Updates on Legislative Implementation, Interim Benefits Studies, and Legislative Appropriation request

ERS

Employees Retirement System of Texas

November 2012

ERS AT A GLANCE **FISCAL YEAR 2011: Snapshot on August 31, 2011**

RETIREMENT

Retirement plans for state employees, elected officials, law enforcement and custodial officers (LECOSRF) and two plans for judges (JRS 1 and JRS 2)

- $22.1 billion trust fund
- 82.8% Funded Ratio
- 12.6% One-year rate-of-return on investments* (Actuarial assumed rate is 8%)
- 137,861 active members (ERS 137,293; LECOSRF 36,806; JRS 1 22; JRS 2 546)
- 84,085 retirees (ERS 83,430; LECOSRF 7,728; JRS 1 447; JRS 2 208)
- $1.6 billion in retirement payments

Note: LECOSRF is included in ERS count.

Texa$aver Program

Tax-deferred supplemental retirement program

- $1.7 billion in assets
  - $1.3 billion in 401(k)
  - $381 million in 457
- 109,613 401(k) accounts
- 21,153 457 accounts

INSURANCE

Texas Employees Group Benefits Program provides coverage for health, life, dental, voluntary accidental death & dismemberment (AD&D), long-term care, long and short-term disability

- $2.3 billion estimated in health plan expenditures
- $608.4 million estimated in member expenditures (does not include member costs to cover dependents)
- 526,957 health participants (Employees 214,369, Retirees 83,739; Dependents 223,373; COBRA 1,690; Survivors 3,786)
- 396,947 participants enrolled in two dental plans (Employees 166,443; Retirees 41,322; Dependents 185,898; COBRA 1,522; Survivors 1,762)

TexFlex

(Health/Dependent Care Reimbursement Accounts)
Flexible spending accounts for health and dependent care expenses

- $93.7 million contributed to TexFlex accounts by state employees
- 52,493 accounts
- $482.4 million in insurance premiums redirected
  - $109.2 million estimated tax savings for participants (FICA and FIT)
  - $36.9 million estimated tax savings for state (FICA)

**FY2012 return is 8.24% (unaudited, gross of fees).*

To view the 2011 Comprehensive Annual Financial Report go to www.ers.state.tx.us/About_ERS/Reports/

INVESTMENTS

ERS manages a $22.1 billion retirement trust on behalf of state employees and retirees who are the beneficiaries of the trust. Investment returns are an important part of funding for the ERS retirement plan. Over the last 20 years, 63.5% of the value of the ERS Retirement Trust came from investment earnings.

A healthy 12.6% investment return for FY2011 helped the ERS Retirement Trust moderate some of the losses incurred in recent years. ERS also continues to surpass its long-term investment goals with a 30-year rate-of-return of 8.6%.

Day-to-day investment decisions are managed by ERS' professional investment staff within the policies, procedures, and risk management guidelines set by the ERS Board of Trustees. The ERS Board and Investment Advisory Committee are exploring options for adjusting long-term asset allocation targets to increase investment diversity while maintaining an acceptable level of risk.

ERS Retirement Trust Asset Allocation

Asset Class	August 31, 2011	Long-Term Target
Global Equity	55.4%	45%
Fixed Income	36.3%	33%
Private Equity	3.1%	8%
Diversified Real Estate	3.6%	8%
Hedge Funds	0.0%	5%
Cash	1.4%	1%

Internally Managed	78.1%	Externally Advised 21.9%

To view ERS Investments information go to www.ers.state.tx.us/about_ers/ers_investments/

(Over)

ERS
EMPLOYEES RETIREMENT SYSTEM OF TEXAS

RETIREMENT

The State of Texas provides retirement benefits to retired employees, law enforcement officers and judges as part of the state's overall compensation package.

The ERS retirement plans are designed to provide a stable source of income for state employees during retirement. The typical state agency retiree worked for the state for 22 and one half years, is 68 years old, and receives $18,614 a year in ERS retirement benefits.

Both the state and state employees contribute a portion of monthly salary to the pension trust fund. State employees are enrolled in the defined benefit plan 90 days after they begin working. Employees share responsibility for pre-funding their retirement, a key factor toward maintaining a sustainable retirement plan. State and employee contributions are professionally invested to pay for future retirement benefits. The state's contribution toward its employees' retirement during the 2010-2011 biennium accounted for less than 0.5% of the state's total two-year budget.

Retirement Monthly Contribution Rates

	FY 2011 % of salary	FY 2012 % of salary	FY 2013 % of salary
Employees Retirement System of Texas			
State contribution	6.95%	6.00%	6.50%
Employee contribution	6.50%	6.50%	6.50%
Law Enforcement & Custodial Officers Supplemental Retirement Fund			
State contribution	1.59%	0.00%	0.50%
Officer contribution	0.50%	0.50%	0.50%
Judicial Retirement System of Texas Plan II			
State contribution	16.83%	6.0%	6.5%
Judge contribution	6.00%	6.0%	6.0%

TEXAS EMPLOYEES GROUP BENEFITS PROGRAM

ERS lowered health plan costs $7.3 billion in FY11 with tough cost-management practices, aggressive negotiation of contracts, and low administrative overhead. Third-party Administrative costs for the self-funded health insurance plan is only three cents on every health care dollar. And at 8%, the HealthSelect℠ of Texas benefit cost trend is 2.7% lower than the national trend. Just a few of our accomplishments:

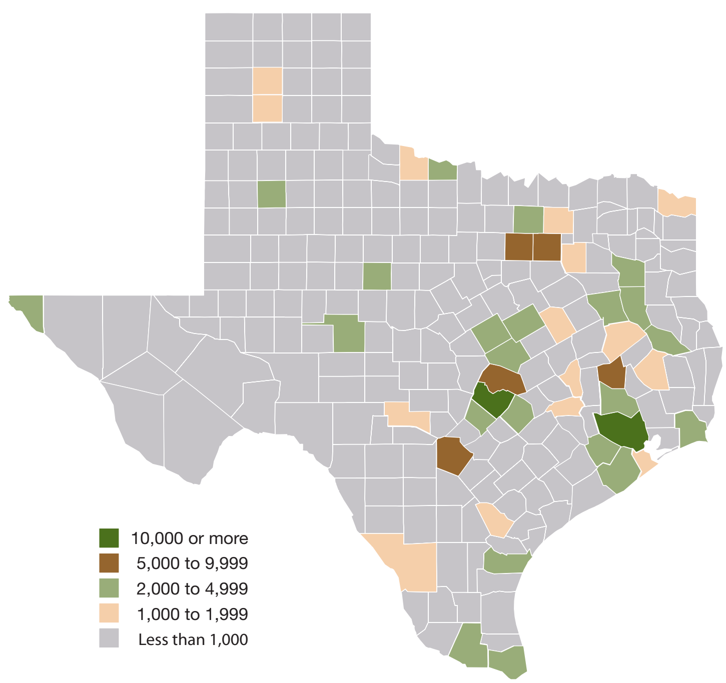
- Saving $333 million over four years on the Pharmacy Benefit Manager Contract.
- The Group Benefits Plan has a new third-party administrator for the HealthSelect employee insurance plan, with an estimated value approximately $41 million lower than the other proposals over the four-year term of the contract.
- Medicare-eligible retirees were automatically enrolled in a Medicare Advantage preferred provider organization (MA-PPO) plan, which provides the same level of coverage at a lower cost to both the State and retirees. Although members are allowed to opt out, 62% remained enrolled in the MA options in FY2012, resulting in an expected cost savings of approximately $18.4 million for FY 2012.
- Holding the line on provider increases. Doctor payments have increased slower than inflation for the past six years.
- Cutting administrative overhead. About 97 cents of every GBP dollar is spent on health care, not administration.
- Piloting accountable care initiatives, which cut the health care cost trend in half for the population served and generated shared savings payments to the providers.

Several FY12 initiatives will help control costs and save members money. Starting January 1, 2012, tobacco users began paying more for health insurance, and ERS added two Medicare Advantage programs—a regional HMO for the Houston area and a statewide PPO.

The Medicare Advantage Plans will save retirees money and could reduce plan costs up to $42.5 million.

To view the ERS Retirement Valuation report go to www.ers.state.tx.us/About_ERS/Reports/

Number of ERS Members and Annuitants by County



Insurance Legislation:

ERS has implemented the following General Appropriations Act riders related to the Texas Employees Group Benefits Program (GBP):

- Medicare Advantage Plans – Two Medicare Advantage (MA) plans were implemented in the Texas GBP: a Medicare health maintenance organization (HMO) in the Houston area in September 2011; and a state-wide Medicare Advantage preferred provider organization (PPO), known as HealthSelect Medicare Advantage Plan, in January 2012. Both plans provide benefits similar to HealthSelect, but at a reduced monthly premium.

  More than 74,000 Medicare-primary participants were eligible for enrollment in the MA plans, and as of July 20, 2012, 46,498 participants (37,055 members and 9,443 dependents) are enrolled in the plans. Estimated plan cost savings for FY 2012 are expected to be $18.4 million.

- Tobacco User Premiums – Tobacco users in the GBP began self-reporting and paying tobacco user premiums in January 2012. Tobacco users pay an additional $30 per tobacco-using participant per month – up to $90 per month per household, depending on how many covered family members use tobacco. Around 25,000 members and their dependents have certified themselves as tobacco users. The GBP expects to collect an additional $5.1 million in FY 2012 and about $8.8 million in FY 2013 as a result of the premiums.

- Insurance Payroll Contributions – State agencies and participating higher education institutions began paying 1% of their base payrolls to the GBP in September 2011. The payroll contribution leverages the salaries of employees paid in whole or part by federal funds. ERS expects to collect approximately $86.5 million for FY 2012.

- Alternate Provider Payment Systems – Alternative reimbursement pilot programs were established in the GBP with Austin Regional Clinic in Austin, Kelsey-Seybold in Houston, and Trinity Clinic in East Texas, which together cover approximately 43,000 HealthSelect participants. Each of these primary care practices hired care coordination personnel to manage care of HealthSelect participants', as a way to improve quality and lower medical costs. The practices are measured on their effectiveness in lowering the health benefit cost trend for their participants while also satisfying chronic disease, preventive, and other quality-of-care metrics. ERS considers the pilot programs to be successful, with calculated savings exceeding $11 million in FY 2011.

The following legislation expanded eligibility criteria for GBP participation:

- Dependent children up to age 26 – SB 1664
- Disabled adult dependents previously covered under another statewide plan – HB 755
- Survivors of law enforcement trainees killed in the line of duty – SB 423
- Graduate students and postdoctoral fellows at state universities other than the University of Texas and Texas A&M University – SB 29
- Wrongfully imprisoned individuals – HB 417 and SB 1686

Other Legislation:

- ERS Investment Advisory Committee – Members of the Investment Advisory Committee have been informed of the new statutory eligibility criteria and conflict-of-interest restrictions that now apply to them. The required annual compliance review is underway and will be reported on at the December 2012 meeting of the ERS Board of Trustees. – HB 2193

- Annuity Deductions for State Employee Charitable Campaign (SECC) – This legislation requires the SECC to pay for administrative costs for implementation because ERS is constitutionally prohibited from diverting trust funds for this purpose. ERS and the SECC are still working out cost issues. – HB 1608

The 82nd Texas Legislature directed ERS to study and report on the State of Texas retirement program. The report is the result of a year-long research process designed to be transparent and inclusive to all stakeholders with an interest in the future of the state retirement plans.

The report analyzes 14 options to increase revenue, modify benefits, or establish an alternative plan. It also compares the state's pension benefits to other large defined benefit plans.
The findings are:

Without action, the unfunded liability will continue to increase and make today's situation unmanageable.

- The ERS pension plans have enough assets to pay benefits for the next 70 years, but they are not operating on an actuarially sound basis.
- Investment returns alone cannot fill the funding gap.
- State contributions of 10% and employee contributions of 6.5% could pay down the unfunded liability within a measurable period of 55 years.

A good balance can make the current plan sound.

- The report analyzes options to increase plan revenue, lower expenses through plan design modifications, and create alternative plan designs. Balancing options could move the plan in the right direction while decreasing the likelihood of unintended consequences.

Establishing an alternative retirement plan could fulfill specific workforce needs; however, it does not erase the unfunded liabilities in the existing defined benefit (DB) plan and could cost more.

- An alternative retirement plan—such as a defined contribution (DC) plan (like a 401(k)), cash balance, or hybrid plan—could be valuable to employees who do not plan a career with the state, or those who like controlling their own investments.
- The value of a DC plan depends on how well the individually controlled investments perform. Studies show that individually managed accounts have higher fees and lower overall performance than any type of retirement plan.
- Implementing an alternative plan structure does not automatically lower costs or erase the existing unfunded liability. In fact, all the alternative plan structures modeled in the report show increased costs in order to achieve a sound new benefit structure.

Prefunded pooled investing increases value to the members and the state.

- Employee contributions and investment earnings do most of the work, producing 82% of the benefits.
- The state contribution is lower and member contribution higher than the median public sector pension plan.
- Pooled trust fund dollars are invested in Texas companies through stock, bond, and real estate portfolios.
- Private equity investments provide capital to local companies.
- About 30% of the trust's equity investments are in companies with Texas headquarters or with 200 or more Texas workers.

Retirement benefits are critical to attracting and retaining qualified employees.

- The state agency workforce is already lean, having grown by only 2% over the past decade, even as Texas' population grew 20%—10 times faster.
- Turnover rates in Texas agencies increased significantly in FY2011, with employees citing new jobs with better pay and benefits as their primary reason for leaving. Some positions and locations face 40% turnover rates.
- Turnover costs money—agencies lose training in terms of dollars and time when valuable knowledge walks out the door. For example, the state invests about $30,000 over seven months to train each Department of Public Safety trooper. That investment is lost if the trooper goes to work for a county or municipal employer.
- State employers say that lowering benefits will increase these costly turnover rates.

It is difficult to make direct comparisons between private- and public-sectors workers.

- Manufacturing and sales jobs, a large part of private industry work, typically do not exist in state government. A 2010 State Auditor's Office market analysis showed that almost 40% of state jobs do not have a close equivalent in the rest of the job market.
- According to SAO, almost one-fifth of general state employees in positions that can be compared to private-sector positions are paid salaries more than 20% behind market rates.
- Private employer compensation packages often include rewards not available to public employees, such as stock options, expense accounts, and annual bonuses.

Changes to other parts of the employee compensation package can impact the retirement plan.

- Changes to the insurance benefits that encourage employees to work longer can help the retirement plans. For example, tying insurance coverage to tenure will encourage employees to work longer. On the other hand, changing insurance eligibility could cause a "rush to retirement" that could cost the pension plan.
- Any plan modification or structural change carries legal risks that increase as more members are included.
- Benefits for vested members have a number of protections, and changing them could have legal and tax consequences.

For a copy of the full report, please visit our website **www.ers.state.tx.us.**

The Legislature will determine which options to adopt, if any, and the level of grandfathering that will be applied.

	Options to Increase Revenue (Section 3)	Description
3.1	Increase state and/or employee contribution rates	Increase the state contribution, the employee contribution, or both. Rate increases could be fixed or variable.
3.2	Consider the use of obligation bonds	Issue either general obligation bonds or a state bond with repayment funded by a consistent, regular funding source owned by the state.
3.3	Consider using a one-time revenue source	Make a one-time payment for the full amount or some other amount to pay off or significantly reduce the unfunded liability.
3.4	Consider using alternate, ongoing funding sources	Direct lapsed general revenue dollars or a dedicated revenue source to the retirement trust fund.

	Options to Modify Plan Design (Section 4)	Description
4.1	Change the final average salary calculation to 60 months	Increase the number of months for final average salary calculation to 60 for affected employees – effectively lowering the monthly benefit annuity.
4.2	Eliminate the use of unused leave to establish retirement eligibility or increase service time	Eliminate the ability to use sick and annual leave balances to increase service time or increase annuity benefits – effectively increasing the length of time a person is required to work to be eligible for retirement.
4.3	Reduce the benefit multiplier for future service and allow employees to “buy up” to increase their multiplier	Reduce the multiplier for future service from 2.3% to 2% for non-grandfathered employees. Affected employees can pay an increased contribution rate to “buy up” their multiplier to the 2.3% level at the actuarial cost.
4.4	Apply September 1, 2009 changes to all employees	Increase the number of months for final average salary calculation to 48 and implement an annuity reduction of 5% per year if retiring before age 60, capped at 25% reduction.
4.5	Reduce the interest paid on retirement account balances	Reduce the interest paid on employee account withdrawals from 5% per year to a lower level authorized by the ERS Board of Trustees.
4.6	Eliminate the 25% cap on the 5% per year under 60 reduction	Implement an unqualified 5% per year reduction on annuities for employees who meet the rule of 80 and retire prior to age 60, removing the current cap that limits the total reduction to 25%.

	Options to Establish an Alternative Plan (Section 5)	Description
5.1	Employee choice plan	Provide the member with a one-time choice between a defined contribution (DC)-only plan and a defined benefit (DB)-only plan within first 90 days of employment. Present the DB option as in the current plan or with design modifications.
5.2	Mandatory cash balance plan	Provide a cash balance plan, a DB-type plan that pools investments and pays lifetime annuities, but that defines the retirement benefit in terms of a stated account balance at time of retirement.
5.3	Mandatory two-part hybrid plan	Provide a DB plan with reduced benefits combined with DC plan. Split contributions equally between the plans.
5.4	Mandatory DC only (DB closed)	New employees participate in a 401(k)-style plan that provides benefits based on account balance at time of retirement, with no lifetime benefit assurance.
5.5	Other combinations	Offer other combination(s) of the above plans or plan designs.

ERS
EMPLOYEES RETIREMENT SYSTEM OF TEXAS

Insurance Benefits Study Findings

September 2012

Sustainability of the Texas Employees Group Benefits Program (GBP)

The 82nd Texas Legislature directed ERS to study and report on the State of Texas health insurance program. The report is the result of a year-long research process designed to be transparent and inclusive to all stakeholders with an interest in the future of the state employees insurance plan.

The report analyzes 37 options to improve the sustainability of the GBP for the Legislature's consideration. It compares state health insurance benefits to other large public and private sector employer benefit plans. These are the report findings.

Health insurance benefits are key to attracting and retaining qualified employees.

- Benchmarking analysis shows as a whole the HealthSelect out-of-pocket cost to members is comparable to the typical private sector health plan.
- However, the 100% employer-paid premium for employee-only and retiree-only coverage is outside of the norm.
- Employees and retirees who want to cover their families pay a higher percentage of their premium cost than the typical private sector plan member.
- Employers say that health insurance benefits help offset lower salaries in attracting and retaining employees.

We all share responsibility for the sustainability of the plan.

- ERS, the Legislature, employees, retirees, covered family members, health care providers, employers, and taxpayers – we all have a role to play in ensuring that high-quality, comparable benefits are available to the state workforce.

A sustainable plan would have predictable rate increases.

- Rate increases would occur at a predictable, controlled level, providing the State a reliable way to budget for the plan.
- Adequate revenue would allow the GBP to avoid routine reliance on the contingency fund as a substitute for contribution revenue.
- Plan design changes would occur on a predictable basis, allowing GBP members the ability to plan and budget for cost shifts and out-of-pocket increases.

A flexible approach that offers choice and financial incentives will facilitate behavior change.

- When the State pays 100% for member-only coverage, members have no incentive to choose anything but the most generous benefit.
- Choice costs money and adds risk. When multiple plan choices are offered, the risk of adverse selection comes into play.
- A flexible contribution strategy could support allocating some GBP funds toward wellness and other cost-savings initiatives.

There's a difference between cost management and cost shifting.

- Sharing costs can encourage members to make more responsible choices, but excessive cost sharing can discourage them from getting necessary care.
- Reducing health care claims is the only way to reduce the contributions needed to run the plan.
- Employers fear the aftermath of a significant benefit cut.
- Many low-wage state employees do not take family coverage because they can't afford it.

ERS provides quality benefits at a lower-than-average cost.

- Professional cost management programs lowered plan charges by $7.3 billion in FY11.
- GBP costs are much lower than the national average for other employer-sponsored plans.
- ERS spends 97 cents of every HealthSelect dollar on health care claims.
- ERS is already implementing industry best practices and study recommendations.

A long-term view is essential.

- Many of the options with the greatest potential for managing costs will not show immediate savings.
- Long-term solutions, such as wellness incentives, require upfront investments, rigorous ongoing management, and time to deliver results.
- Designing systems that share risk with providers and increase member responsibility all take time.
- Lasting change depends upon individual members taking an increased role in managing their health outcomes and changing unhealthy behavior.

For a copy of the full report, please visit our website **www.ers.state.tx.us**

	LEGISLATIVE ACTION/SUPPORT	ERS BOARD OF TRUSTEES
Limit (or eliminate) eligibility for coverage	*Eliminate coverage for all participants* 1.1 End the state health insurance coverage and end participants to the federal exchange in 2014 to purchase individual policies *Eliminate coverage for all retirees* 1.2 Eliminate health insurance coverage for retirees	ERS does not have the authority to make these changes.
Options for raising revenue	*Employees* 2.1 Base employee premium contributions on salary 2.2 Base employee premium contributions on years of employment *Retirees* 2.3 Defined contribution with HRA and connector model 2.4 Charge retirees full actuarial cost of insurance 2.5 Tier retiree premium contribution on years of service *Employees and Retirees* 2.6 Raise premium contribution for member-only coverage *All participants* 2.7 Raise premium contribution for people who don't enroll in disease management, when appropriate *Dependents* 2.8 Raise premium contribution for all dependent coverage 2.9 Charge more for spouses who could enroll in their employer's health coverage	ERS does not have the authority to make these changes.
Options for managing costs	*High performance networks* 4.3 Restricted networks based on cost and quality *Alternative Payment Systems* 4.6 Accountable Care Organizations *Multiple plan choices* 5.1 Basic benefit with the option to buy up (change in the contribution strategy to allow for pricing flexibility) 5.2 Consumer driven health plan (change in the contribution strategy to allow for pricing flexibility; HSA implementation would require authorization for payroll deduction and employer deposits to the account) *Generic drug incentives* 5.10 Reference-based pricing 5.12 Therapeutic substitution	*Medicare Part D claims processing* 4.1 Retiree drug subsidy (RDS) past claims reprocessing 4.2 EGWP + Wrap *Alternative Payment Systems* 4.7 Patient-centered medical home *High performance networks* 4.3 Restricted networks based on cost and quality 4.4 Results-based hospital contracts using quality metrics 4.5 Surgical centers of excellence and/or medical tourism *Generic drug incentives* 5.10 Reference-based pricing 5.11 Step therapy 5.12 Therapeutic substitution *Plan choices and design* 5.1 Basic benefit with the option to buy up 5.2 Consumer-driven health plan 5.3 Managed care plan with a deductible 5.8 Value-based insurance design 5.9 Minimally invasive procedures
Investing in tools for program efficiency		*Management tools* 4.8 Management tools (predictive modeling, risk analysis) 4.9 Data mining tools (group profiling, benefit modeling)
Investing upfront for potential long-term savings	*Data collection efforts* 4.10 Perform a cultural assessment of all or a portion of the GBP membership to develop a strategic plan to improve employee responsibility for their individual health 4.11 Require health risk assessments or biometric screenings to increase employee understanding of health conditions and start early intervention	*Carve-outs* 5.5 Coordinate disease management, behavioral health and social services for pre-65 retirees 5.6 Partial carve out of behavioral health 5.7 Outsource tobacco cessation program management *Value-based benefits* 5.8 Benefit-based copays (reduced copays to increase medication adherence)
Efforts to increase productivity and personal responsibility	*Worksite wellness* 4.12 Incentives for healthy behaviors and lifestyle management programs at work 4.13 Require non-tobacco users to self-certify, or pay higher tobacco premium *Worksite clinics* 5.13 Provide health or wellness clinics to employees at the work place staffed by a nurse practitioner	

#	INSURANCE OPTION	AUTHORITY	DESCRIPTION
SECTION 1 – ELIGIBILITY: Who should be eligible for coverage under the plan?			
1.1	Eliminate coverage for all participants	Legislature	The state would send all participants to the Federal Exchange in 2014; employers would pay $2,000 penalty per employee. The state could also give employees a set amount to use when buying insurance.
1.2	Eliminate coverage for all retirees	Legislature	This costs the impact of ending insurance coverage for all retirees.
SECTION 2 – CONTRIBUTIONS: How should the employer and the member share the cost of coverage?			
Employee contributions			
2.1	Base employee premium contributions on salary	Legislature	Employees would contribute 2% of their salary, up to a cap of 20% of the monthly rate (in FY13, $94). Employees earning about $60,000/yr or more would pay the full 20%.
2.2	Base employee premium contributions on tenure	Legislature	New employees would contribute 20% of the monthly contribution rate (in FY13, $94), with a 2% reduction for every year of service. At 10 years of employment, their contribution would = $0.
Retiree contributions			
2.3	Defined contribution for Medicare-primary retirees deposited into a Health Reimbursement Account with a “connector model”	Legislature	Employer would contribute $256 per month to a Health Reimbursement Arrangement (HRA) for each retiree (member-only rate of the lowest-cost Medicare Advantage plan) and 50% for each dependent to purchase insurance through a connector model (works like an exchange, where many plans are sold in a centralized location).
2.4	Charge retirees full actuarial cost of their insurance	Legislature	Retirees could buy GBP insurance, but they would pay the full actuarial cost. HealthSelect member-only coverage would be $306/mo. for Medicare retirees; $750/mo. for <65 retirees.
2.5	Tier retiree premium contributions on years of service	Legislature	The longer a retiree worked for the state, the more the employer would contribute toward his/her insurance coverage. <10 years of service = retiree pays full cost 10-15 years of service = retiree pays 50% of cost 15-20 years of service = retiree pays 25% of cost 20+ years of service = employer pays 100%
Member contributions			
2.6	Raise member-only premium contributions (currently 0%, costed at 10% and 20%)	Legislature	Would reduce the employer’s contribution from 100%, to 80% or 90%. Each one-percent decrease in the employer’s contribution would shift $16.6 million annually to members. In FY13, a 10% contribution rate would cost $47/mo.; a 20% rate would cost $94/mo.
Contributions for participants with chronic illness			
2.7	Raise member premium contributions for eligible participants who don’t enroll in disease management	Legislature	Would requires participants to pay an extra $30 per month if they were identified for a disease management program, but chose not to participate. The free programs are conducted via telephone and mail. The TPA would determine eligibility through claims analysis and Health Risk Assessments.
Dependent contributions			
2.8	Raise member premium contributions for dependent coverage (currently 50%, costed at 60% and 70%)	Legislature	Reduces the employer’s contribution for dependent coverage from 50%, to 30% or 40%. Each one-percent decrease in the employer’s contribution for dependent coverage would shift $7.8 million annually to members with dependents.
2.9	Surcharge for spouses with access to other coverage who enroll in GBP	Legislature	Spouses of active employees would pay an extra 20% if they chose GBP coverage when they had access to other insurance coverage through their employer.
SECTION 4 – PROFESSIONAL MANAGEMENT: How do cost management initiatives save the plan money?			
Retiree solutions			
4.1	Retiree Drug Subsidy (RDS) past claims reprocessing	ERS Board of Trustees	Contract with a vendor to reopen past RDS claims, with the goal of identifying and reclaiming missed reimbursements. Contract effective November 1, 2012.
4.2	Employer Group Waiver Program + Wraparound Supplemental Plan (EGWP + Wrap)	ERS Board of Trustees	Transfer Medicare retirees to an EGWP + Wrap drug plan (Medicare Part D plan plus a wrap-around plan) that closely matches HealthSelect prescription drug program benefits. A pharmacy benefit manager administers the program. All GBP Medicare retirees will be moved to the HealthSelect Medicare Rx program on January 1, 2013.
Contracting solutions			
4.3	High-performance networks	Legislature/ ERS Board of Trustees	Structure the HealthSelect network to steer participants to high-performing providers. The TPA ranks providers, usually specialists, into three “tiers” based on cost and quality. Participants can look up provider rankings online to help them decide who to see and how much it will cost.
4.4	Results-based hospital contracts using quality metrics	ERS Board of Trustees	“Pay for performance” contracting that rewards hospitals for achieving quality metrics (e.g., fewer hospital acquired infections and so-called “never events”, and lower readmission rates). Hospitals can be penalized for missing targets, but they can also earn bonuses for good performance.
4.5	Surgical Centers of Excellence and/or medical tourism	ERS Board of Trustees	Incentivize (or require) participants to use facilities (domestic or international) with the best outcomes, usually for high cost procedures (e.g. transplants, cardiac or bariatric surgery).
Alternative payment models			
4.6	Accountable Care Organizations (ACOs)	Legislature/ ERS Board of Trustees	Fully-integrated delivery model including PCPs, specialists, and hospitals. The provider group agrees to take on more risk in exchange for shared savings when cost and quality targets are met.
4.7	Patient Centered Medical Homes (PCMHs)	ERS Board of Trustees	Integrated delivery model with a multi-specialty practice (no hospitals) that agrees to take on more financial risk in exchange for shared savings when cost and quality targets are met.

#	INSURANCE OPTION	AUTHORITY	DESCRIPTION
Administrative tools			
4.8	Management tools	ERS Board of Trustees	Vendor tools that offer a data-driven approach to benefit design, including benchmarking benefits against other plans, cost/benefit and risk analysis, and predictive modeling.
4.9	Data mining tools	ERS Board of Trustees	Vendor tools that perform group profiling using claims data, health risk assessments, and/or biometric screenings. Forecasting tools can target cost drivers and model benefit changes.
4.10	Cultural assessment of targeted segments of the GBP population	Legislature/ ERS Board of Trustees	Vendor would conduct an organizational assessment of a targeted portion of the state workforce (interviews, surveys, demographic and health analyses, review of agency wellness policies and readiness for change), then design a 3-5 year intervention plan for employee engagement.
4.11	Required health risk assessments (HRAs) and/or biometric screenings	Legislature/ ERS Board of Trustees	Would require all participants to take HRAs and/or get biometric screenings. The data would identify people with health issues who could benefit from disease management or other interventions.
4.12	Incentives for healthy behaviors and lifestyle management programs at work	Legislature/ ERS Board of Trustees	This would require upfront investments by the state to support worksite wellness initiatives, such as efforts to encourage exercise, weight loss, or smoking cessation.
4.13	Require non tobacco users to opt out of premium differential	Legislature/ ERS Board of Trustees	Instead of a passive enrollment process (i.e. requiring tobacco users to self-certify tobacco usage and pay the extra $30 tobacco user rate), all GBP participants would be charged as if they used tobacco, unless they self-certify as non-tobacco users.
SECTION 5 – PLAN DESIGN: How can the plan design ensure quality, provide choice, and align incentives with health risks?			
Plan choices			
5.1	Basic benefit with the option to buy up	Legislature/ ERS Board of Trustees	The GBP would provide a choice of multiple plans at varying coverage levels and contribution rates. To mitigate adverse selection and allow ERS flexibility in pricing, the Legislature would need to change the 100% employer contribution for member-only coverage.
5.2	Consumer-driven health plan (High deductible plan with health savings account)	Legislature/ ERS Board of Trustees	This would offer a high deductible plan (minimum of $1,250) with an employer contribution to a Health Savings Account (HSA) for medical expenses. Employees would pay a high deductible, then a percentage of their costs up to the out-of-pocket maximum, after which the state would pay 100%. Any remaining balance would rollover into the next year's account and members could take the account balance with them if they left state employment.
5.3	Managed care plan with deductible	ERS Board of Trustees	This would add a deductible to the existing HealthSelect plan, shifting costs to those participants who use more health care services.
5.4	Indemnity plan with deductible	ERS Board of Trustees	Open plan with no referrals or restrictions on choice of providers. Participants pay a deductible, then coinsurance (usually 20%). Sometimes participants pay the full cost for a service up front and wait for reimbursement. Sometimes providers collect the 20% and file claims on the patient's behalf. Rarely offered by employers anymore because of the high cost.
Carve outs			
5.5	Care coordination for early (<65) retirees	ERS Board of Trustees	Vendor would take over comprehensive disease management for pre-65 retirees. Would require an up-front investment from the GBP, with the long-term goal of improving health status, reducing costs, and easing transition to Medicare. Ideally a short term investment would help retirees and the plan avoid future medical costs, but savings are often difficult to measure.
5.6	Partial carve-out for behavioral health	ERS Board of Trustees	Vendor would act as a "triage service" for behavioral health claims. Savings would come from diverting participants to lower cost interventions before they incur additional medical or pharmacy costs. Operates much like an employee assistance program (EAP).
5.7	Carve-out for tobacco cessation	ERS Board of Trustees	Vendor would promote and manage tobacco cessation activities for the GBP population, including counseling and free nicotine replacement therapy. (Cost of $285 per quit attempt)
Incentive-based pricing			
5.8	Value-based insurance design (VBID)	ERS Board of Trustees	VBID can provide either positive incentives (lower copays for prescription drugs proven to lower overall costs for people with chronic illness such as diabetes), or negative incentives (increased copays for high cost services, such as the emergency room or an MRI).
5.9	Minimally invasive procedures (MIPs)	ERS Board of Trustees	Members would pay less to have an MIP, when appropriate, rather than another type of surgical intervention. Because MIPs require no incision, they are shown to reduce infections, shorten hospital stays, and speed recovery/return to work.
Generic drug incentives			
5.10	Reference-based pricing	Legislature/ ERS Board of Trustees	Reference-based pricing is a form of price regulation used to limit plan spending on drugs that vary widely in cost within a therapeutic class. The plan would pay a fixed price for certain drugs, passing the remainder of the cost to the patient.
5.11	Step therapy	ERS Board of Trustees	Step therapy requires a patient to try a less expensive (usually a generic) drug first, before an expensive brand name drug is covered (e.g., simvastatin instead of Zocor for high cholesterol).
5.12	Therapeutic substitution	Legislature/ ERS Board of Trustees	Therapeutic substitution would allow a pharmacist to substitute a chemically different drug – generic or brand name – within the same therapeutic category, without the permission of the prescribing doctor.
Employer solutions			
5.13	Onsite nurse practitioner clinics	Legislature	Would provide state employees with health clinics at their worksite, staffed by a nurse practitioner.

ERS serves as a fiduciary for the programs we administer for employees and officials of the State of Texas. The requested funding is necessary to make our programs actuarially sound, supporting our mission to provide competitive benefits at a reasonable cost.

Retirement Request

Sustainability and actuarial soundness remain key objectives of ERS, and are reflected in our request. The 82nd Legislature decreased state contributions to ERS-administered retirement programs, and the base request assumes contribution rates will continue at the lower levels that were appropriated in FY 2013. As of September 1, 2012, the State is contributing 6.5% and members continue to contribute 6.5% to the ERS retirement fund, for a total of 13%, which slightly exceeds the normal cost. It does not however, meet the actuarial sound contribution (ASC) rate set by state law and accounting standards; that is, it is not enough to amortize the unfunded accrued liability, or even pay the interest on the liability. We also assume State contributions to the Law Enforcement and Custodial Officers Supplemental Retirement Fund (LECOSRF) and to the active Judicial Retirement System of Texas (JRS 2) will remain at 0.5% and 6.5%, respectively. The combined member contributions—0.5% for LECOSRF and 6.0% for JRS 2—and State contributions fall well below the normal costs for those plans and are not enough to amortize the unfunded accrued liability over a measurable period. As a result, the funded ratios for LECOSRF and JRS 2 will decline and the State's unfunded liabilities will grow. The exceptional item request is the most economical way for the State to address the outstanding liabilities, since it would leverage investment earnings over the long term and pay down the unfunded balance.

Base request maintains the current 6.5%, 0.5%, and 6.5% State contribution for ERS, LECOSRF, and JRS 2, respectively, and assumes no growth in payroll.

Exceptional items:
- **ERS:** Additional State contribution of 3.5% of payroll, which meets the constitutional maximum of 10% funding by the State, but falls short of the ASC by about 1%.
- **LECOSRF:** Additional state contribution of 1.72% of payroll needed to meet the ASC.
- **JRS 2:** Additional state contribution of 9.26% of payroll needed to meet the ASC.

Insurance Request

The base request is calculated on the funding ERS received last session, but it is not enough to cover current benefit costs or expected health plan cost increases. It also does not replace supplemental funding from the contingency reserve fund and one-time funding sources the plan relied on during the past biennium, such as reimbursement from the federal Early Retirement Reinsurance Program (ERRP).

Base request of $2.7 billion is prescribed by the Legislative Budget Board which is below FY 2013 spending levels. Although prescribed, this funding level is not enough to maintain the existing plan benefits or structure.

Exceptional Items:
- $382.4 million is needed to maintain existing benefits and cover the state agency portion of expected 8% increases in health plan costs, including: $55.6 million in increased health care costs as a result of health care reform and $23 million to replace one-time ERRP revenue. It assumes that ERS will draw $148.5 million ($83.9 million of which is the state agency portion) from the projected $198.5 million contingency reserve fund.
- $297.8 million is requested for a 60-day contingency reserve fund as required by Texas Insurance Code, Sec. 1551.21.

This LAR request is based on data available on August 30, 2012. These figures will change as valuation updates occur throughout the year.

Employees Retirement System of Texas
Legislative Appropriations Request Summary

Fiscal Year 14-15 Base Request (08/30/12)
Assuming Current Levels With LBB Adjustments as Base for All Programs

Goal/Objective/STRATEGY:	Estimated 2012	Budgeted 2013	Requested 2014	Requested 2015	Requested 2014-15 Biennium
1 To Administer Comprehensive and Actuarially Sound Retirement Programs					
1 Ensure Actuarially Sound Retirement Programs					
1 ERS - RETIREMENT @ 6.5%	351,007,060	374,880,438	374,880,438	374,880,438	749,760,876
2 LECOS RETIREMENT PROGRAM @ 0.5%	0	7,520,372	7,520,372	7,520,372	15,040,744
3 JRS - PLAN 2 @ 6.5%	4,148,151	4,389,743	4,389,743	4,389,743	8,779,486
4 JRS - PLAN 1	26,566,486	26,566,486	26,566,486	26,566,486	53,132,972
5 PUBLIC SAFETY BENEFITS	4,895,494	6,048,207	5,471,850	5,471,851	10,943,701
6 RETIREE DEATH BENEFITS	8,660,924	8,088,040	8,374,482	8,374,482	16,748,964
TOTAL, GOAL 1	**$395,278,115**	**$427,493,286**	**$427,203,371**	**$427,203,372**	**$854,406,743**
2 Provide Employees & Retirees with Quality Health Program					
1 Manage GBP for State & Higher Education Employees					
1 GBP - GENERAL STATE EMPLOYEES	1,251,432,211	1,409,486,940	1,330,459,575	1,330,459,576	2,660,919,151
TOTAL, GOAL 2	**$1,251,432,211**	**$1,409,486,940**	**$1,330,459,575**	**$1,330,459,576**	**$2,660,919,151**
TOTAL, AGENCY BASE STRATEGY REQUEST	**$1,646,710,326**	**$1,836,980,226**	**$1,757,662,946**	**$1,757,662,948**	**$3,515,325,894**

Fiscal Year 2014-15 Exceptional Items (08/30/12)
Assuming Current Levels With LBB Adjustments as Base for All Programs

			Requested 2014		Requested 2015		2014-15 Biennium	
#	**Strategy**	**Exceptional Item**	**GR and GR Dedicated**	**All Funds**	**GR and GR Dedicated**	**All Funds**	**GR and GR Dedicated**	**All Funds**
1	1-1-1	ERS Constitutional Maximum Level, Increase of 3.5%	130,226,347	201,802,250	130,226,346	201,471,582	260,452,693	403,273,832
2	1-1-2	LECOS Actuarially Sound Level Increase of 1.72%	23,373,617	25,870,080	23,373,617	25,870,080	46,747,234	51,740,160
3	1-1-3	JRS II Actuarially Sound Level, Increase of 9.26%	3,752,217	6,253,695	3,752,217	6,253,695	7,504,434	12,507,390
4	2-1-1	GBP Cost Increases	78,348,173	124,434,143	162,419,097	257,957,274	240,767,270	382,391,417
5	2-1-1	GBP Needed to Fund 60 Day Reserve Fund	89,794,013	142,612,657	97,733,309	155,222,007	187,527,322	297,834,664
		TOTAL, AGENCY EXCEPTIONAL ITEMS	**$325,494,367**	**$500,972,825**	**$417,504,586**	**$646,774,638**	**$742,998,953**	**$1,147,747,463**