Joint Interim Committee to Study TRS Health Benefit Plans

Report to the 85th Legislature

November 2016

Representative Dan Flynn, Chair
Representative Trent Ashby
Representative Justin Rodriguez

Senator Joan Huffman, Chair
Senator Craig Estes
Senator Jane Nelson

Joint Interim Committee to Study TRS Health Benefit Plans

The Honorable Dan Patrick
Lieutenant Governor of Texas
P.O. Box 12068
Austin, Texas 78711

The Honorable Joe Straus
Speaker, Texas House of Representatives
P.O. Box 2910
Austin, Texas 78768

Dear Lieutenant Governor Patrick and Speaker Straus:

Senate Bill 1940 and House Bill 2974, both passed by the 84th Legislature, established the Joint Interim Committee to Study TRS Health Benefit Plans. The Committee submits this report in accordance with this law.

The Committee has carefully considered all of the testimony received on this issue and looks forward to continued discussions during the 85th Legislative Session.

Respectfully submitted,

Senator Joan Huffman, Co-Chair

Representative Dan Flynn, Co-Chair

Senator Craig Estes

Representative Trent Ashby

Senator Jane Nelson

Representative Justin Rodriguez

STATE OF TEXAS
HOUSE OF REPRESENTATIVES
TRENT ASHBY
District 57

November 7, 2016

Chairwoman Joan Huffman
Joint Committee on TRS Health Benefit Plans
P.O. Box 12068
Austin, Texas 78711

Chairman Dan Flynn
Joint Committee on TRS Health Benefit Plans
P.O. Box 2910
Austin, TX 78768

Co-Chairs Huffman and Flynn,

Thank you for your tremendous leadership on the Joint Committee to study TRS Health Benefit Plans. With an estimated shortfall of over one billion dollars for retired teacher health care, and thousands of Texans affected by these plans, the future of TRS-Care and TRS-Active Care is easily one of the most important issues facing the upcoming 85th Legislative Session. It was my honor to serve on the Committee and to be included in such a meaningful discussion, but I would like to leave our active and retired teachers with a few additional thoughts regarding the report at hand.

First, it is important to recognize that the Committee's report is simply a starting point for the conversation when the Legislature convenes in January 2017. As we continue the discussion with the full body in both the Senate and House Chambers, this report will help provide context for the short and long term consequences of each option. Though the report contains options I do not support, I look forward to the responses of active and retired teachers who have opinions on how we can best provide stable footing for the programs in perpetuity.

Secondly, the $1.3 billion problem for this biennium will become a $4-6 billion dollar problem in the next legislative session if nothing is done. The trends we see here are due to the rising cost of health care, which show no signs of reversing themselves, and underscore the importance of making significant changes for the long term benefit of TRS-Care and TRS-Active Care. This means that tough decisions will have to be made, and I stand ready to support teachers across our state who deserve reliable healthcare for the service they provide to Texas students.

Finally, if we move forward without making any changes, the result could be catastrophic. Without action, TRS-Care will eventually fail altogether. Knowing that changes are inevitable, and that more

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STATE OF TEXAS
HOUSE OF REPRESENTATIVES
TRENT ASHBY
District 57

money must be provided to the system, it is my desire that we move forward with a mindset that seeks to minimize the impact our decision will have on both active and retired teachers.

In the coming months, I expect a robust discussion with not only my colleagues in the Legislature, but also our educators and the Teacher Retirement System of Texas, about the most prudent path ahead. I trust that we can come together to resolve the predicament we face, and I look forward to being a voice for teachers, not only in my district, but across the State of Texas.

Sincerely,

Trent Ashby

Trent Ashby
State Representative

cc: Chairman John Otto, House Committee on Appropriations
Chairwoman Jane Nelson, Senate Finance Committee

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REPRESENTATIVE JUSTIN RODRIGUEZ

— District 125 —

November 10, 2016

The Honorable Joan Huffman
Senator Joan Huffman, Co-Chair
P.O. Box 12068
Austin, Texas 78711

The Honorable Dan Flynn
Representative Dan Flynn, Co-Chair
P.O. Box 2910
Austin, Texas 78768

Re: Committee Interim Report to the 85th Legislature

Dear Chairwoman Huffman and Chairman Flynn:

Thank you both for your steadfast leadership as co-chairs of the Joint Interim Committee to Study Health Benefit Plans.

Regrettably, I write to inform you that I will be unable to attach my signature to the interim report. I understand the difficult nature of trying to appease everyone when addressing the long term stability of TRS Care and TRS Active Care. I know we all agree that this is an important issue – one that requires this body's full commitment and attention. However, I do not believe the solution requires a significant shifting of the burden onto our TRS retirees and active public education employees who have sacrificed and worked tirelessly to develop the next generation of Texans. I would hope that any proposed solution – both short and long term – would entail a shared, and meaningful, contribution of state resources.

Thank you both for your diligence in working through the public hearings this summer. I stand ready to assist you as we work through this important issue during the 85th Legislative Session and beyond.

Sincerely,

Justin Rodriguez

cc:
The Honorable Joe Straus
Speaker, Texas House of Representatives

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TEXAS HOUSE of REPRESENTATIVES

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I. Executive Summary

The Teacher Retirement System of Texas (TRS) administers TRS-Care, which provides health benefit coverage for TRS retirees and eligible dependents, and TRS-ActiveCare, a statewide health benefit program for eligible public education employees of participating entities.

In the 84th Legislative Session, the legislature made significant efforts to ensure long-term stability for the TRS-Care and TRS-ActiveCare plans. Senate Bill 1940, by Senator Joan Huffman and Representative Dan Flynn, and House Bill 2974, by Representative Dan Flynn and Senator Joan Huffman, instructed the legislature to establish a joint committee to study TRS health benefits plans. The Joint Interim Committee to Study TRS Health Benefit Plans (the "Committee") was tasked to review the health benefit plans administered by TRS and propose reforms to address the financial soundness of the plans, cost and affordability of plan coverage, and sufficiency of access to physicians and health care providers.

II. Committee Composition and Public Hearings

The Lieutenant Governor and Speaker of the House of Representatives were each instructed to appoint three members to the Committee. Senator Joan Huffman and Representative Dan Flynn were appointed by Lieutenant Governor Patrick and Speaker Straus as Co-Chairs. In addition, Senator Craig Estes, Senator Jane Nelson, Representative Trent Ashby, and Representative Justin Rodriguez were appointed to serve on the Committee.

The Committee conducted public hearings on March 30, 2016, and April 13, 2016, to provide a forum for discussion regarding TRS-Care and TRS-ActiveCare and gather information for the upcoming 85th Legislative Session. The Committee heard from a variety of interested parties, including TRS, TRS retirees, teachers, school districts, and teacher and retiree associations.

III. TRS-Care

A. Background and History

In 1981, during the 67th Legislature, House Bill 769, a group insurance bill for retired public education employees, was passed by the Legislature but vetoed by Governor William Clements due to a lack of state funding.[1] Because no state appropriation was made, Governor Clements believed that House Bill 769 would have imposed additional burdens on local school districts.

Two years later, in 1983, a survey of Texas school districts found that only 429 of the 1,100 school districts offered some sort of retiree health coverage.[2] Furthermore, only 14 of the 429 districts also provided contributions to the premium costs.[3] This meant that the remaining 671 school districts did not provide any sort of health coverage for their retired public education employees. As a result of the survey's findings, the Legislature and school districts were determined to provide health coverage to retired public education employees moving forward.

Thus, in 1985, the 69th Legislature passed Senate Bill 387 which created the Texas Public School Employees Group Benefits Program, known as TRS-Care, under Chapter 1575 of the Texas Insurance Code.[4] This group health insurance plan was widely supported by school districts across the state, both urban and rural. TRS-Care was created to provide health care benefits for retirees and eligible dependents across the state and be administered by TRS. Because TRS-Care had such great support, school districts even agreed to contribute a

[1] H.B. 769, 1981 Leg., 67th Reg. Sess. (Tex. 1981).
[2] *Teacher Ret. Sys. of Tex. (TRS) Health Benefit Plans Interim Charge: Hearing Before the J. Comm. on TRS Health Benefit Plans*, 2016 Leg., 84th Interim (Tex. 2016) (written testimony of Brian Guthrie, TRS).
[3] *Id.*
[4] S.B. 387, 1985 Leg., 69th Reg. Sess. (Tex. 1985).

percentage of active public education employees' salaries to help fund the plan. The state initially contributed 0.35% of active employee payroll while active employees contributed 0.25% of their payroll.[5] However, the original funding model was only intended to sustain the plan for 10 years.

B. Eligibility

Generally, to be eligible to participate in TRS-Care, a retiree must have at least 10 years of service credit under TRS, and either

- The sum of the retiree's age and years of service credit in the system is greater than or equal to 80; or
- The retiree has 30 or more years of service credit.[6]

Senate Bill 1458 was passed during the 83rd Legislative Session in 2013 which modified TRS-Care enrollment and eligibility.[7] Accordingly, an individual under the age of 62 who retires on or after September 1, 2014, is only eligible for TRS-Care 1, the catastrophic plan, until attaining the age of 62. Once the retiree turns 62, he or she is eligible to upgrade to either TRS-Care 2 or TRS-Care 3. Retirees are grandfathered from this requirement if, on or before August 31, 2014, age plus years of service of the retiree is greater than or equal to 70 or the retiree has a minimum of 25 years of service.[8]

TRS-Care does not have open enrollment. Once a retiree selects his or her plan coverage, there are no opportunities to increase benefits unless he or she is eligible for the following exceptions:

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[5] *Teacher Ret. Sys. of Tex. (TRS) Health Benefit Plans Interim Charge: Hearing Before the J. Comm. on TRS Health Benefit Plans, supra* note 2.
[6] *Id.*
[7] S.B. 1458, 2013 Leg., 83rd Reg. Sess. (Tex. 2013).
[8] *Teacher Ret. Sys. of Tex. (TRS) Health Benefit Plans Interim Charge: Hearing Before the J. Comm. on TRS Health Benefit Plans, supra* note 2.

- A retiree subject to Senate Bill 1458, 83rd Legislative Session, only has access to TRS-Care 1, and has an opportunity to upgrade his or her level of coverage once he or she reaches the age of 62.
- When any enrolled retiree turns 65 years of age, the retiree has an additional opportunity to upgrade his or her level of coverage. When the member enrolls in Medicare Part A, he or she is automatically enrolled in a Medicare Advantage plan and Medicare Part D plan. While the participant can opt-out of Medicare Advantage, Medicare Part D is the only TRS-Care prescription drug coverage available.[9]

However, a retiree can reduce coverage or drop dependents at any time by submitting a request to TRS.

Medicare in Brief

Part A (Hospital Insurance) covers hospital, skilled nursing facility, home health, and hospice care.

Note: Some school districts did not participate in Medicare before April 1986; as a result, some members are not eligible for Part A without a premium.

Part B (Medical Insurance) covers doctors' services, preventive care, outpatient services, laboratory tests, and x-rays.

Part C (Medicare Advantage Plans) a managed care alternative to original Medicare.

Part D (outpatient Prescription Drug Insurance) is provided through private insurance companies and must work with the Medicare health benefits.

C. Plan Options

When TRS-Care was created, the law required that a basic health care plan be offered at no cost for retiree-only coverage. The law also allowed TRS to offer optional plans, including spousal and dependent coverage at a premium cost to the retiree. Retirees selecting an optional plan pay a premium based on the plan and tier selected, years of service, and Medicare status. For example, a retiree with TRS-Care currently offers three standard plan options. TRS-Care 1, the basic plan, provides catastrophic coverage, including prescription drug coverage. TRS-Care 2 and TRS-Care 3 offer more comprehensive benefits, including a separate prescription drug plan.

[9] *Id.*

Once a TRS-Care 2 or TRS-Care 3 participant enrolls in Medicare Part A and B, they are automatically enrolled into a Medicare Advantage plan with the ability to opt-out and return to their standard plan. Eligible retirees and their dependents are also auto enrolled in the Medicare Part D plan offered through TRS. As of the 2017 plan year, while participants may opt-out, Medicare Part D will be the only TRS-sponsored prescription drug coverage available to participants enrolled in Medicare.

	Retiree Premium TRS-Care 1	**Retiree Premium TRS-Care 2**	**Retiree Premium TRS-Care 3**	**Retiree Premium Medicare Advantage TRS-Care 2**	**Retiree Premium Medicare Advantage TRS-Care 3**
Retiree with Medicare Parts A&B	**$0**	**$70**	**$100**	**$55**	**$85**
Retiree not eligible for Medicare	**$0**	**$200**	**$295**	**N/A**	**N/A**
Retiree & Spouse both with Medicare Parts A&B	**$20**	**$175**	**$255**	**$145**	**$225**
Retiree & Spouse not eligible for Medicare	**$140**	**$430**	**$635**	**N/A**	**N/A**

FY 2017 Medical Plan Design

	TRS-Care 1	TRS-Care 2	TRS-Care 3	Medicare Advantage for TRS-Care 2	Medicare Advantage for TRS-Care 3
Eligibility	All members	Members over 62 years old		Members with both Medicare Part A & B	
Individual Deductible	$2,350 Parts A&B $3,900 Part B Only $5,250 Non-Medicare	$1,300	$400	$500	$150
Family Deductible	$4,700 Parts A&B $7,800 Part B Only $10,500 Non-Medicare	$2,600	$800	N/A	N/A
Individual Maximum Out-of-Pocket[1,2]	$6,250 Parts A&B $7,800 Part B Only $8,250 Non-Medicare	$5,800	$4,900	$3,500	$3,150
Family Maximum Out-of-Pocket	$12,500 Parts A&B $15,600 Part B Only $16,500 Non-Medicare	$11,600	$9,800	N/A	N/A
Coinsurance	80%/20% (after Medicare payment)	80%/20% (after Medicare payment)	80%/20% (after Medicare payment)	95%/5%	95%/5%
Inpatient Hospital Facility				$500 copay per stay	$250 copay per stay
Outpatient Hospital Facility				$250 copay	$75 copay
Emergency Room				$65 copay	$50 copay
Urgent Care				$35 copay	$35 copay
Office Visits		Non-Medicare: $35 copay Medicare: **80%/20%** (after Medicare payment)	Non-Medicare: $25 copay Medicare: 80%/20% (after Medicare payment)	$5 Primary Care Physician $10 Specialist	$5 Primary Care Physician $10 Specialist

Beginning January 1, 2017, retirees and their dependents enrolled in Medicare Part A, B, or both, with TRS-Care 2 or TRS-Care 3 level of coverage, will only have access to prescription drug coverage under Medicare Part D prescription drug plans.

FY 2017 Prescription Drug Plan Design

	TRS-Care 1	TRS-Care 2	TRS-Care 3	Medicare Part D for TRS-Care 2	Medicare Part D for TRS-Care 3
Eligibility	All members	Members over 62 years old		Members with either Medicare Part A or B	
Retail Copays					
Generic	20% Coinsurance	$13	$13	$5	$5
Preferred Brand	20% Coinsurance	$40	$30	$25	$20
Non-Preferred Brand	20% Coinsurance	$65	$50	$50	$40
Retail Maintenance Copays					
Generic	20% Coinsurance	$23	$23	N/A	
Preferred Brand	20% Coinsurance	$75	$50		
Non-Preferred Brand	20% Coinsurance	$125	$80		
Mail Order Copays					
Generic	20% Coinsurance	$25	$25	$15	$15
Preferred Brand	20% Coinsurance	$100	$65	$70	$45
Non-Preferred Brand	20% Coinsurance	$165	$105	$125	$80

D. Funding

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

1. Texas state law provides the following contributions:
    - The state contributes 1.0% of active employee payroll.
    - School districts contribute between 0.25% and 0.75% of active employee

payroll. The current contribution rate is 0.55%.

- Active school district employees contribute 0.65% of active employee payroll.

2. Retirees pay premiums for any plan option other than TRS-Care 1 retiree-only coverage.
3. Medicare Part D subsidies.
4. Investment income.
5. Employer surcharge for "return to work" retirees.[10]

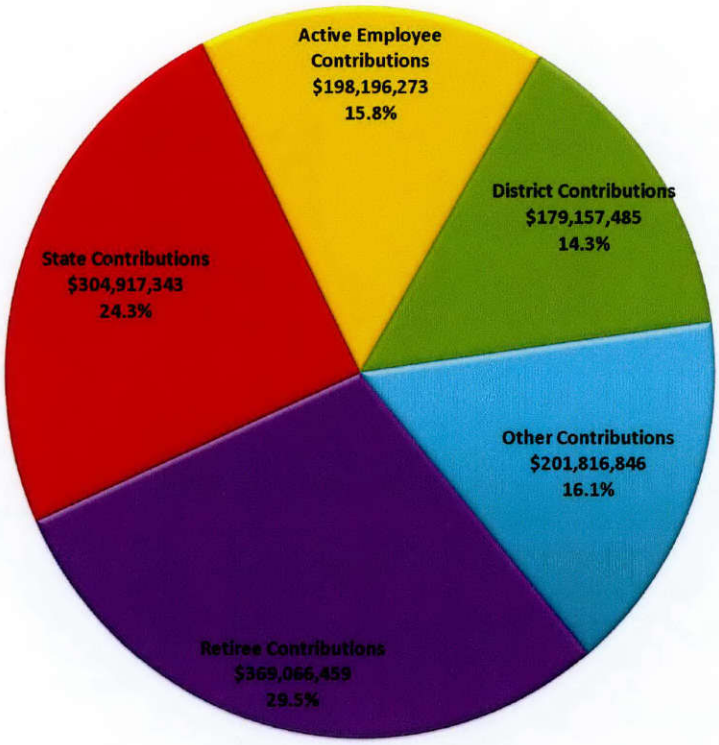
Contribution Source	FY2015 Revenue	
1. Retirees	$369,066,459	18.3%
2. State		
i. 1% of Payroll	$304,917,343	15.1%
ii. Supplemental	$768,100,754	38.0%
3. School Districts (0.55%)	$179,157,485	8.9%
4. Active Employees (0.65%)	$198,196,273	9.8%
5. Other	$201,816,846	9.9%
Total	$2,021,255,160	100.%

Since 2005, contributions have remained the same while health care costs trends have increased. Currently, the state contributes 1% of active employee payroll, the school districts contribute 0.55% of active employee payroll, and the active employees contribute 0.65% of active employee payroll.[11] Retirees that select TRS-Care 2 or TRS-Care 3 pay a premium, but the

[10] *Id.*
[11] *Id.*

premiums have remained the same since 2005. This freeze in premiums for over a decade is highly unusual for any health care plan and has contributed to the financial woes of TRS-Care.

FY 2015 Distribution of Revenues

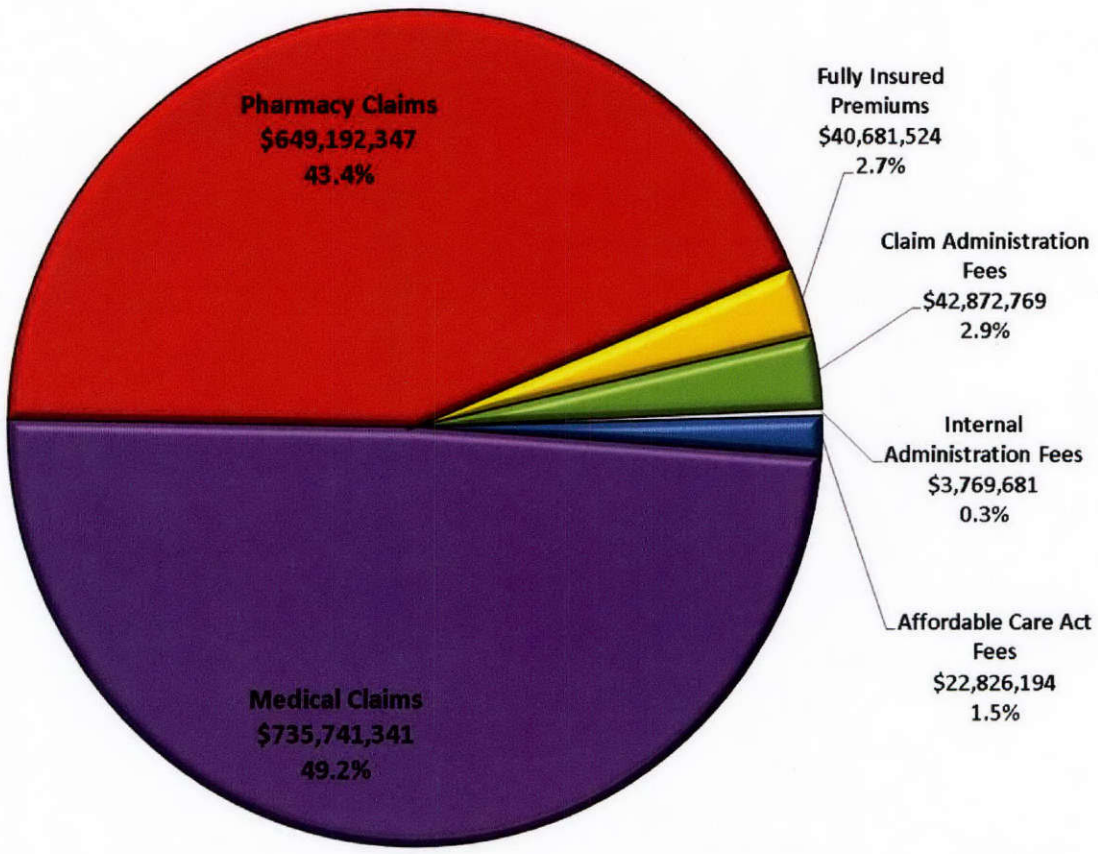


However, TRS retirees do pay for a significant portion of their health care plan. In addition to premiums, retirees contribute amounts in deductibles, copayments, and medical coinsurance. The law requires that the state pay no more than 55% and retirees pay at least 30% of total costs.[12] Furthermore, inherent in the funding structure is a misalignment of funding with expenditures. Medical and prescription drug costs typically increase due to the medical and pharmacy trend.

[12] *Id.*

For projection purposes, TRS is currently using a 7.5% medical and 13% pharmacy trend, while payroll generally increases about 2% per year.[13]

FY 2015 Expenses



[13] *Teacher Ret. Sys. of Tex. (TRS) Health Benefit Plans Interim Charge: Hearing Before the J. Comm. on TRS Health Benefit Plans, supra* note 2.

E. Plan Shortfalls

This is not the first time TRS-Care has faced a funding shortfall. TRS-Care funding continues to be problematic because it is based on percentages of active employee payroll and not health care costs for retirees. As health care costs continue to rise nationwide, the current funding model will not be sustainable. Because the original funding methodology was insufficient by FY 2000, a number of changes have been made to increase funding: (1) increased state and active employee contributions; (2) the introduction of school district contributions; and (3) increased retiree premiums.[14] From FY 2001 through FY 2006, several changes were introduced to address TRS-Care's insolvency. In FY 2001 through FY 2005, the state contributed supplemental appropriations totaling $848,827,510.[15] In FY 2004, a required contribution of 0.40% of active employee payroll from school districts was established.[16] Additionally, from FY 2003 through FY 2006, increases were made to contribution rates for the state, active district employees, and school districts.

Design changes to the plan were also necessary. In FY 2005, the TRS-Care plan options and premiums were significantly restructured and eligibility rules were tightened. However, there has not been an increase in retiree premiums since FY 2005. Because of these actions taken by the legislature and TRS, TRS-Care remained solvent through the 2012-2013 biennium.

As health care costs continued to rise, TRS-Care was again projected to have a shortfall in the 2014-2015 and 2016-2017 biennia. To address these shortfalls, the TRS Board of Trustees and the legislature took action. TRS started offering Medicare Advantage and Medicare Part D plans

[14] *Teacher Ret. Sys. of Tex. (TRS) Health Benefit Plans Interim Charge: Hearing Before the J. Comm. on TRS Health Benefit Plans, supra* note 2.
[15] *Id.*
[16] *Id.*

effective January 1, 2013. Most eligible retirees elected to participate in the two plans resulting in savings to TRS-Care of over $110 million.[17] In FY 2014, criteria for which compound drugs would be covered was tightened. The state also contributed supplemental appropriations in the amount of $138,421,852 in FYs 2013-2014.[18]

Finally, during the 84th Legislative Session, the TRS-Care shortfall was projected to be $768 million by the end of the 2016-2017 biennium. Although work groups that included all interested parties were formed to address the shortfall, legislation was filed but did not ultimately pass. As a result, the Legislature provided a supplemental appropriation of $768,100,754 to address the shortfall, but there was no permanent solution to address the rising costs of health care.[19] Determined to find a permanent solution for the plan's sustainability problem, the Legislature did pass Senate Bill 1940 and House Bill 2974, which created this Committee to thoroughly study TRS-Care and develop realistic, fiscally responsible solutions to ensure long-term sustainability.[20]

As of April 2016, the TRS-Care shortfall is projected to be from $1.3 to $1.5 billion for the 2018-2019 biennium. Even more alarming, the shortfall for the following biennium is expected to range from $4 to $6 billion. As there appears to be no end to the rising costs and financial woes of TRS-Care, long-term solutions must be pursued immediately. Providing supplemental funding each biennium to keep TRS-Care solvent is no longer feasible or fiscally responsible. Major plan design and/or funding changes must be sought in the 85th Legislative Session.

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[17] *Id.*
[18] Id.
[19] H.B. 1, 2015 Leg., 84th Reg. Sess. (Tex. 2015).
[20] S.B. 1940, 2015 Leg., 84th Reg. Sess. (Tex. 2015) & H.B. 2974, 2015 Leg., 84th Reg. Sess. (Tex. 2015).

F. Cost Drivers

Health care costs have been on the rise. In 2012, the United States spent $2.8 trillion on health care, approximately $8,915 per person.[21] Now in 2016, spending on medical costs per person is set to exceed $10,000.[22] Projections provide no relief as each person's medical care will cost roughly $16,000 a year by 2025.[23] Furthermore, health spending growth in the United States is projected to average 5.8% from 2015 to 2025.[24] This is occurring in part because the "baby boom" generation will continue to age into Medicare. In fact, by 2025, it is projected that one in five Americans will be covered by Medicare, and its costs will reach roughly $18,000 per enrollee per year.[25] Spending will be higher in part because this group is more likely to need and use medication and medical care. Undoubtedly, the costs patients will pay for their care will increase.

Increases in medical and prescription drug costs continue to strain the health care system. Over the past five years, the cost of health insurance has risen 54%.[26] This persistent rise has been attributed to, among other things, the low out-of-pocket costs paid by consumers. Because consumers have not been paying for the brunt of costs, consumers are visiting doctors more frequently, further straining the health care system. Additionally, the growth in spending has also been linked to the rising prevalence of disease, changing clinical thresholds for diagnosing and treating disease, and new medical innovations. Furthermore, longevity is another key factor.

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[21] Dan Munro, *Annual Healthcare Spending Hits $3.8 Trillion*, FORBES, Feb. 2, 2014, *available at* www.forbes.com/sites/danmunro/2014/02/02/annual-u-s-healthcare-spending-hits-3-8-trillion/#5597fc3e313d.
[22] Robert Pear, *National Health Spending to Surpass $10,000 a Person in 2016*, N.Y TIMES, July 13, 2016, *available at* www.nytimes.com/2016/07/14/us/national-health-spending-to-surpass-10000-per-person-in-2016.html?_r=2.
[23] *Id.*
[24] CTRS. FOR MEDICARE AND MEDICAID SERVICES, NATIONAL HEALTH EXPENDITURE PROJECTIONS 2015-2025 (August 2016).
[25] Pear, *supra* note 22.
[26] Munro, *supra* note 21.

According to federal officials, prescription drug spending rose 12.6% in 2014 and it is expected to rise 7.3% a year through 2018.[27] Prices for drugs are rising much faster than inflation year after year and these escalating prices have nothing to do with value or recoupment of research and development costs. Some pharmaceutical companies are now increasing drug prices multiple times per year. Because medications are essential, consumers have no choice but to pay no matter what the cost.

Although the Affordable Care Act (ACA) may have resulted in more insured individuals than ever, it is not working to reign in health care spending. In fact, the ACA contributes to increasing overall spending by covering millions more people with health insurance through publicly funded programs like Medicaid for low-income people and through government-subsidized private insurance. Under the ACA, health care spending continues to be a challenge.

Rising costs will continue to plague consumers in the foreseeable future. As a result, more employer-sponsored health insurance plans will become unsustainable. Even though employer-sponsored coverage remains the most common source of health care coverage, a smaller portion of people are covered by employers than a decade ago.[28] In fact, many employer-sponsored health insurance plans across the country have already decreased benefits and options, increased premiums, or eliminated the plans altogether.

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[27] Jonathan D. Rockoff, *How Do We Deal With Rising Drug Costs?*, WALL ST. J., Apr. 10, 2016, *available at* www.wsj.com/articles/how-do-we-deal-with-rising-drug-costs-1460340357.

[28] MICHELLE LONG ET AL., KAISER FAMILY FOUND., TRENDS IN EMPLOYER-SPONSORED INSURANCE OFFER AND COVERAGE RATES, 1999-2014 (Mar. 21, 2016).

G. Challenges to Sustainability

The current structure for TRS-Care is not sustainable. Because funding is based on percentages of active employee payroll and not the true cost of retiree health care, the plan has faced financial shortfalls each biennium in recent history. Approximately 20,000 new retirees are added to the plan each year.[29] Additionally, all retirees and their dependents that are not enrolled in Medicare, including members who retire before the age of 65, and are not eligible for Medicare, are draining the plan's fund because this group costs over four times more than the cost of Medicare eligible participants. In fact, in FY 2015, each non-Medicare eligible participant in TRS-Care 3 cost the plan $13,640 versus $2,855 for a retiree enrolled in Medicare Advantage and Medicare Part D plans.[30] Because non-Medicare eligible participants are depleting the TRS-Care fund at a rapidly increasing rate, changes to that group's coverage are necessary in order to keep the plan sustainable for all retirees.

TRS-Care also offers retirees and their dependents multiple coverage options, which creates additional costs. As of April 2016, the TRS-Care fund is projected to face a $1.3 to $1.5 billion shortfall by the end of the 2018-2019 biennium.[31] This shortfall is nearly double the previous biennium's shortfall. And, the next biennium's shortfall is expected to be an astounding $4 to $6 billion. Under the current structure of TRS-Care, this trend does not end.

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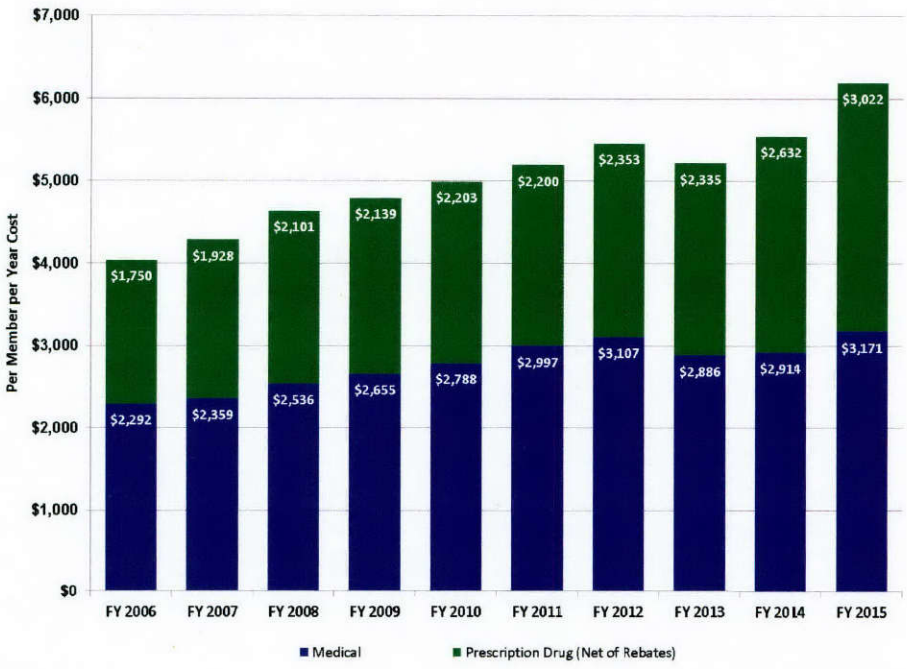
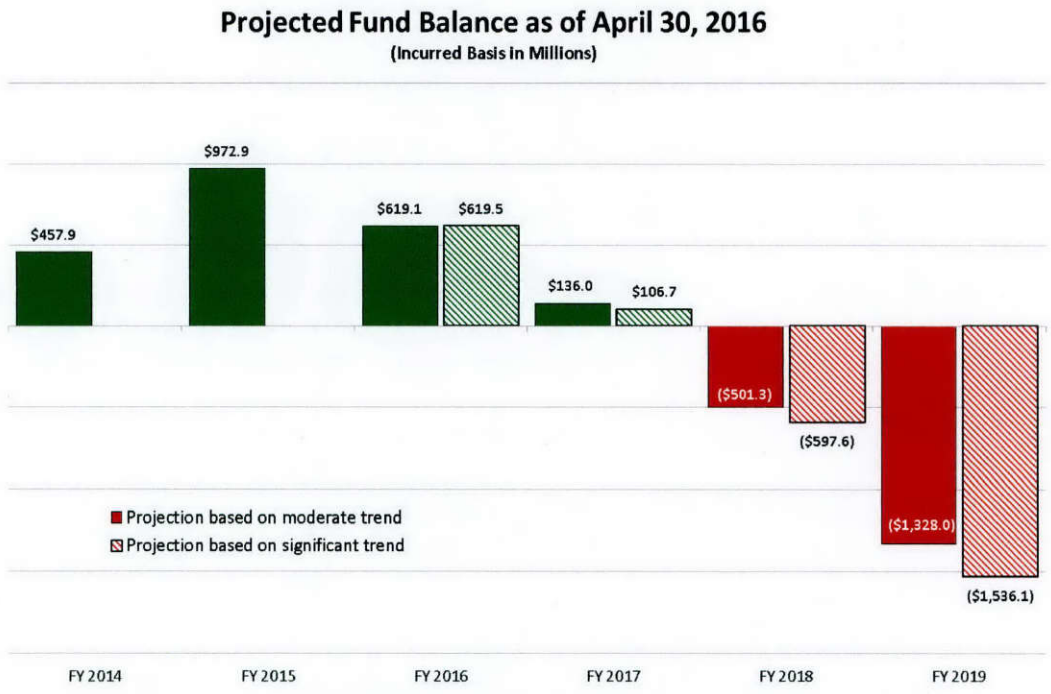
[29] *Teacher Ret. Sys. of Tex. (TRS) Health Benefit Plans Interim Charge: Hearing Before the J. Comm. on TRS Health Benefit Plans, supra* note 2.
[30] *Id.*
[31] *Id.*

Average per Member per Year Cost





*Due to the volatility of future health care costs, projected fiscal years are also shown assuming actual medical and pharmacy trends exceed current trend levels by 2 percentage points.

H. Options to Improve Solvency

Health Reimbursement Account & Medicare Advantage Plan ("HRA Plan")

The HRA Plan would provide a defined contribution plan for non-Medicare eligible retirees and a Medicare Advantage plan for Medicare eligible retirees. This plan would be implemented January 1, 2018, and the plan benefits would be aligned with the calendar year. Also, beginning January 1, 2018, retiree premium contributions would be restructured varying by coverage tier and Medicare status of the retiree. During the transition, FY 2017 will be a 16-month plan year beginning September 1, 2016, and ending December 31, 2017, for all TRS-Care participants. Furthermore, TRS-Care 1 would no longer be offered at no cost for retiree-only coverage. The HRA Plan currently assumes the 1%, 0.55%, and 0.65% of active employee payroll contribution from the state, school districts, and active employees, respectively.

Under this plan, non-Medicare eligible retirees would receive a defined contribution in the amount of $400 per month that would be deposited into a Health Reimbursement Account (HRA). Neither the non-Medicare eligible retiree nor his or her dependents would receive health care benefits through TRS-Care until the retiree becomes Medicare eligible. A non-Medicare eligible retiree would use the HRA to shop on the public exchange and choose a health care plan to serve his or her needs. Currently, a retiree can purchase health care coverage similar to that of the TRS-Care 2 plan for approximately $575-850 per month.[32]

An HRA is an account used by employers to reimburse employees or retirees for qualified medical expenses. The HRA would be used in lieu of group health insurance for non-Medicare eligible retirees. A retiree-only HRA is not subject to the ACA's insurance market reform rules (i.e. annual limit prohibitions and preventive health services requirements). Under the HRA Plan, qualifying medical expenses would be determined by TRS and may include premiums, deductibles, copayments, and coinsurance for medical, prescription drug, vision, and dental coverage. There are no maximum annual contributions to an HRA. Under an HRA, TRS would own the account. Therefore, once a retiree passes away, any funds left in the HRA would be recirculated to the TRS-Care fund if there is no surviving spouse at the time.

Medicare eligible retirees and their Medicare eligible dependents would be eligible to enroll in a Medicare Advantage plan for medical benefits and a Medicare Part D plan for prescription drug benefits. This would be the only plan available to Medicare eligible participants through TRS-Care. Medicare eligible participants that do not wish to participate may elect other health care

[32] U.S. DEPT. OF HEALTH & HUMAN SERV., COVERAGE TO CARE (Sept. 2016).

options outside of TRS-Care. The Medicare Advantage/Medicare Part D plan would be similar to the current TRS-Care Medicare Advantage 3 level plan. Non-Medicare eligible dependents of Medicare eligible retirees would be eligible to enroll in the TRS-Care 2 plan.

Adequate provider access is a significant factor to consider when only offering a Medicare Advantage plan for Medicare eligible retirees. Although the majority of providers across the state accept the TRS-Care Medicare Advantage plan, there are still some isolated areas that may not accept it. The Committee recognizes that the Medicare Advantage plan may result in limited access to some providers in certain areas around the state; however, the Legislature would direct TRS to develop a policy to ensure retirees have sufficient provider access by offering alternative providers in those areas. Further, to the extent possible, TRS and the insurer shall assist the retiree in finding an alternative provider, making the process as seamless as possible. Thus, although the HRA Plan may present challenges to some retirees with regards to coverage choice options, TRS would ensure accommodations are made so that retirees have sufficient access to providers, especially for those located in rural areas.

While the HRA Plan presents a completely new structure for TRS-Care participants, this plan still provides health care benefits to TRS-Care retirees. The fact is, in FY 2015, each non-Medicare eligible retiree that participated in TRS-Care 3 cost the plan $13,640.[33] That is over four times the cost of retirees with a Medicare Advantage plan. Because non-Medicare eligible participants are draining the TRS-Care fund at a rapidly increasing rate, changes to that group's coverage are necessary. Although the HRA Plan requires non-Medicare eligible participants to

[33] *Teacher Ret. Sys. of Tex. (TRS) Health Benefit Plans Interim Charge: Hearing Before the J. Comm. on TRS Health Benefit Plans, supra* note 2.

search for his or her own health coverage on the public exchange, this plan does provide these retirees the opportunity to select the best option that fits his or her own needs.

<table>
<tr><th>Participant Status</th><th>Illustrative Plan Design</th><th>Illustrative CY2018
Retiree Premiums[2]</th></tr>
<tr><td>Non-Medicare retirees</td><td>Defined Contribution with HRA
$400 per retiree per month</td><td>No retiree contributions</td></tr>
<tr><td>Medicare Part B Only retirees</td><td rowspan="2">Medicare Advantage/Part D
$500 Deductible
$3,500 MOOP
80%/20% coinsurance
Copayments for IH Admit, OH Services, ER Visit, UC Visit, Lab and prescription drugs.</td><td rowspan="3"><u>Medicare Retirees</u>
Retiree Only = $143
Retiree & Spouse = $601
Retiree & Child(ren) = $584
Retiree & Family = $1,236</td></tr>
<tr><td>Medicare Part A&B retirees</td></tr>
<tr><td>Non-Medicare Dependents of Medicare eligible retirees[1]</td><td>TRS-Care-2
$1,300/$2,600 Deductible
$7,150/$14,300 MOOP[1]
80%/20% coinsurance
Copayments for IH Admit, OH Services, ER Visit, UC Visit, Lab and prescription drugs.</td></tr>
</table>

[1] 2017 Maximum Out-of-Pocket limits for in-network benefits; maximum Out-of-Pocket limits for out-of-network benefits are not regulated by the federal government and can be set by the plan.

[2] Gross premiums less $275.82 State/District/Active Employee average contribution per retiree per month.

HRA PLAN PROJECTION Retiree premium contributions at CY2018 Illustrative Premiums							
Fiscal Years	Projected Revenue from Ongoing Sources				Total Projected Revenue	Total Projected Costs	Difference
	State	District	Active Employee	Retirees			
FY2018 - FY2019	$669,653,480	$391,226,795	$435,274,762	$991,850,269	$2,488,005,306	$2,787,849,308	($299,844,002)
FY2020 - FY2021	$696,707,481	$406,106,495	$452,859,862	$1,092,426,600	$2,648,100,438	$3,366,547,434	($718,446,996)

High Deductible & Medicare Advantage Plan ("HD Plan")

The HD Plan would provide a high deductible health plan for non-Medicare eligible participants and a Medicare Advantage plan for Medicare eligible participants. This plan would be implemented January 1, 2018, and the plan benefits would be aligned with the calendar year. Also, beginning January 1, 2018, retiree premium contributions would be restructured according to coverage tier and Medicare status of the retiree. During the transition, FY 2017 will be a 16-month plan beginning September 1, 2016, and ending December 31, 2017, for all TRS-Care participants. Furthermore, TRS-Care 1 would no longer be offered at no cost for retiree-only coverage. The HD Plan currently assumes the 1%, 0.55%, and 0.65% of active employee payroll contribution from the state, school districts, and active employees, respectively.

Under this plan, non-Medicare eligible members would be eligible to enroll in a high deductible health care plan similar to the TRS-Care 1 level plan. As mentioned previously, because the non-

Medicare eligible retirees are depleting the TRS-Care fund at an alarming rate, non-Medicare eligible retirees' benefits must be altered to balance the costs with the revenue. Additionally, non-Medicare eligible retirees' premiums would likely increase as well. Continuing to provide non-Medicare eligible retirees with the current benefits is not fiscally responsible. Without such changes, the current TRS-Care plan is not sustainable for any of the TRS-Care members.

Just like the HRA Plan option described in the previous section, Medicare eligible participants will be enrolled in a Medicare Advantage plan for medical benefits and a Medicare Part D plan for prescription drug benefits. This would be the only plan option for Medicare eligible participants. Medicare eligible retirees that do not wish to participate may elect other health care options outside of TRS-Care. The Medicare Advantage/Medicare Part D plan would be similar to the current TRS-Care Medicare Advantage 3 level plan. Non-Medicare eligible dependents of Medicare eligible retirees would be eligible to enroll in the TRS-Care HD plan.

As mentioned before, adequate provider access is a significant factor to consider when only offering a Medicare Advantage plan for Medicare eligible retirees. Although the majority of providers across the state accept the TRS-Care Medicare Advantage plan, there are still some isolated areas that may not accept it. The legislature would direct TRS to develop a policy to ensure retirees have sufficient provider access by offering access to alternative providers in those areas. Further, to the extent possible, TRS and the insurer shall assist the retiree in finding an alternative provider making the process as seamless as possible.

Although the HD Plan is the same as the HRA Plan regarding Medicare eligible retirees, this plan is vastly different for non-Medicare eligible retirees. With the HD Plan, non-Medicare eligible retirees would not have to seek his or her own health coverage on the public exchange. Many retirees may find that task daunting and challenging because he or she may not fully understand the marketplace or options available. This plan also shelters the non-Medicare eligible participants from the volatile market that currently exists on the public exchange, especially with all the issues arising from the ACA.

HD PLAN PROJECTION

Retiree premium contributions at CY2018 Illustrative Premiums

Participant Status	Plan Design	Illustrative CY2018 Retiree Premiums[2]
Non-Medicare members	**TRS-Care-HD** *In-Network* $4,000/$8,000 Deductible $7,150/$14,300 MOOP[1] 80%/20% coinsurance *Out-of-network* $8,000/$16,000 Deductible $14,300/$28,600 MOOP[1] 60%/40% coinsurance	**Non-Medicare Retirees** Retiree Only = $430 Retiree & Spouse = $974 Retiree & Child(ren) = $663 Retiree & Family = $1,310
Medicare Part B Only members	**Medicare Advantage/Part D** $500 Deductible $3,500 MOOP 80%/20% coinsurance Copayments for IH Admit, OH Services, ER Visit, UC Visit, Lab and prescription drugs.	**Medicare Retirees** Retiree Only = $146 Retiree & Spouse = $590 Retiree & Child(ren) = $504 Retiree & Family = $1,106
Medicare Part A&B members		

[1]2017 Maximum Out-of-Pocket limits for in-network benefits; maximum Out-of-Pocket limits for out-of-network benefits are not regulated by the federal government and can be set by the plan.

[2] Gross premiums less $275.82 State/District/Active Employee average contribution per retiree per month.

Fiscal Years	Projected Revenue from Ongoing Sources				Total Projected Revenue	Total Projected Costs[1]	Difference
	State	District	Active Employee	Retirees			
FY2018 - FY2019	$669,653,480	$391,226,795	$435,274,762	$1,569,668,132	$3,065,823,169	$3,329,186,792	($263,363,623)
FY2020 - FY2021	$696,707,481	$406,106,495	$452,859,862	$1,761,457,464	$3,317,131,302	$4,142,853,950	($825,722,648)

[1] Projected costs for FY2018 include the additional plan costs resulting from extending the FY2017 plan year an additional four months.

I. Conclusion

There are no simple answers to addressing the health care funding shortage for TRS-Care in the next biennium and beyond. However, it is clear that drastic funding and/or benefit changes must occur to ensure the TRS-Care plan is sustainable long-term. Otherwise, TRS-Care faces a $1.3 to $1.5 billion shortfall by the end of the next biennium. If drastic measures are not taken during the 85th Legislative Session, the TRS Board of Trustees (the "Board") would have limited flexibility in providing a new plan design to continue any type of health care plan. In fact, the Board would be forced to increase retiree premiums to account for the projected $1.3 to $1.5 billion shortfall. If the Legislature does not provide any additional funding and makes no legislative changes, the estimated shortfall would be fully borne by the retirees. In order to mitigate costs, the Board would be required to increase premiums in TRS-Care 2, TRS-Care 3, Medicare Advantage 2, Medicare Advantage 3, and for TRS-Care 1 spousal and dependent premiums. The Board would also be forced to administer a combination of increased copayments, deductibles, and out-of-

pocket expenses for all plan levels. Since premiums would be increased dramatically, this would likely cause many participants to decrease coverage to the TRS-Care 1 plan. It is projected that the cost of coverage for all retirees in TRS-Care 1 would be approximately $1.08 billion in FY 2018. Additionally, this migration to the TRS-Care 1 plan would create a significant loss of premium revenue which would cause further increases in premiums for TRS-Care 2, TRS-Care 3, Medicare Advantage 2, and Medicare Advantage 3 to subsidize those that would theoretically elect to participate in the TRS-Care 1 plan. Under this scenario, where no significant funding and/or benefit changes occur, funding for TRS-Care would be inadequate to pay claims and sustain the plan through the 2018-2019 biennium. Thus, the Board would likely be obligated to close the TRS-Care plan and begin to phase out current participants. Because retirees are on fixed incomes and greatly depend on their health care benefits, interested parties must prevent this from occurring by embracing changes that make TRS-Care sustainable.

Illustrative FY 2018 Premium Contributions Assuming No Change in the Current Plan

		Current Retiree Contributions			Illustrative FY2018 Retiree Premium Contributions		
Coverage Tier	**Medicare Status**	**TRS-Care 1**	**TRS-Care 2**	**TRS-Care 3**	**TRS-Care 1**	**TRS-Care 2**	**TRS-Care 3**
Retiree Only	Medicare A&B	$0	$70	$100	$0	$131	$229
	Medicare B Only	$0	$155	$230	$0	$221	$621
	Non-Medicare	$0	$200	$295	$0	$706	$1,288
Retiree & Spouse	Both Medicare A&B	$20	$175	$255	$659	$791	$923
	Both Non-Medicare	$140	$430	$635	$1,756	$2,107	$2,458
Retiree & Child	Both Non-Medicare	$28	$262	$377	$1,392	$1,670	$1,949
Retiree & Family	All Non-Medicare	$168	$492	$717	$2,185	$2,622	$3,059

Although many other options have been presented over the past few years, including in the *TRS-Care Sustainability and TRS-ActiveCare Affordability Study* conducted by TRS in 2014, those options do not fully address the immense sustainability problem that TRS-Care currently faces.[34] Furthermore, continuing to fund the plan on a biennial basis is no longer feasible because costs continue to rise at an alarming rate. The state contributed nearly $1.1 billion in state and supplemental appropriations towards TRS-Care in FY 2015. With health care costs currently at an unsustainable level and continuing to rise, the state cannot continue to provide supplemental appropriations to keep TRS-Care solvent. Additionally, the financial contributions necessary to keep TRS-Care solvent in its current form will only increase infinitely. Therefore, the Committee finds that the HRA and HD Plans discussed previously are the most viable and realistic options to address the financial soundness and sustainability of TRS-Care. However, even if significant

[34] TEACHER RET. SYS. OF TEX., TRS-CARE SUSTAINABILITY AND TRS-ACTIVECARE AFFORDABILITY STUDY (Nov. 2014).

changes are implemented under the HRA or HD Plan, the TRS-Care fund would still face a shortfall moving forward, although dramatically less than the expected shortfall of $1.3 to $1.5 billion. Thus, to address long-term funding of the plan, the Legislature will have to review, and possibly modify, the current funding contributions from the state, school districts, and retirees, or continue to provide supplemental appropriations each biennium.

There is no doubt that these plans will present new challenges for all parties involved; however, if drastic measures are not taken immediately, retired public education employees may be left without any affordable health care benefits. That option is not acceptable to anyone.

IV. TRS-ActiveCare

A. Background and History

In 1995, the Legislature passed a law requiring that public school districts offer a health care plan comparable in scope and, to the greatest extent possible, in cost to the coverage offered by the Employees Retirement System of Texas (ERS) to state employees in Chapter 1551 of the Texas Insurance Code.[35] At that time, most school districts were unable to offer comparable coverage due to financial limitations. In fact, health care coverage varied significantly from school district to school district. Even though it was the responsibility of the school districts to offer health care coverage to their employees, many districts found it problematic.

In a comparability study conducted by TRS for the 1999-2000 school year, only 38% of reported active public education employees were covered by a health insurance plan comparable to that being offered to state employees.[36] As health care costs increased, school districts were unable to find insurance carriers to underwrite comparable coverage that fit within their budgets. As a result, the Legislature deemed it necessary for the state to provide comparable health care coverage to active public education employees moving forward.

Therefore, in 2001, the 77th Legislature passed House Bill 3343, which created the Texas School Employees Uniform Group Health Coverage Program, known as TRS-ActiveCare, under Chapter 1579 of the Texas Insurance Code.[37] TRS-ActiveCare was created to provide health care benefits for active public education employees across the state and be administered by TRS.

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[35] TEX. INS. CODE, Ch. 1551.
[36] *Teacher Ret. Sys. of Tex. (TRS) Health Benefit Plans Interim Charge: Hearing Before the J. Comm. on TRS Health Benefit Plans, supra* note 2.
[37] H.B. 3343, 2001 Leg., 77th Reg. Sess. (Tex. 2001).

TRS-ActiveCare went into effect September 1, 2002. Small school districts, specified as those with 500 or fewer employees, and certain other entities, were required to participate in TRS-ActiveCare. For districts with more than 500 employees and certain other entities, such as charter schools, joining TRS-ActiveCare was optional. However, once an entity elected to participate, there was no provision to opt-out. An opt-out provision was excluded to protect the plan from adverse selection by school districts and other participating entities. The deadline to join TRS-ActiveCare was September 30, 2001.[38]

Of the 932 school districts with 1,000 or fewer employees, 823 districts joined TRS-ActiveCare.[39] Even some of the largest districts such as Dallas Independent School District (ISD), Cypress ISD, and Fort Worth ISD elected to participate. Furthermore, 109 of 201 charter schools, regional education service centers, and other education districts joined the plan.[40] However, some districts elected to administer their own health care plan. Districts like Houston ISD, Austin ISD, and San Antonio ISD believed they could offer their employees a superior health care benefit by electing to participate in a plan on the open marketplace.

[38] *Teacher Ret. Sys. of Tex. (TRS) Health Benefit Plans Interim Charge: Hearing Before the J. Comm. on TRS Health Benefit Plans, supra* note 2.
[39] *Id.*
[40] *Id.*

TRS-ActiveCare Participation FY 2015

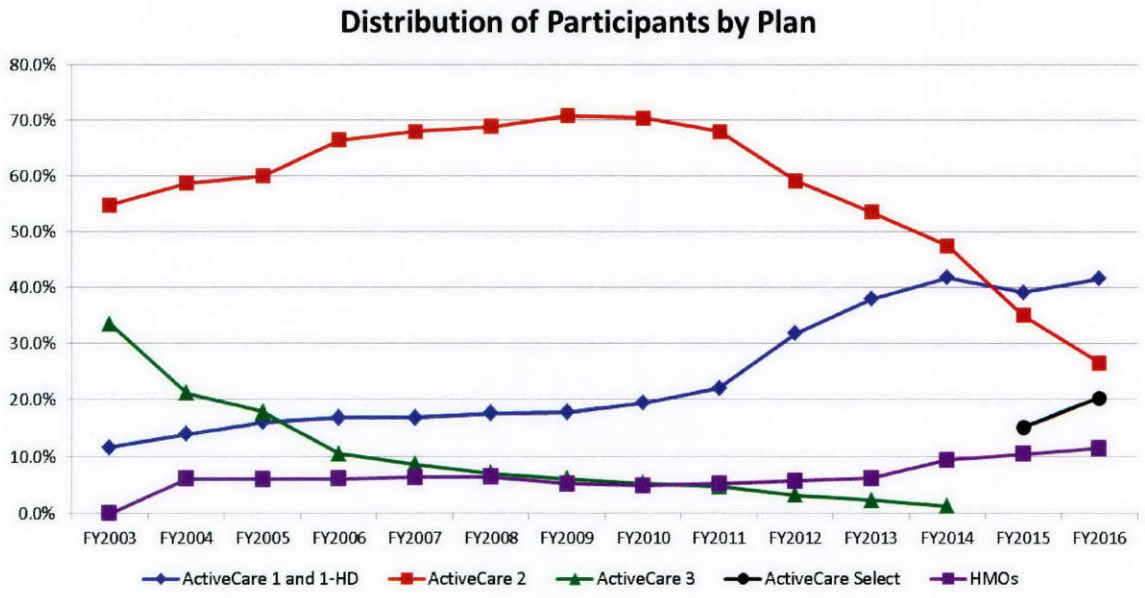
Entity Type	# Eligible	#Participating	% Participation
Less than 500	816	801	98.2%
500-1,000	102	90	88.2%
More than 1,000	106	56	52.8%
Charter Schools	173	130	75.1%
Education Service Centers	20	20	100%
Other Ed	5	5	100%
Total	1,222	1,102	90.2%

B. Plan Options

TRS-ActiveCare currently offers three self-funded plan options. TRS-ActiveCare 1-HD is a high deductible health plan. TRS-ActiveCare Select and TRS-ActiveCare 2 offer more comprehensive benefits, including a carve-out prescription drug benefit. There are also three fully insured Health Maintenance Organizations (HMOs) offered in certain service areas. Although school districts were originally required by law to offer a health care plan comparable to what ERS offers state employees, that law was repealed in 2013 by Senate Bill 1458.[41] The law was repealed after a

[41] S.B. 1458, 2013 Leg., 83rd Reg. Sess. (Tex. 2013).

25% premium increase in one year, and because costs became unaffordable; thus, TRS could no longer price the plan. Therefore, that plan, TRS-ActiveCare 3, was closed to new enrollees for FY 2014 and then eliminated in FY 2015. The total FY 2017 premiums for the plans range from $341 to $645 per month for employee-only coverage.[42] Furthermore, the deductibles range from $1,000 to $2,500 per year.[43] Thus, the current plan designs vary significantly and offer a wide range of options for active employees.



[42] *Teacher Ret. Sys. of Tex. (TRS) Health Benefit Plans Interim Charge: Hearing Before the J. Comm. on TRS Health Benefit Plans, supra* note 2.
[43] *Id.*

FY 2017 Benefit Structure

	TRS-ActiveCare 1-HD	TRS-ActiveCare Select	TRS-ActiveCare-2
Deductible	$2,500/$5,000	$1,200/$3,600	$1,000/$3,000
Maximum Out-of-Pocket	$6,550/$13,100	$6,850/$13,700	$6,850/$13,700
Preventive Services	Plan pays 100%	Plan pays 100%	Plan pays 100%
Coinsurance	80%/20%	80%/20%	80%/20%
Hospital Facility	80%/20%	$150 copay per day, plus 20% ($750 max copay)	$150 copay per day, plus 20% ($750 max copay)
Physician Office Visits	80%/20%	$30 Primary Care Physician copay $60 Specialist copay	$30 Primary Care Physician copay $50 Specialist copay
Urgent Care Center	80%/20%	$50 copay	$50 copay
Teledoc	$40 consult fee	Plan pays 100%	Plan pays 100%
Bariatric Surgery	$5,000 copay plus 20% after deductible	Not covered	$5,000 copay plus 20% after deductible

FY 2017 Out-of-Network Benefit Structure

	TRS-ActiveCare 1-HD	TRS-ActiveCare Select	TRS-ActiveCare-2
Deductible	$2,500/$5,000	No out-of-network benefits	$1,000/$3,000
Maximum Out-of-Pocket[1]	$6,450/$12,900		$6,600/$13,200
Preventive Services	60%/40%		60%/40%
Coinsurance	60%/40%		60%/40%
Hospital Facility	60%/40%		$150 copay per day, plus 40%
Physician Office Visits	60%/40%		60%/40%
Urgent Care Center	60%/40%		60%/40%
Bariatric Surgery	Not covered		Not covered

FY 2017 Pharmacy Benefits

	TRS-ActiveCare Select	TRS-ActiveCare 2
Deductible for Brand Name Drugs	$200 per individual	$200 per individual
Retail Short Term (1-31 days supply)[1]		
Generic	$35 copay	$35copay
Preferred Brand	$60 copay	$60 copay
Non-Preferred Brand	50% coinsurance	$90 copay
Retail Plus (60-90 days supply)		
Generic	$45 copay	$45 copay
Preferred Brand	$105 copay	$105 copay
Non-Preferred Brand	50% coinsurance	$180 copay
Mail Order		
Generic	$45 copay	$45 copay
Preferred Brand	$105 copay	$105 copay
Non-Preferred Brand	$50% coinsurance	$180 copay
Specialty Drugs	20% coinsurance per fill	$200 per fill (1-31 days supply) $450 per fill (32-90 days supply)

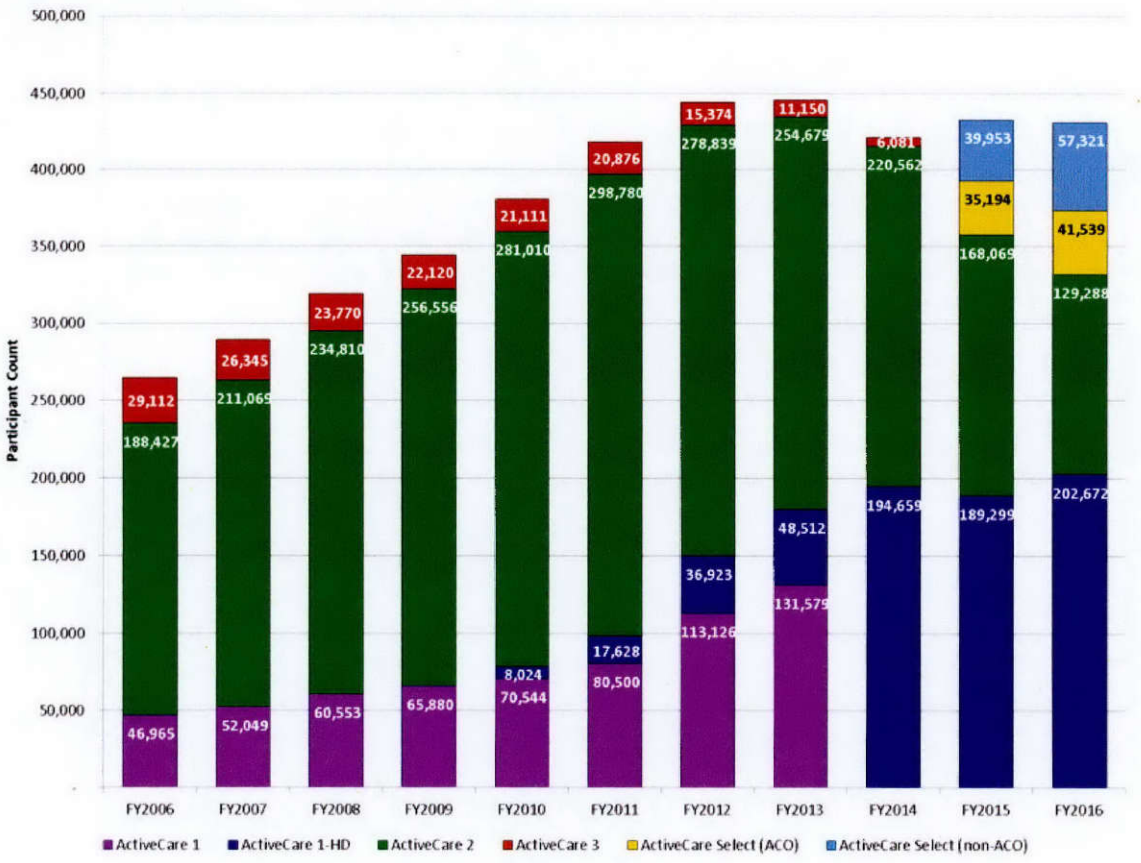
*TRS-ActiveCare 1-HD provides a pharmacy benefit of 80%/20% coinsurance.

FY 2017 TRS-ActiveCare Gross Premiums

Coverage Tier	ActiveCare-1HD	ActiveCare-Select	ActiveCare-2
Employee Only	$341	$484	$645
Employee & Spouse	$914	$1,147	$1,552
Employee & Child(ren)	$615	$779	$1,042
Employee & Family	$1,231	$1,361	$1,597

*Gross monthly premiums shown before State and District Contributions.
*For Employee Only coverage, the employee share of premium would be $116 per month for the ActiveCare-1HD plan for a district contributing the minimum $150 per month.

History of Participation by Plan



C. Funding

TRS-ActiveCare is funded by premiums for the level of coverage selected. The school district must contribute a minimum of $150 per month per employee and the state $75 per month per employee through school finance formulas.[44] The state provides $75 per month per employee to the district regardless of whether the employee is participating in the statewide plan or in a plan run by the district. School districts do have the option to contribute more than the required $150 per month per employee as an additional benefit to the employees. 32.73% of districts that participate in TRS-ActiveCare contribute only the minimum required contribution; 24.07% of

[44] *Id.*

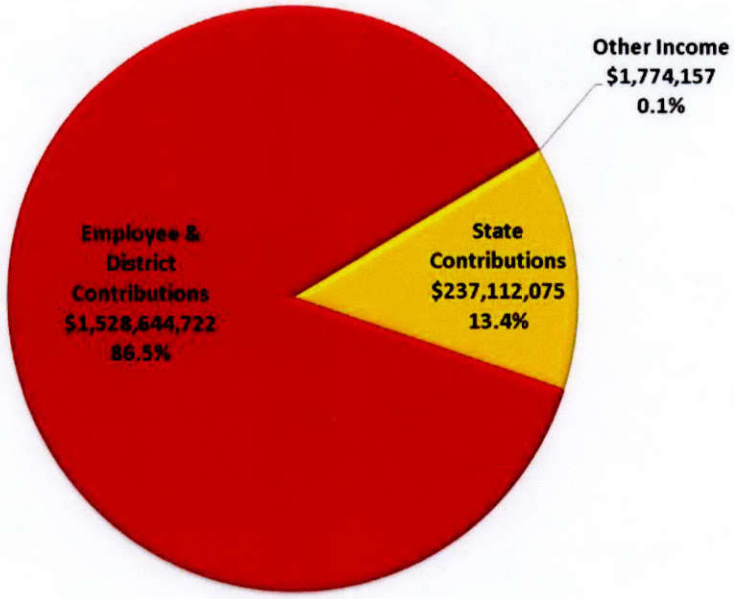
districts contribute up to $50 more per month; and 20.14% of districts contribute $51 to $100 more per month.[45]

FY2016 State and District Contributions by Participating Entities for TRS-ActiveCare Enrollees				
Monthly Contributions	**Number of Districts**	**Number of Employees**	**Percent of Districts**	**Percent of Employees**
$225 Minimum contribution (State = $75, District = $150 min)	325	43,920	32.73%	17.29%
$226 - $275	239	67,903	24.07%	26.73%
$276 - $325	200	64,940	20.14%	25.57%
$326 - $400	159	57,199	16.01%	22.52%
$401 - $425	14	12,982	1.41%	5.11%
$426 - $450	7	2,513	0.70%	0.99%
$451 - $475	9	926	0.91%	0.36%
$476 - $500	9	955	0.91%	0.38%
$501 - $614 ($614 is the max)	31	2,648	3.12%	1.04%
Total Respondents	**993**	**253,986**	**100.00%**	**100.00%**
Weighted Average Contribution	TRS-ActiveCare-1HD = $283 TRS-ActiveCare-Select = $307 TRS-ActiveCare-2 = $314			

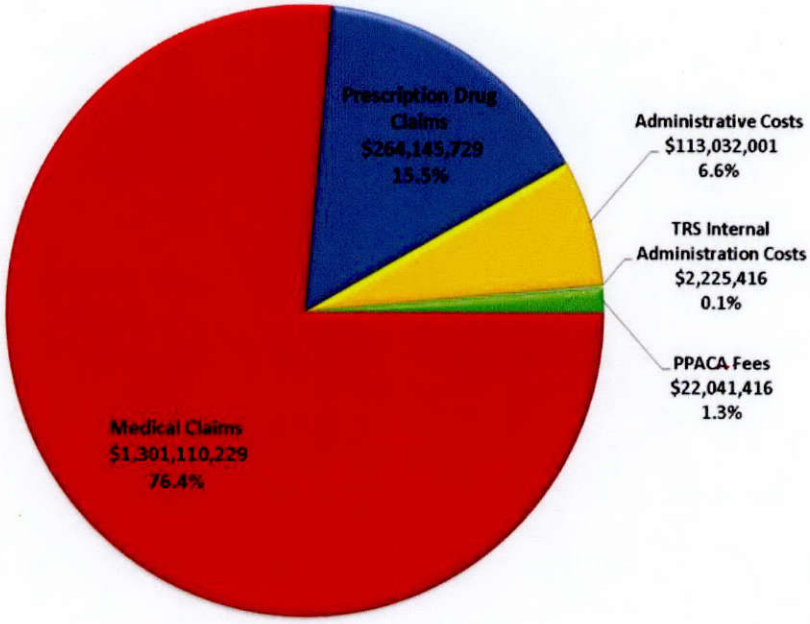
The employee then pays any remaining premium amount due. State and district funding for TRS-ActiveCare has not changed since the inception of the program in FY 2003. Because funding has remained static, many or all of the premium increases have been passed directly to the employee, resulting in many employees downgrading to plans with lesser benefits and lower premiums.

[45] *Id.*

TRS-ActiveCare Funding Sources FY 2015



TRS-ActiveCare Expenses FY 2015



TRS-ActiveCare Funding

	Revenue					Expenses					
Fiscal Year	State Contributions	Employee & District Contributions	HMO Premiums	Investment Income	Total Revenue	Medical Incurred	Drug Incurred (includes Rebates)	HMO Premium Payments	Administrative Costs	Total Expenses	Ending Balance (Incurred Basis)
FY 2003	$210,234,158	$374,338,694	$0	$2,456,654	$587,029,506	$473,450,544			$44,140,954	$517,591,498	$136,293,600
FY 2004	$121,389,184	$596,462,829	$0	($38,041,707)	$679,810,306	$520,998,423			$54,734,179	$575,732,602	$240,371,304
FY 2005	$133,958,840	$647,192,860	$0	$8,949,525	$790,101,225	$663,361,138			$55,264,847	$718,625,985	$311,846,543
FY 2006	$140,306,296	$671,691,759	$0	$18,650,516	$830,648,571	$708,972,484			$54,587,233	$763,559,716	$379,198,205
FY 2007	$152,715,758	$727,581,192	$59,397,078	$26,016,380	$965,710,409	$659,478,760	$141,670,202	$58,742,363	$49,722,225	$909,613,550	$435,295,063
FY 2008	$167,969,604	$859,647,820	$68,919,598	$21,164,640	$1,117,701,662	$788,240,087	$163,916,252	$68,204,743	$56,165,020	$1,076,526,102	$476,470,624
FY 2009	$180,685,094	$926,046,048	$65,450,125	$11,597,992	$1,183,779,259	$934,733,927	$187,913,031	$64,820,440	$62,543,593	$1,250,010,991	$410,238,892
FY 2010	$199,429,983	$1,065,796,644	$65,169,943	$6,421,269	$1,336,817,839	$1,092,107,916	$221,006,281	$64,532,253	$69,600,153	$1,447,246,603	$299,810,127
FY 2011	$219,054,635	$1,250,884,807	$77,011,976	$3,387,062	$1,550,338,480	$1,242,673,156	$267,417,825	$76,270,706	$75,717,493	$1,662,079,180	$188,069,427
FY 2012	$231,988,092	$1,427,352,724	$90,594,006	$1,697,553	$1,751,632,375	$1,450,574,875	$268,328,770	$89,706,406	$85,314,414	$1,893,924,465	$45,777,337
FY 2013	$232,288,848	$1,474,353,638	$101,879,198	$746,936	$1,809,268,619	$1,512,262,090	$272,807,678	$100,905,703	$87,041,609	$1,973,017,079	($117,971,123)
FY 2014	$230,047,826	$1,542,510,549	$156,337,090	$940,021	$1,929,835,486	$1,242,335,376	$279,499,612	$154,913,860	$112,276,403	$1,789,025,250	$22,839,113
FY 2015	$237,112,075	$1,526,254,615	$180,582,576	$1,537,408	$1,945,486,674	$1,301,110,229	$264,145,730	$178,192,468	$137,062,084	$1,880,510,511	$87,815,276

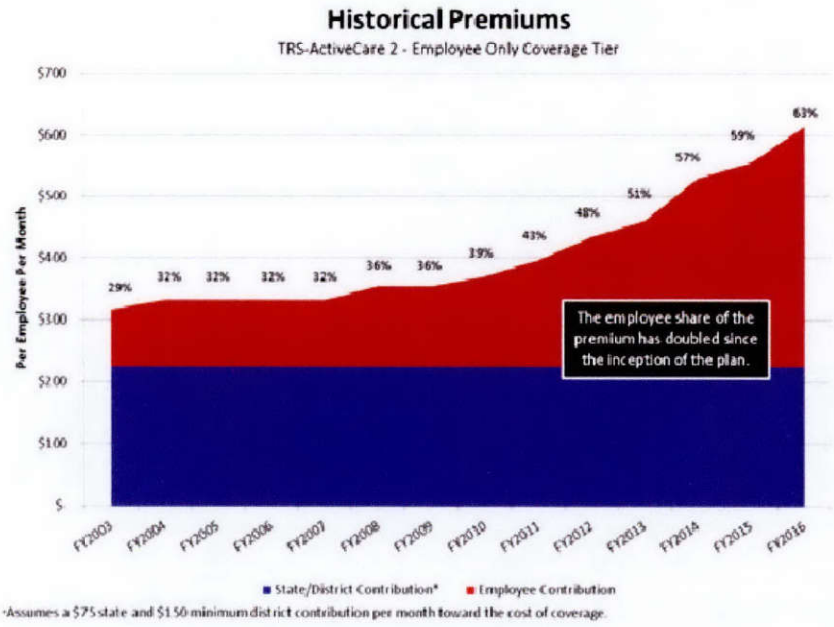
D. Challenges to Affordability

As mentioned in the TRS-Care section, health care costs have been on the rise. With new medical innovations, increases in medical and prescription drug costs, and many other cost drivers, there is no end in sight for the increasing health care costs in the United States. Because of the dramatic increase in health care costs, employees have been forced to pay more for health care coverage in both the public and private sector nationwide. The TRS-ActiveCare plan is no exception.

In FY 2003, assuming the state and district minimum contribution of $225 per month per employee, employees paid 29% of the cost of TRS-ActiveCare 2, employee-only coverage, whereas the state and district paid 71%.[46] However, in FY 2016, employees paid 63% of the costs, and the state and district paid 37%.[47] Over time, assuming the minimum district contribution, the employee's share of the premium has more than doubled since the inception of

[46] *Id.*
[47] *Id.*

the plan. This trend will likely continue for the foreseeable future, assuming funding formulas remain the same.



In survey data published in the *Employer Health Benefits 2014 Annual Survey* by the Kaiser Family Foundation and the Health Research & Educational Trust, the study illustrates how employer plans across the country are becoming unaffordable for employees.[48] Specifically, the study found that cost increases and plan design changes to TRS-ActiveCare 2 were consistent with national trends. Furthermore, employees across the country are paying 113% more for coverage in 2014 than in 2003, compared to TRS-ActiveCare 2 employees who are paying 267% more (assuming the minimum district contribution).[49] Thus, the study clearly demonstrated that as health care costs continue to increase, so too will premium costs.

[48] GARY CLAXTON ET AL., KAISER FAMILY FOUND. & HEALTH RES. & EDUC. TRUST, EMPLOYER HEALTH BENEFITS 1 (2014).
[49] *Id.*

Furthermore, as premiums for TRS-ActiveCare have increased, if the district did not absorb some or all the increase, the effective increase on employees has been more significant than the flat percentage increase in total premiums. For example, if the total premium for a given year was $400 and the state and district contribution was the minimum of $225, the employee's share of the premium was $175. For the next plan year, assuming there was a 6% premium increase, with a total premium of $424, and the district did not increase its contribution, the employee's share increased by $24, an effective 13.7% increase. Assuming no increase in district contribution, employee contributions for employee-only coverage under TRS-ActiveCare 2 have increased an astounding 367% since 2003.

Increase in Gross Premiums					
Fiscal Year	ActiveCare-1	ActiveCare-1HD	ActiveCare - Select	ActiveCare-2	ActiveCare-3
FY2004	5.0%	-	-	5.0%	5.0%
FY2006	0.0%	-	-	0.0%	6.5%
FY2008	7.0%	-	-	7.0%	7.0%
FY2010	4.5%	Initial Rates	-	4.5%	4.5%
FY2011	7.0%	7.0%	-	7.0%	7.0%
FY2012	9.5%	9.5%	-	9.5%	9.5%
FY2013	4.0%	4.0%	-	6.0%	9.0%
FY2014	Discontinued	9.1 - 22.7%	-	15.0%	25.0% (Closed to new enrollees)
FY2015	-	0 - 8.0%	Initial Rates	0 - 7.0%	Discontinued
FY2016	-	4.9 - 7.5%	5.1 - 7.5%	10.6 - 15.0%	-
FY2017	-	0%	2.3%	5%	-

E. Options to Improve Affordability

High Deductible Health Plan ("HD Plan")

The HD Plan would provide a single high deductible health plan, TRS-ActiveCare 1-HD, for school districts and certain other entities with 1,000 or fewer employees. This plan would be available to active public education employees and their families. Thus, TRS-ActiveCare 2 and TRS-ActiveCare Select would no longer be offered. By reducing the coverage choices available under TRS-ActiveCare, the plan would become much more affordable to participating employees. School districts and certain other entities with over 1,000 employees would not have the option to join TRS-ActiveCare and would be responsible for providing employees with their own health care plan. Additionally, under the HD Plan, there would be one single opt-out provision for all eligible entities. Thus, any district or certain other entity with 1,000 or fewer employees would be given the opportunity to not participate in TRS-ActiveCare and offer their own health care plan. However, there would be no provision to opt-in at a later time.

Under this plan, funding for TRS-ActiveCare 1-HD would maintain the $75 per month per employee from the state and the minimum of $150 per month per employee from the district. Furthermore, the network of medical providers would be limited to value-based purchasing models, such as Accountable Care Organizations (ACOs), where available, and a broader network in the remainder of the state. Moreover, the network of pharmacies would include all pharmacies in the existing broad network. Finally, HMO plans would no longer be offered alongside the TRS-ActiveCare plan. Just like for TRS-Care, TRS would ensure accommodations are made so that active employees have sufficient choices for providers, especially for those located in rural areas.

There are currently 1,082 school districts with 1,000 or fewer eligible employees in Texas; totaling approximately 207,543 active public education employees. Based on historical enrollment data, it would be assumed that approximately 85% of eligible employees, or 176,412, enroll in TRS-ActiveCare 1-HD, along with approximately 110,257 dependents.[50] Although most school districts in Texas have less than 1,000 employees, 82 districts currently participating in TRS-ActiveCare would become ineligible to participate under the HD Plan because they currently employ more than 1,000 employees.[51] Thus, approximately 247,000 employees would be ineligible to continue coverage under TRS-ActiveCare. Those 82 districts would have to administer their own health care plan. When TRS-ActiveCare was created, it was designed to provide assistance to the smaller school districts in the state because they had limited coverage options and would have had higher premium costs. Districts with more than 1,000 employees have the enrollment numbers and resources to efficiently provide their own health care plan to employees.

Although the HD Plan presents a new structure for TRS-ActiveCare, this plan would make it more affordable for participating employees. By reducing the number of eligible school districts, and in turn, participating active public education employees, the plan becomes more manageable. Additionally, narrowing the coverage options to a single high deductible health care plan provides significant costs savings to eligible employees.

[50] *Teacher Ret. Sys. of Tex. (TRS) Health Benefit Plans Interim Charge: Hearing Before the J. Comm. on TRS Health Benefit Plans*, 2016 Leg., 84th Interim (Tex. 2016) (testimony of Brian Guthrie, TRS).
[51] *Id.*

Illustrative HD Plan

Member Status	Estimated Employee[6]/Retiree Count	Plan Design	Illustrative CY2018 Gross Premium	Illustrative CY2018 Employee Premium	Fiscal Year	Projected Revenue	Projected Costs
Districts with 1,000 or fewer employees (single opt-out option)	164,048 employees 102,530 dependents	TRS-ActiveCare-1HD *In-Network* $2,500/$5,000 Deductible $6,550/$13,100 MOOP[1] 80%/20% coinsurance *Out-of-network* $5,000/$10,000 Deductible $14,300/$28,600 MOOP[2] 60%/40% coinsurance	Employee Only = $489 Employee & Spouse = $1,244 Employee & Child(ren) = $831 Employee & Family = $1,377	Employee Only = $264 Employee & Spouse = $1,019 Employee & Child(ren) = $606 Employee & Family = $1,152	FY2018	$1,245,137,777	$1,216,471,012
					FY2019	$1,245,137,777	$1,293,298,766
					FY2020	$1,245,137,777	$1,401,639,733
					FY2021	$1,245,137,777	$1,508,785,537

HD Plan Projection

BASELINE PROJECTION

Fiscal Year	Projected Revenue				Projected Costs	Difference
	State	District	Active Employee	Total Revenue		
2018	$242,904,600	$485,809,200	$1,174,372,428	$1,903,086,228	$2,110,456,725	($207,370,497)
2019	$242,904,600	$485,809,200	$1,174,372,428	$1,903,086,228	$2,283,246,341	($380,160,113)
2020	$242,904,600	$485,809,200	$1,174,372,428	$1,903,086,228	$2,462,949,709	($559,863,481)
2021	$242,904,600	$485,809,200	$1,174,372,428	$1,903,086,228	$2,651,661,584	($748,575,356)

HD PLAN PROJECTION

Fiscal Year	Projected Revenue				Projected Costs	Difference
	State	District	Active Employee	Total Revenue		
2018	$147,643,200	$295,286,400	$802,208,177	$1,245,137,777	$1,216,471,012	$28,666,765
2019	$147,643,200	$295,286,400	$802,208,177	$1,245,137,777	$1,293,298,766	($48,160,989)
2020	$147,643,200	$295,286,400	$802,208,177	$1,245,137,777	$1,401,639,733	($156,501,955)
2021	$147,643,200	$295,286,400	$802,208,177	$1,245,137,777	$1,508,785,537	($263,647,759)

Projected Additional Revenue/Costs over Current Program

Fiscal Year	Projected Revenue				Reduction in Projected Costs
	State	District	Active Employee	Total Revenue	
2018	($95,261,400)	($190,522,800)	($372,164,251)	($657,948,451)	($893,985,713)
2019	($95,261,400)	($190,522,800)	($372,164,251)	($657,948,451)	($989,947,575)
2020	($95,261,400)	($190,522,800)	($372,164,251)	($657,948,451)	($1,061,309,977)
2021	($95,261,400)	($190,522,800)	($372,164,251)	($657,948,451)	($1,142,876,048)

*Projections presume that enrollment in TRS-ActiveCare 1-HD would remain constant through FY 2021.

F. Conclusion

The focus on TRS-ActiveCare is not on the long-term fund balance, but rather on funding and plan design options that make the offered plans more affordable to employees. As is the case for TRS-Care, there are no easy solutions to address the affordability issues of TRS-ActiveCare. Affordability will continue to plague the plan as health care costs continue to rise. Although health care benefits are just one part of a school district's compensation package, it can be a significant benefit to employees. Furthermore, providing quality, affordable health care plays a

vital role in attracting and retaining highly qualified teachers. Thus, it is critical that the affordability issues of TRS-ActiveCare be addressed to ensure Texas is able to hire and retain the most qualified educators for our youth.

It is clear that significant changes must occur to ensure the plan is affordable for all active public education employees in the long-term. Without significant changes, TRS-ActiveCare would eventually become unaffordable for active employees because premiums would become too excessive. If premiums continue to rise uncontrollably, active employees will soon be forced to find more affordable health care coverage elsewhere, and no longer participate in TRS-ActiveCare. Interested parties should not allow that scenario to come to fruition. Our hard-working public education employees deserve better.

The Committee also reviewed establishing premiums based on age and/or geographic location. Under current law, TRS-ActiveCare is required to offer uniform statewide coverage. Because of this uniform rating, employees who reside in lower cost geographic areas are subsidizing those in higher cost areas. TRS found there is a 92% cost differential between the highest cost area (Region 17 – Lubbock) and the lowest cost area (Region 20 – San Antonio).[52] Establishing regional rating methods for determining premiums would significantly increase premiums in certain areas of the state while lowering them in other areas. Thus, attempting to establish premiums based on age and/or geographic location would not achieve plan affordability for all members. Under the HD Plan, areas of the state that would benefit from reduced costs based on their location would be able to opt-out of TRS-ActiveCare and create their own health care program.

[52] *Id.*

Although many other options have been presented in the past, the Committee finds the HD Plan to be the most viable and realistic option to address the affordability problem TRS-ActiveCare currently faces. The HD Plan would certainly present new challenges for participating school districts that are no longer eligible to participate in the plan; however, those districts would adapt like many other districts that already offer their own health care plan. In fact, many districts may discover that they are able to offer more beneficial plans at lower premiums than TRS-ActiveCare can currently offer.

However, if school districts and active public education employees adamantly oppose the proposed changes in the HD Plan to curb the affordability problem, TRS-ActiveCare may continue operating under the current model. The fact is, premiums for all plan options will continue to increase as health care costs rise. Nevertheless, districts and employees may still prefer the stability that TRS provides and the multitude of coverage options. The decision to make significant changes to the plan, or continue in its current form, must ultimately be left to the active public education employees. The employees are in the best position to recognize what is in their best interest and the legislature should support them in any way possible.

V. Final Remarks

The Committee was truly appreciative of all the input it received from affected individuals and groups. The Committee clearly understands the dramatic impact that these potential changes may have on many TRS retirees and active public education employees. However, the alternative is far worse.

As stated previously, there are no easy answers to address the funding shortage for TRS-Care or the affordability problem for TRS-ActiveCare, especially given budgetary constraints the state is facing. The stark realities and severity of the problems make it a monumental challenge. However, it remains clear that drastic changes must occur immediately to ensure our TRS retirees and active public education employees continue to receive health care benefits. These problems can no longer be put off. The Committee is hopeful that interested parties and the 85th Legislature will embrace these potential changes to ensure the long-term viability of both health care plans. The Committee looks forward to continued discussions as we move towards the 85th Legislative Session.

VI. Appendix

Teacher Retirement System of Texas

Joint Committee on TRS Health Benefit Plans: TRS-Care

March 30, 2016

TRS-Care

Health Care Coverage for Retired Public Educators and their Families

History of TRS-Care

1981

- The Texas Public School Employees Group Benefits Program was passed by the legislature but vetoed due to lack of funding.

1983

- A survey of Texas school districts found that only 429 of the 1,100 school districts offered some sort of retiree health coverage.
- 14 of the 429 districts also provided contributions to the premium costs.

1985

- Every school district endorsed and lobbied the legislature for a group health insurance program.
- Districts agreed to payroll deduct a percentage of active teacher salaries to help fund the program.
- S.B.387 provided that 1985-86 school year was to be used by TRS to "design, build and implement" the new program to be effective September 1, 1986.

TRS

History of TRS-Care

1985 to 1986

- Created in 1985, the program is now in its 31st year. It was redesigned in 2004 to provide an additional decade of solvency.
- Catastrophic coverage was to be offered to all retirees at no cost, with the Board given the option of offering a more comprehensive plan that would be paid for by the retiree. Coverage for dependents was to be paid for by retirees.
- The State initially contributed 0.35% and active employees 0.25% of the active employee payroll to fund TRS-Care.

1986 to 2009

- Several increases were made over the years to State and active employee contributions.
- School districts began contributing 0.40% of active employee payroll in the 2003-04 school year.

TRS

History of TRS-Care

2010 - 2014

- The State contributes 1.00%, districts contribute 0.55% and active employees 0.65% of the active employee payroll to fund TRS-Care.
- Medical benefits are offered through three self-funded PPO plans and two fully insured Medicare Advantage plans, each of which are administered by Aetna.
- Pharmacy benefits are offered through self-funded plans administered by Express-Scripts, including a Medicare Part D plan.

2014 - 2016

- 83rd Legislative Session passed S.B. 1458, which changed eligibility rules effective September 1, 2014.
  - Individuals who retire before age 62 are eligible for TRS-Care 1 only.
  - At age 62, a retiree may upgrade from TRS-Care 1 to either TRS-Care 2 or TRS-Care 3.
  - Grandfathering provision if, on or before August 31, 2014, Age + Years of Service of the retiree is greater than or equal to 70 or the retiree has a minimum of 25 years of service.

Current Medical Plan Design

	TRS-Care 1	TRS-Care 2	TRS-Care 3	Medicare Advantage for TRS-Care 2	Medicare Advantage for TRS-Care 3
Eligibility	All members			Members with both Medicare Part A & B	
Deductible	$1,800 Parts A&B $3,000 Part B Only $4,000 Non-Medicare	$1,000/$2,000	$300/$600	$500	$150
Maximum Out-of-Pocket[1,2]	$4,800/$9,600 Parts A&B $6,000/$12,000 Part B Only $6,350/$12,700 Non-Medicare	$4,400/$8,800	$3,700/$7,400	$3,500	$3,150
Coinsurance	80%/20% (after Medicare payment)	80%/20% (after Medicare payment)	80%/20% (after Medicare payment)	95%/5%	95%/5%
Inpatient Hospital Facility				$500 copay per stay	$250 copay per stay
Outpatient Hospital Facility				$250 copay	$75 copay
Emergency Room				$65 copay	$50 copay
Urgent Care				$35 copay	$35 copay
Office Visits		Non-Medicare: $35 copay Medicare: 80%/20% (after Medicare payment)	Non-Medicare: $25 copay Medicare: 80%/20% (after Medicare payment)	$5 Primary Care Physician $10 Specialist	$5 Primary Care Physician $10 Specialist

[1] Maximum Out-of-Pocket includes medical and pharmacy deductible, coinsurance and copayments for TRS-Care 1.
[2] Maximum Out-of-Pocket includes medical deductible, coinsurance and copayments for TRS-Care 2 and TRS-Care-3.

Current Prescription Drug Plan Design

	TRS-Care 2	TRS-Care 3	Medicare Part D for TRS-Care 2	Medicare Part D for TRS-Care 3
Eligibility	All members		Members with either Medicare Part A or B	
Retail Copays				
Generic	$10	$10	$5	$5
Preferred Brand	$30	$25	$25	$20
Non-Preferred Brand	$50	$40	$50	$40
Mail Order Copays				
Generic	$20	$20	$15	$15
Preferred Brand	$75	$50	$70	$45
Non-Preferred Brand	$125	$80	$125	$80

Retiree Premiums

- Premiums are based on years of service ("Years"), Medicare status and plan election.
- Medicare Advantage enrollees receive a $15 per month premium reduction.
- Retiree premiums have not increased since FY2005.

	TRS-Care 1	TRS-Care 2			TRS-Care 3		
		<20 Years	20-29 Years	30+ Years	<20 Years	20-29 Years	30+ Years
Retiree or Surviving Spouse							
With Medicare Part A & B	$0	$80	$70	$60	$110	$100	$90
With Medicare Part B Only	$0	$165	$155	$145	$245	$230	$215
Non-Medicare	$0	$210	$200	$190	$310	$295	$280
+ Spouse							
With Medicare Part A & B	$20	$110	$105	$100	$165	$155	$145
With Medicare Part B Only	$75	$195	$185	$175	$290	$275	$260
Non-Medicare	$140	$240	$230	$220	$355	$340	$325
+ Child(ren)/Surviving Child(ren)							
Child(ren) of Retiree with Part A&B	$41	$62	$62	$62	$82	$82	$82
Child(ren) of Retiree with Part B Only	$34	$62	$62	$62	$82	$82	$82
Child(ren) of Non-Medicare Retiree	$28	$62	$62	$62	$82	$82	$82

Example: TRS-Care 3

- ❑ Retiree (30+ Years, Medicare Parts A&B): $90/month
- ❑ Retiree (20-29 Years, Medicare Part A&B) and Spouse (non-Medicare): $100 + $340 = $440/month
- ❑ Retiree (<20 Years, Non-Medicare); Spouse (Medicare Part B Only); and child: $310 + $290 + $82 = $682/month

Current Participation by Medicare Status

Retiree Count as of January 2016

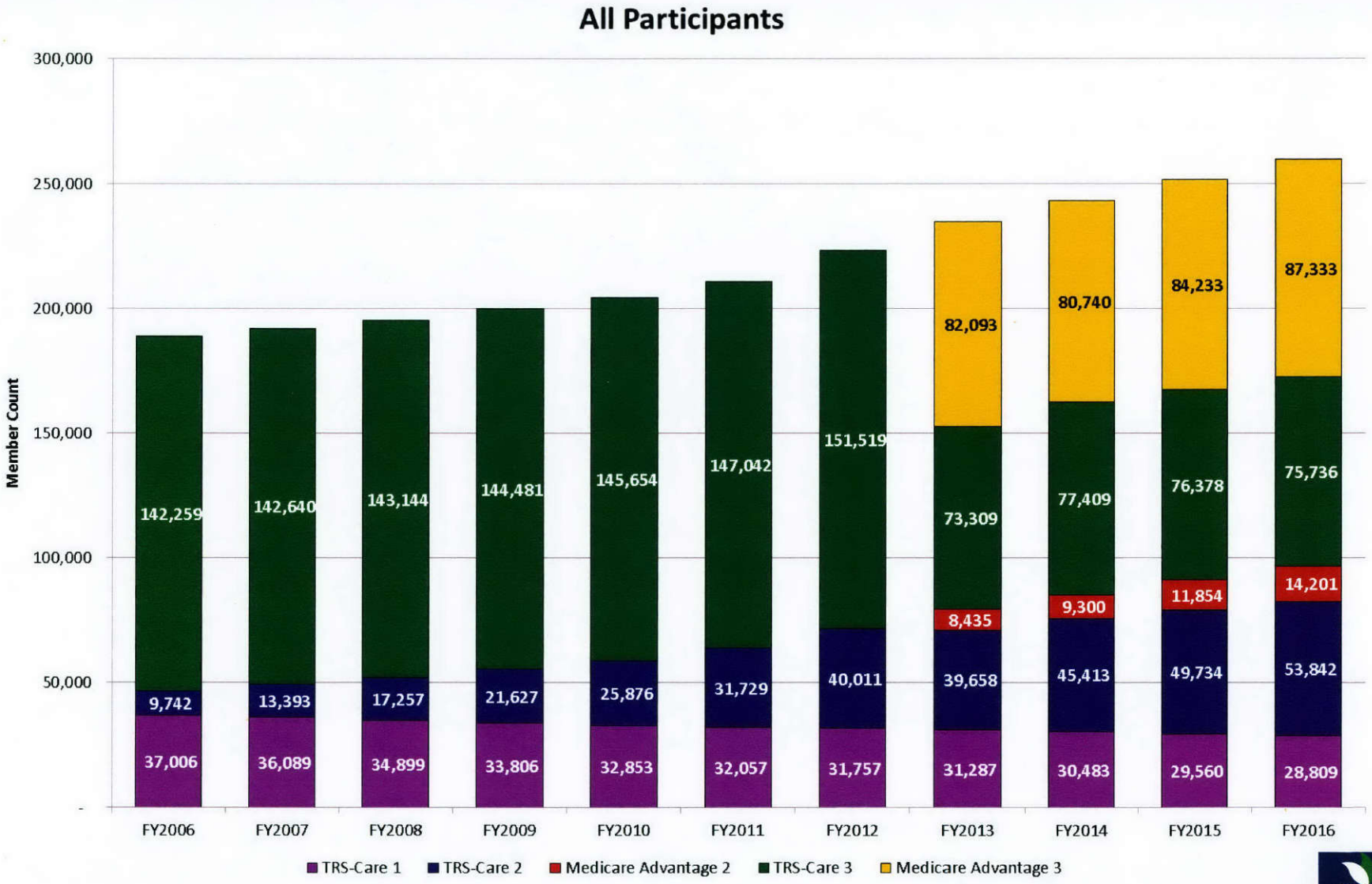
Medicare Status	Care-1	Care-2	Care-3	Medicare Advantage for Care-2	Medicare Advantage for Care-3	Total
Medicare A&B	12,969	4,284	32,893	9,901	72,393	132,440
Medicare B Only	8,844	1,528	7,087	0	0	17,459
Non-Medicare	4,814	31,635	19,879	0	0	56,328
Total	26,627	37,447	59,859	9,901	72,393	206,227

Participant Count as of January 2016

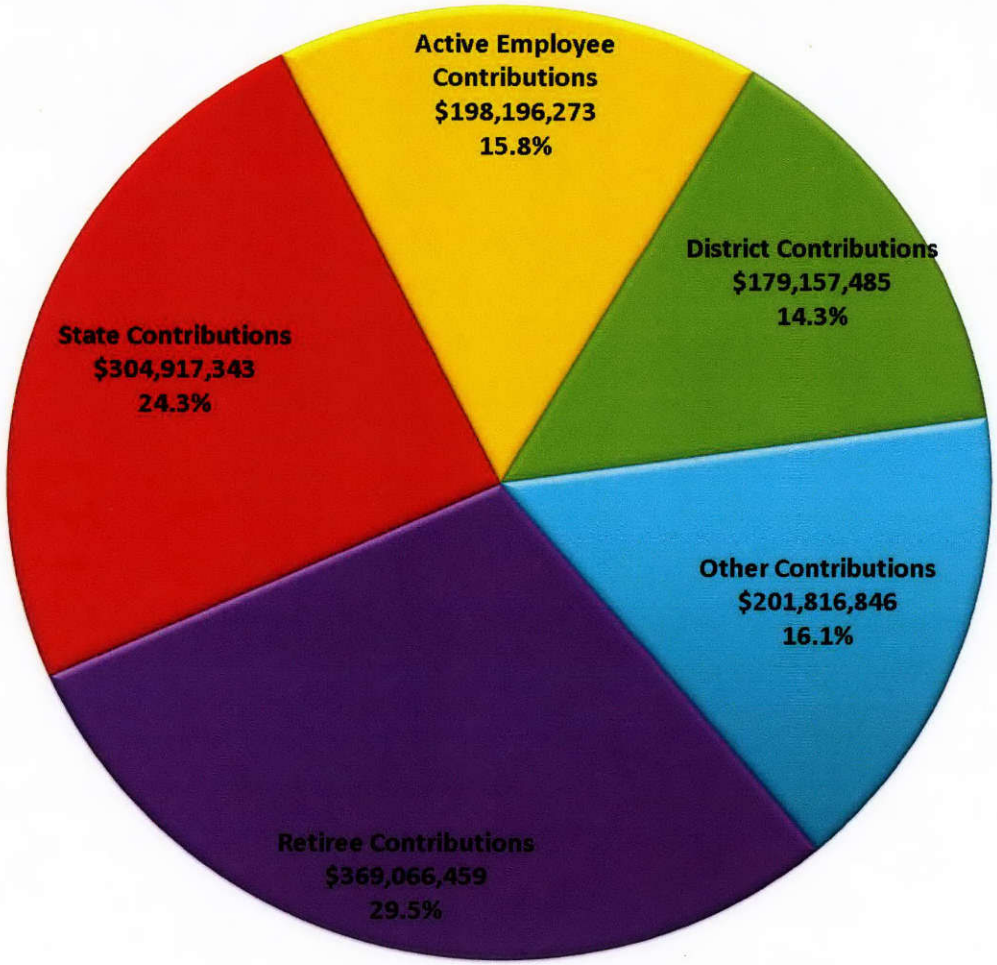
Medicare Status	Care-1	Care-2	Care-3	Medicare Advantage for Care-2	Medicare Advantage for Care-3	Total
Medicare A&B	14,012	5,987	40,385	14,410	88,125	162,919
Medicare B Only	9,005	1,722	7,353	0	0	18,080
Non-Medicare	5,947	45,386	27,370	0	0	78,703
Total	28,964	53,095	75,108	14,410	88,125	259,702

TRS

History of Participation by Plan



TRS-Care
FY2015 Distribution of Revenues



State Contributions:
1.0% of active employee payroll by law.

Active Employees:
0.65% of active employee payroll.

District Contributions:
0.55% of active employee payroll.

Other Contributions:
Includes Retiree Drug Subsidy, Medicare Part D subsidies and Investment Income.

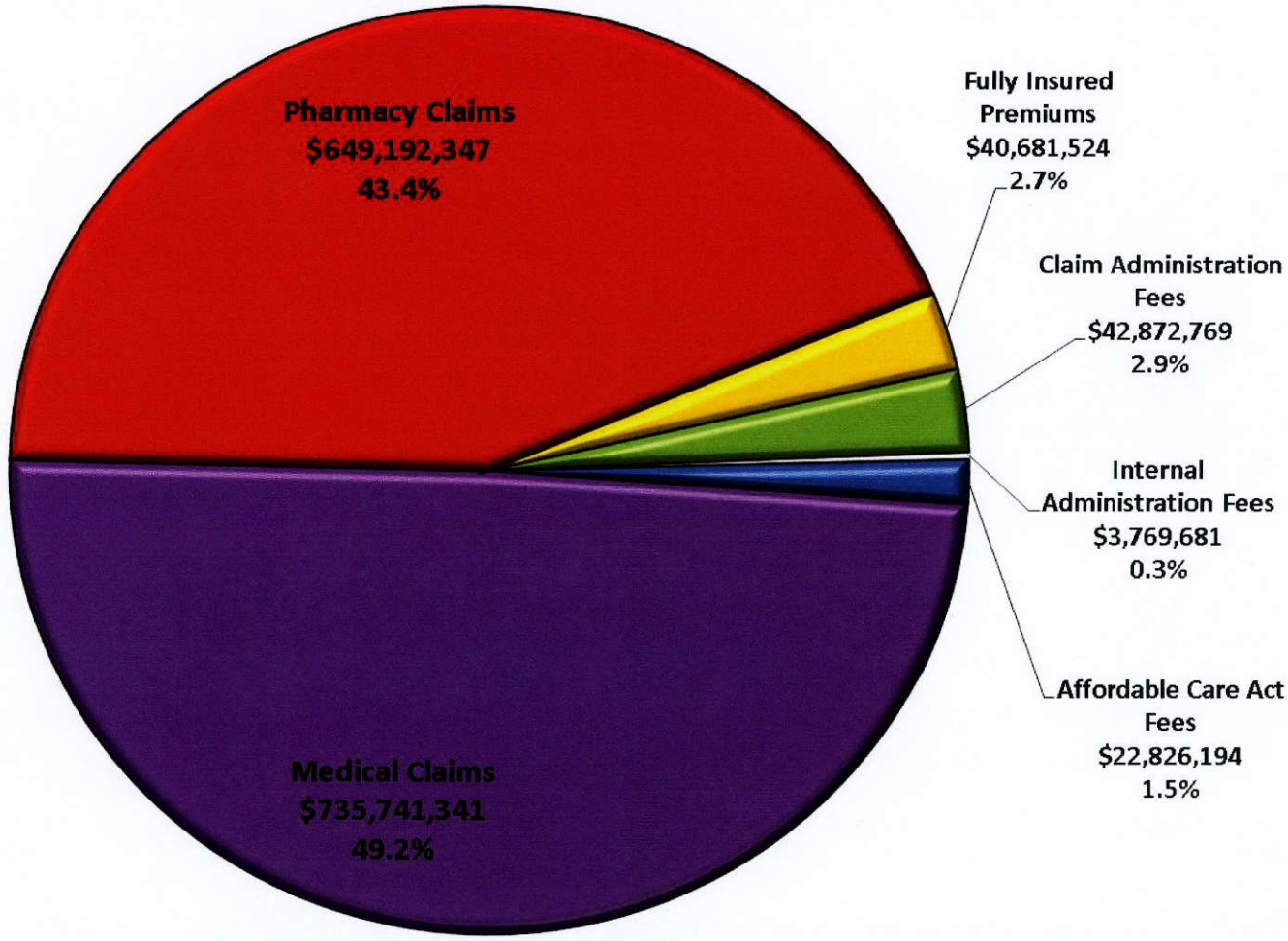
Retiree Contributions:
Retirees pay premiums for any plan option other than TRS Care-1.

Notes:
(1) Retiree premium contributions and Retiree cost sharing (deductibles, copayments and coinsurance) accounted for 35.0% of TRS-Care's expenses in FY2015.
(2) Funding is based on active employee payroll rather than actual health care costs.
(2) For the FY2016-17 biennium, the State contributed an additional $768 million

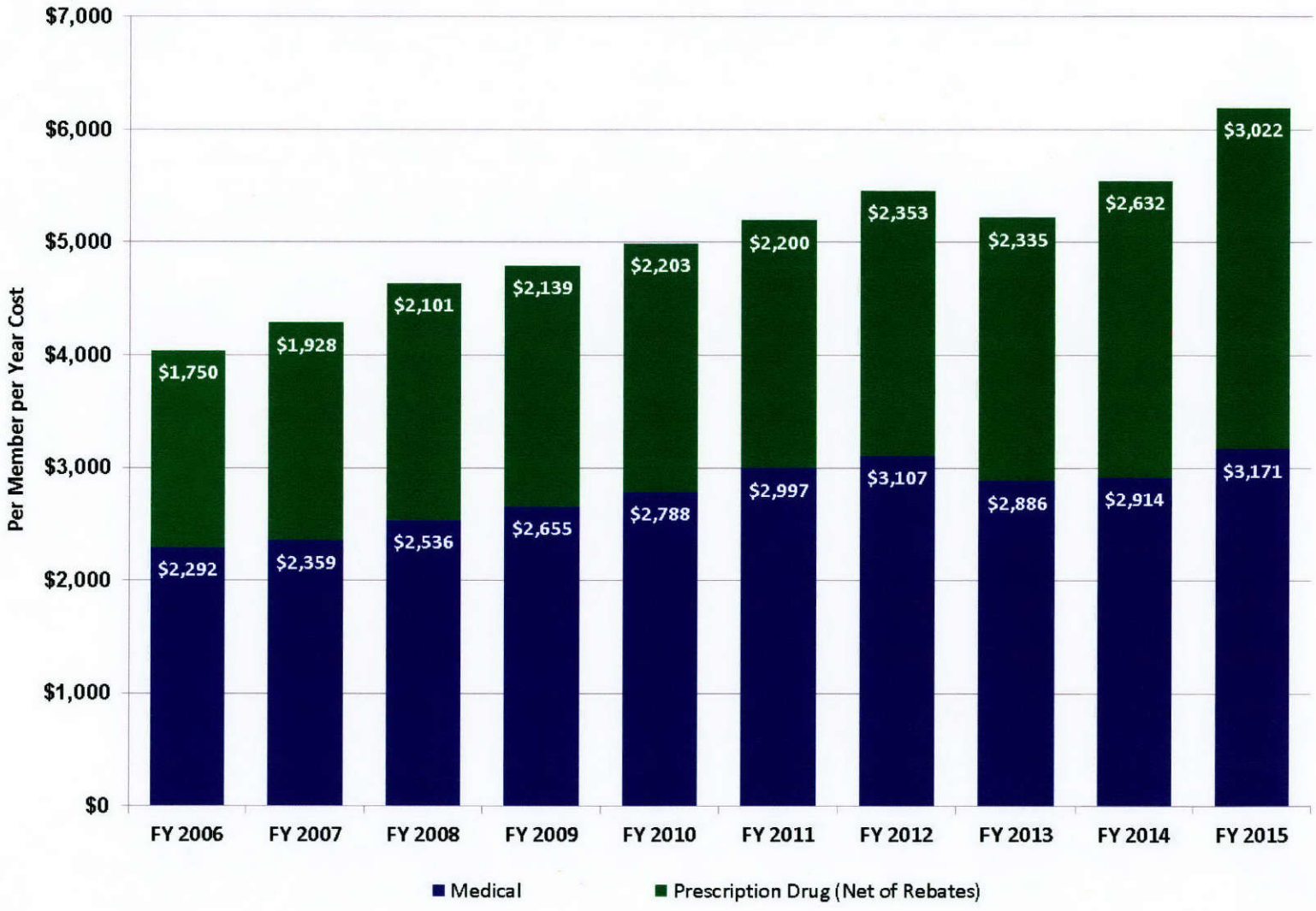
TRS-Care Funding Sources

Contribution Source	FY2014 Revenue		FY2015 Revenue	
1. Retirees	$363,631,292	30.6%	$369,066,459	18.3%
2. State				
i. 1% of Payroll	$290,775,235	24.5%	$304,917,343	15.1%
ii. Supplemental	$36,058,148	3.0%	$768,100,754	38.0%
3. School Districts (0.55%)	$169,847,447	14.3%	$179,157,485	8.9%
4. Active Employees (0.65%)	$189,003,903	15.9%	$198,196,273	9.8%
5. Other	$137,597,766	11.6%	$201,816,846	9.9%
Total	$1,186,913,792	100.%	$2,021,255,160	100.%

TRS-Care
FY2015 Expenses



TRS-Care
Average Per Member Per Year Cost
as of December 2015



TRS-Care Funding

Financial History & Projection Through FY2021 with Data Through December 2015

	Contributions								Expenditures				
Fiscal Year	Retiree Contributions	State Contributions	Supplemental Appropriations	Active Employee Contributions	District Contributions	Investment Income	CMS& Part D Subsidies	ERRP Subsidy	Medical Incurred	Drug Incurred	Medicare Advantage Premiums	Administrative Costs	Ending Balance (Incurred Basis)
FY 1986	$0	$0	$250,000	$17,625,194	$0	$572,153	$0	$0	$0	$0	$0	$362,371	$18,084,976
FY 1987	$22,617,624	$25,931,680	$0	$18,522,629	$0	$2,568,998	$0	$0	$50,988,845	$7,044,825	$0	$3,941,936	$25,750,301
FY 1988	$23,948,600	$31,357,632	$0	$19,598,520	$0	$5,703,832	$0	$0	$16,157,649	$12,441,672	$0	$4,614,755	$73,144,809
FY 1989	$25,428,632	$37,420,711	$0	$20,789,215	$0	$8,802,914	$0	$0	$32,926,324	$15,458,710	$0	$5,212,073	$111,989,174
FY 1990	$37,556,561	$44,369,915	$0	$22,184,958	$0	$13,098,835	$0	$0	$50,171,919	$19,835,965	$0	$7,186,851	$152,004,708
FY 1991	$46,563,787	$47,277,743	$0	$23,638,871	$0	$15,801,047	$0	$0	$82,697,189	$28,683,081	$0	$8,258,029	$165,647,857
FY 1992	$56,395,797	$50,392,512	$0	$25,196,592	$0	$17,314,372	$0	$0	$74,307,953	$33,829,694	$0	$8,862,560	$197,946,923
FY 1993	$65,154,653	$54,029,406	$0	$27,014,703	$0	$17,181,190	$0	$0	$101,627,864	$40,700,513	$0	$10,067,359	$208,931,140
FY 1994	$80,128,944	$56,912,083	$0	$28,456,041	$0	$16,467,438	$0	$0	$108,284,693	$45,712,060	$0	$11,668,828	$225,230,065
FY 1995	$89,006,331	$59,849,850	$0	$29,924,925	$0	$16,841,673	$0	$0	$122,054,551	$50,782,093	$0	$12,219,847	$235,796,353
FY 1996	$82,622,236	$63,634,087	$0	$31,817,043	$0	$16,818,747	$0	$0	$135,982,304	$57,074,921	$0	$13,593,578	$224,037,663
FY 1997	$87,657,784	$67,616,395	$0	$33,808,197	$0	$16,202,440	$0	$0	$148,823,489	$62,530,982	$0	$14,097,454	$203,870,554
FY 1998	$91,390,173	$72,210,190	$0	$36,105,095	$0	$15,260,517	$0	$0	$156,537,913	$76,256,158	$0	$14,616,678	$171,425,780
FY 1999	$96,474,107	$76,488,424	$0	$38,244,213	$0	$9,762,741	$0	$0	$184,398,533	$93,459,890	$0	$14,905,196	$99,631,646
FY 2000	$120,227,960	$85,505,637	$0	$42,738,069	$0	$6,923,485	$0	$0	$203,029,971	$110,903,247	$0	$16,837,127	$24,256,451
FY 2001	$131,213,445	$90,118,787	$76,281,781	$45,059,394	$0	$5,824,134	$0	$0	$250,691,898	$139,774,848	$0	$18,237,767	($35,950,521)
FY 2002	$143,797,748	$94,792,026	$285,515,036	$47,378,092	$0	$7,140,560	$0	$0	$287,729,918	$163,979,754	$0	$19,017,292	$71,945,978
FY 2003	$162,954,010	$98,340,798	$124,661,063	$49,170,399	$0	$3,394,956	$0	$0	$368,462,963	$203,281,400	$0	$21,690,329	($82,967,487)
FY 2004	$248,552,679	$198,594,194	$298,197,463	$99,297,097	$79,457,387	$4,840,982	$0	$0	$366,840,457	$214,514,500	$0	$26,332,200	$238,285,158
FY 2005	$322,780,191	$202,397,566	$64,172,167	$101,198,783	$80,914,228	$11,300,868	$0	$0	$431,036,095	$229,522,988	$0	$33,333,010	$327,156,868
FY 2006	$326,844,982	$215,666,940	$0	$140,183,511	$118,607,527	$21,435,792	$34,611,607	$0	$427,553,404	$259,532,887	$0	$34,434,969	$462,985,967
FY 2007	$323,957,945	$238,190,720	$0	$154,823,968	$136,008,512	$32,671,539	$52,329,617	$0	$437,519,747	$304,773,401	$0	$35,878,194	$622,796,927
FY 2008	$328,505,433	$254,722,174	$0	$165,569,413	$141,672,630	$29,252,347	$59,486,239	$0	$498,767,038	$334,742,500	$0	$39,656,301	$728,839,324
FY 2009	$329,723,191	$267,471,299	$0	$173,856,344	$149,562,613	$17,482,143	$61,530,735	$0	$531,239,020	$353,893,845	$0	$43,184,393	$800,148,391
FY 2010	$332,481,933	$279,250,547	$0	$181,512,856	$155,918,241	$11,679,229	$70,795,686	$0	$575,539,788	$395,817,017	$0	$45,465,776	$814,964,302
FY 2011	$345,164,271	$282,782,431	$0	$183,808,580	$158,724,010	$8,168,640	$66,258,008	$70,629,797	$608,461,321	$384,017,059	$0	$47,151,354	$890,870,304
FY 2012	$363,348,030	$271,925,242	$0	$176,751,407	$154,607,926	$5,189,934	$71,575,942	($2,941,996)	$687,987,585	$454,143,825	$0	$48,181,723	$741,013,656
FY 2013	$355,685,504	$139,213,557	$102,363,704	$180,824,522	$160,952,396	$3,041,001	$98,628,841	$0	$686,321,003	$496,229,923	$1,075,388	$47,048,587	$551,048,281
FY 2014	$363,631,292	$290,775,235	$36,058,148	$189,003,903	$169,847,447	$2,061,745	$135,536,021	$0	$663,776,623	$539,842,962	$27,507,107	$48,894,894	$457,940,487
FY 2015	$369,066,459	$304,917,343	$768,100,754	$198,196,273	$179,157,485	$1,495,680	$200,321,166	$0	$746,668,738	$649,457,501	$59,000,080	$51,150,088	$972,919,239
FY 2016	$378,925,832	$311,015,690	$0	$202,160,198	$182,517,320	$3,627,510	$191,559,959	$0	$783,976,030	$756,263,941	$75,526,661	$52,802,296	$574,156,819
FY 2017	$385,447,966	$317,236,004	$0	$206,203,402	$185,938,492	$1,763,771	$221,173,145	$0	$843,877,136	$901,348,099	$68,721,732	$53,235,667	$24,736,966
FY 2018	$390,579,790	$323,580,724	$0	$210,327,470	$189,428,089	$86,441	$255,464,056	$0	$888,730,578	$1,065,630,829	$82,016,715	$53,397,729	($695,572,315)
FY 2019	$396,004,003	$330,052,338	$0	$214,534,020	$192,987,476	$0	$293,228,100	$0	$938,527,726	$1,248,642,443	$116,236,950	$54,287,921	($1,626,461,418)
FY 2020	$400,730,377	$336,653,385	$0	$218,824,700	$196,618,052	$0	$334,681,191	$0	$990,024,307	$1,449,758,916	$133,653,301	$54,649,326	($2,767,039,563)
FY 2021	$402,524,205	$343,386,453	$0	$223,201,194	$200,321,239	$0	$379,875,793	$0	$1,039,774,619	$1,664,160,040	$153,211,720	$55,501,530	($4,130,378,589)

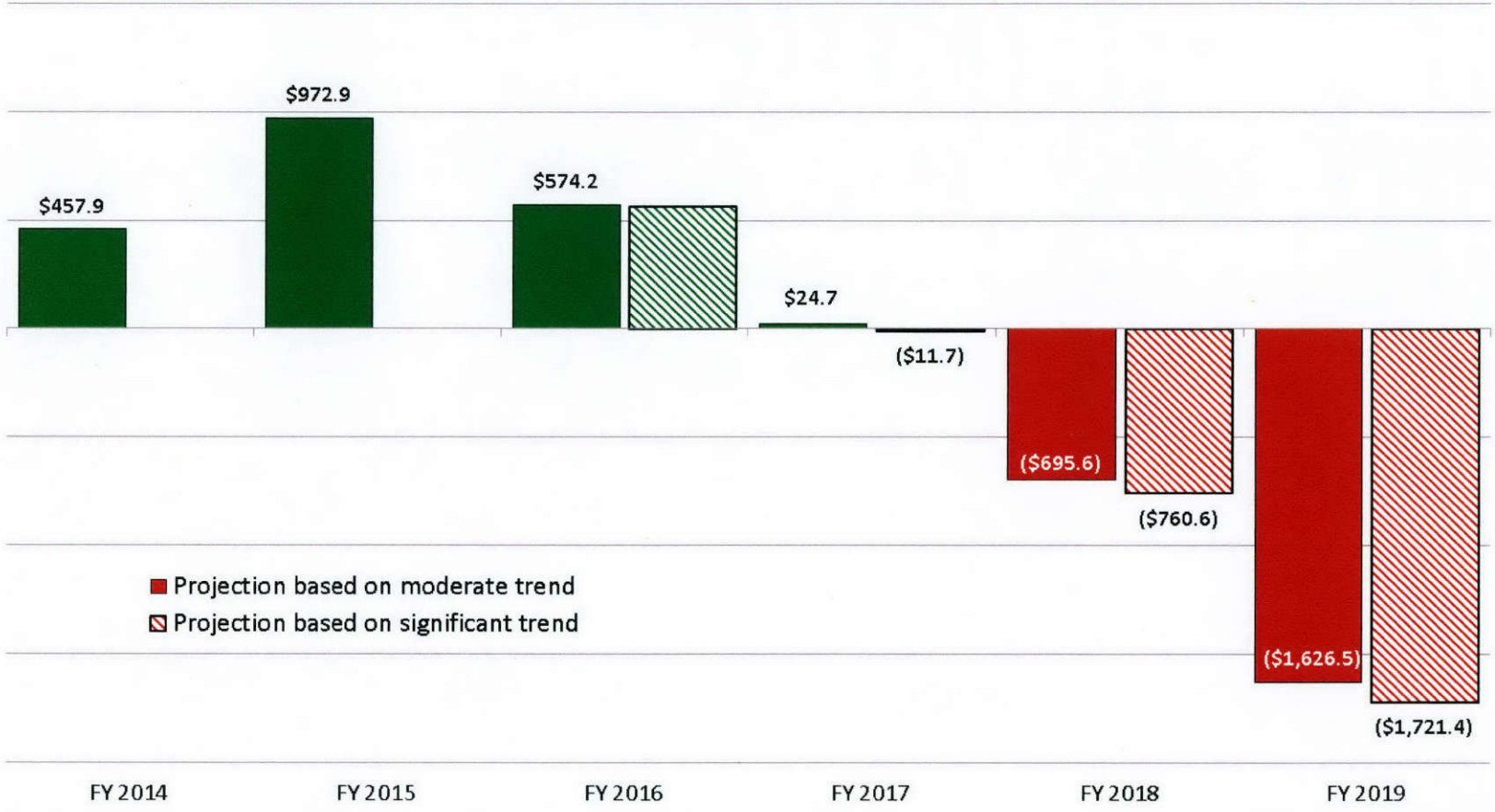
NOTES

- *Invoice data through December 31, 2015*
- *This purpose of this report is to project revenue and expenses on an incurred basis and should not be used as a projection of cash flow.*
- *68% participation in Medicare Advantage and 80% participation in Part D plan, which was effective 1/1/2013.*
- *State Contribution rate of 1%; District Contribution rate of 0.55%; and Active Contribution rate of 0.65%.*
- *Enrollment assumptions based on headcounts assumed in annual Other Post Employment Benefits (OPEB) valuation report.*
- *4% increase in payroll growth for FY2014; 2% increase in payroll growth thereafter.*
- *Medical trends: 7.5% for Care 1; 7.5% for Care 2; 7.5% for Care 3 through FY2017; reduced by 0.25 each year thereafter.*
- *Pharmacy trends: 13% for Care 2; 13% for Care 3; 13% for Medicare Part D plans, reduced by 0.50 each year thereafter.*
- *Interest Rate = 0.4%*

TRS-Care Projected Fund Balance

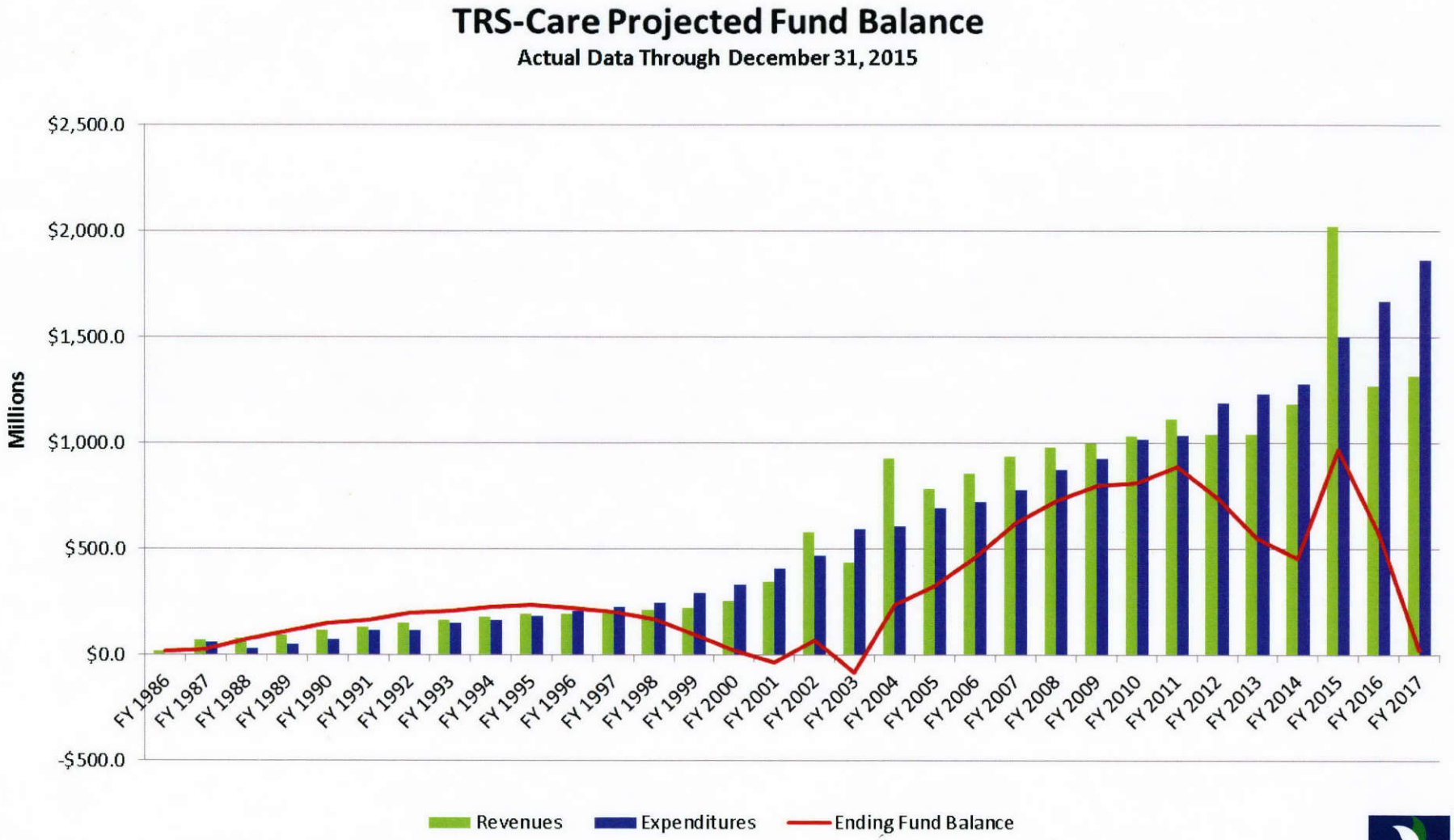
Projected Fund Balance as of December 31, 2015

(Incurred Basis in Millions)



*Due to the volatility of future health care costs, projected fiscal years are also shown assuming actual medical and pharmacy trends exceed current trend levels by 2 percentage points.

TRS-Care Projected Fund Balance



Cost Drivers

- Increase in medical costs
- Increase in prescription drug costs
- Maintaining access and choice in managing providers
- Increased utilization due to aging population
- Changes in the number of retirees in the group, particularly Non-Medicare
- Changes in Medicare programs
  - Medicare primary benefits for members enrolled in the self-funded plans
  - CMS reimbursements for fully-insured Medicare Advantage and Medicare Part D plans
- Advances in technology for medical testing/equipment
- Development of new specialty and biogenetic drugs
- Federal and state legislation

TRS

Previous Revenue Increases and Cost Containment Initiatives

- FY2001 – FY2005
  - Supplemental appropriations by the State in each fiscal year;
  - Required district contributions introduced in FY2004; and
  - FY2003 "10-Year Solvency" Legislation
    - Increased State contribution from 0.5% to 1.0% of active payroll
    - Increased active employee contribution from 0.25% to 0.5% of their payroll
    - Created school district contribution to 0.25%-0.75%, determined by General Appropriations Act. For 2004-2005 it was 0.4% or active payroll.
    - Retiree premiums and plans restructure.
- FY2005
  - Plan design changes;
  - Tightened eligibility rules;
    - Adopted the Rule of 80
  - Retiree premium restructured based on Years of Service and Medicare Status; and
  - Introduction of Employer Surcharge for "Return to Work" retirees.
- FY2013
  - Introduction of the Medicare Advantage plans for participants with Part A and B; and
  - Introduction of Medicare Part D plans for participants with Part A or B.

TRS

Previous Revenue Increases and Cost Containment Initiatives

- FY2014
  - Tightened criteria for which compound drugs would be covered.
- FY2015 "Actuarial Soundness" Legislation
  - Tightened eligibility rules
    - Set a minimum age of 62 in order to be eligible for TRS-Care 2 or TRS-Care 3.
    - Grandfathering provision for retirees if as of August 31, 2014
      - the sum of the retiree's age and amount of service credit in the retirement system is greater than or equal to 70; or
      - the retiree had at least 25 years of service credit in the retirement system.
    - All non-grandfathered individuals will only be eligible to receive TRS-Care 1 until they reach age 62. No impact until FY2020.

Average Costs Per Member Per Year

- Non-Medicare retirees are the biggest cost driver to the program; costs for non-Medicare retirees are over 3 times the costs of retirees with Medicare Parts A & B.

FY2015 PMPY Costs for TRS-Care 3 as of December 2015			
Plan	Medicare Parts A & B	Medicare Part B Only	Non-Medicare
Retiree enrolled in both Medicare Advantage and Medicare Part D Plans	$2,855	$6,795	---
Retiree NOT enrolled in either the Medicare Advantage or Medicare Part D Plans	$4,422	$7,219	$13,640

- With provider and benefit level choice, comes additional cost.
- There is a disparity between TRS-Care benefits and premiums in comparison to what is available to Texas state employee retirees under the Employee Retirement System of Texas. For example, the premium for Retiree Only coverage under the Employee Retirement System of Texas is 100% funded by the state.
- Approximately 31% of TRS-Care members in FY2015 were non-Medicare.

TRS

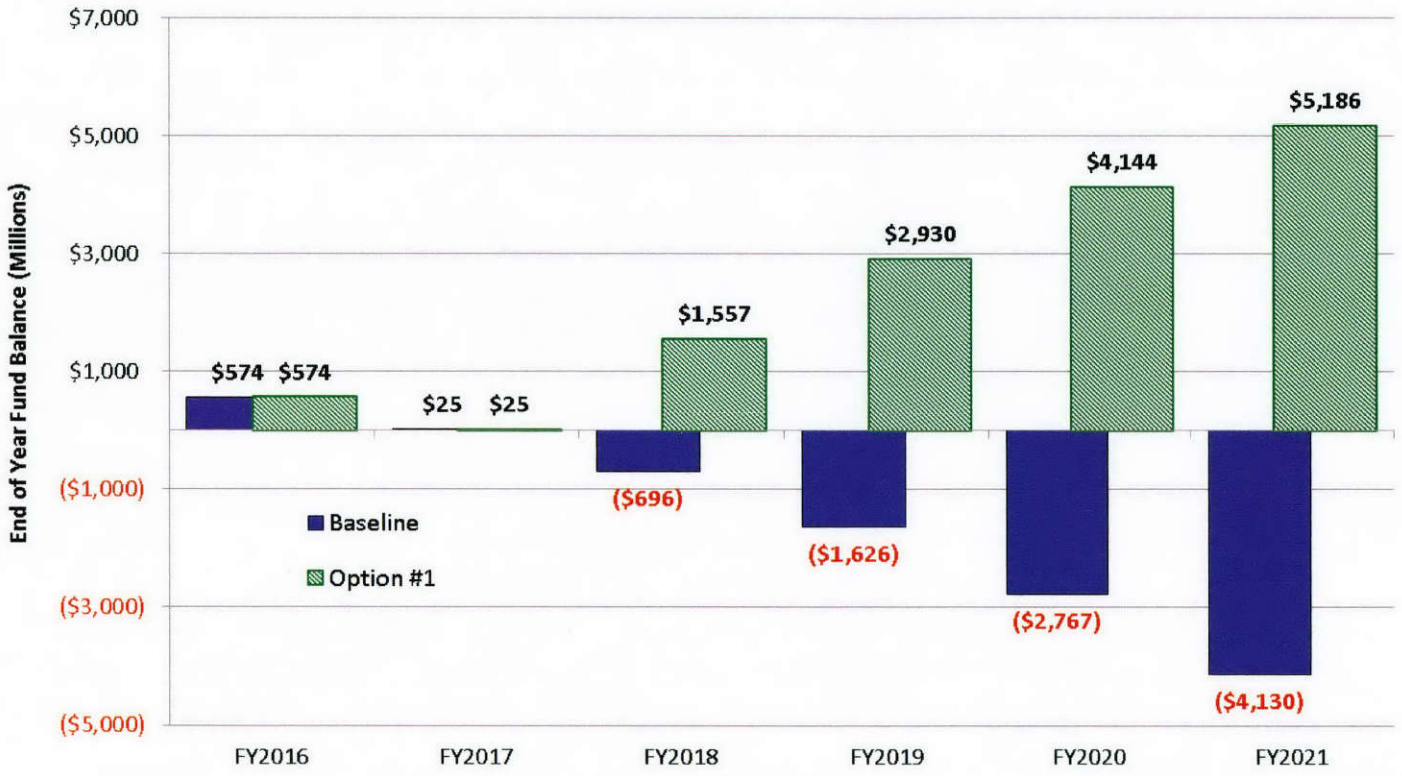
2016 Sustainability Study

Option	Description
Option 1	Pre-fund the long-term liability
Option 2	Fund on a pay-as-you-go basis through FY2021 2(a) Increase State contribution only 2(b) Increase State, District and Active Employee contributions 2(c) Increase State, District, Active Employee and Retiree contributions 2(d) Increase State, District, Active Employee and Retiree contributions; plan design changes
Option 3	Fund on a pay-as-you-go basis through FY2027 3(a) Increase State contribution only 3(b) Increase State, District and Active Employee contributions 3(c) Increase State, District, Active Employee and Retiree contributions
Option 4	Retiree pays the full cost for optional coverage
Option 5	Require purchase of Medicare Part B; mandatory participation in Medicare Advantage and Medicare part D plans; otherwise, TRS-Care 1
Option 6	Fixed Contribution or Care-1 for Non-Medicare retirees
Option 7	Create a single consumer directed plan design for non-Medicare enrollees

TRS

Option 1

Pre-Fund the Long-Term Liability



Fiscal Year	Change in Ending Fund Balance
2016	$0
2017	$0
2018	$2,252,604,579
2019	$2,303,486,813
2020	$2,354,574,146
2021	$2,405,920,465

- Option 1
  - Currently, the State, Districts and Active Employees contribute a total of 2.20% of active employee payroll to TRS-Care.
  - To pre-fund the long-term liability, the total contribution rate would need to increase to 9.15%, which is an increase of 316%.

Option 1

Pre-Fund the Long-Term Liability

Currently, the State, Districts and Active Employees contribute a total of 2.20% of active employee payroll to TRS-Care. To pre-fund the long-term liability, the total contribution rate would need to increase to 9.15%, which is an increase of 316%.

	Contribution as a Percent of Active Employee Payroll			Percent Change in Premium Contribution
Biennium	**State**	**District**	**Active Employees**	**Retirees**
2016 – 2017	1.00%	0.55%	0.65%	0%
2018 – 2019	4.16%	2.70%	2.29%	0%
2020 - 2021	4.16%	2.70%	2.29%	0%

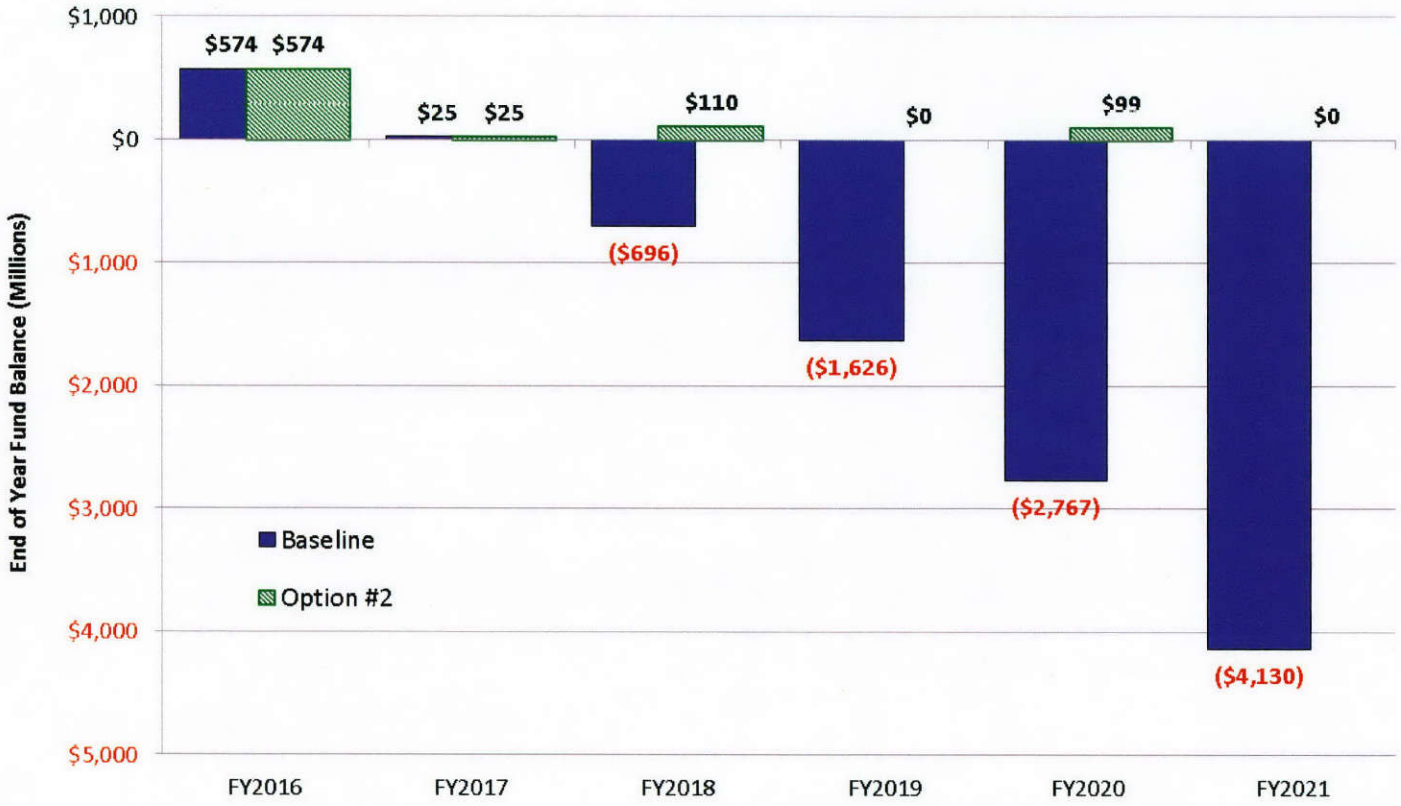
	Projected Additional Cost over Current Funding Levels			
Biennium	**State[1]**	**District**	**Active Employees**	**Retirees**
2016 – 2017	$0	$0	$0	$0
2018 – 2019	$1,899,695,362	$1,135,687,445	$1,342,176,071	$0
2020 – 2021	$1,976,443,055	$1,181,569,218	$1,396,399,985	$0

[1] The projected cost impact to the State has been reduced by 8% to remove contributions funded by the Federal Government.

	Total Funding			
Biennium	**State**	**District**	**Active Employees**	**Retirees**
2016 – 2017	$628,251,693	$368,455,812	$408,363,601	$764,373,798
2018 – 2019	$2,718,519,325	$1,518,103,010	$1,767,037,561	$786,583,793
2020 – 2021	$2,828,347,506	$1,578,508,509	$1,838,425,879	$803,254,581

TRS

Option 2
Fund on a Pay-As-You-Go Basis



Fiscal Year	Change in Ending Fund Balance
2016	$0
2017	$0
2018	$805,158,940
2019	$821,302,478
2020	$1,239,548,548
2021	$1,264,368,623

- Option 2
  - This option projects the increase in funding from the State, District, Active employees and retirees in order for the fund to be solvent at the end of both FY2019 and FY2021.
  - Each of options 2(a) through 2(d) achieve the ending fund balances shown above by increasing contributions a variety of ways.

Option 2(a)
Fund on a Pay-As-You-Go Basis

Option #2(a) assumes that the State contribution rate – as a percent of active employee payroll – would increase in each of the next two biennia in order for the TRS-Care fund to maintain solvency through FY2021. In this option, the State contribution would need to increase by 249% in FY2018 and then again by 34% in FY2020.

	Contribution as a Percent of Active Employee Payroll			Percent Change in Premium Contribution
Biennium	**State**	**District**	**Active Employees**	**Retirees**
2016 – 2017	1.00%	0.55%	0.65%	0%
2018 – 2019	3.49%	0.55%	0.65%	0%
2020 – 2021	4.68%	0.55%	0.65%	0%

	Projected Additional Cost over Current Funding Levels			
Biennium	**State[1]**	**District**	**Active Employees**	**Retirees**
2016 – 2017	$0	$0	$0	$0
2018 – 2019	$1,494,762,408	$0	$0	$0
2020 – 2021	$2,301,878,735	$0	$0	$0

[1] The projected cost impact to the State has been reduced by 8% to remove contributions funded by the Federal Government.

	Total Funding			
Biennium	**State**	**District**	**Active Employees**	**Retirees**
2016 – 2017	$628,251,693	$368,455,812	$408,363,601	$764,373,798
2018 – 2019	$2,278,374,810	$382,415,565	$424,861,490	$786,583,793
2020 – 2021	$3,182,081,941	$396,939,292	$442,025,894	$803,254,581

TRS

Option 2(b)
Fund on a Pay-As-You-Go Basis

Option #2(b) assumes that the State, District and Active Employee contribution rates – as a percent of active employee payroll – would increase in each of the next two biennia in order for the TRS-Care fund to maintain solvency through FY2021. In this option, the contribution rates would need to increase by 113% in FY2018 and then again by 25.5% in FY2020.

	Contribution as a Percent of Active Employee Payroll			Percent Change in Premium Contribution
Biennium	**State**	**District**	**Active Employees**	**Retirees**
2016 – 2017	1.00%	0.55%	0.65%	0%
2018 – 2019	2.13%	1.17%	1.38%	0%
2020 – 2021	2.67%	1.47%	1.74%	0%

	Projected Additional Cost over Current Funding Levels			
Biennium	**State[1]**	**District**	**Active Employees**	**Retirees**
2016 – 2017	$0	$0	$0	$0
2018 – 2019	$679,437,458	$406,185,437	$480,037,335	$0
2020 – 2021	$1,046,308,516	$625,510,526	$739,239,712	$0

[1] The projected cost impact to the State has been reduced by 8% to remove contributions funded by the Federal Government.

	Total Funding			
Biennium	**State**	**District**	**Active Employees**	**Retirees**
2016 – 2017	$628,251,693	$368,455,812	$408,363,601	$764,373,798
2018 – 2019	$1,392,152,038	$788,601,002	$904,898,825	$786,583,793
2020 – 2021	$1,817,331,703	$1,022,449,818	$1,181,265,607	$803,254,581

Option 2(c)
Fund on a Pay-As-You-Go Basis

Option #2(c) assumes that the contribution rates from all funding sources would increase in each of the next two biennia in order for the TRS-Care fund to maintain solvency through FY2021. In this option, contribution rates would need to increase by 71.7% in FY2018 and then again by 20.4% in FY2020. **Please note these changes may result in loss of grandfathered status.**

	Contribution as a Percent of Active Employee Payroll			Percent Change in Premium Contribution
Biennium	**State**	**District**	**Active Employees**	**Retirees**
2016 – 2017	1.00%	0.55%	0.65%	0%
2018 – 2019	1.72%	0.94%	1.12%	+71.7%
2020 – 2021	2.07%	1.14%	1.34%	+20.4%

	Projected Additional Cost over Current Funding Levels			
Biennium	**State[1]**	**District**	**Active Employees**	**Retirees**
2016 – 2017	$0	$0	$0	$0
2018 – 2019	$431,155,555	$257,756,038	$304,620,773	$593,713,392
2020 – 2021	$667,628,849	$399,125,942	$471,694,296	$905,525,232

[1] The projected cost impact to the State has been reduced by 8% to remove contributions funded by the Federal Government.

	Total Funding			
Biennium	**State**	**District**	**Active Employees**	**Retirees**
2016 – 2017	$628,251,693	$368,455,812	$408,363,601	$764,373,798
2018 – 2019	$1,122,280,404	$640,171,603	$729,482,263	$1,380,297,185
2020 – 2021	$1,405,723,369	$796,065,234	$913,720,190	$1,708,779,813

TRS

Option 2(c)
Fund on a Pay-As-You-Go Basis

The following table shows the resulting Retiree Only monthly premiums for 20-29 Years of Service under Option #2(c).

Fiscal Year	Projected Retiree Premiums			
	TRS-Care 2		TRS-Care 3	
	Medicare A&B	Non-Medicare	Medicare A&B	Non-Medicare
FY2017	$70	$200	$100	$295
FY2018	$120	$343	$172	$507
FY2019	$120	$343	$172	$507
FY2020	$145	$413	$207	$610
FY2021	$145	$413	$207	$610

Option 2(d)
Fund on a Pay-As-You-Go Basis

Option #2(d) assumes that the State, District and Active Employee contribution rates required in Option #2(c) while retirees would receive a smaller increase in premiums along with benefit reductions in order for the TRS-Care fund to maintain solvency through FY2021. **Please note these changes may result in loss of grandfathered status.**

	Contribution as a Percent of Active Employee Payroll			Percent Change in Premium Contribution
Biennium	**State**	**District**	**Active Employees**	**Retirees**
2016 – 2017	1.00%	0.55%	0.65%	0%
2018 – 2019	1.72%	0.94%	1.12%	+30.5%
2020 – 2021	2.07%	1.14%	1.34%	+23.6%

	Projected Additional Cost over Current Funding Levels			
Biennium	**State[1]**	**District**	**Active Employees**	**Retirees[2]**
2016 – 2017	$0	$0	$0	$0
2018 – 2019	$431,155,555	$257,756,038	$304,620,773	$596,092,153
2020 – 2021	$667,628,849	$399,125,942	$471,694,296	$909,061,605

[1] The projected cost impact to the State has been reduced by 8% to remove contributions funded by the Federal Government.

[2] Increased costs projected for retirees includes both Retiree premium contributions and increased out-of-pocket expenses.

	Total Funding			
Biennium	**State**	**District**	**Active Employees**	**Retirees**
2016 – 2017	$628,251,693	$368,455,812	$408,363,601	$764,373,798
2018 – 2019	$1,122,280,404	$640,171,603	$729,482,263	$1,039,352,058
2020 – 2021	$1,405,723,369	$796,065,234	$913,720,190	$1,323,624,694

TRS

Option 2(d)

Fund on a Pay-As-You-Go Basis

The following table shows the resulting Retiree Only monthly premiums for 20-29 Years of Service under Option #2(d).

Fiscal Year	Projected Retiree Premiums			
	TRS-Care 2		TRS-Care 3	
	Medicare A&B	Non-Medicare	Medicare A&B	Non-Medicare
FY2017	$70	$200	$100	$295
FY2018	$91	$261	$131	$385
FY2019	$91	$261	$131	$385
FY2020	$113	$323	$161	$476
FY2021	$113	$323	$161	$476

Option 2(d)

Fund on a Pay-As-You-Go Basis

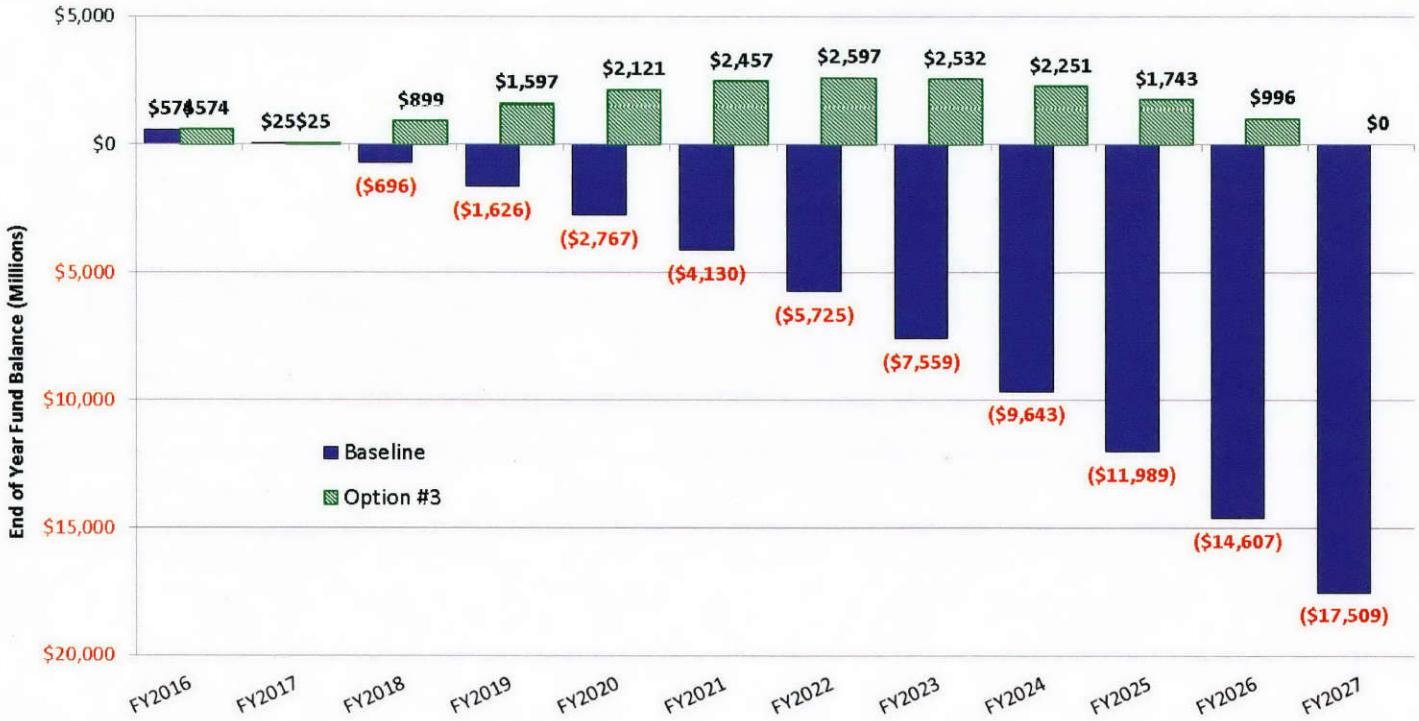
The plan design modeled in Option #2(d) maintains the plan's current grandfathered status for the self-funded plans. As allowed by the Affordable Care Act, fixed dollar deductibles and copays were increased by 15% plus Consumer Price Index since March 2010, or 40%. Coinsurance levels for each plan option remained at 80/20% cost sharing. A summary of the plan designs are shown below.

	TRS-Care 1	TRS-Care 2	TRS-Care 3
Individual/Family Deductible	$2,500/$5,000 Parts A&B $4,100/$8,300 Part B Only $5,500/$11,100 Non-Medicare	$1,300/$2,700	$400/$800
Maximum Out-of-Pocket[1]	$5,500/$11,000 Parts A&B $6,700/$13,400 Part B Only $6,700/$13,400 Non-Medicare	$6,100/$12,300	$5,100/$10,300
Coinsurance	80%/20% (after Medicare payment)	80%/20% (after Medicare payment)	80%/20% (after Medicare payment)
Office Visits	80%/20% (after Medicare payment)	$48	$34
Prescription Drug (Traditional)	80%/20% (after Medicare payment)	Retail: $13/$41/$69 Mail: $27/$104/$174	Retail: $13/$34/$55 Mail: $27/$69/$111
Prescription Drug (Medicare Part D)	N/A	Retail: $8/$36/$69 Mail: $22/$99/$174	Retail: $8/$29/$55 Mail: $22/$64/$111

[1] Assumes Individual/Family Maximum Out-of-Pocket limits of $6,700/$13,400 in calendar year 2017.

TRS

Option 3
Fund for a 10-Year Solvency



Fiscal Year	Change in Ending Fund Balance
2016	$0
2017	$0
2018	$1,594,424,848
2019	$1,629,510,768
2020	$1,664,475,331
2021	$1,699,365,850
2022	$1,734,150,857
2023	$1,768,809,876
2024	$1,803,319,157
2025	$1,837,649,482
2026	$1,871,770,926
2027	$1,905,651,501

- Option 3
  - This option projects the increase in funding from the State, District, Active employees and retirees in order to for the fund to be solvent through the end of FY2027, or 10 years.
  - Each of options 3(a) through 3(c) achieve the ending fund balances shown above by increasing contributions a variety of ways.

Option 3(a)
Fund for a 10-Year Solvency

Option #3(a) assumes that the State contribution rate – as a percent of active employee payroll – would increase once by 492% on 9/1/2017 in order for the TRS-Care fund to maintain solvency through FY2027.

	Contribution as a Percent of Active Employee Payroll			Percent Change in Premium Contribution
Biennium	State	District	Active Employees	Retirees
2016 – 2017	1.00%	0.55%	0.65%	0%
2018 – 2027	5.92%	0.55%	0.65%	0%

	Projected Additional Cost over Current Funding Levels			
Biennium	State[1]	District	Active Employees	Retirees
2016 – 2017	$0	$0	$0	$0
2018 – 2019	$2,958,608,414	$0	$0	$0
2020 – 2021	$3,078,136,194	$0	$0	$0
2022 – 2023	$3,202,492,896	$0	$0	$0
2024 – 2025	$3,331,873,609	$0	$0	$0
2026 – 2027	$3,466,481,303	$0	$0	$0

[1] The projected cost impact to the State has been reduced by 8% to remove contributions funded by the Federal Government.

	Total Funding			
Biennium	State	District	Active Employees	Retirees
2018 – 2019	$3,869,511,773	$382,415,565	$424,861,490	$786,583,793
2020 – 2021	$4,025,840,048	$396,939,292	$442,025,894	$803,254,581
2022 – 2023	$4,188,483,986	$412,049,777	$459,883,741	$798,961,498
2024 – 2025	$4,357,698,740	$427,770,726	$478,463,044	$781,204,380
2026 – 2027	$4,533,749,769	$444,126,801	$497,792,951	$762,188,870

Option 3(b)
Fund for a 10-Year Solvency

Option #3(b) assumes that the State, District and Active Employee contribution rates – as a percent of active employee payroll – would increase once by 224% on 9/1/2017 in order for the TRS-Care fund to maintain solvency through FY2027.

	Contribution as a Percent of Active Employee Payroll			Percent Change in Premium Contribution
Biennium	State	District	Active Employees	Retirees
2016 – 2017	1.00%	0.55%	0.65%	0%
2018 – 2027	3.24%	1.78%	2.10%	0%

	Projected Additional Cost over Current Funding Levels			
Biennium	State[1]	District	Active Employees	Retirees
2016 – 2017	$0	$0	$0	$0
2018 – 2019	$1,344,822,006	$803,969,678	$950,145,983	$0
2020 – 2021	$1,399,152,815	$836,450,053	$988,531,881	$0
2022 – 2023	$1,455,678,589	$870,242,635	$1,028,468,568	$0
2024 – 2025	$1,514,488,004	$905,400,437	$1,070,018,699	$0
2026 – 2027	$1,575,673,320	$941,978,615	$1,113,247,454	$0

[1] The projected cost impact to the State has been reduced by 8% to remove contributions funded by the Federal Government.

	Total Funding			
Biennium	State	District	Active Employees	Retirees
2018 – 2019	$2,115,396,112	$1,186,385,243	$1,375,007,473	$786,583,793
2020 – 2021	$2,200,858,115	$1,233,389,344	$1,430,557,775	$803,254,581
2022 – 2023	$2,289,772,783	$1,282,292,412	$1,488,352,309	$798,961,498
2024 – 2025	$2,382,279,604	$1,333,171,163	$1,548,481,742	$781,204,380
2026 – 2027	$2,478,523,700	$1,386,105,416	$1,611,040,405	$762,188,870

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Option 3(c)
Fund for a 10-Year Solvency

Option #3(c) assumes that the State, District and Active Employee contribution rates – as a percent of active employee payroll – as well as Retiree premium contributions would increase once by 145.6% on 9/1/2017 in order for the TRS-Care fund to maintain solvency through FY2027. **Please note these changes may result in loss of grandfathered status.**

	Contribution as a Percent of Active Employee Payroll			Percent Change in Premium Contribution
Biennium	State	District	Active Employees	Retirees
2016 – 2017	1.00%	0.55%	0.65%	0%
2018 – 2027	2.46%	1.35%	1.60%	+145.6%

	Projected Additional Cost over Current Funding Levels			
Biennium	State[1]	District	Active Employees	Retirees
2016 – 2017	$0	$0	$0	$0
2018 – 2019	$875,443,354	$523,362,875	$618,519,761	$1,205,510,255
2020 – 2021	$910,811,266	$544,506,735	$643,507,959	$1,235,360,911
2022 – 2023	$947,608,041	$566,504,807	$669,505,681	$1,234,498,655
2024 – 2025	$985,891,406	$589,391,601	$696,553,711	$1,213,834,791
2026 – 2027	$1,025,721,419	$613,203,022	$724,694,480	$1,190,718,936

[1] The projected cost impact to the State has been reduced by 8% to remove contributions funded by the Federal Government.

	Total Funding			
Biennium	State	District	Active Employees	Retirees
2018 – 2019	$1,605,201,925	$905,778,440	$1,043,381,251	$1,992,094,048
2020 – 2021	$1,670,052,083	$941,446,027	$1,085,533,854	$2,038,615,492
2022 – 2023	$1,737,522,187	$978,554,584	$1,129,389,422	$2,033,460,153
2024 – 2025	$1,807,718,083	$1,017,162,327	$1,175,016,754	$1,995,039,171
2026 – 2027	$1,880,749,894	$1,057,329,823	$1,222,487,431	$1,952,907,806

TRS

Option 3(c)
Fund for a 10-Year Solvency

The following table shows the resulting Retiree Only monthly premiums for 20-29 Years of Service under Option #3(c).

Fiscal Year	Projected Retiree Premiums			
	TRS-Care 2		TRS-Care 3	
	Medicare A&B	Non-Medicare	Medicare A&B	Non-Medicare
FY2017	$70	$200	$100	$295
FY2018+	$172	$491	$246	$724

Option 4
Retiree Pays the Full Cost of Optional Coverage

Option 4 Retiree pays full cost for optional coverage*

- The law requires that TRS-Care 1, catastrophic coverage be offered at no premium cost to the retiree.
- Currently, the optional coverages are being subsidized.
- Significant reduction in benefits for TRS-Care 1 retiree.
  - Deductibles and out-of-pocket maximums would at least double.
- Increase premium for a TRS-Care 3 retiree with 25 years of service from $295 to $785 per month for FY2016.
- Increase premium for TRS-Care 3 retiree and spouse, both non-Medicare from $635 to $1,989 per month for FY2016.
- **Please note these changes may result in loss of grandfathered status.**

* Optional coverages include dependent coverage as well as TRS-Care 2 and TRS-Care 3 for retirees.

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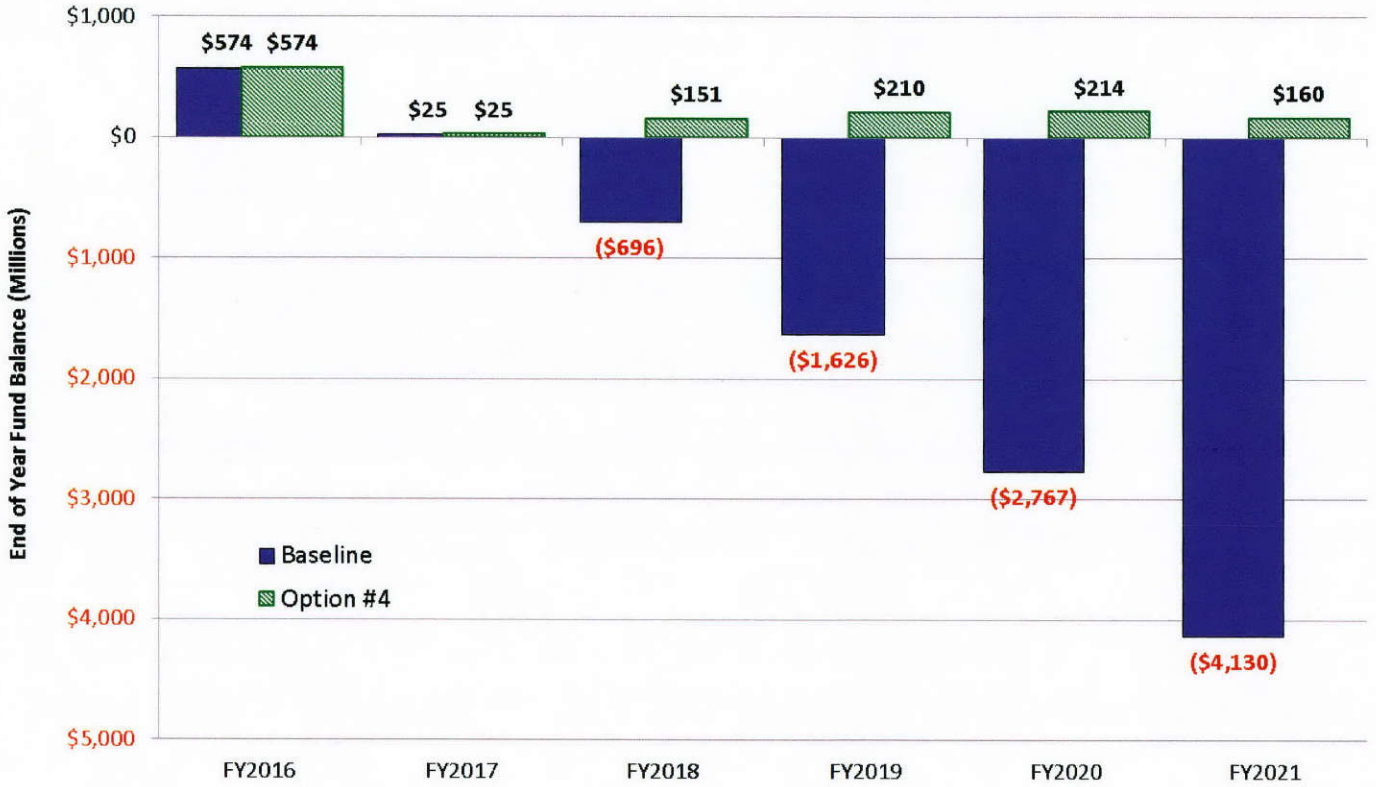
Option 4
Retiree Pays the Full Cost of Optional Coverage



Fiscal Year	Change in Ending Fund Balance
2016	$0
2017	$0
2018	$846,723,023
2019	$990,214,651
2020	$1,144,276,636
2021	$1,308,676,052

- Option 4
  - This option sets the retiree premium contributions for optional coverages to reflect the full cost of the optional coverage, increasing each year with trend.
  - A subsequent reduction in TRS-Care 1 benefits would be required in order for the State, District and Active Employee contributions to cover the cost of TRS-Care 1 for retirees.

Option 4
Retiree Pays the Full Cost of Optional Coverage

Option #4 assumes that current retirees remain enrolled in the same level of coverage he/she has today and that future retirees continue to elect TRS-Care 2 and TRS-Care 3. If this option were to be implemented, both current and future retirees will elect to enroll in TRS-Care 1 causing retiree contributions into the fund to decrease significantly. In addition, the average cost of members remaining in TRS-Care 2 and TRS-Care 3 will rise due to adverse selection.

	Contribution as a Percent of Active Employee Payroll			Percent Change in Premium Contribution
Biennium	State	District	Active Employees	Retirees[1]
2016 – 2017	1.00%	0.55%	0.65%	0%
2018 – 2019	1.00%	0.55%	0.65%	Retiree Only +41 – 210% Retiree & Spouse +125 – 318% Retiree & Child(ren) +132 – 303% Retiree & Family +170 – 330%
2020 – 2021	1.00%	0.55%	0.65%	

[1] The percent changes shown in the table reflect the range of increases in premium for TRS-Care 2 and TRS-Care 3 participants. The percent change in retiree premium contributions for TRS-Care 1 ranges between 0% and 1,070%.

	Projected Additional Cost over Current Funding Levels		
Biennium	State/District/ Active Employees	Retiree Premium Contributions	Claims and Admin Expenses
2016 – 2017	$0	$0	$0
2018 – 2019	$0	$1,775,448,305	($61,489,368)
2020 – 2021	$0	$2,376,400,886	($76,551,799)

	Total Funding			
Biennium	State	District	Active Employees	Retirees
2016 – 2017	$628,251,693	$368,455,812	$408,363,601	$764,373,798
2018 – 2019	$653,633,062	$382,415,565	$424,861,490	$2,562,032,098
2020 – 2021	$680,039,838	$396,939,292	$442,025,894	$3,179,655,470

Option 5
Mandatory Medicare Advantage and Part D Plan Participation

Option 5 Require purchase of Medicare Part B with mandatory participation in Medicare Advantage and Medicare Part D plans.

- ❑ Current participation of eligible retirees.
  - Medicare Advantage 68%
  - Medicare Part D 80%
- ❑ Participants who do not purchase Medicare Part B, currently $121.80 per month, would be enrolled in TRS-Care 1. Grandfather current Medicare enrollees because of the large penalty assessed by CMS for not enrolling in Part B when first eligible.
- ❑ Remove incentives currently offered to enroll in Medicare Advantage and Part D plans.
  - Lower deductibles and copays than the traditional plans
  - $15 PMPM reduction in retiree premium contributions
- ❑ The cost for Medicare retirees enrolled in standard TRS-Care plans is almost 50% greater than for those enrolled in Medicare Advantage and Part D.

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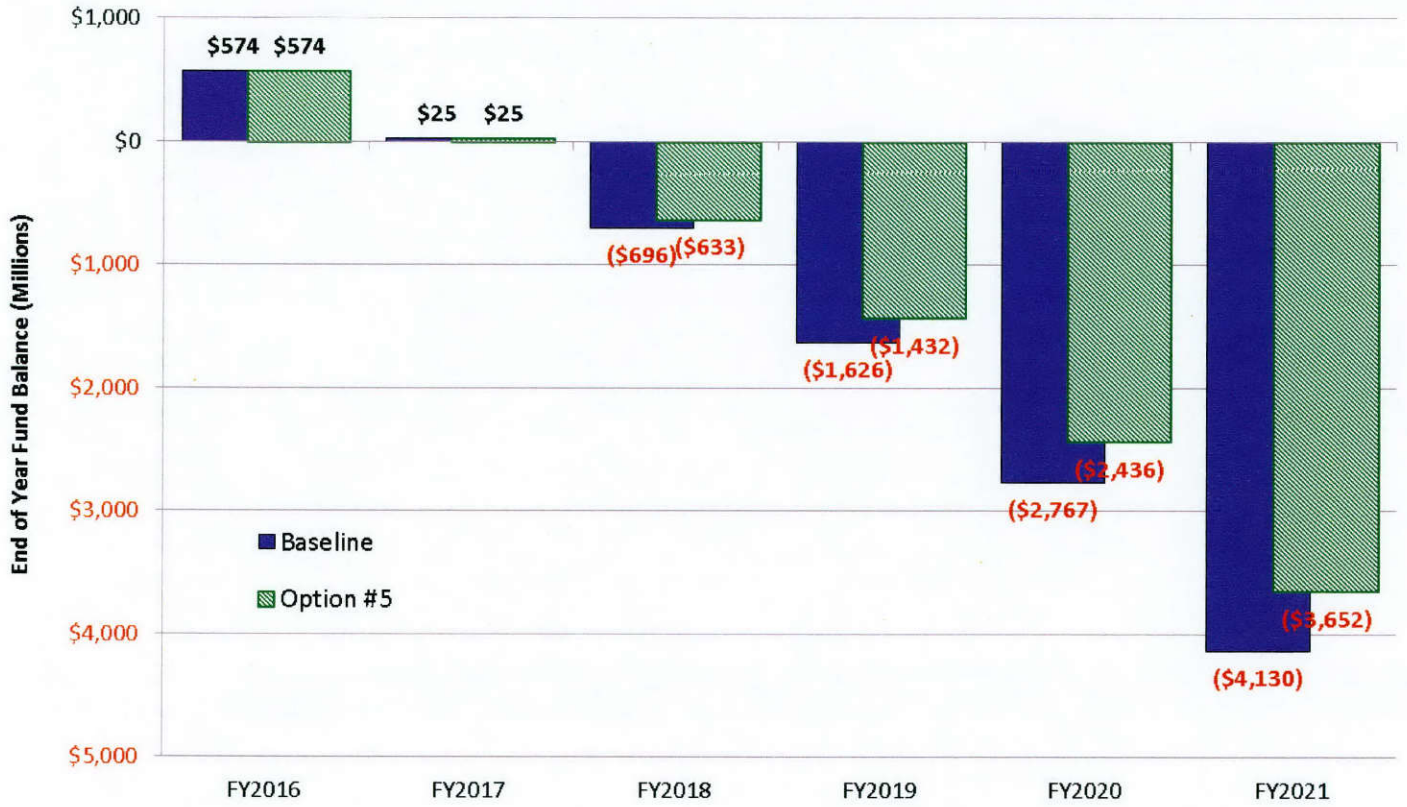
Option 5
Mandatory Medicare Advantage and Part D Plan Participation



Fiscal Year	Change in Ending Fund Balance
2016	$0
2017	$0
2018	$62,927,388
2019	$131,450,288
2020	$136,831,620
2021	$147,335,574

- Option 5
  - This option limits the plan options available to Medicare eligible participants to the Medicare Advantage and Medicare Part D plans upon attainment of age 65.
  - Participants will be required to purchase Medicare Part B, currently $121.80 per month, when he/she is first eligible to do so.
  - Plan design and premium contribution incentives will be removed.

Option 5
Mandatory Medicare Advantage and Part D Plan Participation

	Contribution as a Percent of Active Employee Payroll			Percent Change in Premium Contribution
Biennium	State	District	Active Employees	Retirees
2016 – 2017	1.00%	0.55%	0.65%	0%
2018 – 2019	1.00%	0.55%	0.65%	0%
2020 – 2021	1.00%	0.55%	0.65%	0%

	Projected Additional Cost over Current Funding Levels		
Biennium	State/District/ Active Employees	Retiree Premium Contributions	Claims and Admin Expenses
2016 – 2017	$0	$0	$0
2018 – 2019	$0	$34,792,816	($159,584,860)
2020 – 2021	$0	$45,287,688	($238,879,507)

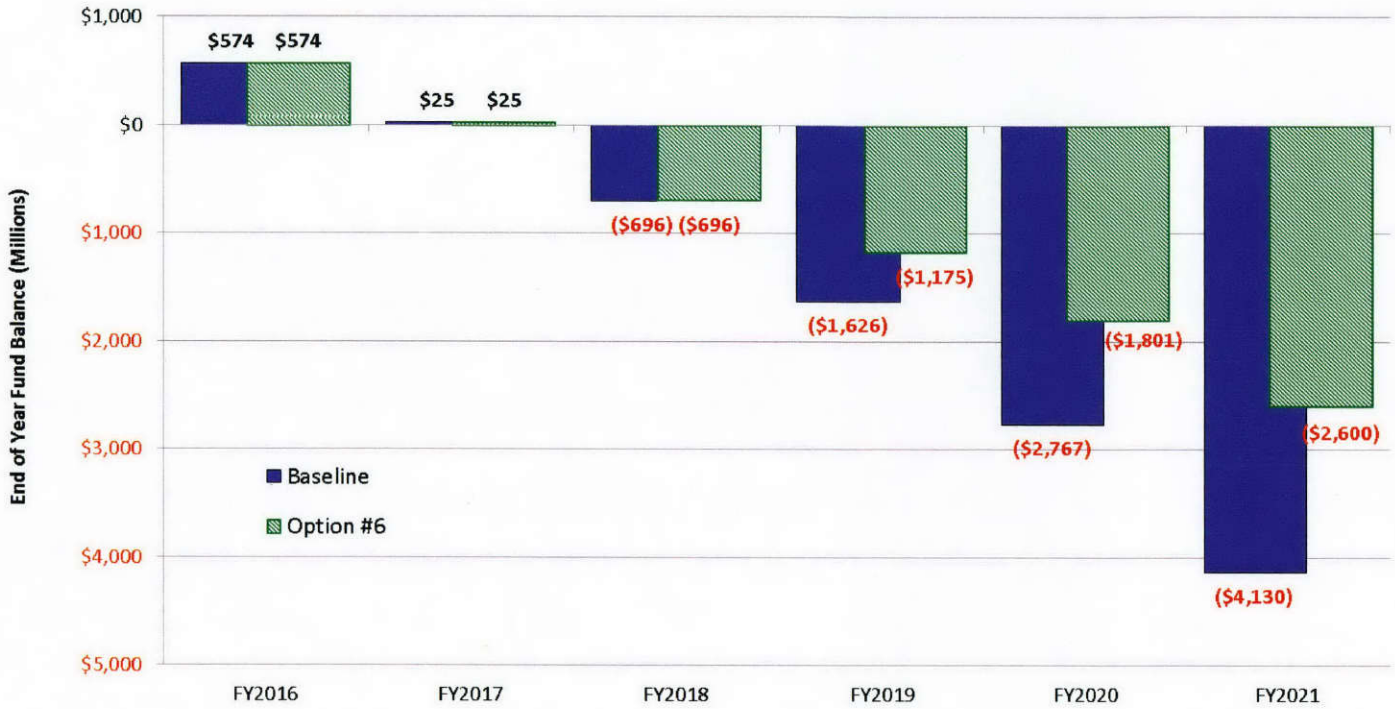
	Total Funding			
Biennium	State	District	Active Employees	Retirees
2016 – 2017	$628,251,693	$368,455,812	$408,363,601	$764,373,798
2018 – 2019	$653,633,062	$382,415,565	$424,861,490	$821,376,609
2020 – 2021	$680,039,838	$396,939,292	$442,025,894	$848,542,269

TRS

Option 6 Fixed Contribution for non-Medicare retirees

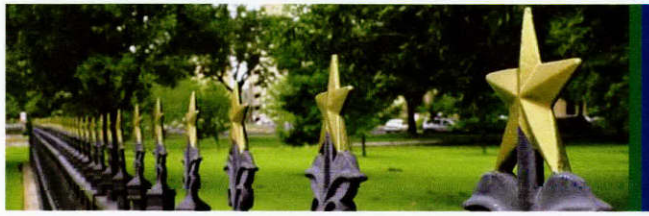
- Health Reimbursement Account for current TRS-Care 2 and Care 3 non-Medicare retirees effective 9/1/2018.
- TRS would deposit a monthly stipend into retiree's Health Reimbursement Account.
  a. $400 per retiree per month in FY2019.
  b. Option estimates assume monthly stipend increases by $50 per biennium.
- Non-Medicare retirees would obtain coverage in the federal public exchange. Spouses and children will no longer be covered by TRS-Care
- At age 65, open enrollment opportunity for TRS-Care Medicare Advantage and Part D plans.
- Cautions
  a. Retiree dissatisfaction;
  b. Uncertainty with regard to the future federal changes, premium rates and provider access on the Federal exchange.
  c. Impact on the group buying power and efficiencies of the current benefits.

Option 6
Fixed Contribution or Care-1 for Non-Medicare Retirees



Fiscal Year	Change in Ending Fund Balance
2016	$0
2017	$0
2018	($263,836)
2019	$451,309,421
2020	$514,803,781
2021	$564,056,993

- Option 6
  - This option provides a Health Reimbursement Account (HRA) for non-Medicare retirees currently enrolled in TRS-Care 2 and TRS-Care 3 effective 9/1/2018.
  - This option allows future retirees to select either the Health Reimbursement Account or enroll in TRS-Care 1.
  - Monthly stipend initially set at $400 per retiree per month, increasing by $50 each biennium.



Option 6
Fixed Contribution or Care-1 for Non-Medicare Retirees

- Including the monthly stipend and current retiree premiums saved, each retiree would shop on the exchange with between $590 and $1,147 depending on his/her family size in TRS-Care.

	TRS-Care 2			TRS-Care 3		
	<20 Years	20-29 Years	30+Years	<20 Years	20-29 Years	30+Years
Non-Medicare Retiree Premium	$210	$200	$190	$310	$295	$280
Spouse Premium	$110 - $240	$105 - $230	$100 - $220	$165 - $355	$155 - $340	$145 - $325
Child Premium	$62	$62	$62	$82	$82	$82
Monthly Stipend	$400	$400	$400	$400	$400	$400
Total	$610 - $912	$600 - $892	$590 - $872	$710 - $1,147	$695 - $1,117	$680 – 1,087

- The cost of health care coverage on the Federal public exchange varies by age, geographic area, family size and plan options.

		Calendar Year 2016 Preferred Provider Organization Plan Monthly Premiums for Individual Age 60		
County	Insurer	Bronze	Silver	Gold
Bexar	Allegian[1]	$533	$685	$821
Dallas	Scott & White[2]	$719	$722	$913
El Paso	Allegian[1]	$482	$620	$743
Tarrant	Scott & White[2]	$719	$722	$913
Travis	Scott & White[2]	$614	$617	$781

[1] Allegian Insurance Company. Allegian Choice Bronze PPO plan, Allegian Choice Silver PPO 5500 plan and Allegian Choice Gold PPO plan.
[2] Insurance Company of Scott & White. PPO 5000 HDHP plan, PPO 5000 plan and PPO 1500 plan.

TRS

Option 6
Fixed Contribution or Care-1 for Non-Medicare Retirees

Sample Claim Adjudication

- John Doe is a non-Medicare retiree who has purchased a bronze level health care plan on the Federal Exchange for himself.
- On January 1st, Mr. Doe has $4,800 in his Health Reimbursement Account to use toward his out-of-pocket costs.
- Mr. Doe researches the cost of knee surgery at three local hospitals. He chooses to have his surgery at a facility whose negotiated rate with his health plan is $20,000.
- After he uses his Health Reimbursement Account funds to pay the deductible and coinsurance, Mr. Doe is responsible for $1,200 of the cost of his surgery.

	High Deductible Health Plan Purchased on the Federal Exchange	
	Individual	Family
Deductible	$5,000	$10,000
Maximum Out-of-Pocket	$6,000	$12,000
Coinsurance Limit	70%/30%	70%/30%

	Sample Claim Adjudication	
	Plan Payments	Member Out-of-Pocket Expense
Covered Charges[1]	$20,000	
Deductible	($5,000)	$5,000
Sub-total	$15,000	
30%Coinsurance[2]	($1,000)	$1,000
Sub-total	$11,000	$6,000
HRA Funds		($4,800)
Total		$1,200

[1] Covered Charge is an illustrative dollar amount only. It reflects the network discount agreement in place between the provider and the insurer.
[2] Coinsurance is based on 30% of $15,000, or $4,500. Since he has already paid $5,000 towards his maximum out-of-pocket limit of $6,000, his coinsurance in this example is capped at $1,000.

Option 6
Fixed Contribution or Care-1 for Non-Medicare Retirees

	Contribution as a Percent of Active Employee Payroll			Percent Change in Premium Contribution
Biennium	State	District	Active Employees	Retirees
2016 – 2017	1.00%	0.55%	0.65%	0%
2018 – 2019	1.00%	0.55%	0.65%	0%
2020 – 2021	1.00%	0.55%	0.65%	0%

	Projected Additional Cost over Current Levels		
Biennium	State/District/ Active Employees	Retiree Premium Contributions	Claims and Admin Expenses
2016 – 2017	$0	$0	$0
2018 – 2019	$0	($154,423,666)	($605,469,251)
2020 – 2021	$0	($295,036,658)	($1,373,897,432)

	Total Funding			
Biennium	State	District	Active Employees	Retirees
2016 – 2017	$628,251,693	$368,455,812	$408,363,601	$764,373,798
2018 – 2019	$653,633,062	$382,415,565	$424,861,490	$632,160,127
2020 – 2021	$680,039,838	$396,939,292	$442,025,894	$508,217,923

TRS

Option 7
Consumer Directed Health Plan for Non-Medicare Retirees

Option 7 Consumer Directed Health Care Plan

- ❑ Eliminates TRS-Care 2 and TRS-Care 3 for non-Medicare retirees.
  - Implement value-based purchasing, including Accountable Care Organizations and high performance networks.
  - Includes reference-based pricing.
  - Requires participation in disease management as applicable.

Consumer-Directed and Value-based Purchasing

Accountable Care Organization (ACO) – a network of doctors and hospitals that share responsibility for providing care to patients. Provider reimbursements are a function of both quality, appropriateness and efficiency of care.

Health Savings Account (HSA) – a savings account used by individuals covered by a High Deductible Health plan to pay for current and future eligible medical expenses on a tax free basis.

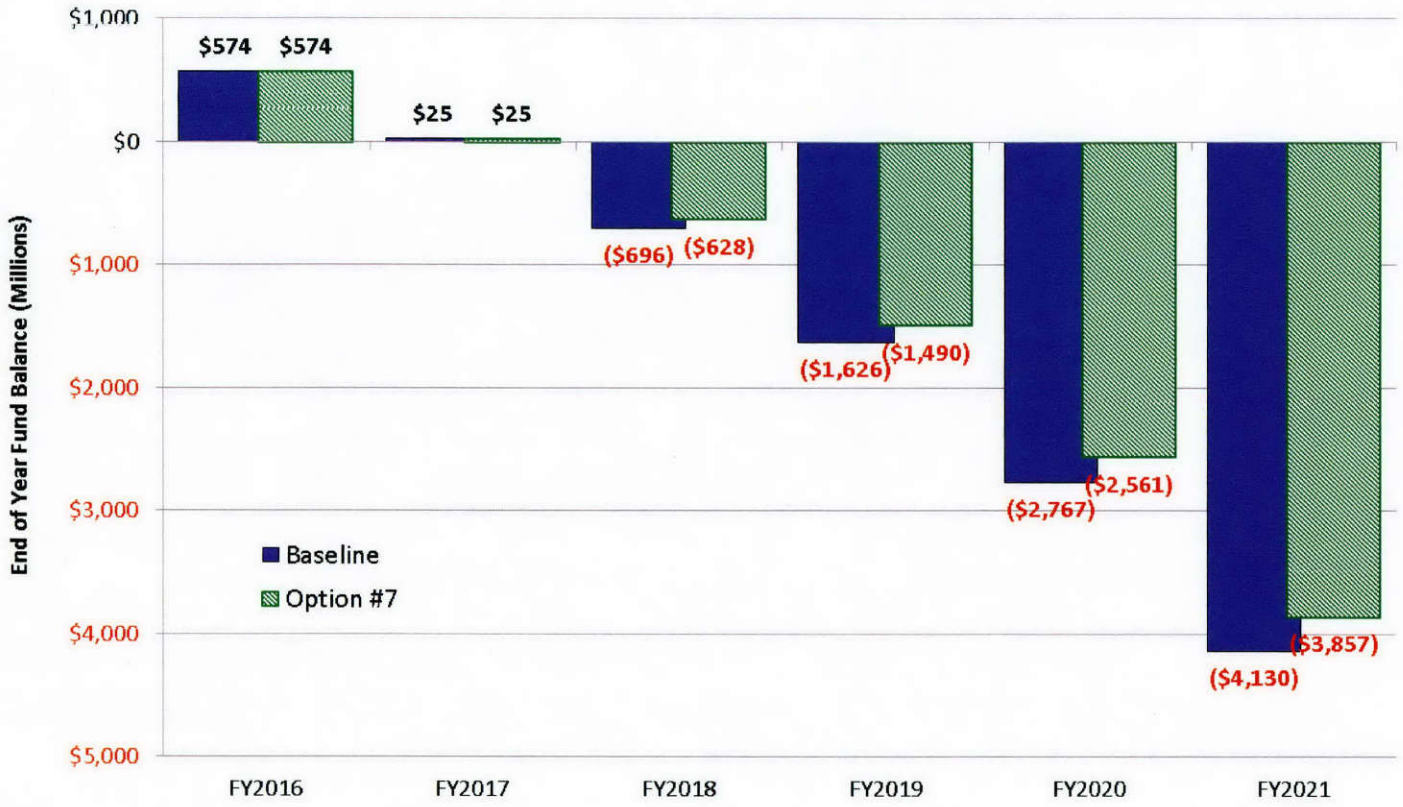
High Deductible Health Plan (HDHP) - A health plan with an annual deductible of at least $1,300 for individuals and $2,600 for family coverage, and annual out-of-pocket expenses do not exceed $6,600 for individuals and $13,200 for family coverage.

Reference-based pricing – a price established by a payor that is based on market rates or a benchmark for a given service. For example, a payor may set a fixed amount to pay for knee replacement regardless of the price set by a facility or provider. If the provider does not accept the amount as full payment, the member may be responsible for the difference.

Option 7 Consumer Directed Health Care Plan

- Non-Medicare retiree premium contributions for the plan are assumed to be equal to the current levels for a TRS-Care 3 participant with over 30 years of service.
  - Retiree premium contributions for current non-Medicare TRS-Care 2 participants will increase.
  - Retiree premium contributions for current non-Medicare TRS-Care 3 participants with less than 30 Years of Service will decrease.

Option 7
Consumer Directed Health Plan for Non-Medicare Retirees



Fiscal Year	Change in Ending Fund Balance
2016	$0
2017	$0
2018	$67,822,371
2019	$136,663,138
2020	$205,546,545
2021	$273,664,597

- Option 7
  - This option provides a single consumer directed health plan for non-Medicare retirees and their families enrolled in TRS-Care 2 and TRS-Care 3.

Option 7
Consumer Directed Health Plan for Non-Medicare Retirees

	Contribution as a Percent of Active Employee Payroll			Percent Change in Premium Contribution
Biennium	State	District	Active Employees	Retirees
2016 – 2017	1.00%	0.55%	0.65%	0%
2018 – 2019	1.00%	0.55%	0.65%	0%
2020 – 2021	1.00%	0.55%	0.65%	0%

	Projected Additional Cost over Current Levels		
Biennium	State/District/ Active Employees	Retiree Premium Contributions	Claims and Admin Expenses
2016 – 2017	$0	$0	$0
2018 – 2019	$0	$73,954,196	($62,708,942)
2020 – 2021	$0	$70,363,046	($66,638,413)

	Total Funding			
Biennium	State	District	Active Employees	Retirees
2016 – 2017	$628,251,693	$368,455,812	$408,363,601	$764,373,798
2018 – 2019	$653,633,062	$382,415,565	$424,861,490	$860,536,989
2020 – 2021	$680,039,838	$396,939,292	$442,025,894	$873,617,628

Option 7
Consumer Directed Health Plan for Non-Medicare Retirees

The plan design modeled in Option #7 will not be a grandfathered plan with respect to the Affordable Care Act. Medical and prescription drug benefits must both accumulate towards the maximum out-of-pocket limits.

	High Performance Network (In-network for areas with an Accountable Care Organization)	**Broad Network** (In-Network for areas without an Accountable Care Organization)	**Out-of-Network**
Individual/Family Deductible	$500/$1,000	$1,000/$2,000	$1,800/$3,600
Maximum Out-of-Pocket	$4,000/$8,000	$6,000/$12,000	$8,500/$17,000
Coinsurance	80%/20%	70%/30%	60%/40%
Office Visits	$30	$30	60%/40%
Prescription Drug	Retail: $15/$35/$55 Mail: $30/$70/$110		No coverage

Option 7
Consumer Directed Health Plan for Non-Medicare Retirees

Sample Claim Adjudication

- John Doe is a non-Medicare retiree with Retiree Only coverage with TRS. He is enrolled in a Consumer Directed Health Plan, such as an accountable care organization.
- Mr. Doe elects to go to an in-network facility, which has lower out-of-pocket requirements than out-of-network facilities and the providers and hospitals work together to control costs.
- Total covered charges for his procedure are expected to be $20,000.
- After Mr. Doe pays the deductible and coinsurance, which total $4,000 in this example, the plan's portion of the cost is $16,000.

	Consumer Directed Health Plan	
	In-Network	Out-of-Network
Deductible	$500/$1000	$1,800/$3,600
Maximum Out-of-Pocket	$4,000/$8,000	$8,500/$17,000
Coinsurance Limit	80%/20%	60%/40%

	Sample Claim Adjudication	
	Plan Payments	Member Out-of-Pocket Expense
Covered Charges[1]	$20,000	
Deductible	($500)	$500
Sub-total	$19,500	
20% Coinsurance[2]	($3,500)	$3,500
Total	$16,000	$4,000

[1] Covered Charge is an illustrative amount only. It reflects the network discount agreement in place between the provider and the insurer.
[2] Coinsurance is based on 20% of $19,500, or $3,900. Since he has already paid $500 towards his maximum out-of-pocket limit of $4,000, his coinsurance in this example is capped at $3,500.

Summary

Option		Impacted Parties					Impact on State Appropriations[1]	
		State	District	Active Employees	Non-Medicare Retirees	Medicare Retirees	2018-2019 Biennium	2020-2021 Biennium
Option 1	Pre-fund the long-term liability	✓					$1,899,695,362	$1,976,443,055
Option 2	Fund on a Pay-as-you-go basis							
	Option 2(a)	✓					$1,494,762,408	$2,301,878,735
	Option 2(b)	✓	✓	✓			$679,437,458	$1,046,308,516
	Option 2(c)	✓	✓	✓	✓	✓	$431,155,555	$667,628,849
	Option 2(d)	✓	✓	✓	✓	✓	$431,155,555	$667,628,849
Option 3	Fund for a 10-year solvency							
	Option 3(a)	✓					$2,958,608,414	$3,078,136,194
	Option 3(b)	✓	✓	✓			$1,344,822,006	$1,399,152,815
	Option 3(c)	✓	✓	✓	✓	✓	$875,443,354	$910,811,266
Option 4	Retiree pays the full cost of optional coverage				✓	✓	$0	$0
Option 5	Mandatory Medicare Advantage and Medicare Part D Plans (requires retirees purchase Medicare Part B)					✓	$0	$0
Option 6	Fixed Contribution for Non-Medicare Retirees				✓		$0	$0
Option 7	Consumer directed health plan for TRS-Care 2 and TRS-Care 3 non-Medicare participants				✓		$0	$0

[1] The projected cost impact to the State has been reduced by 8% to remove contributions funded by the Federal Government.

TRS

Combine TRS-Care & TRS-ActiveCare

Option 1

HealthSelect

Option 1 Offer a single plan to active and retired education employees

- Eliminates both the TRS-Care and TRS-ActiveCare programs in place today and replaces them with a single fund providing coverage for both active and retired education employees in Texas.
- Offer a single plan option to all active and retired education employees with benefits similar to ERS' HealthSelect plan.
- Increase the State and District contributions from the current levels to the amount provided to Employee Retirement System of Texas participants.

Fiscal Year 2018	State/District Contributions		Employee/Retiree Contributions	
Entity	Monthly	Annual	Monthly	Annual
ERS[1]	$657.54[2]	$7,890[2]	$0	$0
TRS-Care	$190.50[3]	$2,286[3]	$0	$0
TRS-ActiveCare	$225.00[4]	$2,700[4]	$0	$0

[1] ERS Health Select 2016 Premium trended to FY2018.
[2] The State pays 100% of employee/retiree and 50% of dependent coverage in ERS.
[3] Based on 1% State and 0.55% District contributions as a percent of active employee payroll.
[4] Assumes $75 State and $150 District contributions. Some districts contribute more.

TRS

Option 2 ActiveCare-2 and Medicare Advantage for Care-2

- Eliminates both the TRS-Care and TRS-ActiveCare programs in place today and replaces them with a single fund providing coverage for both active and retired education employees in Texas.
- Offer the current TRS-ActiveCare 2 plan to active education employees and non-Medicare retirees.
- Offer the current Medicare Advantage & Medicare Part D for TRS-Care 2 plan for Medicare retirees.

		Current Employer Contributions		Revised Employer Contributions	
Biennium	**Entity**	**Monthly**	**Annual**	**Monthly[3]**	**Annual**
FY2018 – FY2019	TRS-Care	$190.50[1]	$2,286[1]	$400	$4,800
	TRS-ActiveCare	$225.00[2]	$2,700[2]	$400	$4,800
FY2020 – FY2021	TRS-Care	$190.50[1]	$2,286[1]	$475	$5,700
	TRS-ActiveCare	$225.00[2]	$2,700[2]	$475	$5,700

[1] Based on 1% State and 0.55% District contributions as a percent of active employee payroll.
[2] Assumes $75 State and $150 District contributions. Some districts contribute more.
[3] Assumes a 7% annual growth in employer contributions.

Options 1 & 2
Assumptions

- All districts would participate;
- Retirees who previously had declined coverage would have an open enrollment opportunity;
- No employee or retiree would decline coverage;
- Active employee contributions to TRS-Care would discontinue;
- Employer contributions for TRS-Care are projected to be $190.50 for the 2018 biennium;
- Employer contributions for TRS-ActiveCare are the minimum $225 per month per covered employee; and
- The figures below are based upon State/District funding for Employee Only and Retiree Only coverages. Funding provided by these sources for dependent coverage would be in addition to the amounts shown below.

Option		Biennium	Current State[1] & District Funding	Additional Funding	Total Funds Required
Option #1:	Offer ERS' Health Select plan options	FY2018 – FY2019	$4,878,672,912	$10,434,249,333	$15,312,922,245
		FY2020 – FY2021	$4,916,126,736	$12,767,077,614	$17,683,204,350
Option #2:	Offer ActiveCare-2 for Non-Medicare participants and Medicare Advantage Care-2 for Medicare participants	FY2018 – FY2019	$4,265,540,712	$3,643,832,088	$7,909,372,800
		FY2020 – FY2021	$4,314,957,175	$4,699,819,026	$9,014,776,200

[1] Includes funds from all sources.

TRS-Care

Appendices

TRS-Care

Affordable Care Act Provisions

- Currently, the self-funded TRS-Care plan options (TRS-Care 1, TRS-Care 2 and TRS-Care 3) are considered to be grandfathered with respect to the Affordable Care Act. There are five (5) ways that these plans can lose Grandfather status.
  - Raise employee/retiree contributions and/or reduce employer contributions such that the effective contribution rate changes by more than five percentage points;
  - Implement or reduce an annual limit;
  - Increase fixed dollar cost sharing levels in excess of medical inflation plus 15%;
  - Increase coinsurance levels; and/or
  - Eliminate all or the majority of all benefits to diagnose or treat a particular disease.
- The fully insured Medicare Advantage plan options are non-grandfathered.

TRS-Care

The Affordable Care Act Provisions

Category	TRS-Care Traditional Plans	Retiree Only Plans	Grandfathered Plans	Non-Grandfathered Plans
PREMIUM CONTRIBUTIONS				
Premium Contributions	The contribution rate varies by plan and by coverage tier. Analysis is needed in order to determine the effective FY2010 contribution rates since funding is not tied to projected costs each year.	No restrictions	The ratio of the retiree's premium contribution rate - as a percent of total cost PEPM - cannot increase by more than 5 percentage points as compared to the rate in place in March 2010.	No restrictions
ELIGIBILITY RULES				
Coverage of Dependent Children	Coverage of dependent children up to age 26	Exempt	Coverage of dependent children up to age 26	Coverage of dependent children up to age 26
Pre-Existing Conditions	TRS-Care does not deny enrollment based on pre-existing conditions.	Exempt	A plan may not deny enrollment or limit coverage based on a pre-existing condition.	A plan may not deny enrollment or limit coverage based on a pre-existing condition.
Health Status	TRS-Care does not discriminate based on the health status of the retiree or dependent.	Exempt	Exempt	No discrimination based on the health status of the employee/retiree or dependent.

TRS

TRS-Care

The Affordable Care Act Provisions

Category	TRS-Care Traditional Plans	Retiree Only Plans	Grandfathered Plans	Non-Grandfathered Plans
Benefit Design Features				
Preventive Care Services	Covered at 100%	Exempt	Exempt	Covered at 100%
Annual Limits	No annual limits	Exempt	An annual limit in place as of 3/23/2010 cannot be reduced.	Prohibits annual caps on benefits
Lifetime Maximum Limits	No lifetime maximum benefit	Exempt	A lifetime limit in place as of 3/23/2010 cannot be reduced.	Prohibits lifetime benefit limits
Out-of-Pocket Maximum	Out-of-pocket maximum limits include deductible, copays, coinsurance for medical benefits only.	Exempt	Not required	Out-of-pocket maximum limits are integrated for medical and pharmacy benefits and include deductible, copays, and coinsurance.
Fixed Dollar Deductibles	Fixed dollar deductibles have not changed for the self-funded plans since FY2005, when Affordable Care Act was passed. For FY2017, we estimate that deductibles may be increased by approximately30%.	Exempt	Increases in fixed dollar cost sharing benefits are limited to medical inflation plus 15%. Grandfathered plans are not subject to the maximum deductible limit prescribed by Affordable Care Act.	Subject to maximum deductible amounts (For 2014, the maximum deductible is $2,000 for single coverage and $4,000 for family coverage.)

TRS

TRS-Care

The Affordable Care Act Provisions

Category	TRS-Care Traditional Plans	Retiree Only Plans	Grandfathered Plans	Non-Grandfathered Plans
Benefit Design Features (continued)				
Fixed Dollar Copays	Fixed dollar copays have not changed for the self-funded plans since FY2010, when Affordable Care Act was passed. For FY2005, we estimate that deductibles may be increased by approximately 30%.	Exempt	Increases in fixed dollar cost sharing benefits are limited to medical inflation plus 15%.	No restrictions
Coinsurance	Coinsurance percentages have not changed for the self-funded plans since FY2005.	Exempt	Increases to coinsurance percentages are not allowed.	No restrictions
Covered Services				
Waiting Period Restrictions		Exempt	Any waiting period limitation shall not be in excess of 90 days.	Any waiting period limitation shall not be in excess of 90 days.
Clinical Trials		Exempt	Exempt	A plan may not deny coverage for routine costs in connection with clinical trials.

TRS-Care

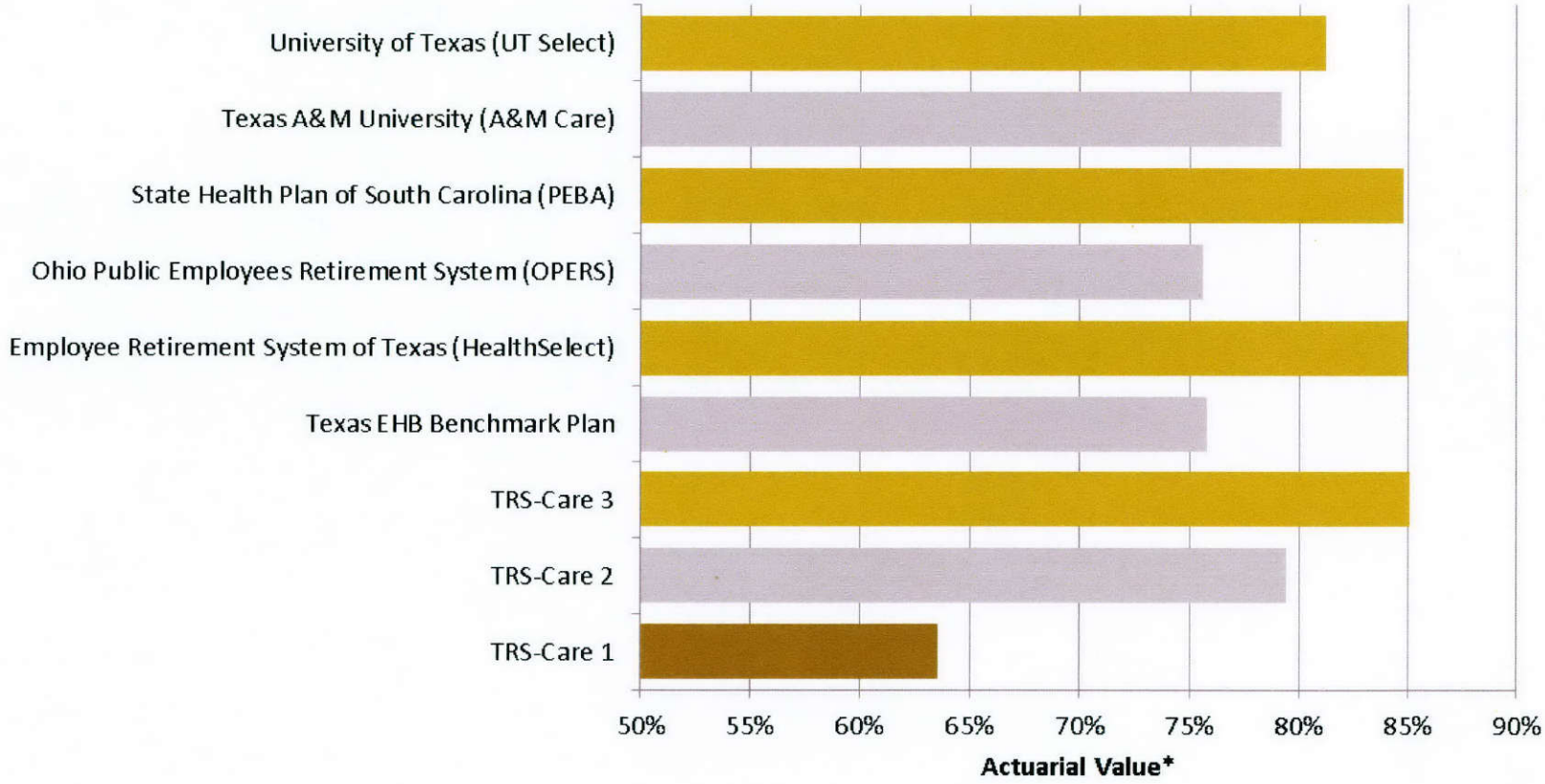
Affordable Care Act Provisions

Category	TRS-Care Traditional Plans	Retiree Only Plans	Grandfathered Plans	Non-Grandfathered Plans
Fees & Taxes				
Reinsurance Assessment Fee (eff. CY2014 – CY2016)	Fee is applicable to both Medicare and non-Medicare participants.	Fee is applicable to both Medicare and non-Medicare participants.	Fee is applicable to both Medicare and non-Medicare participants.	Fee is applicable to both Medicare and non-Medicare participants.
Patient Centered Outcomes Research Institute Fee (eff. FY2013 – FY2019)	Fee is applicable to non-Medicare participants only.	Fee is applicable to non-Medicare participants only.	Fee is applicable to non-Medicare participants only.	Fee is applicable to non-Medicare participants only.
Excise Tax on High-cost plans (eff. 1/1/2020)	40% tax assessed on the value of the plan in excess of pre-determined thresholds.	40% tax assessed on the value of the plan in excess of pre-determined thresholds.	40% tax assessed on the value of the plan in excess of pre-determined thresholds.	40% tax assessed on the value of the plan in excess of pre-determined thresholds.

TRS-Care

Plan Design Benchmarking

Actuarial Value of 2016 Non-Medicare Retiree Plans



The Actuarial Value of a plan represents the average proportion of benefits paid by the plan as a percentage of total costs.

Glossary

Glossary

Accountable Care Organization – a network of doctors and hospitals that share responsibility for providing care to patients. Provider reimbursements are a function of both quality, appropriateness and efficiency of care.

Ambulatory Surgical Center – an outpatient surgical center that has the professional staff to perform minor operations that do not require prolonged confinement in a hospital.

Brand Drug – a medication sold by a single pharmaceutical company under a trademark protected name.

Broad Network - a large group of facilities and physicians from which plan participants may obtain in-network health care services.

Coinsurance - the percentage of costs paid by the member for covered expenses and services.

Compound Drug - a medication made by combining, mixing or altering ingredients of drugs to create a medication tailored to meet the needs of a patient.

Copayment - the fixed dollar costs paid by the member for covered expenses and services.

Covered Expense - An event or procedure that will be paid for either in full or in part by the health plan.

Deductible - The dollar amount required to be paid by the member before health plan begins to pay for covered expenses and services.

Dependent - A spouse or eligible child who meets the eligibility requirements set forth by the health plan.

Emergency Room – a facility that provides immediate, emergent care in a setting usually physically attached to a hospital.

Employee/Retiree Contribution - the amount paid to the health plan by an employee/retiree on a monthly basis in order to be covered under the health plan.

Employer Contribution - the amount paid to the health plan by the employer(s) on a monthly basis to fund the health plan.

Employer Group Waiver Plan (EGWP) - an employment based group plan which provides prescription drug benefits to Medicare eligible individuals. An EGWP plan replaces a Part D plan sponsored by Medicare.

Exclusive Provider Organization Plan (EPO) - A managed care health plan in which all covered services are rendered by in-network providers. A PCP is not required and referrals are not needed to see other providers for covered services.

Formulary - the list of brand and generic drugs covered by the prescription drug or health plan.

Fully Insured Plan - a health care plan in which the plan sponsor pays a per employee/retiree premium to an insurance company and the insurance company assumes all risk of providing the coverage for insured events

TRS

Glossary

Generic Drug - a medication that is comparable to a brand drug in dosage form, strength, route of administration, quality, performance characteristics and intended use but is not protected by a trademark name.

Grandfathered Plan - a health care plan that was created before March 23, 2010; has not undergone such changes that reduce benefits to plan participants; and has not undergone such changes that significantly increase costs to plan participants.

Health Maintenance Organization Plan (HMO) - A managed care health plan in which all covered expenses are rendered by in-network providers, except in an emergency situation. A PCP is required under an HMO plan.

Health Savings Account (HSA) – a savings account used by individuals covered by a High Deductible Health plan to pay for current and future eligible medical expenses on a tax free basis.

High Deductible Health Plan (HDHP) - A health plan with an annual deductible of at least $1,300 for individuals and $2,600 for family coverage, and annual out-of-pocket expenses do not exceed $6,600 for individuals and $13,200 for family coverage.

Hospital – facilities that provide diagnosis, treatment and/or care for patients suffering from acute illness or injury.

Imaging Center – a freestanding facility with the equipment to produce various types of radiologic and electromagnetic images and the professional staff to interpret those images.

In-Network Benefit – a benefit for services performed by physicians, hospitals and other medical service providers who contract with the health plan to provide healthcare services at a discounted rate.

Inpatient – a patient who is admitted to a hospital for medical treatment that requires at least one overnight stay.

Limited Network - a small group of facilities and physicians from which plan participants may obtain in-network health care services.

Maximum Out-of-Pocket (MOOP) - the total dollar amount of paid by the member for covered expenses and services, including amounts paid toward a deductible, coinsurance and copayments.

Member - The individuals who are enrolled in the health plan (e.g. employees, retirees and eligible dependents).

Medicare Eligible - An individual who is eligible to participate in the Medicare program based upon either attainment of age 65 or disability status.

Medicare Advantage Plan - A private health plan that is approved by Medicare to provide medical benefits in place of Medicare Part A and Part B to Medicare eligible individuals who are enrolled in both Medicare Part A and Part B. (Also called Part C.)

TRS

Glossary

Medicare Part A - the national health plan administered by the United States government covering inpatient hospital stays.

Medicare Part B - the national health plan administered by the United States government covering outpatient hospital services.

Medicare Part D - the national health plan administered by the United States government covering prescription drug benefits.

Non-grandfathered plan - a health care plan that does not qualify as a grandfathered plan, including any health care plan that was created on or after March 23, 2010.

Non-Preferred Brand – a brand drug that is not included on the PBM formulary

Out-of-Network Benefit – a benefit for services not performed by a network provider.

Outpatient – a patient who is receiving medical treatment without being admitted to the hospital.

Patient Centered Medical Home (PCMH) –a system of comprehensive coordinated healthcare for individuals facilitated by a PCP who is responsible for leading a team of professionals in providing both preventive and chronic care management.

Patient Protection and Affordable Care Act (PPACA or ACA) – federal health reform law of 2010

Pharmaceutical Rebates - the amount reimbursed to PBM by pharmaceutical manufacturers based on member utilization of certain brand drugs

Pharmacy Benefits Manager (PBM) - a company that administers drug benefit programs for individuals and/or groups.

Point of Service Plan (POS) - a managed care health plan that provides both in-network and out-of-network benefits. A PCP is required; however, the member may choose an out-of-network provider for an additional out-of-pocket cost.

Preferred Brand – a brand drug that is included on the PBM formulary

Preferred Provider Organization (PPO) - a managed care health plan provides both in-network and out-of-network benefits. A PCP is not required and referrals are not needed to see other providers for covered services.

Primary Care Physician (PCP) – a physician who is a patient's first point of contact for an undiagnosed condition. This physician is usually a Pediatrician, General Practitioner, Family Practitioner, OB/GYN, or Internist.

Retiree Drug Subsidy (RDS) - a federally sponsored program which reimburses plan sponsors for a portion of paid prescription drug expenses for Medicare eligible individuals.

Self-insured Plan - a health care plan in which the plan sponsor pays a per employee/retiree administration fee to an insurance company to provide claims administration services; the plan sponsor assumes all risk of providing the coverage for insured events.

Glossary

Specialist – a doctor who specializes in a certain type of medical care (e.g. cardiologist, podiatrist, eye doctor).

Specialty Drug - Generally, a high cost drug that is used to treat complex chronic or life-threatening conditions; require special storage, handling and administration; and require patient monitoring and management.

Submitted Charge - the dollar amount submitted to an insurance company or TPA by a provider for covered and uncovered services rendered.

Subscriber - the employee/retiree who is eligible to receive benefits through the health plan.

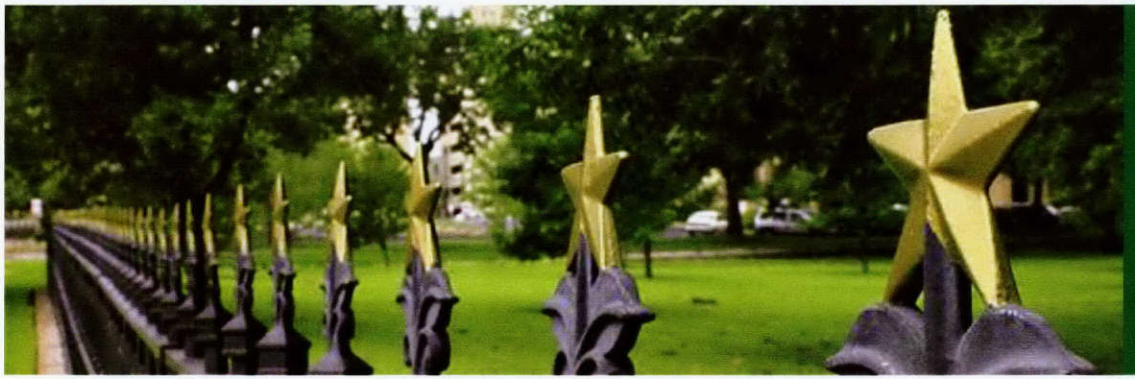
Third Party Administrator (TPA) - an organization that processes claims, maintains a provider network, utilization review and/or membership functions on behalf of the health plan.

Tier - the method by which drugs are grouped within the formulary to indicate the applicable copay (e.g. Tier 1 = generic – lowest cost alternative; Tier 2 = brand – higher cost alternative; Tier 3 = brand – highest cost alternative; etc.).

Urgent Care Facility – a facility that provides immediate, non-emergent primary health care.

TRS

Teacher Retirement System of Texas



Joint Committee on TRS Health Benefit Plans: TRS-ActiveCare

April 13, 2016

TRS

History of TRS-ActiveCare

Prior to 2001

- Coverage varied significantly from district to district.
- Many districts found it difficult to provide stable health care coverage.
- Most districts were unable to provide coverage comparable to ERS HealthSelect as required by law.
- In 1996, TRS administered elective district-participation health plan for public school employees:
  - Minimal district participation (peak of 3 districts participating, 327 covered lives)
  - No district participation after FY1999

2001-2002

- The Texas School Employees Uniform Group Health Coverage program (H.B. 3343) was passed by the 77th Texas Legislature.
  - TRS was given the authority to begin plan management of TRS-ActiveCare.
  - The bill required districts with less than 500 employees to participate in the health plan with coverage to be effective September 1, 2002. If on January 1, 2001 the school district was individually self-funded, it could elect not to participate in the program.
  - The State's annual contribution was set at $900 per employee per year, or $75 per employee per month.
  - The school district's annual contribution was set at $1,800 per employee per year, or $150 per employee per month.

TRS

History of TRS-ActiveCare

2002 - 2014

- Medical benefits were offered through one high deductible health plan and two Preferred Provider Organization plans, each of which were administered by Blue Cross/Blue Shield of Texas (BCBS) on a self-funded basis.
- Pharmacy benefits were offered through self-funded plans administered by Medco/Express Scripts, Inc. (ESI).
- Regional Health Maintenance Organizations were allowed to offer a fully insured health plan to active employees.

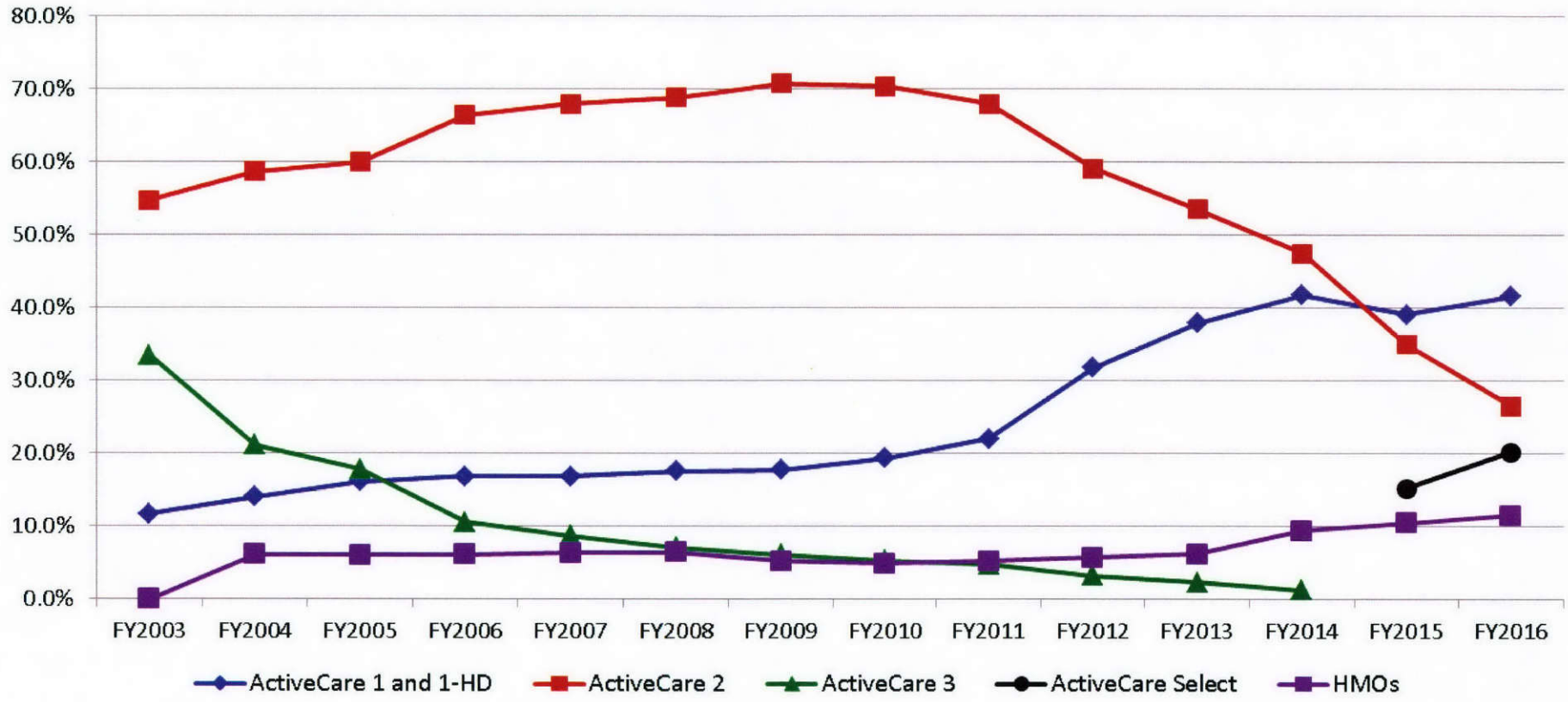
2015-2016

- Medical benefits are offered through one high deductible health plan, one self-funded Preferred Provider Organization plan and one Exclusive Provider Organization plan, each of which are administered by Aetna.
  - The Exclusive Provider Organization plan takes advantage of both Accountable Care Organizations and Patient Centered Medicare Home provider groups in certain urban/suburban areas of Texas.
- Pharmacy benefits are offered through self funded plans administered by Caremark.
- State and district funding requirements have not changed since program inception.

TRS

History of TRS-ActiveCare

Distribution of Participants by Plan



TRS-ActiveCare Participation

Entity Type	# Eligible	#Participating	% Participation
Less than 500	816	801	98.2%
500-1,000	102	90	88.2%
More than 1,000	106	56	52.8%
Charter Schools	173	130	75.1%
Education Service Centers	20	20	100%
Other Ed	5	5	100%
Total	1,222	1,102	90.2%

- The largest school districts participating in TRS-ActiveCare are Dallas ISD, Cypress Fairbanks ISD, and Fort Worth ISD.
- The largest school districts that are not in the plan are Houston ISD, Austin ISD and San Antonio districts.

FY2016 Benefit Structure

In-Network Benefits

	TRS-ActiveCare 1-HD	TRS-ActiveCare Select	TRS-ActiveCare-2
Deductible	$2,500/$5,000	$1,200/$3,600	$1,000/$3,000
Maximum Out-of-Pocket[1]	$6,450/$12,900	$6,600/$13,200	$6,600/$13,200
Preventive Services	Plan pays 100%	Plan pays 100%	Plan pays 100%
Coinsurance	80%/20%	80%/20%	80%/20%
Hospital Facility	80%/20%	$150 copay per day, plus 20% ($750 max copay)	$150 copay per day, plus 20% ($750 max copay)
Physician Office Visits	80%/20%	$30 Primary Care Physician copay $60 Specialist copay	$30 Primary Care Physician copay $50 Specialist copay
Urgent Care Center	80%/20%	$50 copay	$50 copay
Teledoc	$40 consult fee	Plan pays 100%	Plan pays 100%
Bariatric Surgery	$5,000 copay plus 20% after deductible	Not covered	$5,000 copay plus 20% after deductible
Prescription Drug	80%/20%	See Slide 9	See Slide 9

[1] Maximum Out-of-Pocket includes deductible, coinsurance and copayments for both medical and pharmacy benefits, excluding Bariatric surgery cost share.

FY2016 Benefit Structure

Out-of-Network Benefits

	TRS-ActiveCare 1-HD	TRS-ActiveCare Select	TRS-ActiveCare-2
Deductible	$2,500/$5,000	No out-of-network benefits	$1,000/$3,000
Maximum Out-of-Pocket[1]	$6,450/$12,900		$6,600/$13,200
Preventive Services	60%/40%		60%/40%
Coinsurance	60%/40%		60%/40%
Hospital Facility	60%/40%		$150 copay per day, plus 40%
Physician Office Visits	60%/40%		60%/40%
Urgent Care Center	60%/40%		60%/40%
Bariatric Surgery	Not covered		Not covered

[1] Maximum Out-of-Pocket includes deductible, coinsurance and copayments for medical benefits.

TRS

FY2016 Benefit Structure

Pharmacy Benefits

	TRS-ActiveCare Select	TRS-ActiveCare 2
Deductible for Brand Name Drugs	$200 per individual	$200 per individual
Retail Short Term (1-31 days supply)[1]		
Generic	$20 copay	$20 copay
Preferred Brand	$40 copay	$40 copay
Non-Preferred Brand	50% coinsurance	$65 copay
Retail Plus (60-90 days supply)		
Generic	$45 copay	$45 copay
Preferred Brand	$105 copay	$105 copay
Non-Preferred Brand	50% coinsurance	$180 copay
Mail Order		
Generic	$45 copay	$45 copay
Preferred Brand	$105 copay	$105 copay
Non-Preferred Brand	$50% coinsurance	$180 copay
Specialty Drugs	20% coinsurance per fill	$200 per fill (1-31 days supply) $450 per fill (32-90 days supply)

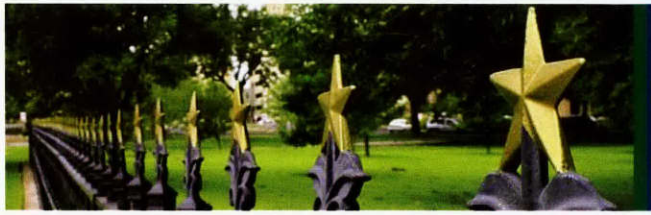
[1] Retail Maintenance drugs copays are an additional $5, $10 or $15 if the member continues to have the script filled at a retail pharmacy.

TRS

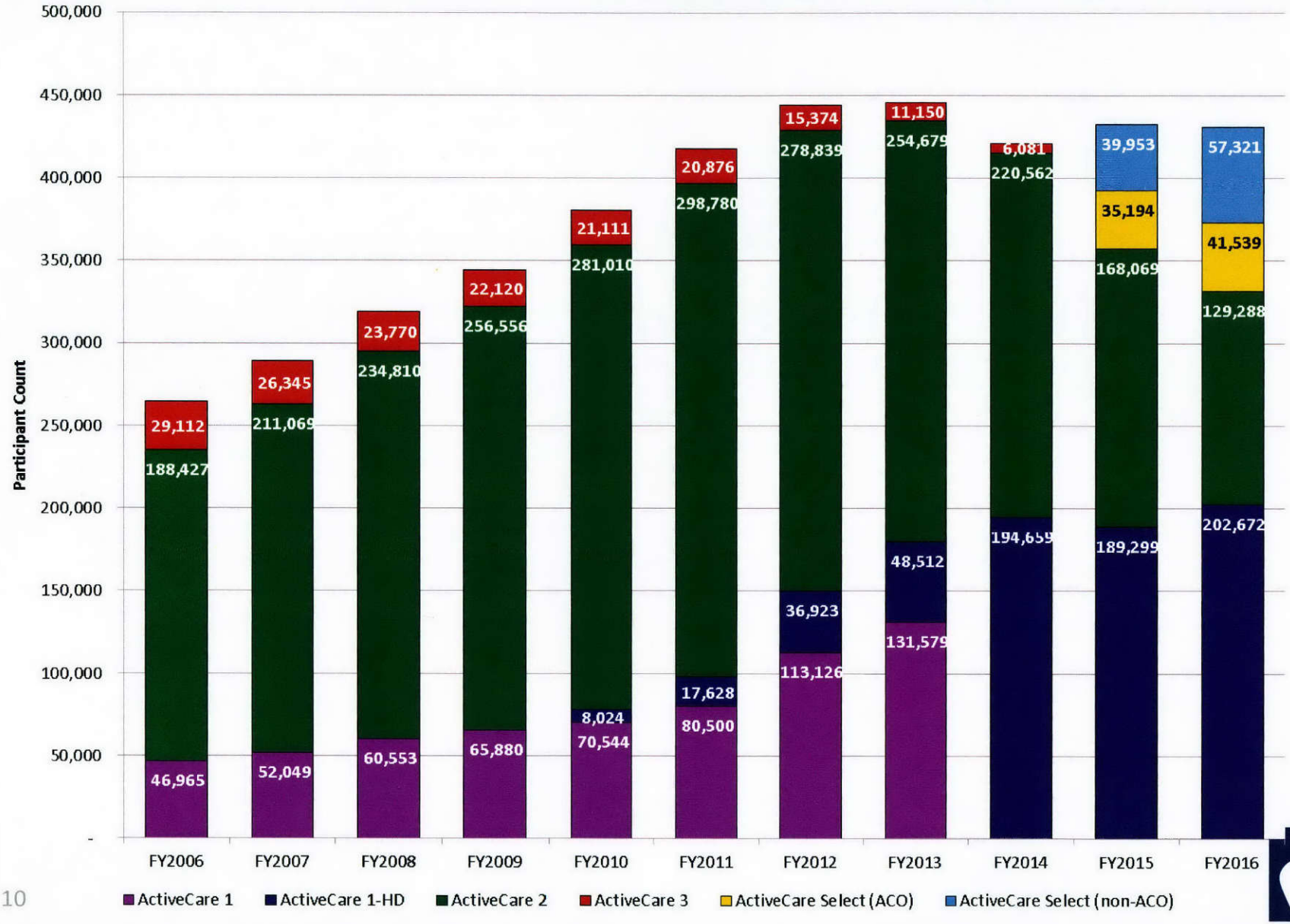
FY2016 ActiveCare Gross Premiums

Coverage Tier	ActiveCare-1HD	ActiveCare-Select	ActiveCare-2
Employee Only	$341	$473	$614
Employee & Spouse	$914	$1,122	$1,478
Employee & Child(ren)	$615	$762	$992
Employee & Family	$1,231	$1,331	$1,521

- For Employee Only coverage, the employee share of premium would be $116 per month for the ActiveCare-1HD plan for a district contributing the minimum $150 per month with the State contributing $75 per month.



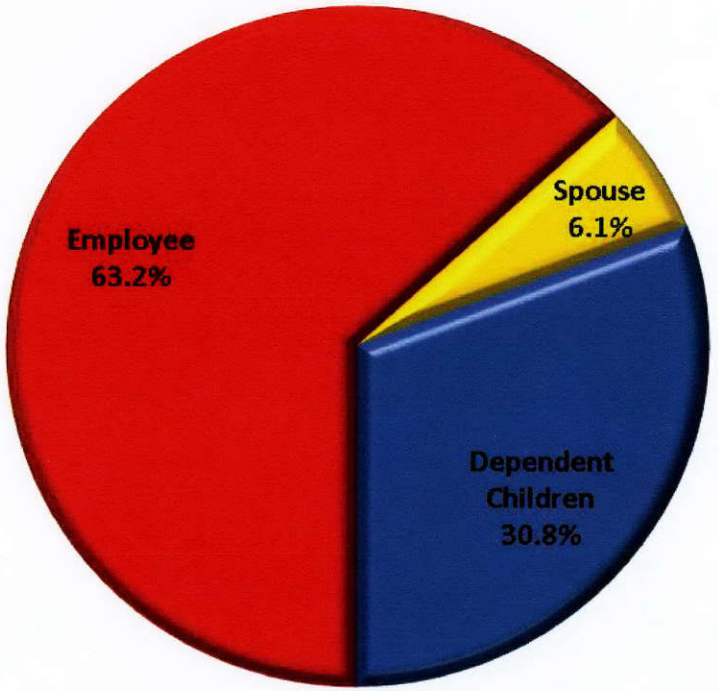
History of Participation by Plan



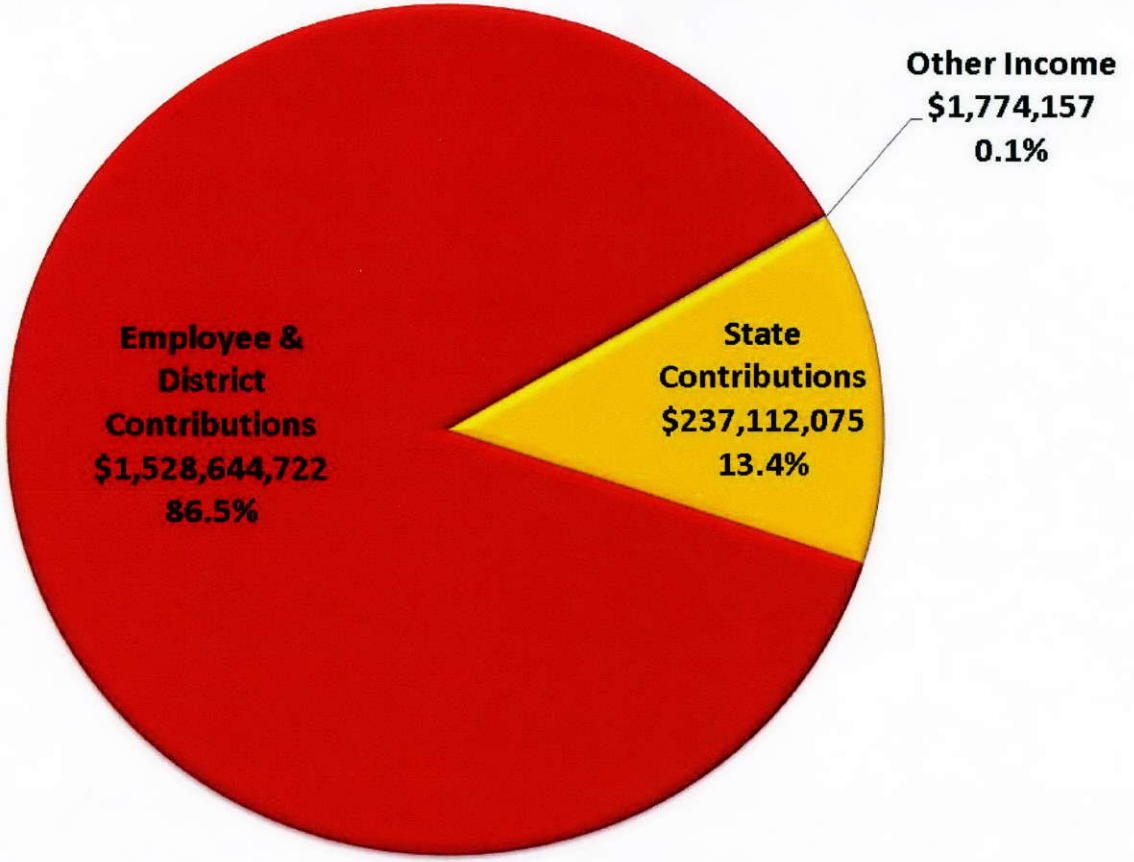
Current Participation Coverage Tier

Participant Count as of December 2015

Coverage Tier	ActiveCare 1-HD	ActiveCare 2	ActiveCare Select (Open Access)	ActiveCare Select (ACO Area)	Total
Employee Only	110,547	45,989	22,271	17,614	196,421
Employee & Spouse	8,570	4,206	2,230	1,276	16,282
Employee & Child	66,172	38,415	24,131	17,077	145,795
Employee & Family	17,001	39,472	9,027	5,407	70,907
Total	202,290	128,082	57,659	41,374	429,405



TRS-ActiveCare Funding Sources FY2015



State Contributions:
$75 per employee per month

District Contributions:
Minimum of $150 per employee per month

Active Employees:
Active employees share of premium is equal to the balance of project costs.

Other Income:
Includes administrative income and investment income.

Notes:

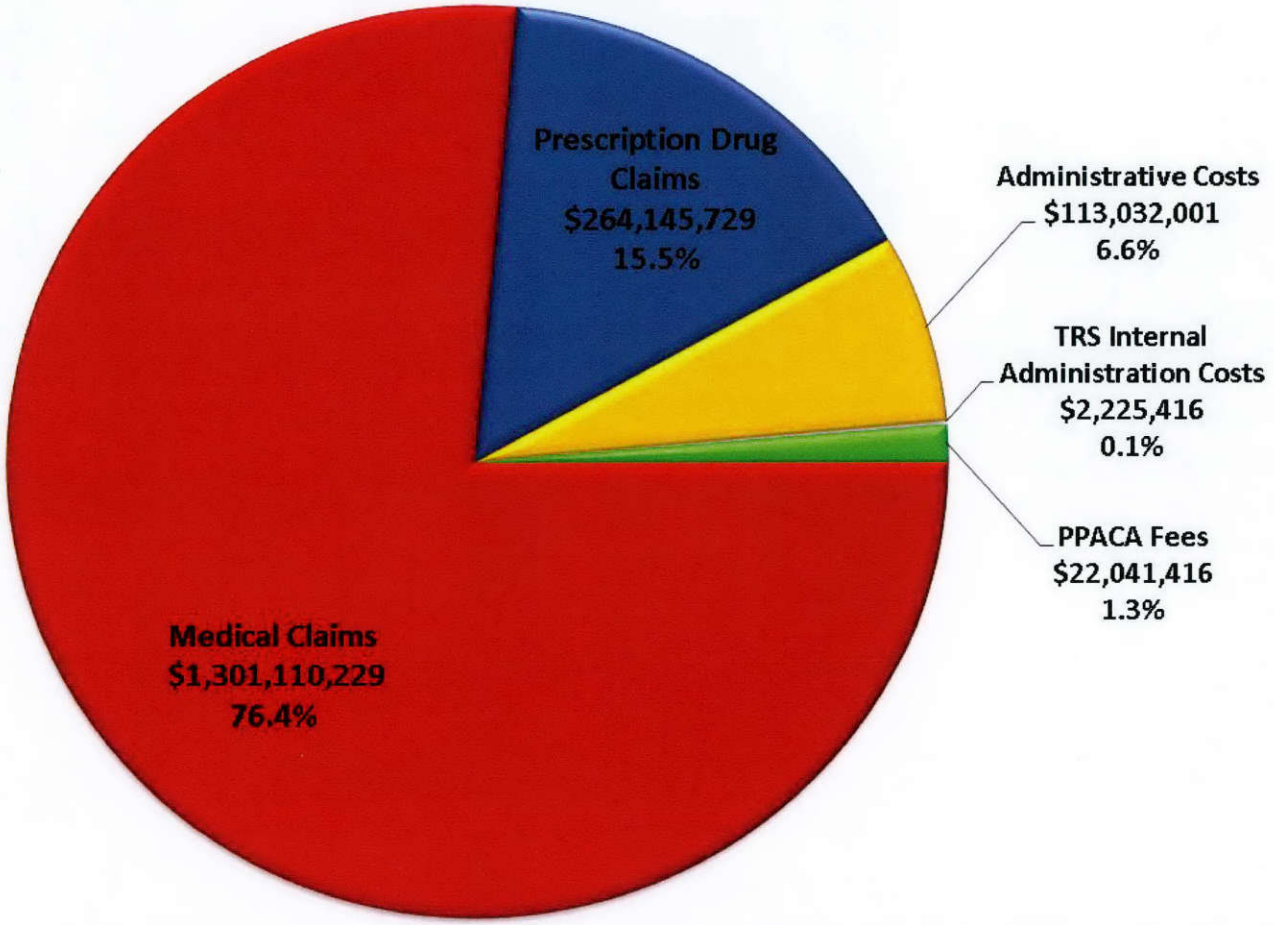
(1) State and District funding is based on a fixed dollar amount per employee rather than actual health care costs.

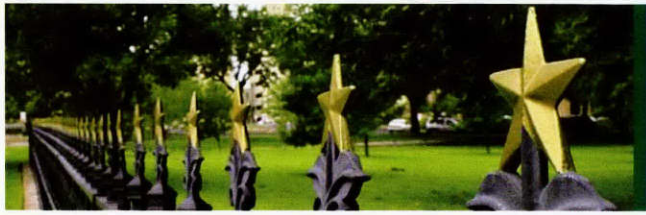
(2) Minimum District contribution is $150 per employee per month, however based on an informal survey, 67 percent of districts contribute more, estimated to be between $474 and $680 million.

(4) In addition to employee premiums, members paid a total of $516 million in out-of-pocket expenses (deductibles, copayments and coinsurance).

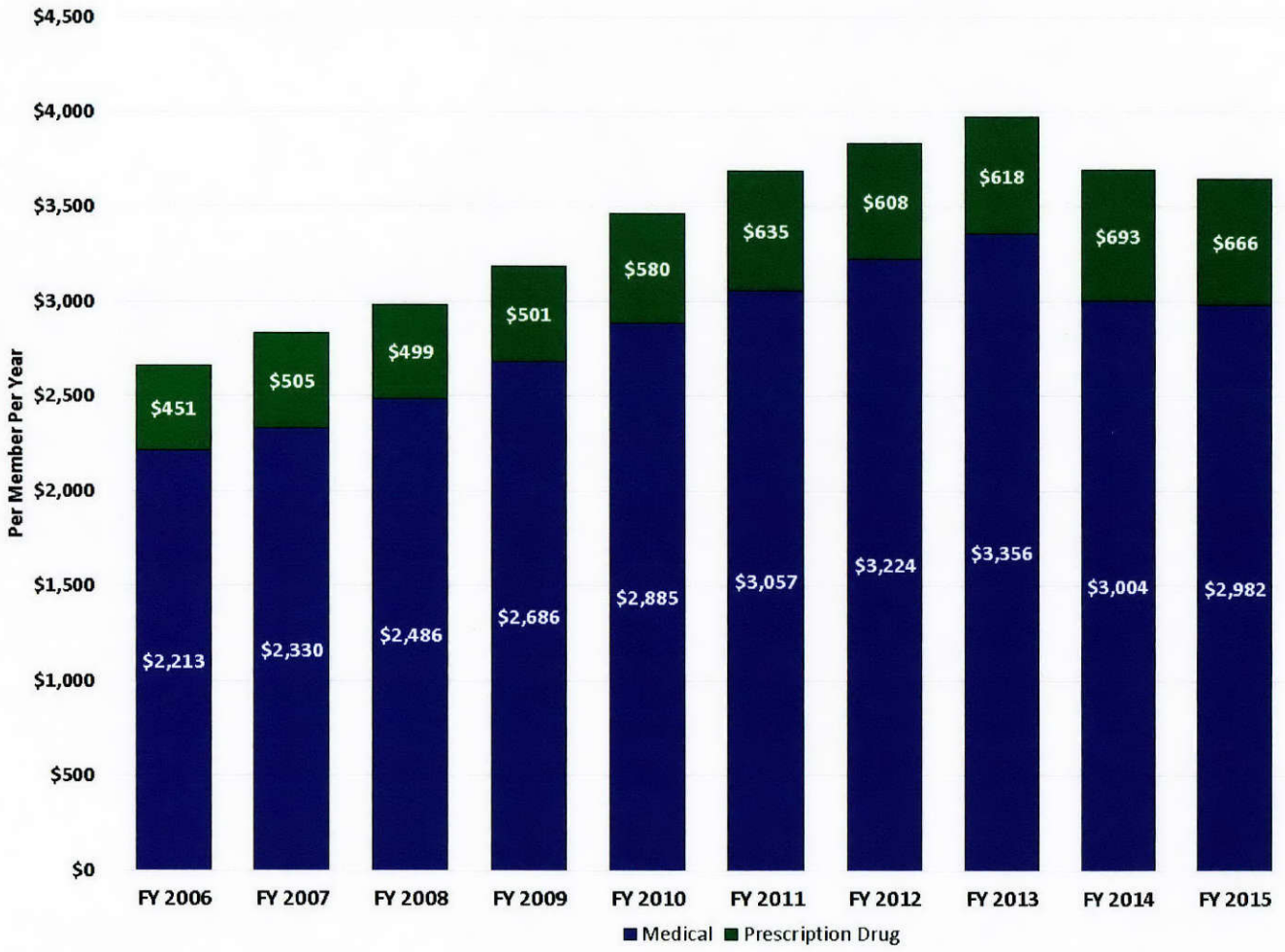
TRS

TRS-ActiveCare FY2015 Expenses





TRS-ActiveCare
Average Per Member Per Year Plan Cost



- For FY2015, the plan has paid about $3,648 per member per year in claims.
- In addition, members paid about $1,195 per member per year in out-of-pocket costs (deductible, copay and coinsurance).

TRS-ActiveCare Funding

Financial History Through FY 2015

- Because State and District minimum contributions have not changed since the inception of TRS-ActiveCare, active employee contributions are raised each year to cover the projected expenses.

	Revenue					Expenses					
Fiscal Year	State Contributions	Employee & District Contributions	HMO Premiums	Investment Income	Total Revenue	Medical Incurred	Drug Incurred (includes Rebates)	HMO Premium Payments	Administrative Costs	Total Expenses	Ending Balance (Incurred Basis)
FY 2003	$210,234,158	$374,338,694	$0	$2,456,654	$587,029,506	$473,450,544			$44,140,954	$517,591,498	$136,293,600
FY 2004	$121,389,184	$596,462,829	$0	($38,041,707)	$679,810,306	$520,998,423			$54,734,179	$575,732,602	$240,371,304
FY 2005	$133,958,840	$647,192,860	$0	$8,949,525	$790,101,225	$663,361,138			$55,264,847	$718,625,985	$311,846,543
FY 2006	$140,306,296	$671,691,759	$0	$18,650,516	$830,648,571	$708,972,484			$54,587,233	$763,559,716	$379,198,205
FY 2007	$152,715,758	$727,581,192	$59,397,078	$26,016,380	$965,710,409	$659,478,760	$141,670,202	$58,742,363	$49,722,225	$909,613,550	$435,295,063
FY 2008	$167,969,604	$859,647,820	$68,919,598	$21,164,640	$1,117,701,662	$788,240,087	$163,916,252	$68,204,743	$56,165,020	$1,076,526,102	$476,470,624
FY 2009	$180,685,094	$926,046,048	$65,450,125	$11,597,992	$1,183,779,259	$934,733,927	$187,913,031	$64,820,440	$62,543,593	$1,250,010,991	$410,238,892
FY 2010	$199,429,983	$1,065,796,644	$65,169,943	$6,421,269	$1,336,817,839	$1,092,107,916	$221,006,281	$64,532,253	$69,600,153	$1,447,246,603	$299,810,127
FY 2011	$219,054,635	$1,250,884,807	$77,011,976	$3,387,062	$1,550,338,480	$1,242,673,156	$267,417,825	$76,270,706	$75,717,493	$1,662,079,180	$188,069,427
FY 2012	$231,988,092	$1,427,352,724	$90,594,006	$1,697,553	$1,751,632,375	$1,450,574,875	$268,328,770	$89,706,406	$85,314,414	$1,893,924,465	$45,777,337
FY 2013	$232,288,848	$1,474,353,638	$101,879,198	$746,936	$1,809,268,619	$1,512,262,090	$272,807,678	$100,905,703	$87,041,609	$1,973,017,079	($117,971,123)
FY 2014	$230,047,826	$1,542,510,549	$156,337,090	$940,021	$1,929,835,486	$1,242,335,376	$279,499,612	$154,913,860	$112,276,403	$1,789,025,250	$22,839,113
FY 2015	$237,112,075	$1,526,254,615	$180,582,576	$1,537,408	$1,945,486,674	$1,301,110,229	$264,145,730	$178,192,468	$137,062,084	$1,880,510,511	$87,815,276

TRS-ActiveCare-2 Premium Increase History

Increase in Gross Premiums					
Fiscal Year	**ActiveCare-1**	**ActiveCare-1HD**	**ActiveCare - Select**	**ActiveCare-2**	**ActiveCare-3**
FY2004	5.0%	-	-	5.0%	5.0%
FY2006	0.0%	-	-	0.0%	6.5%
FY2008	7.0%	-	-	7.0%	7.0%
FY2010	4.5%	Initial Rates	-	4.5%	4.5%
FY2011	7.0%	7.0%	-	7.0%	7.0%
FY2012	9.5%	9.5%	-	9.5%	9.5%
FY2013	4.0%	4.0%	-	6.0%	9.0%
FY2014	Discontinued	9.1 - 22.7%	-	15.0%	25.0% (Closed to new enrollees)
FY2015	-	0 - 8.0%	Initial Rates	0 - 7.0%	Discontinued
FY2016	-	4.9 - 7.5%	5.1 - 7.5%	10.6 - 15.0%	-

- Employee contributions for TRS-ActiveCare-2 have increased 332% since the inception of the plan.

TRS-ActiveCare Funding

Assuming current benefit and funding levels, the table below shows the necessary rate increase, based on experience through December 2015, in order to remain solvent through the end of each fiscal year.

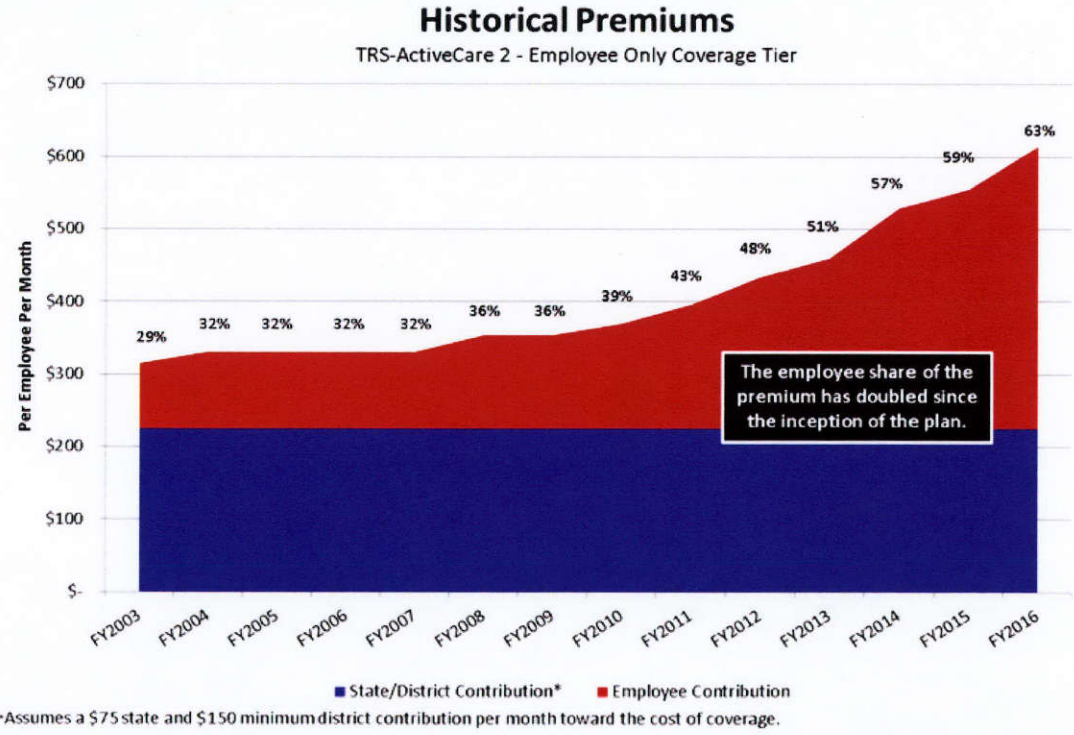
Fiscal Year	Gross Premium Increase	Increase to Employee Contributions
2017	6% – 14%	17%
2018	2% – 5%	5%
2019	5% – 11%	12%
2020	5% – 10%	11%
2021	5% – 10%	11%

2014 Affordability Study
Key Findings

- During the 2014 interim, TRS conducted a study on the affordability of TRS-ActiveCare.
- TRS-ActiveCare has an affordability issue.
- State and minimum district contributions have not changed since the inception of the program in 2002.
- The employee's share of the total premium cost has increased significantly. As premiums have increased, employees are selecting lower benefit plans.
- Districts that do not participate in TRS-ActiveCare and administer their own plans may feel more accountable for the affordability of coverage.
- There is a disparity between TRS-ActiveCare benefits and premiums in comparison to what is available to Texas state employees (under ERS).

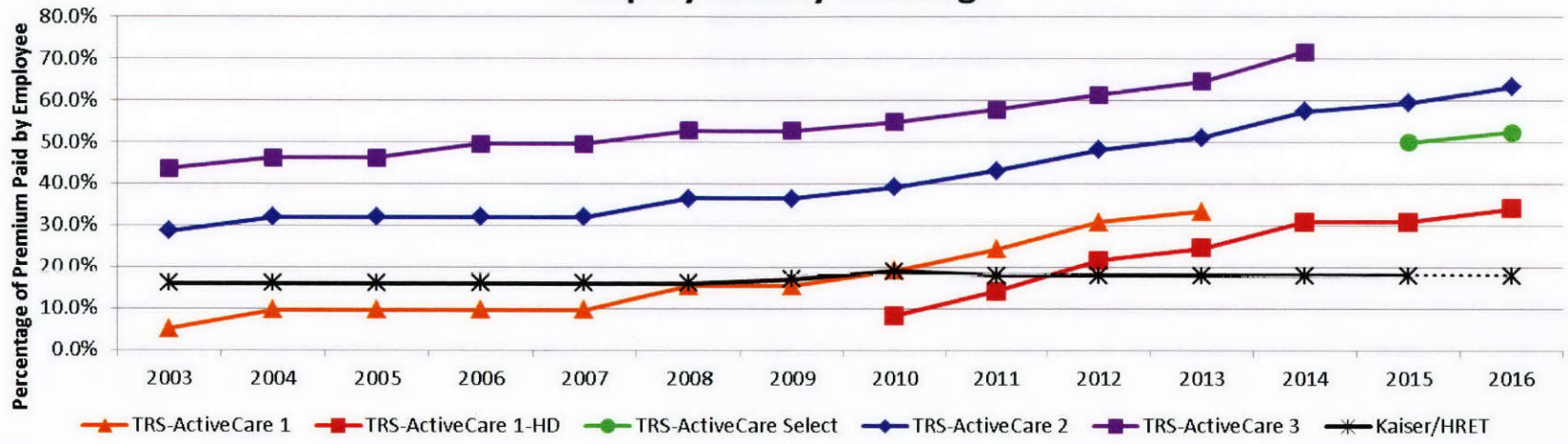
TRS-ActiveCare Contribution Rates

- Funding is based on a fixed dollar amount per employee per month rather than actual health care costs.
- Minimum State ($75 per employee per month) and district contributions ($150 per employee per month) have not changed since plan inception in FY2002.
- The employee share of premiums have increased from 30% to more than 60% over the last 12 years.

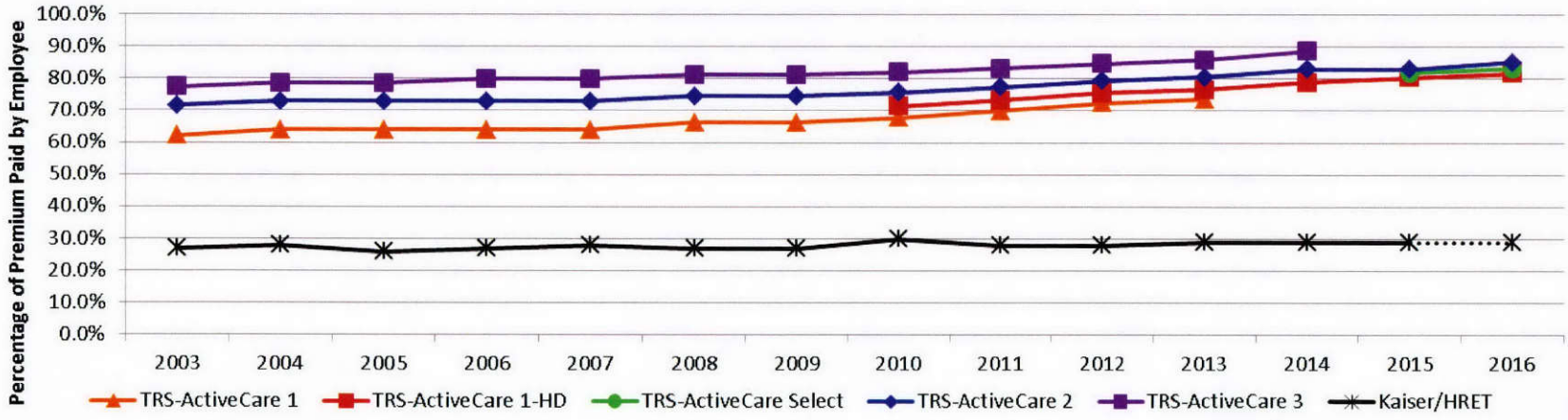


TRS-ActiveCare Contribution Rates

Employee Only Coverage



Employee & Family Coverage



Source: Kaiser / Health Research and Educational Trust (HRET) Survey of Employer-Sponsored Health Benefits, 1999-2015.

TRS

TRS-ActiveCare Contribution Rates

FY2016 State and District Contributions by Participating Entities for TRS-ActiveCare Enrollees				
Monthly Contributions	**Number of Districts**	**Number of Employees**	**Percent of Districts**	**Percent of Employees**
$225 Minimum contribution (State = $75, District = $150 min)	325	43,920	32.73%	17.29%
$226 - $275	239	67,903	24.07%	26.73%
$276 - $325	200	64,940	20.14%	25.57%
$326 - $400	159	57,199	16.01%	22.52%
$401 - $425	14	12,982	1.41%	5.11%
$426 - $450	7	2,513	0.70%	0.99%
$451 - $475	9	926	0.91%	0.36%
$476 - $500	9	955	0.91%	0.38%
$501 - $614 ($614 is the max)	31	2,648	3.12%	1.04%
Total Respondents	**993**	**253,986**	**100.00%**	**100.00%**
Weighted Average Contribution	TRS-ActiveCare-1HD = $283 TRS-ActiveCare-Select = $307 TRS-ActiveCare-2 = $314			

Source: FY2015 survey conducted by TRS. Out of 1,100 participating districts, 993, or 90%, responded as of April 6, 2016.

- Results shown in the table are based on state and district contributions to TRS-ActiveCare.
- The percentage of districts contributing only the minimum required contribution for TRS-ActiveCare is 33%.
- An additional 24% of the districts contribute up to $50 per employee per month for TRS-ActiveCare.
- Number of entities providing Employee Only coverage at no cost:
  - TRS-ActiveCare-1HD – 196
  - TRS-ActiveCare-Select – 49
  - TRS-ActiveCare-2 – 28

2016 Affordability Study

Option	Description
Option 1	Increase funding 1(a) Increase State and District funding to achieve a 70% contribution rate 1(b) Increase actuarial value (AV) to achieve FY2003 AV level
Option 2	Offer a single plan: High Deductible Health Plan with an Health Savings Account
Option 3	Offer a single plan: Exclusive Provider Organization plan with high performance networks
Option 4	Establish premiums based on age and/or geographic area
Option 5	Eliminate coverage for spouses
Committee Charge	Allow districts to opt-out of TRS-ActiveCare

TRS

Option 1(a)
Restore funding ratios to FY2003 level

Option 1(a) Restore funding ratios to FY2003 level

- Assumptions:
  - In FY2003, employees paid 28.6% of the cost of ActiveCare 2 Employee Only premium. The combined State and minimum District contribution was 71.4%.
  - In FY2016, that ratio is 63.4% for employees and 36.6% for the State and District.

	TRS-ActiveCare-2 Employee Only Coverage			
Funding Source	**FY2003**		**FY2016**	
State Contribution	$75	23.8%	$75	12.2%
Minimum District Contribution	$150	47.6%	$150*	24.4%
Employee Contribution	$90	28.6%	$389	63.4%
Total Gross Premium	$315	100.0%	$614	100.0%

*Responses to an informal survey of districts indicate that 325 districts contribute the minimum of $150 while 668 districts contribute more towards the cost of coverage.

- The average district contribution is approximately $221 per month.

Option 1(a)
Return funding ratios to FY2003 level

- The tables below show the impact of restoring the FY2003 funding ratios each plan year based on the following assumptions:
  - Annual increase in gross premiums of 8.0%;
  - State and District contribution of 71% (or 23.7% and 47.3% of gross premium, respectively);
  - Employee contribution of 29.0% of gross premium.

		Projected Additional Cost over Current Funding Levels		
Fiscal Year	**Contribution Assumptions**	**State**	**District**	**Active Employees**
FY2017	$75 State + $150 District = $225	$0	$0	$0
FY2018	$158 State + $318 District = $476	$272,506,224	$546,226,392	($506,839,980)
FY2019	$171 State + $343 District = $514	$314,349,636	$627,885,000	($455,649,900)
FY2020	$185 State + $370 District = $555	$359,033,688	$716,721,204	($400,721,556)
FY2021	$200 State + $400 District = $600	$407,559,792	$813,526,500	($341,983,788)

	Total Funding Projection		
Fiscal Year	**State**	**District**	**Active Employees**
FY2017	$244,190,700	$488,381,400	$1,139,974,812
FY2018	$516,696,924	$1,034,607,792	$633,134,832
FY2019	$558,540,336	$1,116,266,400	$684,324,912
FY2020	$603,224,388	$1,205,102,604	$739,253,256
FY2021	$651,750,492	$1,301,907,900	$797,991,024

TRS

Option 1(b)
Restore benefits to FY2003 level

Option 1(b) Restore benefits to FY2003 level

- In FY2003, districts with 500 or less active employees were required to participate in the TRS-ActiveCare program in which three benefit plans were offered.
- TRS-ActiveCare 3 was originally designed to be comparable to the ERS plan offered to State employees.

FY2003 In-Network Benefits			
Benefit Provision	**TRS-ActiveCare 1**	**TRS-ActiveCare 2**	**TRS-ActiveCare 3**
Individual/Family Deductible	$1,000/$3,000	$500/$1,500	$0
Coinsurance	80%/20%	80%/20%	90%/10%
Maximum Out-of-Pocket	$2,000/$6,000	$2,000/$6,000	$500
Inpatient Hospital Admit	80%/20%	Deductible & Coinsurance	$0
Emergency Room Visit	80%/20%	Deductible & Coinsurance	$50 copay
Physician Office Visit	80%/20%	$25 copay	$15 copay
Prescription Drug	Integrated with medical benefit	Retail $5/$25/$45 Mail $10/$50/$90	Retail $5/$25/$45 Mail $10/$50/$90

[1] Generic/Preferred Brand/Non-Preferred Brand

TRS

Option 1(b)
Restore benefits to FY2003 level

- Both the original TRS-ActiveCare 1 and TRS-ActiveCare 3 plans were discontinued effective 8/31/2013 and 8/31/2014 respectively.
- Benefits have decreased for TRS-ActiveCare 2, the only original plan still offered to public education employees.

FY2016 In-Network Benefits			
Benefit Provision	**TRS-ActiveCare 1-HD**	**TRS-ActiveCare Select**	**TRS-ActiveCare 2**
Individual/Family Deductible	$2,500/$5,000	$1,200/$3,600	$1,000/$3,000
Coinsurance	80%/20%	80%/20%	80%/20%
Maximum Out-of-Pocket	$6,450/$12,900	$6,600/$13,200 (includes medical and pharmacy benefits)	$6,600/$13,200 (includes medical and pharmacy benefits
Inpatient Hospital Admit	80%/20%	$150 copay per day plus 20% after deductible ($750 max copay)	$150 copay per day plus 20% after deductible ($750 max copay)
Emergency Room Visit	80%/20%	$150 copay plus 20% after deductible	$150 copay plus 20% after deductible
Physician Office Visit	80%/20%	$30 Primary Care Physician copay $60 Specialist copay	$30 Primary Care Physician copay $50 Specialist copay
Prescription Drug[1]	Integrated with medical benefit	$200 brand drug deductible	$200 brand drug deductible
		Retail (1-31) $20/$40/50%/20% Mail (32-90) $45/$105/50%/20%	Retail (1-31) $20/$40/$65/$200 Mail (32-90) $45/$105/$180/$450

[1] Generic/Preferred Brand/Non-Preferred Brand/Specialty

TRS

Option 1(b)
Restore benefits to FY2003 level

TRS-ActiveCare-2		
Benefit Provision	**FY2003 Benefits**	**FY2016 Benefits**
Individual/Family Deductible	$500/$1,000	$1,000/$3,000
Coinsurance	80%/20%	80%/20%
Maximum Out-of-Pocket	$2,000/$6,000 (includes medical benefits only)	$6,600/$13,200 (includes medical and pharmacy benefits
Inpatient Hospital Admit	80%/20% after deductible	$150 copay per day plus 20% after deductible ($750 max copay)
Emergency Room Visit	80%/20% after deductible	$150 copay plus 20% after deductible
Physician Office Visit	$25 copay	$30 Primary Care Physician copay $50 Specialist copay
Prescription Drug[1]	N/A	$200 brand drug deductible
	Retail $5/$25/$45 Mail $10/$50/$90	Retail (1-31) $20/$40/$65/$200 Mail (32-90) $45/$105/$180/$450
Gross Premium Employee Only Employee & Spouse Employee & Child Employee & Family	$315 $717 $502 $789	$614 $1,478 $992 $1,521

[1] Generic/Preferred Brand/Non-Preferred Brand/Specialty

- If TRS had continued to offer the original FY2003 benefits, the current premium would increase from $614 to $711 for Employee Only coverage, or 15.8%.
- If the State and District contributed 71% of the $711 premium, the employer share would increase to $505 per employee month.

Option 1(b)
Restore benefits to FY2003 level

- Assumptions:
  - TRS-ActiveCare-1HD enrollees are moved to original TRS-ActiveCare-1;
  - TRS-ActiveCare-2 enrollees remain in original TRS-ActiveCare-2;
  - TRS-ActiveCare-Select enrollees are moved to original TRS-ActiveCare-1;
  - Because TRS-ActiveCare-3 was discontinued, it has not been included in this option;
  - Original plan designs have been modified to maintain compliance with the Affordable Care Act (preventive benefits covered at 100%, integrated maximum out-of-pocket limit).
- Results:
  - With no change in the minimum State and District contribution levels, gross premiums would increase by about 6.3%.

	Annual Cost Impact for Restoring Benefits to FY2003 Level		
	State	**District**	**Active Employees**
Current Funding Levels ($75 State + $150 District = $225)[1]	$244,190,700	$488,381,400	$1,139,974,812
Funding Level Assumptions ($75 State + $150 District = $225)[1]	$244,190,700	$488,381,400	$1,258,189,680
Change	$0	$0	$118,241,868

[1] Assumes a minimum District contribution of $150 per employee per month.

TRS

Preface to Options 2 & 3
Offer a Single Health Plan

- By offering multiple health plan options for employees, along with an annual open enrollment opportunity, the opportunity for adverse selection exists.
  - Adverse selection is the case in which employees/families with the most complex medical conditions enroll in the plan offering the richest benefits. Each year as the premiums increase for that plan, the healthier participants migrate back to a less expensive plan causing the premium for the richest benefits to increase significantly.
  - TRS-ActiveCare 3 experienced this increase and was discontinued effective 8/31/2014 as a result.
- Options 2 & 3 are based on single plan offering to all employees of districts participating in TRS-ActiveCare.
- Assumes that the fully insured HMO's are discontinued as well.
  - In the areas in which these plans are offered alongside the TRS-ActiveCare plans, the HMO's attract the healthier employees. The premiums paid to the HMOs for coverage leave the TRS-ActiveCare fund and are, therefore, not part of the pool to pay claims for the less healthy remaining population.

TRS

Option 2
High Deductible Health Plan with a Health Savings Account

Option 2 Offer a single plan: High Deductible Health Plan with Health Savings Account

- ❑ Assumes that TRS-ActiveCare 1-HD is the only plan option available.
  - This plan meets the IRS requirements for an HSA qualified High Deductible Health plan.
- ❑ Assumes employer contribution of $400 per month ($350 for the premium and $50 for the Health Savings Account).
  - The employer may contribute more to the Health Savings Account.
  - Employees may contribute to the Health Savings Account up to a maximum total contribution of $3,350 for individual or $6,750 for family coverage.[1]
- ❑ Eliminates adverse selection between plan options.
- ❑ Retains premiums that would have been paid to HMOs.

[1] Calendar year 2016 IRS limits for the combined employee and employer combined contribution.

Option 2
High Deductible Health Plan with a Health Savings Account

Coverage Tier	Current FY2016 Gross Premiums			Single Plan Option in FY2016
	TRS-ActiveCare 1-HD	TRS-ActiveCare Select	TRS-ActiveCare 2	TRS-ActiveCare 1-HD
Employee Only	$341	$473	$614	$435
Employee & Spouse	$914	$1,122	$1,478	$1,106
Employee & Child(ren)	$615	$762	$992	$739
Employee & Family	$1,231	$1,331	$1,521	$1,224

- If this single plan had been offered for FY2016, the average gross premium would have been $562 per employee per month, which is 5.2% less than the projected average of $593.
  - If the State and District contribution increased to $350 per month toward the premiums shown above, then employees would contribute between $85 and $874 per month depending on the coverage tier selected.
  - If the State and District contributed $50 per month to the Health Savings Account, then employees could contribute up to $2,750 per year for individual coverage or $6,150 per year for family coverage.[1] These funds can be used to pay for medical and pharmacy out-of-pocket costs.
  - While for some plans the single option premium would represent a decrease from the current premiums, the money that would have been paid in premiums will now go to pay out of pocket expenses due to increased member cost share requirements.

[1] Calendar year 2016 IRS limits for the combined employee and employer combined contribution.

TRS

Option 2
High Deductible Health Plan with a Health Savings Account

	Annual Cost Impact for TRS-ActiveCare 1-HD[1]		
	State	**District**	**Active Employees**
Current Funding Levels			
Premium ($75 State + $150 District = $225)[2]	$270,853,200	$541,706,400	$1,314,424,295
Health Savings Account ($0 State + $0 District = $0)	$0	$0	$0
Total	$270,853,200	$541,706,400	$1,314,424,295
Funding Level Assumptions			
Premium ($117 State + $233 District = $350)	$422,530,992	$841,450,608	$790,092,948
Health Savings Account ($17 State + $33 District = $50)[3]	$61,393,392	$119,175,408	Determined by each employee
Total	$483,924,384	$960,626,016	$790,092,948
Change	$213,071,184	$418,919,616	($524,331,347)

[1] Estimates are based on 300,948 currently enrolled TRS-ActiveCare and HMO employees.
[2] Assumes a minimum District contribution of $150 per employee per month.
[3] Assumes a minimum District contribution of $33 per employee per month.

- With this option, employee contributions to the plan would decrease due to the transition to TRS-ActiveCare-1HD and an increase in State and District funding.
- Employees will be able to use their premium contribution savings to pay for the corresponding increase in out-of-pockets costs. Employees could make contributions to their Health Savings Account, subject to the maximum permitted by law.

Option 3
TRS-ActiveCare Select with High Performance Networks

Option 3 Offer a single plan: Exclusive Provider Organization Plan with high performance networks

- ❑ Assumes that TRS-ActiveCare Select is the only plan option available.
  - This plan has been offered since 9/1/2014 to active employees.
  - This plan includes limited networks in the areas where Accountable Care Organizations are available, broad network remainder of the state. There are no out-of-network benefits.
- ❑ Eliminates adverse selection between plan options.
- ❑ Retains premiums that would have been paid to HMOs.

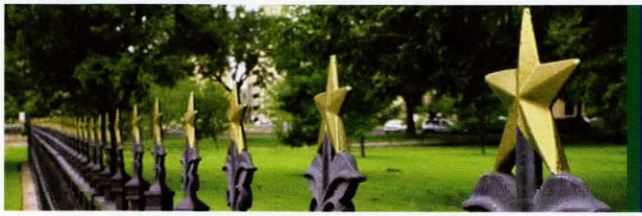
TRS-ActiveCare Select Plan	
Individual/Family Deductible	$1,200/$3,600
Coinsurance	80%/20%
Maximum Out-of-Pocket	$6,600/$13,200 (includes medical and pharmacy benefits)
Inpatient Hospital Admit	$150 copay per day plus 20% after deductible ($750 max copay)
Emergency Room Visit	$150 copay plus 20% after deductible
Physician Office Visit	$30 Primary Care Physician copay $60 Specialist copay
Prescription Drug[1]	$200 brand drug deductible
	Retail (1-31) $20/$40/50%/20% Mail (32-90) $45/$105/50%/20%

Option 3
TRS-ActiveCare Select with High Performance Networks

Coverage Tier	Current FY2016 Gross Premiums		
	TRS-ActiveCare 1-HD	TRS-ActiveCare Select	TRS-ActiveCare 2
Employee Only	$341	$473	$614
Employee & Spouse	$914	$1,122	$1,478
Employee & Child(ren)	$615	$762	$992
Employee & Family	$1,231	$1,331	$1,521

Single Plan Option
TRS-ActiveCare Select
$469
$1,193
$797
$1,320

- If this single plan had been offered for FY2016, the average gross premium would have been $606 per employee per month, which is 2.2% more than the projected average of $593).
  - If the State and District minimum contribution remained at $225 per employee per month, then the employee contribution would range from $244 to $1,095 based on coverage tier.
  - If the FY2003 contribution rates were reinstated, then the State and District contribution would be $141 and $283, respectively; the employee contribution would range from $45 to $896 based on coverage tier.



Option 3
TRS-ActiveCare Select with High Performance Networks

	Annual Cost Impact for TRS-ActiveCare Select[1]		
	State	**District**	**Active Employees**
Current Funding Levels ($75 State + $150 District = $225)[2]	$270,853,200	$541,706,400	$1,314,424,295
Funding Level Assumptions ($75 State + $150 District = $225) [2]	$270,853,200	$541,706,400	$1,402,363,368
Change	$0	$0	$87,939,073

[1] Estimates are based on 300,948 currently enrolled TRS-ActiveCare and HMO employees.
[2] Assumes a minimum District contribution of $150 per employee per month.

If FY2003 funding ratios are restored, then the State and District contributions would increase by 88%.

	Annual Cost Impact for TRS-ActiveCare Select[1]		
	State	**District**	**Active Employees**
Current Funding Levels ($75 State + $150 District = $225)[2]	$270,853,200	$541,706,400	$1,314,424,295
Funding Level Assumptions ($141 State + $283 District = $424)[3]	$509,204,016	$1,022,019,408	$683,706,708
Change	$238,350,816	$480,313,008	($630,717,587)

[1] Estimates are based on 300,948 currently enrolled TRS-ActiveCare and HMO employees.
[2] Assumes a minimum District contribution of $150 per employee per month.
[3] Assumes a minimum District contribution of $283 per employee per month.

Option 4
Establish Premiums Based on Age and/or Geographic Area

Option 4 Establish premiums based on age and/or geographic area

- Under current law, TRS-ActiveCare is required to offer uniform statewide coverage. Premium contributions do not vary by age or geographic area.
- Because of the statewide uniform rating, employees who reside in lower cost geographic areas are subsidizing those in the higher cost areas. Additionally, lower cost employees (younger and/or healthier) are subsidizing the higher cost employees.
- In 2014, carriers began marketing health care plans to individuals on the federal public exchange. In addition to the benefits, premiums for these plans vary by age and geographic area.
- Younger, healthier employees and those in areas where medical costs are lower than the statewide average may find coverage comparable to TRS-ActiveCare plans on the federal public exchange at a lower cost.
- As more lower cost employees exit the plan, TRS-ActiveCare is left with a larger concentration of enrollees with higher claim costs and fewer low cost enrollees to offset those costs.

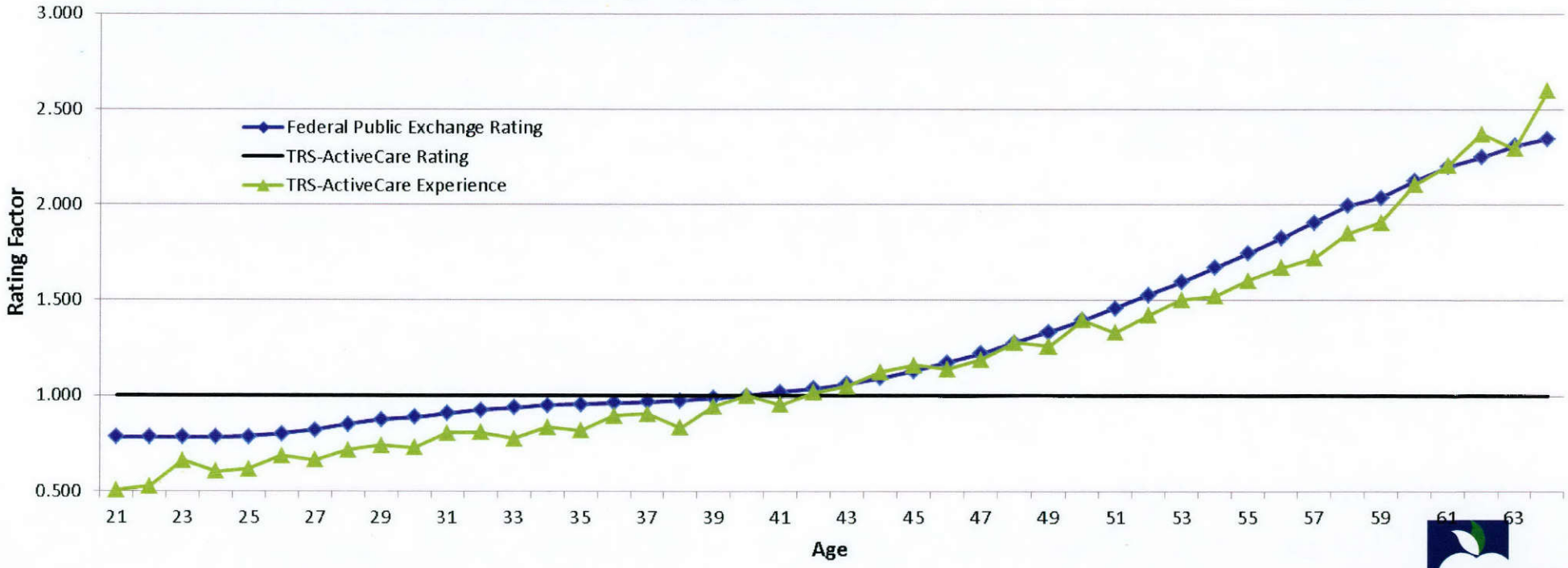
TRS

Option 4

Establish Premiums Based on Age and/or Geographic Area

Age Rating

- The age rating factors used by health plans on the public exchange in Texas include a 3:1 slope, which is similar to the FY2015 TRS-ActiveCare experience.
- Normalizing the factors to an individual age 40, younger, healthier employees and spouses may look to the federal public exchange to try and find a comparable plan at a lower cost based on their geographic area.

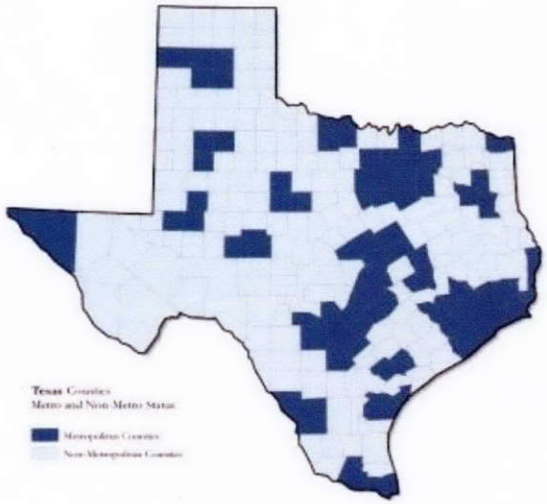


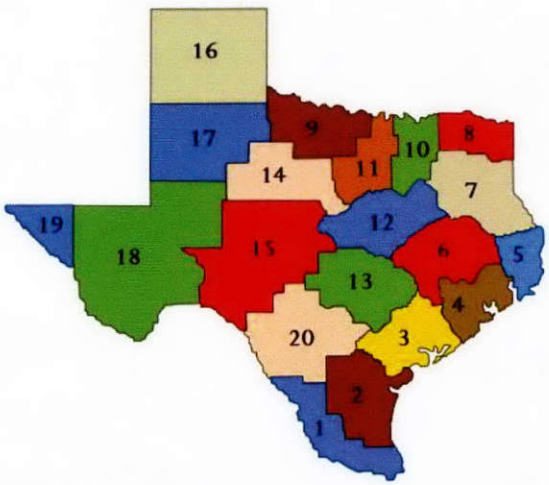
Option 4

Establish Premiums Based on Age and/or Geographic Area

Rating by geographic area could be performed a number of ways:

- ❑ County
  - Texas has 254 counties and would be administratively burdensome.
  - Districts can span multiple counties.
- ❑ Metropolitan Statistical Area (MSA)
  - Groups counties with large population densities.
  - Rating area used for the public exchange.
  - Districts can span multiple Metropolitan Statistical Areas.
  - Non-metropolitan counties span a large geographical area with varying costs.
- ❑ Education Service Center
  - School districts are divided into twenty regions.
  - One-to-one correlation between district and Education Service Center.
  - May be easier to administer than a more granular approach.





Option 4

Establish Premiums Based on Age and/or Geographic Area

Number of Carriers by Plan Type							
Rating Area	Metropolitan Statistical Area (MSA)	2014		2015		2016	
		HMO	PPO	HMO	PPO	HMO	PPO
1	Abilene	2	1	2	2	2	0
2	Amarillo	2	1	2	2	3	0
3	Austin-Round Rock	5	3	5	3	4	1
4	Beaumont-Port Arthur	4	2	4	2	5	0
5	Brownsville-Harlingen	3	1	4	2	3	0
6	College Station-Bryan	3	2	3	3	3	1
7	Corpus Christi	2	1	2	3	3	0
8	Dallas-Ft. Worth-Arlington	3	3	3	3	3	1
9	El Paso	3	1	3	3	3	1
10	Houston-Baytown-Sgr Land	5	3	5	3	6	1
11	Killeen-Temple-Fort Hood	4	2	4	2	3	1
12	Laredo	2	1	2	2	2	0
13	Longview	1	1	1	2	1	0
14	Lubbock	2	1	2	2	2	0
15	McAllen-Edinburg-Pharr	2	1	4	2	4	0
16	Midland	2	1	2	2	2	0
17	Odessa	2	1	2	2	2	0
18	San Angelo	2	1	2	2	2	1
19	San Antonio	4	2	4	4	4	1
20	Sherman-Denison	1	2	1	3	2	0
21	Texarkana	1	1	1	2	2	0
22	Tyler	1	1	1	2	1	0
23	Victoria	1	1	1	2	2	0
24	Waco	5	2	5	2	4	1
25	Wichita Falls	1	1	1	2	1	0
26	Non-Metropolitan Areas	7	3	8	3	9	2

- Availability of plan options on the public exchange varies significantly by Rating Area and plan type.
- Plan option availability also varies by county within each Rating Area.
- With the exception of the non-Metropolitan areas, PPO plans are currently only available in select Rating Areas through a single carrier.

Option 4
Sample CY2016 Exchange Rates – HMO Plans

CY2016 Blue Cross Blue Shield of Texas Blue Advantage HMO Individual Rates

Rating Area	Metropolitan Statistical Area (MSA)	Bronze			Silver			Gold		
		Age 25	Age 40	Age 55	Age 25	Age 40	Age 55	Age 25	Age 40	Age 55
1	Abilene	$176	$244	$283	$224	$311	$360	$391	$543	$629
2	Amarillo	$174	$242	$280	$222	$308	$357	$387	$538	$623
3	Austin-Round Rock	$185	$257	$297	$235	$327	$379	$410	$570	$661
4	Beaumont-Port Arthur	$195	$271	$314	$248	$345	$399	$433	$601	$697
5	Brownsville-Harlingen	$141	$196	$227	$179	$249	$288	$313	$434	$503
6	College Station-Bryan	$170	$237	$274	$217	$302	$349	$379	$526	$609
7	Corpus Christi	$161	$224	$259	$205	$285	$330	$358	$498	$576
8	Dallas-Ft. Worth-Arlington	$200	$277	$321	$254	$353	$409	$443	$616	$713
9	El Paso	$152	$212	$245	$194	$269	$312	$338	$470	$545
10	Houston-Baytown-Sgr Land	$174	$242	$281	$222	$309	$358	$388	$539	$624
11	Killeen-Temple-Fort Hood	$166	$231	$267	$211	$294	$340	$369	$513	$594
12	Laredo	$148	$205	$238	$188	$261	$303	$328	$456	$528
13	Longview	$172	$239	$277	$219	$304	$352	$382	$530	$614
14	Lubbock	$171	$238	$276	$218	$303	$351	$381	$529	$613
15	McAllen-Edinburg-Pharr	$142	$198	$229	$181	$252	$292	$316	$440	$509
16	Midland	$165	$229	$266	$210	$292	$338	$367	$510	$590
17	Odessa	$167	$232	$269	$213	$296	$342	$371	$516	$597
18	San Angelo	$183	$255	$295	$234	$325	$376	$407	$566	$656
19	San Antonio	$180	$250	$289	$229	$318	$368	$399	$555	$643
20	Sherman-Denison	$206	$286	$331	$262	$364	$422	$457	$636	$736
21	Texarkana	$164	$228	$265	$209	$291	$337	$365	$507	$588
22	Tyler	$174	$242	$280	$221	$308	$356	$386	$537	$622
23	Victoria	$170	$236	$274	$216	$301	$348	$378	$525	$608
24	Waco	$169	$234	$271	$215	$298	$345	$374	$520	$603
25	Wichita Falls	$211	$293	$340	$269	$373	$432	$469	$651	$754
26	Non-Metropolitan Areas	$169	$235	$272	$215	$299	$347	$376	$522	$605
Deductible (Individual / Family)		$6,750 / $13,700			$2,000 / $6,000			$500 / $1,500		
Office Visit (Primary Care / Specialist)		$40 copay / 30% coinsurance			$40 copay / $60 copay			$20 copay / $40 copay		
Prescription Drug (Generics / Preferred Brand / Non-Preferred Brand / Specialty)		20% / 30% / 40% / 50% coinsurance after deductible			$0 copay / $50 copay / $100 copay / 30% coinsurance after deductible			$0 copay / $50 copay/ $100 copay/ 30% coinsurance after deductible		

Option 4

Establish Premiums Based on Age and/or Geographic Area

- The average rating area is represented by Region 6 – Huntsville, whose adjusted premium is equal to the current TRS-ActiveCare 2 premium for Employee Only coverage.
- There is an 92% cost differential between the highest cost area (Region 17 – Lubbock) and the lowest cost area (Region 20 – San Antonio).
- Premium differentials will vary by plan and coverage tier.

Education Service Center	Geographic Area Factor	Area Adjusted TRS-ActiveCare 2 Employee Only Premium	Difference in Current Gross Premium
Region 1 – Edinburg	0.89	$549	($65)
Region 2 – Corpus Christi	0.77	$474	($140)
Region 3 – Victoria	0.93	$573	($41)
Region 4 – Houston	0.91	$557	($57)
Region 5 – Beaumont	1.06	$650	$36
Region 6 – Huntsville	1.00	$614	$0
Region 7 – Kilgore	1.10	$673	$59
Region 8 – Mount Pleasant	0.95	$584	($30)
Region 9 – Wichita Falls	0.97	$594	($20)
Region 10 – Richardson	1.04	$638	$24
Region 11 – Fort Worth	1.07	$655	$41
Region 12 – Waco	1.09	$672	$58
Region 13 – Austin	0.89	$546	($68)
Region 14 – Abilene	1.38	$846	$232
Region 15 – San Angelo	1.07	$655	$41
Region 16 – Amarillo	1.36	$838	$224
Region 17 – Lubbock	1.45	$892	$278
Region 18 – Midland	0.99	$608	($6)
Region 19 – El Paso	0.88	$538	($76)
Region 20 – San Antonio	0.76	$464	($150)

Option 4

Establish Premiums Based on Age and/or Geographic Area

	Annual Cost Impact for Geographic Rating		
	State	**District**	**Active Employees**
Uniform Statewide Premium ($75 State + $150 District = $225)[1]	$244,190,700	$488,381,400	$1,139,974,812
Geographic Premiums ($75 State + $150 District = $225)[1]	$244,190,700	$488,381,400	$1,139,974,812
Change	$0	$0	$0

[1] Assumes a minimum District contribution of $150 per employee per month.

- Assuming that there is no change to the State or District funding ratio requirements, this option does not increase the employer costs.
- By moving to a premium schedule that varies by geographic area, the Active Employee contributions will decrease in some areas and increase in others; however, the aggregate employee contributions will stay the same as well.
- For example, based on slide 43, employees in the Corpus Christi, Austin and El Paso areas would be among those who receive a reduction in premiums while employees in higher cost areas such as Abilene, Fort Worth and Lubbock would receive an increase in premiums.

TRS

Option 5
Eliminate Coverage for Spouses

Option 5 Eliminate Coverage for Spouses

- Based on a February 2016 survey of districts, 6.2% of all districts provide a contribution towards dependent coverage. Therefore, it does not appear to be an important recruitment or retention consideration.
- While the Affordable Care Act does require employers to offer coverage to dependent children up to age 26, it does not require that employers offer spousal coverage.
  - Spouses can obtain coverage either through his/her own employer or through the federal public exchange.
  - Low income spouses may qualify for a federal subsidy on the exchange only if the employer does not offer spousal coverage.
- TRS-ActiveCare spousal coverage is subsidized by other tiers. As healthier spouses leave the program for less expensive options, the Employee Only tier takes on more of the costs for the spouses remaining in the program.

TRS

Option 5
Eliminate Coverage for Spouses

Gross Premiums						
Coverage Tier	Current FY2016			Adjusted FY2016 Premiums		
	TRS-ActiveCare 1-HD	TRS-ActiveCare Select	TRS-ActiveCare 2	TRS-ActiveCare 1-HD	TRS-ActiveCare Select	TRS-ActiveCare 2
Employee Only	$341	$473	$614	$332	$460	$598
Employee & Spouse	$914	$1,122	$1,478	--	--	--
Employee & Child(ren)	$615	$762	$992	$599	$742	$965
Employee & Family	$1,231	$1,331	$1,521	--	--	--

- Elimination of spousal coverage for the FY2016 plan year, premiums for the following tiers would have been reduced by 2.7%.
- If the State and District minimum contribution remained at $225 per employee per month, then the employee contribution would range from $107 to $740 based on plan and coverage tier election.
- If the FY2003 contribution rates were reinstated, then the State and District contribution would be $123 and $245 respectively for Employee Only coverage in TRS-ActiveCare-2.

Option 5
Eliminate Coverage for Spouses

	Annual Cost Impact for Elimination of Spousal Coverage		
	State	**District**	**Active Employees**
Including Spousal Coverage ($75 State + $150 District = $225)[1]	$244,190,700	$488,381,400	$1,139,974,812
Excluding Spousal Coverage ($75 State + $150 District = $225)[1]	$244,190,700	$488,381,400	$911,463,732
Change	$0	$0	($228,511,080)

[1] Assumes a minimum District contribution of $150 per employee per month.

Allow School Districts to Opt Out of TRS-ActiveCare

Cautions:

If districts were allowed to opt out of TRS-ActiveCare, the restrictions such as the following would be necessary for the sustainability and affordability of the plan.

- **Deadline for notification**

  A district must notify TRS in writing no later than March 1st that it will not be participating in TRS-ActiveCare for the upcoming plan year. This will ensure that the premiums for the upcoming plan year can be set appropriately for the remaining districts. (If districts were allowed to opt out after premium rates have been announced at the June TRS Board meeting, the premiums would not be adequate to cover the costs.)

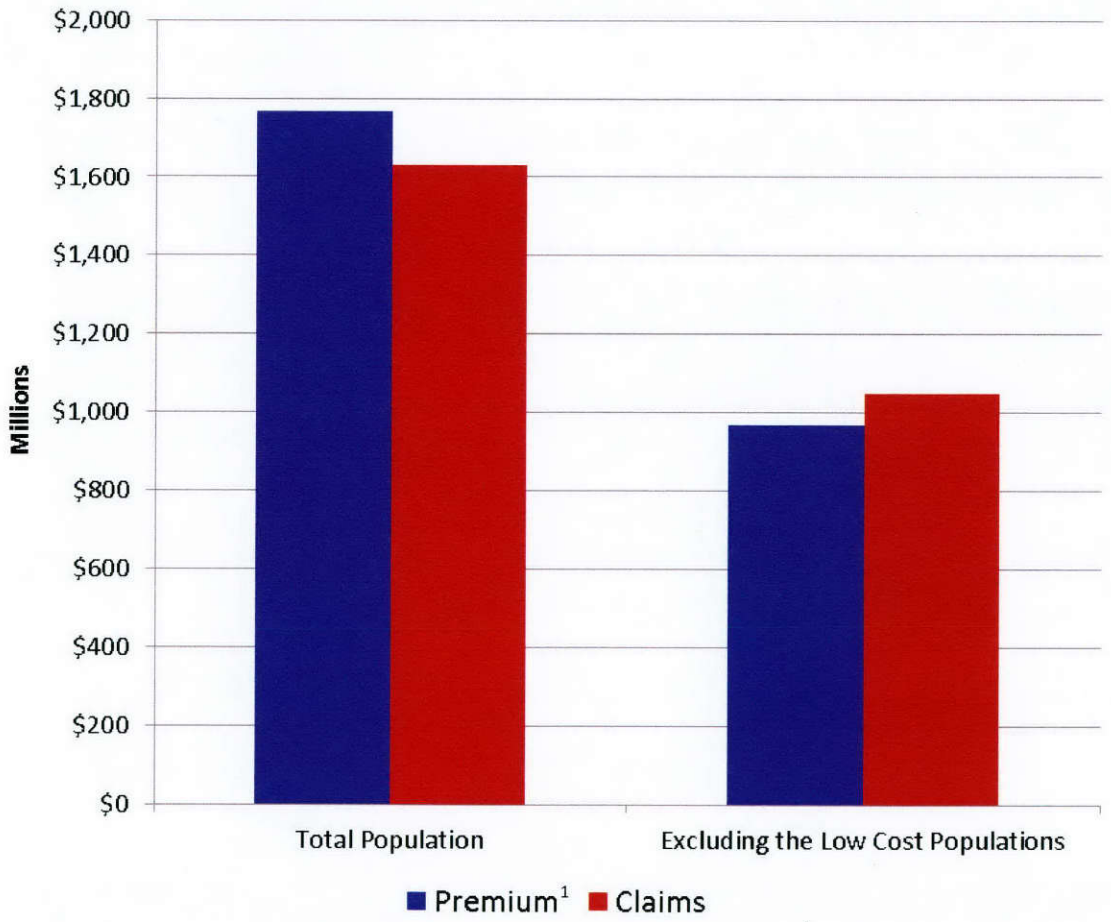
- **10-Year Lock-in period**

  Districts opting into TRS-ActiveCare must commit to a minimum number of years of participation in the plan in order to minimize the impact of adverse selection.

- **10-Year Lock-out period**

  Districts opting out of TRS-ActiveCare are restricted from opting back into the plan for a period of time in order to minimize the impact of adverse selection.

Committee Charge
Allow School Districts to Opt Out of TRS-ActiveCare



- The chart illustrates in aggregate dollars the impact of low cost groups opting out of the plan.
  - With all groups participating, premium rates are set such than claim expenses are covered.
  - As groups with low costs opt out of the plan, the aggregate premium dollars are reduced to levels below aggregate claims.
- Low cost groups currently enrolled in TRS-ActiveCare generate more premium revenue than claims expense. This excess revenue subsidizes the high cost populations.
- If low cost employees/families opt-out of TRS-ActiveCare at each open enrollment period, the average cost of the remaining population increases. This is a result of anti-selection on an individual level.
- If low cost districts were permitted to opt-out of TRS-ActiveCare, the impact of anti-selection would magnify.

[1] Premiums collected in excess of claims expenses are used to pay administrative expenses.

Committee Charge
Allow School Districts to Opt Out of TRS-ActiveCare

Example: 10-Year Lock-out

- Assumptions
  - In FY2016, it is announced that any participating entity – regardless of employee size – may opt out of the TRS-ActiveCare health plan beginning with FY2017.
  - Assume that each entity's FY2016 experience was similar to its FY2015 experience.
    - Medical and pharmacy annual trend rates are 7.5% and 13.0% respectively; and
    - Employees and covered dependents remain in the plan as long as the district remains in the plan.
  - Assuming a worse case scenario in which 100% of healthiest participating entities elect to opt out of the plan based on finding less expensive coverage.
- Results
  - In the first year, almost half of the 1,106 participating entities opted-out of the plan causing gross premiums to increase by 20.1%.
  - After five years, only 116 of the sickest participating entities covering 12,000 individuals remained in the plan. Premiums had increased 20-30% each year.
  - By the end of the 10-year period, only four districts remained in the plan covering less than 100 individuals.

TRS

Example: No Lock-out Period

- Without a lock-out period, anti-selection against the plan would speed up the deterioration of the program.
  - Districts that had once left TRS-ActiveCare due to their better than average experience would return to the plan when they are no longer able to get lower premiums on their own.
  - Districts that had once opted-in to TRS-ActiveCare due to their poor experience would opt back out of the plan when they are able to get lower premiums on their own.

Summary

Option		Impacted Parties			Impact on State Appropriations		Projected Annual Impact on Total Costs
		State	District	Active Employees	State	District	
Option 1(a)	Reinstate FY2003 funding ratios ◆ FY2018 – FY2019 ◆ FY2020 – FY2021	 ✓ ✓	 ✓ ✓		 $586,855,860 $766,593,480	 $1,174,111,392 $1,530,247,704	$0
Option 1(b)	Reinstate FY2003 benefits			✓	$0	$0	6.3% increase in costs
Option 2	Single plan offering: TRS-ActiveCare-1HD			✓	$0	$0	5.2% decrease in costs
Option 3	Single plan offering: TRS-ActiveCare-Select			✓	$0	$0	2.2% increase in costs
Option 4	Establish premiums based on age/geographic area			✓	$0	$0	0% change in aggregate costs[1];
Option 5	Eliminate spousal coverage			✓	$0	$0	2.7% decrease in costs
Committee Charge	Allow participating entities to opt out of the Plan			✓	$0	$0	N/A

[1] Each district would experience either increase or decrease in costs based on geographic area.

Combine TRS-Care & TRS-ActiveCare

Combine TRS-Care and TRS-ActiveCare

Offer a single plan to active and retired education employees

- Eliminates both the TRS-Care and TRS-ActiveCare programs in place today and replaces them with a single fund providing coverage for both active and retired education employees in Texas.
- A combined program includes many decision points that affect overall funding needs.
- Offering a single plan option to all active and retired education employees with benefits similar to ERS' Health Select plan would offer a richer benefit than currently offered at a cost of approximately $10 billion in new funds for the FY18-FY19 biennium.

Current Funding Levels				
	State/District Contributions		Employee/Retiree Contributions[5]	
Entity	Monthly	Annual	Monthly	Annual
ERS[1]	$657.54[2]	$7,890[2]	$0	$0
TRS-Care	$190.50[3]	$2,286[3]	$152	$1,824
TRS-ActiveCare	$225.00[4]	$2,700[4]	$352	$4,224

[1] ERS Health Select 2016 Premium trended to FY2018.
[2] The State pays 100% of employee/retiree and 50% of dependent coverage in ERS.
[3] Based on 1% State and 0.55% District contributions as a percent of active employee payroll.
[4] Assumes $75 State and $150 District contributions. Some districts contribute more.
[5] Average per employee/retiree contributions shown. Actual premiums vary by plan, coverage tier, Medicare status and years of service.

Combine TRS-Care and TRS-ActiveCare

- **Decision points:**
  - Should plan design and contributions mirror ERS Health Select?
  - Should funding reflect a fixed contribution or coverage for a certain benefit level? Should funding include health care cost trend consideration?
  - How should costs be allocated across funding entities? State? Districts? Active and retired members?
  - Should all districts participate?
  - What plan design should be implemented?
    - Mandatory Medicare Advantage and Part D for Medicare eligible retirees?
    - Should early retirees, pre-Medicare age, have a different plan design than active employees?
    - Consumer-driven and high-value plan designs?
    - Health Savings Accounts or Health Reimbursement Accounts?
  - Should the plans consider age and/or geography in pricing?
  - Would need changes to the Texas Insurance Code and other statutes, including school finance contributions to ActiveCare.

TRS

Combine TRS-Care and TRS-ActiveCare

- **Implementation Issues:**
  - Need a minimum of two years for program design and procurement
  - Implementation timeline would necessitate two-year funding for current structure of both programs
  - Communication strategy to membership for significant plan changes
  - Design plans based on legislative direction
  - Establish premium levels and member cost-sharing based on state and district contributions

TRS

TRS-ActiveCare

Appendices

TRS-ActiveCare

Affordable Care Act Provisions

Category	TRS-ActiveCare Plans	Grandfathered Plans	Non-Grandfathered Plans
PREMIUM CONTRIBUTIONS			
Premium Contributions	No restrictions	The ratio of the retiree's premium contribution rate - as a percent of total cost PEPM - cannot increase by more than 5 percentage points as compared to the rate in place in March 2010.	No restrictions
ELIGIBILITY RULES			
Coverage of Dependent Children	Coverage of dependent children up to age 26	Coverage of dependent children up to age 26	Coverage of dependent children up to age 26
Pre-Existing Conditions	TRS-ActiveCare does not deny enrollment based on pre-existing conditions.	A plan may not deny enrollment or limit coverage based on a pre-existing condition.	A plan may not deny enrollment or limit coverage based on a pre-existing condition.
Health Status	TRS-ActiveCare does not discriminate based on the health status of the retiree or dependent.	Exempt	No discrimination based on the health status of the employee/retiree or dependent.

TRS-ActiveCare

Affordable Care Act Provisions

Category	TRS-ActiveCare Plans	Grandfathered Plans	Non-Grandfathered Plans
Benefit Design Features			
Preventive Care Services	Covered at 100%	Exempt	Covered at 100%
Annual Limits	No annual limits	An annual limit in place as of 3/23/2010 cannot be reduced.	Prohibits annual caps on benefits
Lifetime Maximum Limits	No lifetime maximum benefit	A lifetime limit in place as of 3/23/2010 cannot be reduced.	Prohibits lifetime benefit limits
Out-of-Pocket Maximum	Out-of-pocket maximum limits are integrated for medical and pharmacy benefits and include deductible, copays, and coinsurance.	Not required	Out-of-pocket maximum limits are integrated for medical and pharmacy benefits and include deductible, copays, and coinsurance.
Fixed Dollar Deductibles	For TRs-ActiveCare-1HD, the deductibles are currently $2,500 for self-only and $5,000 for family coverage.	Increases in fixed dollar cost sharing benefits are limited to medical inflation plus 15%. Grandfathered plans are not subject to the maximum deductible limit prescribed by Affordable Care Act.	For High Deductible Health plans, the deductibles cannot be less than $1,300 for self-only or $2,600 for family coverage in CY2016. For all other plans, deductibles cannot be greater than the out-of-pocket maximum.

TRS

TRS-ActiveCare

Affordable Care Act Provisions

Category	TRS-ActiveCare Plans	Grandfathered Plans	Non-Grandfathered Plans
Benefit Design Features (continued)			
Fixed Dollar Copays	No restrictions	Increases in fixed dollar cost sharing benefits are limited to medical inflation plus 15%.	No restrictions
Coinsurance	No restrictions	Increases to coinsurance percentages are not allowed.	No restrictions
Covered Services			
Waiting Period Restrictions	No waiting period.	Any waiting period limitation shall not be in excess of 90 days.	Any waiting period limitation shall not be in excess of 90 days.
Clinical Trials	Certain trials covered.	Exempt	A plan may not deny coverage for routine costs in connection with clinical trials.

TRS-ActiveCare

Affordable Care Act Provisions

Category	TRS-ActiveCare Plans	Grandfathered Plans	Non-Grandfathered Plans
Fees & Taxes			
Reinsurance Assessment Fee (eff. CY2014 – CY2016)	Fee is applicable to all participants.	Fee is applicable to both Medicare and non-Medicare participants.	Fee is applicable to both Medicare and non-Medicare participants.
Patient Centered Outreach Research Institute Fee (eff. FY2013 – FY2019)	Fee is applicable to all participants.	Fee is applicable to non-Medicare participants only.	Fee is applicable to non-Medicare participants only.
Excise Tax on High-cost plans (eff. 1/1/2020)	40% tax assessed on the value of the plan in excess of pre-determined thresholds.	40% tax assessed on the value of the plan in excess of pre-determined thresholds.	40% tax assessed on the value of the plan in excess of pre-determined thresholds.

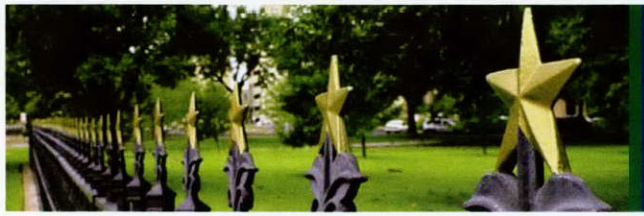
Market Comparison

Premium and Contribution Benchmarking for Active Employees

Metric	Employee Only Total Premium[1]	Employee Contribution[2] to Employee Only Premium	Employee & Family Total Premium[1]	Employee Contribution[2] to Employee & Family Premium
TRS-ActiveCare 1-HD	$341.00	34.0%	$1,231.00	81.7%
TRS-ActiveCare Select	$473.00	52.4%	$1,331.00	83.1%
TRS-ActiveCare 2	$614.00	63.4%	$1,521.00	85.2%
Employee Retirement System of Texas [3] (HealthSelect)	$537.66	0%	$1,565.70	32.8%
Texas A&M University (A&M Care)	$553.48	1.8%	$1,312.89	29.7%
University of Texas (UT Select)	$566.96	0%	$1,536.81	31.3%
ARBenefits (Arkansas Public School Employees)[4]	$665.40 $345.02 $240.48	38.2% 34.8% 35.8%	$1,870.58 $835.74 $498.98	47.6% 50.9% 69.0%
Louisiana Office of Group Benefits[5]	$653.38	25.0%	$1,463.74	38.8%
State Health Plan of South Carolina (PEBA)	$457.78	21.3%	$1,199.60	25.6%

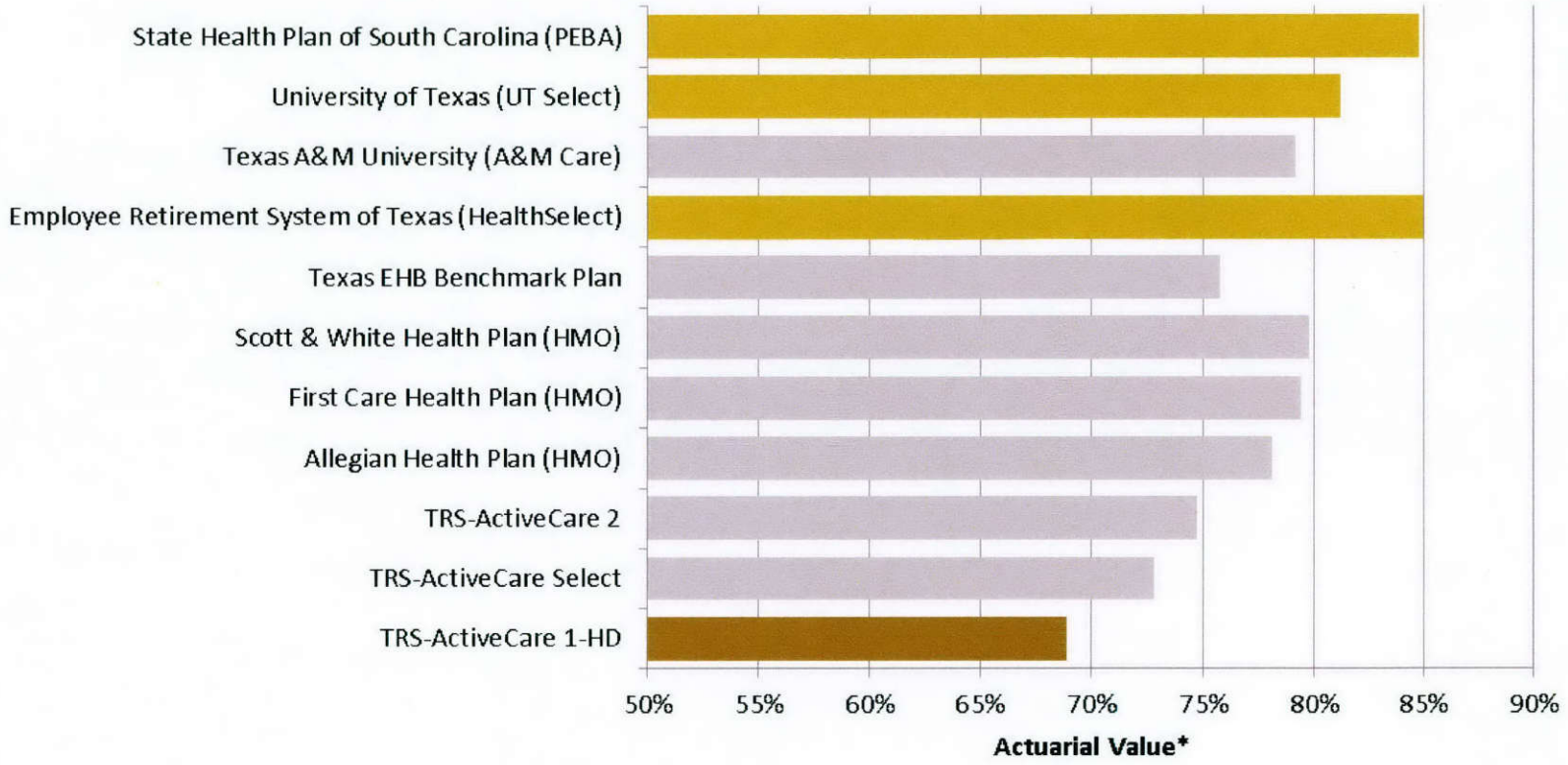
[1] Premium and contribution amounts are based on the health plan offered to active employees for the 2016 plan year, if available.
[2] For TRS-ActiveCare, employee contributions are based on the minimum employer contribution of $225 PEPM.
[2] Premiums include coverage for Basic Term Life Insurance.
[4] School districts in Arkansas contribute $154.48 PEPM for all plans and coverage tiers; the State and plan contribution to coverage varies between $0 - $826.18 by plan and coverage tier.
[5] Premiums shown are based on the Magnolia Open Access Plan.

TRS



Market Comparison

Actuarial Value of 2016 Active Employee Plans



The Actuarial Value of a plan represents the average benefit amount paid by the plan as a percentage of total costs.

Glossary

Glossary

Accountable Care Organization – a network of doctors and hospitals that share responsibility for providing care to patients. Provider reimbursements are a function of both quality, appropriateness and efficiency of care.

Ambulatory Surgical Center – an outpatient surgical center that has the professional staff to perform minor operations that do not require prolonged confinement in a hospital.

Brand Drug – a medication sold by a single pharmaceutical company under a trademark protected name.

Broad Network - a large group of facilities and physicians from which plan participants may obtain in-network health care services.

Coinsurance - the percentage of costs paid by the member for covered expenses and services.

Compound Drug - a medication made by combining, mixing or altering ingredients of drugs to create a medication tailored to meet the needs of a patient.

Copayment - the fixed dollar costs paid by the member for covered expenses and services.

Covered Expense - An event or procedure that will be paid for either in full or in part by the health plan.

Deductible - The dollar amount required to be paid by the member before health plan begins to pay for covered expenses and services.

Dependent - A spouse or eligible child who meets the eligibility requirements set forth by the health plan.

Emergency Room – a facility that provides immediate, emergent care in a setting usually physically attached to a hospital.

Employee/Retiree Contribution - the amount paid to the health plan by an employee/retiree on a monthly basis in order to be covered under the health plan.

Employer Contribution - the amount paid to the health plan by the employer(s) on a monthly basis to fund the health plan.

Employer Group Waiver Plan (EGWP) - an employment based group plan which provides prescription drug benefits to Medicare eligible individuals. An EGWP plan replaces a Part D plan sponsored by Medicare.

Exclusive Provider Organization Plan (EPO) - A managed care health plan in which all covered services are rendered by in-network providers. A PCP is not required and referrals are not needed to see other providers for covered services.

Formulary - the list of brand and generic drugs covered by the prescription drug or health plan.

Fully Insured Plan - a health care plan in which the plan sponsor pays a per employee/retiree premium to an insurance company and the insurance company assumes all risk of providing the coverage for insured events

TRS

Glossary

Generic Drug - a medication that is comparable to a brand drug in dosage form, strength, route of administration, quality, performance characteristics and intended use but is not protected by a trademark name.

Grandfathered Plan - a health care plan that was created before March 23, 2010; has not undergone such changes that reduce benefits to plan participants; and has not undergone such changes that significantly increase costs to plan participants.

Health Maintenance Organization Plan (HMO) - A managed care health plan in which all covered expenses are rendered by in-network providers, except in an emergency situation. A PCP is required under an HMO plan.

Health Savings Account (HSA) – a savings account used by individuals covered by a High Deductible Health plan to pay for current and future eligible medical expenses on a tax free basis.

High Deductible Health Plan (HDHP) - A health plan with an annual deductible of at least $1,300 for individuals and $2,600 for family coverage, and annual out-of-pocket expenses do not exceed $6,600 for individuals and $13,200 for family coverage.

Hospital – facilities that provide diagnosis, treatment and/or care for patients suffering from acute illness or injury.

Imaging Center – a freestanding facility with the equipment to produce various types of radiologic and electromagnetic images and the professional staff to interpret those images.

In-Network Benefit – a benefit for services performed by physicians, hospitals and other medical service providers who contract with the health plan to provide healthcare services at a discounted rate.

Inpatient – a patient who is admitted to a hospital for medical treatment that requires at least one overnight stay.

Limited Network - a small group of facilities and physicians from which plan participants may obtain in-network health care services.

Maximum Out-of-Pocket (MOOP) - the total dollar amount of paid by the member for covered expenses and services, including amounts paid toward a deductible, coinsurance and copayments.

Member - The individuals who are enrolled in the health plan (e.g. employees, retirees and eligible dependents).

Medicare Eligible - An individual who is eligible to participate in the Medicare program based upon either attainment of age 65 or disability status.

Medicare Advantage Plan - A private health plan that is approved by Medicare to provide medical benefits in place of Medicare Part A and Part B to Medicare eligible individuals who are enrolled in both Medicare Part A and Part B. (Also called Part C.)

Glossary

Medicare Part A - the national health plan administered by the United States government covering inpatient hospital stays.

Medicare Part B - the national health plan administered by the United States government covering outpatient hospital services.

Medicare Part D - the national health plan administered by the United States government covering prescription drug benefits.

Non-grandfathered plan - a health care plan that does not qualify as a grandfathered plan, including any health care plan that was created on or after March 23, 2010.

Non-Preferred Brand – a brand drug that is not included on the PBM formulary

Out-of-Network Benefit – a benefit for services not performed by a network provider.

Outpatient – a patient who is receiving medical treatment without being admitted to the hospital.

Patient Centered Medical Home (PCMH) –a system of comprehensive coordinated healthcare for individuals facilitated by a PCP who is responsible for leading a team of professionals in providing both preventive and chronic care management.

Patient Protection and Affordable Care Act (PPACA or ACA) – federal health reform law of 2010

Pharmaceutical Rebates - the amount reimbursed to PBM by pharmaceutical manufacturers based on member utilization of certain brand drugs

Pharmacy Benefits Manager (PBM) - a company that administers drug benefit programs for individuals and/or groups.

Point of Service Plan (POS) - a managed care health plan that provides both in-network and out-of-network benefits. A PCP is required; however, the member may choose an out-of-network provider for an additional out-of-pocket cost.

Preferred Brand – a brand drug that is included on the PBM formulary

Preferred Provider Organization (PPO) - a managed care health plan provides both in-network and out-of-network benefits. A PCP is not required and referrals are not needed to see other providers for covered services.

Primary Care Physician (PCP) – a physician who is a patient's first point of contact for an undiagnosed condition. This physician is usually a Pediatrician, General Practitioner, Family Practitioner, OB/GYN, or Internist.

Retiree Drug Subsidy (RDS) - a federally sponsored program which reimburses plan sponsors for a portion of paid prescription drug expenses for Medicare eligible individuals.

Self-insured Plan - a health care plan in which the plan sponsor pays a per employee/retiree administration fee to an insurance company to provide claims administration services; the plan sponsor assumes all risk of providing the coverage for insured events.

TRS

Glossary

Specialist – a doctor who specializes in a certain type of medical care (e.g. cardiologist, podiatrist, eye doctor).

Specialty Drug - Generally, a high cost drug that is used to treat complex chronic or life-threatening conditions; require special storage, handling and administration; and require patient monitoring and management.

Submitted Charge - the dollar amount submitted to an insurance company or TPA by a provider for covered and uncovered services rendered.

Subscriber - the employee/retiree who is eligible to receive benefits through the health plan.

Third Party Administrator (TPA) - an organization that processes claims, maintains a provider network, utilization review and/or membership functions on behalf of the health plan.

Tier - the method by which drugs are grouped within the formulary to indicate the applicable copay (e.g. Tier 1 = generic – lowest cost alternative; Tier 2 = brand – higher cost alternative; Tier 3 = brand – highest cost alternative; etc.).

Urgent Care Facility – a facility that provides immediate, non-emergent primary health care.

TRS

TRS-Care

Modeling Assumptions

The following are key assumptions used in both options for TRS-Care.

Benefits

- FY2017 is a 16-month plan year beginning 9/1/2016 and ending 12/31/2017 for all TRS-Care enrollees.
- Beginning January 1, 2018, the plan benefits will be aligned with the calendar year.
- Medicare eligible retirees will be eligible to enroll in a Medicare Advantage plan for medical benefits and a Medicare Part D plan for prescription drug benefits.
  - Medicare members who do not wish to enroll in either of these two plans offered by TRS may choose other healthcare options outside of the TRS-Care program.
  - A Medicare Advantage Plan for members with Medicare Part B only will be implemented with the same benefits as the Medicare Advantage Plan for members with Medicare Parts A&B.

Funding

- Beginning January 1, 2018, retiree premium contributions will be restructured varying by coverage tier and Medicare status of the retiree.
- Require retirees to contribute to the cost of coverage for all plans offered effective 1/1/2018. (TRS-Care-1 is not available at no cost for Retiree Only coverage.)
- 1%, 0.55% and 0.65% of active employee payroll contribution from the State, Districts and Active employees, respectively.

"HRA Plan" for TRS-Care

Defined Contribution and Medicare Advantage/Medicare Part D

Member Status	Estimated Retiree Count	Plan Design	Current Retiree Premiums[2,4]	Illustrative CY2018 Retiree Premiums[3]
Non-Medicare retirees	54,861 retirees	**Defined Contribution with HRA** $400 per retiree per month	**Non-Medicare Retirees** Retiree Only = $0 - $310 Retiree & Spouse = $30 - $665 Retiree & Child(ren) = $28 - 392 Retiree & Family = $58 - $747	No retiree contributions
Medicare Part B Only retirees	17,074 retirees 221 dependents	**Medicare Advantage/Part D** $500 Deductible $3,500 MOOP 80%/20% coinsurance Copayments for IH Admit, OH Services, ER Visit, UC Visit, Lab and prescription drugs.	**Medicare B Only Retirees** Retiree Only = $0 - $245 Retiree & Spouse = $25 - $600 Retiree & Child(ren) = $34 - $327 Retiree & Family = $59 - $682	**Medicare Retirees** Retiree Only = $143 Retiree & Spouse = $601 Retiree & Child(ren) = $584 Retiree & Family = $1,236
Medicare Part A&B retirees	134,574 retirees 27,028 dependents			
Non-Medicare Dependents of Medicare eligible retirees[1]	4,712 dependents	**TRS-Care-2** $1,300/$2,600 Deductible $7,150/$14,300 MOOP[1] 80%/20% coinsurance Copayments for IH Admit, OH Services, ER Visit, UC Visit, Lab and prescription drugs.	**Medicare A&B Retirees** Retiree Only = $0 - $110 Retiree & Spouse = $20 - $465 Retiree & Child(ren) = $41 - $192 Retiree & Family = $61 - $547	

[1] 2017 Maximum Out-of-Pocket limits for in-network benefits; maximum Out-of-Pocket limits for out-of-network benefits are not regulated by the federal government and can be set by the plan.

[2] Current retiree premiums vary by plan election, years of service and Medicare status of retiree and spouse.

[3] Gross premiums less $275.82 State/District/Active Employee average contribution per retiree per month.

[4] A 1% increase in retiree premiums represents approximately $4.2M ($1.9M from non-Medicare members and $2.3M from Medicare members).

Additional Assumptions for "HRA Plan"

- Non-Medicare retirees will receive a $400 per month defined contribution; neither the non-Medicare retiree nor their dependents will receive healthcare benefits through TRS-Care until the retiree becomes Medicare eligible.
- Medicare retirees and their Medicare dependents will be eligible to enroll in a Medicare Advantage/Medicare Part D plan similar to the current TRS-Care 3 level plans.
- Non-Medicare dependents of Medicare retirees will be eligible to enroll in TRS-Care-2.

"HRA Plan" for TRS-Care

Defined Contribution and Medicare Advantage/Medicare Part D

BASELINE PROJECTION							
Fiscal Years	Projected Revenue from Ongoing Sources				Total Projected Revenue	Total Projected Costs	Difference
	State	District	Active Employee	Retirees			
FY2016 - FY2017	$643,650,019	$376,924,892	$418,372,513	$763,372,111	$2,202,319,535	$3,008,499,084	($806,179,549)[1]
FY2018 - FY2019	$669,653,480	$391,226,795	$435,274,762	$785,481,760	$2,281,636,797	$3,659,161,730	($1,377,524,933)
FY2020 - FY2021	$696,707,481	$406,106,495	$452,859,862	$802,095,513	$2,357,769,351	$4,484,514,762	($2,126,745,410)

"HRA Plan" PROJECTION Medicare Retiree premium contributions remain at current aggregate level							
Fiscal Years	Projected Revenue from Ongoing Sources				Total Projected Revenue	Total Projected Costs[3]	Difference
	State	District	Active Employee	Retirees[2,4]			
FY2016 - FY2017	$643,650,019	$376,924,892	$418,372,513	$763,372,111	$2,202,319,535	$3,008,499,084	($806,179,549)[1]
FY2018 - FY2019	$669,653,480	$391,226,795	$435,274,762	$409,250,429	$1,905,405,466	$2,787,849,308[3]	($882,517,116)
FY2020 - FY2021	$696,707,481	$406,106,495	$452,859,862	$354,478,310	$1,910,152,148	$3,366,547,434	($1,456,395,286)

"HRA Plan" PROJECTION Retiree premium contributions at CY2018 Illustrative Premiums							
Fiscal Years	Projected Revenue from Ongoing Sources				Total Projected Revenue	Total Projected Costs[3]	Difference
	State	District	Active Employee	Retirees[4]			
FY2016 - FY2017	$643,650,019	$376,924,892	$418,372,513	$763,372,111	$2,202,319,535	$3,008,499,084	($806,179,549)[1]
FY2018 - FY2019	$669,653,480	$391,226,795	$435,274,762	$991,850,269	$2,488,005,306	$2,787,849,308	($299,844,002)
FY2020 - FY2021	$696,707,481	$406,106,495	$452,859,862	$1,092,426,600	$2,648,100,438	$3,366,547,434	($718,446,996)

Projected Additional Revenue/Costs over Baseline Projection						
Fiscal Years	Projected Revenue				Increase in Projected Revenue	Reduction in Projected Costs
	State	District	Active Employee	Retirees		
FY2016 - FY2017	$0	$0	$0	$0	$0	$0
FY2018 - FY2019	$0	$0	$0	$206,368,509	$206,368,509	($871,469,448)
FY2020 - FY2021	$0	$0	$0	$290,331,087	$290,331,087	($1,117,967,327)

[1] In the FY2016 – FY2017 biennium, the difference between revenue and costs will be funded by surplus funds from prior fiscal years, which includes the $768 M in supplemental funding received in August 2015.

[2] Reduction in aggregate retiree contributions due to the elimination of contributions from non-Medicare retirees and their dependents.

[3] Projected costs for FY2018 include the additional plan costs resulting from extending the FY2017 plan year an additional four months.

[4] Increase in aggregate retiree contributions due to implementing illustrative CY2018 Medicare retiree premiums shown on page 2. Projected retiree contributions in CY2019, CY2020 and CY2021 are based on retiree premium contributions remaining at the CY2018 levels. In practice, annual premium increases would be required in order to maintain solvency of the plan.

"HD Plan" for TRS-Care

High Deductible Health Plan and Medicare Advantage/Medicare Part D

Member Status	Estimated Retiree Count	Plan Design	Current Retiree Premiums[3,5]	Illustrative CY2018 Retiree Premiums[4,6]
Non-Medicare members	54,861 retirees 21,805 dependents	**TRS-Care-HD** *In-Network* $4,000/$8,000 Deductible $7,150/$14,300 MOOP[1] 80%/20% coinsurance *Out-of-network* $8,000/$16,000 Deductible $14,300/$28,600 MOOP[2] 60%/40% coinsurance	**Non-Medicare Retirees** Retiree Only = $0 - $310 Retiree & Spouse = $30 - $665 Retiree & Child(ren) = $28 - 392 Retiree & Family = $58 - $747 **Medicare B Only Retirees** Retiree Only = $0 - $245 Retiree & Spouse = $25 - $600 Retiree & Child(ren) = $34 - $327 Retiree & Family = $59 - $682 **Medicare A&B Retirees** Retiree Only = $0 - $110 Retiree & Spouse = $20 - $465 Retiree & Child(ren) = $41 - $192 Retiree & Family = $61 - $547	**Non-Medicare Retirees** Retiree Only = $430 Retiree & Spouse = $974 Retiree & Child(ren) = $663 Retiree & Family = $1,310 **Medicare Retirees** Retiree Only = $146 Retiree & Spouse = $590 Retiree & Child(ren) = $504 Retiree & Family = $1,106
Medicare Part B Only members	17,074 retirees 553 dependents	**Medicare Advantage/Part D** $500 Deductible $3,500 MOOP 80%/20% coinsurance Copayments for IH Admit, OH Services, ER Visit, UC Visit, Lab and prescription drugs.		
Medicare Part A&B members	134,574 retirees 30,369 dependents			

[1] 2017 Maximum Out-of-Pocket limits for in-network benefits; maximum Out-of-Pocket limits for out-of-network benefits are not regulated by the federal government and can be set by the plan.

[2] Projected costs for FY2018 include the additional plan costs resulting from extending the FY2017 plan year an additional four months.

[3] Current retiree premiums also vary by plan election, years of service and Medicare status of spouse.

[4] Gross premiums less $275.82 State/District/Active Employee average contribution per retiree per month.

[5] A 1% increase in retiree premiums represents approximately $4.2M ($1.9M from non-Medicare members and $2.3M from Medicare members).

[6] A 1% increase in retiree premiums represents approximately $8.2M ($3.5M from non-Medicare members and $4.7M from Medicare members).

Additional Assumptions for "HD Plan"

- Non-Medicare members will be eligible to enroll in a High Deductible Healthcare Plan similar to TRS-Care-1.
- Medicare members will be eligible to enroll in a Medicare Advantage/Medicare Part D plan similar to the current TRS-Care 3 level plans.

"HD Plan" for TRS-Care

High Deductible Health Plan and Medicare Advantage/Medicare Part D

BASELINE PROJECTION							
Fiscal Years	Projected Revenue from Ongoing Sources				Total Projected Revenue	Projected Costs	Difference
	State	District	Active Employee	Retirees			
FY2016 - FY2017	$643,650,019	$376,924,892	$418,372,513	$763,372,111	$2,202,319,535	$3,008,499,084	($806,179,549)[1]
FY2018 - FY2019	$669,653,480	$391,226,795	$435,274,762	$785,481,760	$2,281,636,797	$3,659,161,730	($1,377,524,933)
FY2020 - FY2021	$696,707,481	$406,106,495	$452,859,862	$802,095,513	$2,357,769,351	$4,484,514,762	($2,126,745,410)

"HD Plan" PROJECTION Medicare Retiree premium contributions remain at current aggregate level							
Fiscal Years	Projected Revenue from Ongoing Sources				Total Projected Revenue	Total Projected Costs[3]	Difference
	State	District	Active Employee	Retirees[2]			
FY2016 - FY2017	$643,650,019	$376,924,892	$418,372,513	$763,372,111	$2,202,319,535	$3,008,499,084	($806,179,549) [1]
FY2018 - FY2019	$669,653,480	$391,226,795	$435,274,762	$785,481,760	$2,281,636,797	$3,329,186,792	($1,047,549,995)
FY2020 - FY2021	$696,707,481	$406,106,495	$452,859,862	$802,095,513	$2,357,769,351	$4,142,853,950	($1,785,084,599)

"HD Plan" PROJECTION Retiree premium contributions at CY2018 Illustrative Premiums							
Fiscal Years	Projected Revenue from Ongoing Sources				Total Projected Revenue	Total Projected Costs[3]	Difference
	State	District	Active Employee	Retirees[4]			
FY2016 - FY2017	$643,650,019	$376,924,892	$418,372,513	$763,372,111	$2,202,319,535	$3,008,499,084	($806,179,549)[1]
FY2018 - FY2019	$669,653,480	$391,226,795	$435,274,762	$1,569,668,132	$3,065,823,169	$3,329,186,792	($263,363,623)
FY2020 - FY2021	$696,707,481	$406,106,495	$452,859,862	$1,761,457,464	$3,317,131,302	$4,142,853,950	($825,722,648)

Projected Additional Revenue/Costs over Current Program						
Fiscal Years	Projected Revenue				Increase in Projected Revenue	Reduction in Projected Costs
	State	District	Active Employee	Retirees		
FY2016 - FY2017	$0	$0	$0	$0	$0	$0
FY2018 - FY2019	$0	$0	$0	$784,186,372	$784,186,372	($329,974,938)
FY2020 - FY2021	$0	$0	$0	$959,361,951	$959,361,951	($341,660,811)

[1] In the FY2016 – FY2017 biennium, the difference between revenue and costs will be funded by surplus funds from prior fiscal years, which includes the $768 M in supplemental funding received in August 2015.

[2] Projected retiree contributions are based upon aggregate retiree contributions remaining at current levels.

[3] Projected costs for FY2018 include the additional plan costs resulting from extending the FY2017 plan year an additional four months.

[4] Increase in aggregate retiree contributions due to implementing illustrative CY2018 Medicare retiree premiums shown on page 2. Projected retiree contributions in CY2019, CY2020 and CY2021 are based on retiree premium contributions remaining at the CY2018 levels. In practice, annual premium increases would be required in order to maintain solvency of the plan.

TRS-ActiveCare

Modeling Assumptions

The following are key assumptions used for TRS-ActiveCare.

Benefits

- TRS-ActiveCare-1HD is the single plan option available to active employees and their families of participating districts.
- The network of medical providers is limited to Accountable Care Organizations, where available[1]; a broad PPO network is available in the remainder of the state.
- The network of pharmacies includes all pharmacies in the existing broad network.
- HMO plans will no longer be offered alongside the TRS-ActiveCare plan.

Funding

- Revenues for TRS-ActiveCare include $75 PEPM from the State and $150 PEPM from the district.

[1] Currently, ACOs are available in the Houston, Austin, San Antonio and Dallas/Fort Worth areas.

"HD Plan" for TRS-ActiveCare

Single, High Deductible Health Plan for Districts with 1,000 or Fewer Employees

Member Status	Estimated Employee Count	Plan Design	FY2017 Gross Premium	Illustrative FY2018 Gross Premium[3]
Districts with 1,000 or fewer employees (single opt-out option)	164,048 employees 102,530 dependents	**TRS-ActiveCare-1HD** *In-Network* $2,500/$5,000 Deductible $6,550/$13,100 MOOP[1] 80%/20% coinsurance *Out-of-network* $5,000/$10,000 Deductible $14,300/$28,600 MOOP[2] 60%/40% coinsurance	Employee Only = $341 - $645 Employee & Spouse = $914 - $1,552 Employee & Child(ren) = $615 - $1,042 Employee & Family = $1,231 – $1,597	Employee Only = $490 Employee & Spouse = $1,245 Employee & Child(ren) = $832 Employee & Family = $1,378

[1] 2017 Maximum Out-of-Pocket limits for in-network benefits;

[2] Maximum Out-of-Pocket limits for out-of-network benefits are not regulated by the federal government and can be set by the plan.

[3] Projected revenues are based on employee premium contributions remaining at the FY2018 levels. In practice, annual premium increases would be required in order to maintain solvency of the plan.

Additional Assumptions for "HD Plan"

- TRS-ActiveCare enrollment assumes that only districts and charter schools with 1,000 or fewer employees and Education Service Centers are eligible to join TRS-ActiveCare.
- 1,019 districts with1,000 or few lives with total of approximately 192,998 employees;
  - 164,048 employees, or 85% of total employees, enroll in TRS-ActiveCare, and
  - 102,530 dependents enroll in TRS-ActiveCare (1.625 member to employee ratio).
- Enrollment is assumed to be constant FY2017 through FY2021.

"HD Plan" for TRS-ActiveCare

Single, High Deductible Health Plan for Districts with 1,000 or Fewer Employees

BASELINE PROJECTION						
Fiscal Year	Projected Revenue				Projected Costs	Difference
	State	District	Active Employee	Total Revenue		
2016	$243,745,275	$487,490,550	$1,137,255,032	$1,868,490,857	$1,816,055,353	$52,435,504
2017	$242,904,600	$485,809,200	$1,174,372,428	$1,903,086,228	$1,934,427,908	($31,341,680)
2018	$242,904,600	$485,809,200	$1,174,372,428	$1,903,086,228	$2,110,456,725	($207,370,497)
2019	$242,904,600	$485,809,200	$1,174,372,428	$1,903,086,228	$2,283,246,341	($380,160,113)
2020	$242,904,600	$485,809,200	$1,174,372,428	$1,903,086,228	$2,462,949,709	($559,863,481)
2021	$242,904,600	$485,809,200	$1,174,372,428	$1,903,086,228	$2,651,661,584	($748,575,356)

"HD Plan" PROJECTION						
Fiscal Year	Projected Revenue				Projected Costs	Difference
	State	District	Active Employee	Total Revenue		
2016	$243,745,275	$487,490,550	$1,137,255,032	$1,868,490,857	$1,816,055,353	$52,435,504
2017	$242,904,600	$485,809,200	$1,174,372,428	$1,903,086,228	$1,934,427,908	($31,341,680)
2018	$147,643,200	$295,286,400	$802,208,177	$1,245,137,777	$1,216,471,012	$28,666,765
2019	$147,643,200	$295,286,400	$802,208,177	$1,245,137,777	$1,293,298,766	($48,160,989)
2020	$147,643,200	$295,286,400	$802,208,177	$1,245,137,777	$1,401,639,733	($156,501,955)
2021	$147,643,200	$295,286,400	$802,208,177	$1,245,137,777	$1,508,785,537	($263,647,759)

Projected Additional Revenue/Costs over Current Program					
Fiscal Year	Projected Revenue				Reduction in Projected Costs
	State	District	Active Employee	Total Revenue	
2016	$0	$0	$0	$0	$0
2017	$0	$0	$0	$0	$0
2018	($95,261,400)	($190,522,800)	($372,164,251)	($657,948,451)	($893,985,713)
2019	($95,261,400)	($190,522,800)	($372,164,251)	($657,948,451)	($989,947,575)
2020	($95,261,400)	($190,522,800)	($372,164,251)	($657,948,451)	($1,061,309,977)
2021	($95,261,400)	($190,522,800)	($372,164,251)	($657,948,451)	($1,142,876,048)

The reduction in contributions and costs are primarily driven by the decrease in enrollment. The baseline includes 429,600 members. "HD Plan" Projection includes 266,578 members.

Links to previous TRS reports on TRS-Care and ActiveCare

TRS-Care Sustainability and TRS-ActiveCare Affordability Study

November 18, 2014

https://www.trs.texas.gov/TRS%20Documents/trscare_sustainability_trs_activecare_affordability.pdf

TRS-Care Sustainability Study

September 1, 2012

https://www.trs.texas.gov/TRS%20Documents/trscare_sustainability_study.pdf