggestion to create an individual program for each district, Mr. Jordan stated that administering different programs for 1128 employers would be a challenge.
- Responding to a suggestion for TRS to join educators across the state in making affordable health care available to all public education employees, Mr. Guthrie stated that TRS was not allowed to lobby but could provide the Legislature requested information for policymakers to use in deciding health benefit issues affecting TRS participants.

Mr. Guthrie presented the following questions from the audience regarding TRS-Care:

- Responding to a question concerning the cost of the TRS-Care shortfall faced in the upcoming legislative session, Mr. Guthrie stated that it would be about \$1 billion for the next biennium, which covers fiscal years 2016 and 2017.
- Concerning questions relating to the impact of the Affordable Care Act (ACA) on TRS retirees, Ms. Jones stated that non-Medicare retirees could decline TRS-Care coverage and shop for a plan in the market and be eligible for the ACA subsidy. She noted that Medicare retirees would not be eligible to participate in the market exchange. Mr. Guthrie stated that staff would try to include applicable information about the ACA in the upcoming health studies.
- Responding to a question about the allocation of active members' payments to TRS-Care, Mr. Guthrie confirmed that those payments were fully allocated to the retirees' health benefits fund.
- Responding to a question about keeping TRS-ActiveCare and TRS-Care on a par with ERS health coverage, Ms. Jones stated that to achieve that would take legislative action and additional state funding, neither of which were within TRS' control to accomplish.
- Responding to a question regarding selecting new vendors for the TRS-Care program, Mr. Guthrie stated that the board would discuss the selection of TRS-ActiveCare vendors at this meeting and would continue to go out for bids regularly in the future for both TRS-Care and TRS-ActiveCare. Mr. Jordan stated that the third-party health plan administrators did not set the premium rates or benefits. Rather, he said, the administrators operated with the premiums and benefits adopted by the TRS board. Mr. Kelly noted that the board set the rates and

benefits based on claims experience to ensure adequate funding for the programs during the contract term. Per Mr. Kelly's request, Ms. Jones and Mr. Jordan described recent actions TRS had taken to contain costs.

- Responding to a question regarding Scott & White's being the only provider for HMO coverage in central Texas, Mr. Guthrie stated that Scott & White was the only HMO that offered to provide services through TRS-ActiveCare in the central Texas area.
- Responding to a question regarding whether an indemnity policy was available for TRS-Care and TRS-ActiveCare, Mr. Hickman confirmed that the programs had no indemnity policy. He explained that premium rates were set based on the underwriter's best estimate of claims and expenses.
- Responding to a question about cost efficiencies in administering both TRS-Care and TRS-ActiveCare, Ms. Jones stated that one of the initiatives was to use paperless documentation.
- Responding to a question concerning the impact of the "baby boomers" on TRS-Care and Medicare in the next five years, Mr. Hickman confirmed that having more retirees and fewer active members was a phenomenon that TRS-Care must face. Mr. Guthrie noted that retirees not eligible for Medicare were a large cost driver because Medicare helped TRS-Care reduce costs by providing supplemental coverage to those who had reached age 65. He stated that the influx of "baby boomers" into TRS-Care was a nationwide issue, to which TRS paid close attention.
- Responding to a question as to whether TRS-Care would continue to be available to retirees at age 65 or older, Ms. Jones stated that it would continue to be provided unless the market changed or another viable option was available to those participants.
- Responding to a question regarding the status of the Medicare Advantage program after its first year of experience, Ms. Jones stated that 68 percent of eligible retirees participated in Medicare Advantage.
- Responding to a question regarding the experience and challenge faced by other organizations of the same size as TRS, Mr. Bernhard stated that, based on his experience in working with other statewide pension plans, all were facing the same challenges and exercising the same due diligence as TRS did. Dr. McCoy stated that TRS faced great challenges because its health benefit programs were among the largest in the nation, with a diverse membership spread all over the state. He commented that TRS had remarkably cut health benefit costs for members and retirees. Mr. Guthrie noted that TRS was one of the few public retirement systems that administered both pension and health care benefits.
- Responding to a question about the negative impact of vendor consolidation on the cost to administer health benefits, Dr. McCoy stated that a wide and diverse marketplace had given entities like TRS a competitive advantage in cost and quality. Having fewer competing vendors in the marketplace, he said, could significantly increase benefit administration costs in the future. He described some actions that had been taken to mitigate the situation.

Mr. Bernhard suggested that people contact the Social Security Administration to explore avenues that they could use to receive health care benefits from that source.

- Responding to a suggestion about reviewing the costs and benefits of other states' plans, Ms. Jones said that staff would look into that.

**9. Discuss and consider selecting a TRS-ActiveCare Health Plan Administrator (HPA) and Pharmacy Benefit Manager (PBM), including considering a finding that deliberating or conferring on the selection of the HPA and PBM in open meeting would have a detrimental effect on the position of the retirement system in negotiations with a third person – Betsey Jones.**

Mr. Kelly announced that the board would discuss and consider selecting a Health Plan Administrator (HPA) and Pharmacy Benefit Manager (PBM) for TRS-ActiveCare. He said the board would also consider making a finding that deliberating and conferring on the selection of the HPA and PBM in open meetings would have a detrimental effect on the position of the retirement system in negotiations with a third party. He noted that the board would go into executive session and reconvene in open session to make a decision by resolution.

On a motion by Ms. Sissney, seconded by Mr. Moss, the board unanimously agreed that deliberating or conferring in an open meeting about the current TRS-ActiveCare procurement would have a detrimental effect on TRS' position in negotiations with a third person.

Mr. Kelly announced that the board would go into executive session on agenda item 9 under section 825.115(e) of the Government Code. 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.

Whereupon, the board went into executive session at 3:50 p.m.

The meeting was reconvened in open session at 6:23 p.m.

Mr. Kelly read the following proposed resolution pertaining to the selection of the TRS-Active Care Health Plan Administrator:

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

**Whereas**, TRS issued a Request for Proposals ("RFP") to interested entities for health plan administrative, network, and network management services for the TRS-ActiveCare program;

**Whereas**, TRS received and evaluated responsive proposals to provide health plan administrative, network, and network management services for the TRS-ActiveCare program;

**Whereas**, TRS staff and the TRS healthcare consultant, Gabriel, Roeder, Smith & Company ("GRS"), have provided relevant information to the TRS Board of Trustees (the "Board"),

discussed the proposals with the Board, and presented an evaluation to the Board concerning the selection of a health plan administrator;

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

**Resolved,** That the Board hereby selects Aetna Life Insurance Company to be the health plan administrator for the TRS-ActiveCare program, subject to successful negotiation and execution of a final agreement for the implementation and provision of health plan administrative, network, and network management services to the TRS-ActiveCare program, for a two-year term to commence on September 1, 2014, with four optional one-year renewals;

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

**Resolved,** That if for any reason, the Executive Director concludes in his sole judgment that TRS is not reasonably successful in negotiation or reasonably likely to reach a binding agreement with Aetna Life Insurance Company, then the Board hereby selects the other finalist to be the health plan administrator for the TRS-ActiveCare program, subject to successful negotiation and execution of a final agreement for the implementation and provision of health plan administrative, network, and network management services to the TRS-ActiveCare program, for a two-year term to commence on September 1, 2014, with four optional one-year renewals;

**Resolved,** That once the Executive Director concludes in his sole judgment that TRS is not reasonably successful in negotiation or reasonably likely to reach a binding agreement with Aetna Life Insurance Company, the Board authorizes the Executive Director to expend funds deemed by him to be necessary or advisable to implement the Board's selection of the other finalist and further to execute all documents and take all actions deemed by the Executive Director to be necessary or advisable to implement this resolution, as well as all actions deemed by him to be necessary to negotiate a contract with the other finalist on the same or better financial terms presented to the Board and on such other terms and conditions deemed by the Executive Director to be in the best interest of the TRS-ActiveCare program, and from time to time amend, modify, or extend the contract as deemed by the Executive Director to be in the best interest of the TRS-ActiveCare program, it being understood that the Board's selection of the other finalist pursuant to this resolution shall not be construed as a binding agreement or obligation to contract, and there shall be no binding agreement among the parties until a full and final written contract is negotiated and executed by both parties.

Mr. Barth made a motion to adopt the resolution; Mr. Corpus seconded the motion. Mr. Kelly asked each trustee to vote separately by voice. The board adopted the motion with Mr. Barth, Ms. Charleston, Mr. Corpus, Mr. Moss, Ms. Palmer, Ms. Ramirez and Ms. Sissney voting in favor of it and Mr. Kelly voting against it.

Next Mr. Kelly read the following proposed resolution pertaining to the selection of Pharmacy Benefit Manager:

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

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

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

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

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

**Resolved**, That the Board hereby selects CaremarkPCS Health, L.L.C. to be the pharmacy benefit manager for the TRS-ActiveCare program, subject to successful negotiation and execution of a final agreement for the implementation and provision of pharmacy benefit services to the TRS-ActiveCare program, for a two-year term to commence on September 1, 2014, with four optional one-year renewals;

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

Mr. Moss made a motion to adopt the resolution; Ms. Charleston seconded the motion. Mr. Kelly asked for a voice vote from each trustee. The board adopted the motion with Mr. Barth, Ms. Charleston, Mr. Corpus, Mr. Moss, Ms. Palmer, Ms. Ramirez, Ms. Sissney and Mr. Kelly voting in favor of it.

Whereupon, the meeting was recessed at 6:30 p.m.

The Board of Trustees of the Teacher Retirement System of Texas reconvened on February 13, 2014, in the Room 3-23, Region 2 Educational Service Center at 209 North Water Street, Corpus Christi, Texas. The following board members were present:

David Kelly, Chair  
Todd Barth  
Karen Charleston  
David Corpus  
Chris Moss  
Anita Palmer  
Dolores Ramirez  
Nanette Sissney

Others present:

Brian Guthrie, TRS  
Ken Welch, TRS  
Amy Barrett, TRS  
Janet Bray, TRS  
Carolina de Onís, TRS  
Britt Harris, TRS  
Jerry Albright, TRS  
Howard Goldman, TRS  
Don Green, TRS  
Betsey Jones, TRS  
Amy Morgan, TRS  
Jase Auby, TRS  
Sylvia Bell, TRS  
Ashley Baum, TRS  
Mohan Balachandran, TRS  
Ronnie Bounds, TRS  
Jan Engler, TRS  
Jay Leblanc, TRS  
Rich Hall, TRS  
Dan Herron, TRS  
Dan Junell, TRS  
Rebecca Merrill, TRS  
Melinda Nink, TRS  
James Nield, TRS  
Mike Pia, TRS  
Jamie Pierce, TRS

Rhonda Price, TRS  
Noel Sherman, TRS  
Merita Zoga, TRS  
Steve Huff, Reinhart Boerner Van Deuren  
Keith Johnson, Reinhart Boerner Van Deuren  
Dr. Keith Brown, Investment Advisor  
Steve Voss, Hewitt EnnisKnupp  
Brady O'Connell, Hewitt EnnisKnupp  
Tim Lee, Texas Retired Teachers Association  
Rick Young, State Street  
Brenda Dulger-Sherkin, State Street  
Art Granado, GG  
Tim Lee, Texas Retired Teachers Association  
Bill Barnes, Texas Retired Teachers Association  
Ann Fickel, Texas Classroom Teachers Association  
Josh Sanderson, Association of Texas Professional Educators  
Ted Melina Raab, Texas American Federation of Teachers  
Beaman Floyd, Texas Association of School Administrators  
Jody Wright, Legislative Budget Board  
Leroy DeHaven, Texas Retired Teachers Association  
Fran Plemmons, Texas Retired Teachers Association  
Philip Mullins, Texas State Employees Union  
Keith Robinson, Focus Consulting Group  
John Grey, Texas State Teachers Association  
Michael Johnson, Bridgepoint Consulting  
Ryan Johnston

Mr. Kelly called the meeting to order at 8:00 a.m.

**1. Call roll of Board members.**

Mr. Junell called the roll. A quorum was present. Mr. Colonna was absent.

Mr. Kelly announced that the board would take up agenda item 10.



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

Mr. Ryan Johnston stated that providing school districts access to the health care usage data would help manage expensive claims and contain health care costs over time. He also suggested proactively approaching those districts with high claim costs to help them minimize their cost increases in the long run.

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

**A. Overview of the agenda for February 13, 2014.**

Mr. Guthrie provided an overview of the February 13, 2014 board meeting agenda.

**B. Review TRS functions and organizational structure, including a workforce overview and a discussion of agency accomplishments and goals.**

Mr. Guthrie provided an overview of the significant events relating to the operation of TRS' programs since its inception. He reviewed TRS' responsibilities in administering the pension fund, health benefit programs, and 403(b) program. He also provided an update on the following: the current status of the TRS pension trust fund; the impact of 2013 legislation on pension benefit rules; pension fund operations; annual impact of pension benefit payments on Texas business; annuity distribution; TRS-Care and TRS-ActiveCare funding and operations; and the 403(b) program.

Mr. Guthrie provided an update on TRS' organizational structure and workforce. Mr. Guthrie confirmed for Mr. Kelly that succession planning was in place to address the number key staff expected to retire over time. Ms. Bray and Mr. Green gave examples of executive development and other enhanced educational opportunities made available to staff to prepare new leaders.

Mr. Guthrie provided an overview of the challenges and accomplishments in 2012 and 2013 and the challenges and goals for 2014.

**C. Preview draft agendas for upcoming Board meetings.**

Mr. Guthrie provided an overview of the 2014 board meeting agendas.

**D. Receive the Board training calendar.**

Mr. Guthrie presented the board training opportunities in 2014.

**12. Discuss strategic planning – Brian Guthrie; Rebecca Merrill; and Keith Robinson, Focus Consulting Group.**

Ms. Merrill provided the background and progress of the strategic planning. She stated that the final plan would be due in June. Mr. Robinson laid out the process of strategic development.

**13. Discuss preparation for the upcoming 2015 Texas legislative session – Ken Welch and Don Green.**

Mr. Welch provided the timeline for the upcoming legislative session and an overview of the turnover of state leadership after the general election, changes that would affect the 2015 session of the Legislature. Mr. Green reviewed the timeline for the approval, submission, and consideration of TRS' Legislative Appropriations Request. He explained the annual settle-up process with the Comptroller's office related to TRS' appropriations, which is an estimate based on certain assumptions adopted by the Legislature before actual figures are known. He also discussed state revenue sources, TRS' appropriations for the FY 2014-2015 biennium, and the FY 2014 operating budget adopted by the board.

After a recess at 10:50 a.m., the meeting reconvened at 11:00 a.m.

**14. Receive an update and discuss TRS long-term space planning issues – Don Green and Jerry Albright**

Mr. Green provided a historical overview of TRS' space development. Mr. Albright presented the findings of the space assessment completed by the Texas Facilities Commission in July 2011 and the options for long-term space planning. Presenting the timeline for planning and implementation, Mr. Albright stated that staff would provide the board with a final recommendation at the July 2014 meeting. Mr. Guthrie noted that the space planning would consider members' accessibility to TRS' offices. Per Ms. Palmer's request, staff would provide the board the floor plans of the 1000 Red River and 816 Congress offices.

**15. Review the report under § 825.314(b), Government Code, 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 – Don Green.**

Pursuant to section 825.314(b) of the Government Code, Mr. Green presented a complete financial report for the first quarter ending November 30, 2013.

**16. Receive a presentation by Focus Consulting Group (FCG) on the process for executive personnel evaluations – Keith Robinson, Focus Consulting Group.**

Mr. Robinson provided a presentation of the executive personnel evaluation process.

After a recess at 11:55 a.m., the board reconvened at 12:20 p.m.

**17. Receive presentations on the TRS investment management and functions, including the following matters:**

- A. Panel discussion on asset allocation – Dr. Keith Brown, (Moderator); Steve Voss and Brady O’Connell, Hewitt EnnisKnupp; Joseph Newton, Gabriel, Roeder, Smith & Company; Britt Harris; Mohan Balachandran; and Ashley Baum.**

Dr. Brown led a panel discussion on the process of asset allocation development with Mr. Voss, Mr. O’Connell, Mr. Newton, Mr. Harris, Mr. Balachandran and Ms. Baum. The panel discussed the following: benchmarks; the asset class universe; factors affecting asset allocation decisions; best practices in reviewing asset allocation; the timeline for deciding the asset allocation; long-term goals and obligations of the plan; the impact of market environment, liability, and actuarial assumptions on investment return assumptions; and results of a survey on capital markets expectations.

After a recess at 3:50 p.m., the meeting reconvened at 4:05 p.m.

- B. Receive an update on the Emerging Manager Program – Stuart Bernstein.**

Mr. Bernstein provided an update on the Emerging Manager Program.

- C. Discuss the 2014 priorities for the Investment Management Division – Britt Harris.**

Mr. Harris discussed the 2014 priorities for the IMD.

- D. Receive market update and discuss results of the Investment Management Division’s Best Ideas Survey – Britt Harris and James Nield.**

Mr. Harris stated that the market update would be deferred until the March board meeting.

Mr. Nield provided the results of the IMD’s Best Ideas Survey.

Ms. Sissney, presiding chair, announced without objection that the board would not take up agenda item 17. F.

- F. Discuss possible co-investment opportunities involving a foreign pension fund, including potential investments in private investment funds or the purchase, holding, or disposal of restricted securities or a private investment fund’s investment in restricted securities – David Kelly.**

Ms. Sissney announced that the board would go into executive session on agenda items 17. E. and 17. G. under the following statutes: section 825.3011 of the Government Code to confer about confidential investment matters, and section 551.071 of the Government Code to seek advice from legal counsel. She asked that all members of the public and staff not needed for the executive session to leave the meeting room and take their belongings with them.

- E. Receive a report on the investments in private investment fund CVC European Equity Partners IV L.P. and a direct investment in restricted securities – Rich Hall and Carolina de Onís.**
- G. Receive legal advice on certain securities related to the legacy fixed income portfolio – Carolina de Onís.**

Whereupon, the board went into executive session at 4:28 p.m.

The meeting was reconvened in open session at 7:13 p.m. and recessed at 7:15 p.m.

The Board of Trustees of the Teacher Retirement System of Texas reconvened on February 14, 2014, in the Room 3-23, Region 2 Educational Service Center at 209 North Water Street, Corpus Christi, Texas. The following board members were present:

David Kelly, Chair  
Todd Barth  
Karen Charleston  
David Corpus  
Chris Moss  
Anita Palmer  
Dolores Ramirez  
Nanette Sissney

Others present:

Brian Guthrie, TRS  
Ken Welch, TRS  
Amy Barrett, TRS  
Janet Bray, TRS  
Carolina de Onís, TRS  
Jerry Albright, TRS  
Janet Bray, TRS  
Howard Goldman, TRS  
Don Green, TRS  
Amy Morgan, TRS  
Ronnie Bounds, TRS  
Dan Junell, TRS  
Rebecca Merrill, TRS  
Rhonda Price, TRS  
T. A. Miller, TRS  
David Cook, TRS  
Barbie Pearson, TRS  
Noel Sherman, TRS  
Adam Fambrough, TRS

Garry Sitz, TRS  
Amanda Gentry, TRS  
Cindy Yarbrough, TRS  
Steve Huff, Reinhart Boerner Van Deuren  
Keith Johnson, Reinhart Boerner Van Deuren  
Jay Masci, Provaliant  
Tim Lee, Texas Retired Teachers Association  
Esther Reud, Corpus Christi Area Retired Teachers Association  
Leroy DeHaven, Corpus Christi Area Retired Teachers Association  
Art Granado, GG  
Bill Barnes, Texas Retired Teachers Association  
Ann Fickel, Texas Classroom Teachers Association  
Ted Melina Raab, Texas American Federation of Teachers  
Maria A. Diaz  
Tony C. Diaz  
Jody Wright, Legislative Budget Board  
Fran Plemmons, Texas Retired Teachers Association  
Paula Stone, San Patricio Retired Teachers Association

Mr. Kelly called the meeting to order at 8:00 a.m.

**1. Call roll of Board members.**

Mr. Junell called the roll. A quorum was present. Mr. Colonna was absent.

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

Mr. Kelly called for public comments. No comments were received.

**19. Review the agenda items to be taken up on February 14, 2014 – Brian Guthrie.**

Mr. Guthrie provided an overview of the February 14, 2014 board meeting agenda.

**20. Receive an overview of the TEAM Program, including the program's goals, history, and budget – TRS TEAM Program Core Management Team (CMT); David Cook, and Jay Masci, Provaliant.**

Mr. Masci, Mr. Miller, Ms. Pearson, Ms. Gentry and Mr. Fambrough presented the following topics: the development of the TEAM program from 2009 to 2014; updates on each TEAM project; the TEAM organizational structure; milestones and accomplishments; and upcoming goals for 2014. Mr. Sitz discussed the architecture and vision of TEAM. Mr. Cook reviewed the budget for the TEAM program. Mr. Masci presented the following: a list of TEAM acronyms and their definitions; the progress of the program; the interdependencies of TEAM projects; lessons learned; and typical risks involved in replacing a pension administration system.

After a recess at 10:25 a.m., the meeting was reconvened at 10:35 a.m.

**21. Receive an update on open government matters and review trustee roles, responsibilities, and fiduciary duties; qualifications for office and governance – Dan Junell, Ronnie Bounds, Carolina de Onís; and Steve Huff, Reinhart Boerner Van Deuren, s.c.**

Mr. Junell and Mr. Bounds provided an update on TRS' open government functions and 2013 accomplishments for Legal Services' open government team.

Ms. de Onís discussed a survey completed by Funston Advisors on best practices in fund governance and the role and responsibilities of the board.

Ms. de Onís, Mr. Huff and Mr. Johnson discussed co-fiduciary and liability issues from open government, fiduciary, and ethics perspectives. They presented different hypothetical scenarios and the proper actions for a trustee to take in each circumstance. Mr. Kelly requested that next year's fiduciary training include an explanation of the distinctions between the responsibilities of the general counsel and fiduciary counsel.

The board took up agenda item 18 again to hear a public comment.

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

Mr. Leroy DeHaven expressed his appreciation to the board for holding the meeting in Corpus Christi and for the educational experience it provided TRS members and retirees.

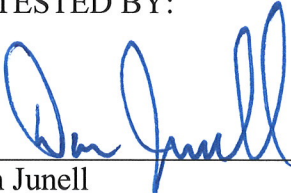
The board took up no further business under agenda items 22 and 23.

22. 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.
23. Consult with the Board's attorney(s) in Executive Session on any item listed above on this meeting agenda as authorized by § 551.071 of the Texas Open Meetings Act (Chapter 551 of the Texas Government Code) – David Kelly.

The meeting was adjourned at 11:45 a.m.

APPROVED BY THE BOARD OF TRUSTEES OF THE TEACHER RETIREMENT SYSTEM  
OF TEXAS ON THE 27TH DAY OF MARCH, 2014.

ATTESTED BY:



\_\_\_\_\_  
Dan Junell  
Secretary to the TRS Board of Trustees

\_\_\_\_\_  
April 9, 2014  
Date