

Teacher Retirement System of Texas



THEHRA 2015 Winter Conference

January 26, 2015



TEACHER RETIREMENT SYSTEM OF TEXAS



TRS

- Created in 1936 by Constitutional amendment (enabling legislation in 1937) and established by Article XVI, Section 67, Texas Constitution.
- TRS serves 1.4 million active and retired members. One out of every 20 Texans is a member of TRS.
- The average retirement payment is \$1,995 per month with \$8.5 billion paid in retirement benefits in FY 2014.
- 95% of benefits paid went to retirees living in Texas, creating a positive economic impact for the state.
- 95% of TRS public school members do not participate in Social Security.

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Trust Fund Status

- The August 31, 2014 valuation update posted the fund at \$132.8 billion.
- The pension trust fund earned a return of 16.9% for FY 2014. The assumed rate is 8.0%.

TRS Trust Fund Valuation	8/31/14	8/31/13
Unfunded Actuarial Accrued Liability	\$31.6 billion	\$28.9 billion
Funded Ratio	80.2%	80.8%
State Contribution Rate	6.8%	6.8%
Non-Social Security School District Contribution Rate	1.5% Starting in FY 2015	N/A
Member Contribution Rate of Payroll	7.70% Ultimate Rate by FY 2017	6.40%
Funding Period (years)	29.8 years	28 years
Are contributions sufficient to fund future liabilities?	Yes	Yes



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83R SB 1458

- SB 1458 increased member contributions in a stair-step approach to 7.7% by FY 2017.
- Non-Social Security school districts will contribute 1.5% of payroll subject to the minimum salary beginning in FY 2015. Higher education employers will not be required to contribute.
- Increased the minimum age to retire with full pension benefits to age 62 for all non-vested members.
- Set a minimum age of 62 in order to be eligible for TRS-Care 2 or TRS-Care 3. All non-grandfathered individuals will only be eligible to receive TRS-Care 1 until they reach age 62. Current retirees are not affected.
- Decreased active member account interest from 5% to 2%.



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TRS-ActiveCare

- TRS-ActiveCare was created in 2001; went into effect September 1, 2002, originally for small districts.
- Since then, most larger districts have chosen to join the plan. There is no provision to opt out.
- Three self-funded options administered by Aetna: ActiveCare 1-HD, Select, and ActiveCare 2.
- Three fully-insured regional health maintenance organizations (HMOs) in select service areas: FirstCare, Scott & White, Allegian

FY 2015 Enrollment (participants)	
ActiveCare 1 & 1-HD	188,945
ActiveCare 2	169,086
ActiveCare Select	73,816
HMOs	50,837
TOTAL	482,684



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TRS-ActiveCare Funding

- TRS-Active Care is funded by:
 - State contribution \$ 75 per month
 - School district contribution \$150 per month (minimum)
 - Employees Premiums
- The State contribution has remained the same since the plan began in 2002 and is funded to the districts through the school finance formula.



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TRS-ActiveCare

Since 2003, there have been nine premium rate increases.

- Approximately 5% in 2003-2004
- 7.5 % in 2007-2008
- 4.5% in 2009-2010
- 7% in 2010-2011
- 9.5% in 2011-2012
- 4%, 6%, and 9% for ActiveCare 1, 2, 3 for 2012-2013.
- 9%-22.7% for Active Care 1 HD; 15% for ActiveCare 2; and 25% for ActiveCare 3 in 2013-2014
- ActiveCare 3 was discontinued in 2014.
- 0%-8% for ActiveCare 1; 0%-7% for ActiveCare2 for 2014-2015

Benefits have also been reduced.

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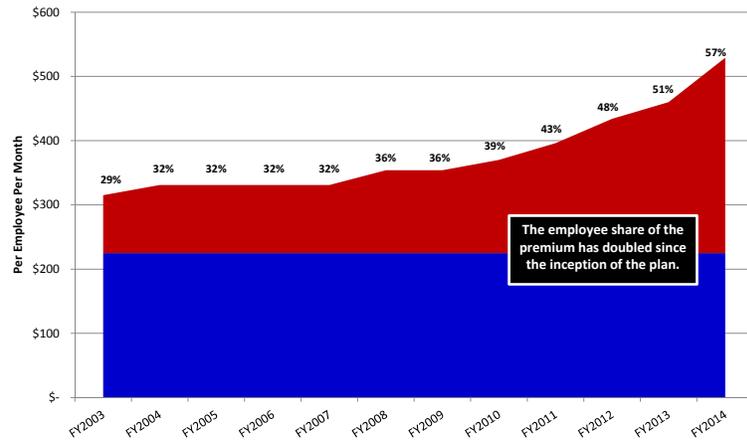
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TRS-ActiveCare Premiums

Historical Premiums

TRS-ActiveCare 2 - Employee Only Coverage Tier



Fiscal Year	State/District Contribution*	Employee Contribution	Total Premium
FY2003	\$225	\$85	\$310
FY2004	\$225	\$95	\$320
FY2005	\$225	\$95	\$320
FY2006	\$225	\$95	\$320
FY2007	\$225	\$95	\$320
FY2008	\$225	\$135	\$360
FY2009	\$225	\$135	\$360
FY2010	\$225	\$165	\$390
FY2011	\$225	\$195	\$420
FY2012	\$225	\$255	\$480
FY2013	\$225	\$285	\$510
FY2014	\$225	\$345	\$570

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*Assumes a \$75 state and \$150 minimum district contribution per month toward the cost of coverage.



TRS-ActiveCare Premiums

Total Premium (includes State and District contributions)

	AC-1 HD	AC-Select	AC-2
Employee Only	\$325	\$450	\$555
Employee and Family	\$1,145	\$1,238	\$1,323

- Employees get a minimum contribution of \$225 month (\$150 minimum from the district and \$75 from the state through school finance formulas) toward the cost of coverage in the table above.



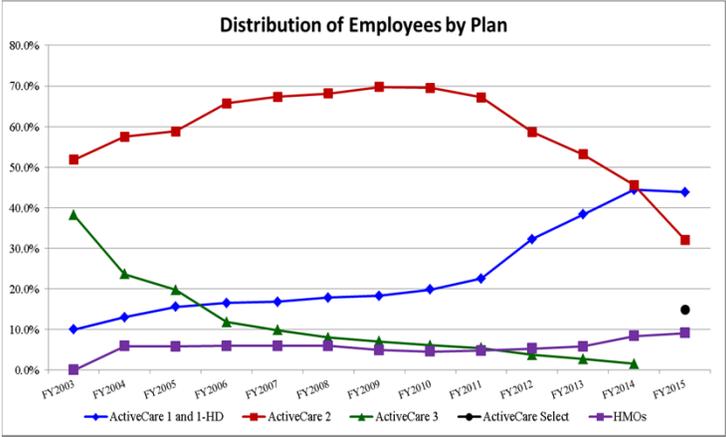
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TRS ActiveCare Funding Impact

There has been a significant shift in enrollment as premiums have increased and benefits have been reduced.



Distribution of Employees by Plan

Fiscal Year	ActiveCare 1 and 1-HD	ActiveCare 2	ActiveCare 3	ActiveCare Select	HMOs
FY2003	10%	52%	38%	0%	0%
FY2004	12%	58%	25%	0%	5%
FY2005	15%	60%	20%	0%	5%
FY2006	18%	65%	15%	0%	5%
FY2007	18%	68%	10%	0%	5%
FY2008	18%	68%	8%	0%	5%
FY2009	18%	70%	7%	0%	5%
FY2010	20%	70%	6%	0%	5%
FY2011	22%	68%	5%	0%	5%
FY2012	32%	60%	4%	0%	5%
FY2013	38%	55%	3%	0%	5%
FY2014	45%	45%	2%	0%	5%
FY2015	45%	32%	0%	15%	5%

*The ActiveCare 3 was closed to new enrollees for FY2014 and discontinued from the plan offerings beginning September 1, 2014 (FY 2015). The ActiveCare Select plan is a new plan offering beginning September 1, 2014 (FY 2015).



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TRS-ActiveCare Monthly District Contributions

- FY 2015 Monthly District Contributions

Contribution	Number of Districts	% of Districts	# of Employees	% of Employees
\$225 (minimum)	343	36.37%	80,465	19.85%
\$226-\$275	217	23.01%	125,940	31.07%
\$276-\$325	229	24.28%	114,864	28.33%
\$326-\$375	72	7.64%	46,371	11.44%
\$376-\$425	35	3.71%	12,388	3.06%
\$426-\$475	16	1.70%	21,744	5.36%
\$476-\$525	5	0.53%	652	0.16%
\$526+	26	2.76%	2,961	0.73%
Total	943	100.00%	405,385	100.00%


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Comparison of 10 Largest ActiveCare vs. Non ActiveCare Districts

District Monthly Contribution Toward Health Care Coverage 10 Largest Districts		
Monthly Contributions*	TRS-ActiveCare Districts	Districts Not Participating in TRS-ActiveCare**
\$225	1	0
\$226 – 275	4	0
\$276 – 325	2	1
\$326 – 375	2	4
\$376 – 425	0	2
\$426 – 475	1	1
\$476 – 525	0	1
\$526 and Up	0	1
Total Employees	93,112	94,227
Weighted Average Contribution	\$295	\$380

- ½ of top 10 ActiveCare districts contribute \$260 or less
- \$317 is lowest contribution of top 10 non-ActiveCare districts


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Key Findings

- 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-Active benefits and premiums in comparison to what is available to Texas state employees (under ERS).

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TRS-ActiveCare Study - Options

1. Return funding ratios and benefits to FY 2003 levels.
2. Health Savings Accounts (HSA)
3. Self-funded EPO
4. Eliminate uniform statewide coverage
5. Eliminate coverage for spouses

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TRS-ActiveCare Option 1:

Return funding ratios and benefits to FY 2003 level

Option 1 Return funding ratios and benefits to FY 2003 level.

- In FY 2003, employees paid 29% of the cost of ActiveCare 2 Employee Only. The minimum State/District contribution paid 71%.
- In FY 2015, that ratio is 59% for employees and 41% for the State and District.
- For FY 2016 funding only for ActiveCare 2
 - 84% employer increase from \$225 to \$414 per month
- For FY 2016 funding including restoring benefits to FY 2003 level
 - 104.9% employer increase to \$461 per month

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TRS-ActiveCare Option 2:

HSA

Option 2 Provide only a high deductible plan with a Health Savings Account and eliminate all other current plans.

- Eliminates adverse selection
- Same consumer-directed plan as in TRS-Care option 7
- Assumes employer contribution of \$400 per month (\$350 for the premium and \$50 for the HSA). The employer may contribute more to the HSA.
- Assumes an employee only coverage premium of \$37 per month.
- Assumes plan design with a \$1,800 annual individual deductible.

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TRS-ActiveCare Option 3: Self-funded EPO

Option 3 Provide only a self-funded Exclusive Provider Organization (EPO) plan

- Plan design would be the ActiveCare Select plan (offered 9/1/14)
- Eliminates adverse selection
- Retains premiums (no fully-insured HMOs)
- Same consumer directed plan as in TRS-Care Option 7
- Current ActiveCare Select employee only premium is \$450 per month.
- If this single plan had been offered for FY 2015, the premium would have been \$405 per month (10% less).
- Projected FY 2016 premium is \$433 per month (the employee's share would be \$208).


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TRS-ActiveCare Option 4: Eliminate uniform statewide coverage

Option 4 Eliminate uniform statewide coverage

- Younger, healthier employees and spouses may move to federal public exchange under current system.
- Allow ActiveCare to consider age and geographic location in establishing premiums


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TRS-ActiveCare Option 5: Eliminate coverage for spouses

Option 5 Eliminate coverage for spouses

- Affordable Care Act does not require that employers offer spousal coverage.
- Younger, healthier spouse may migrate to Federal Public Exchange.
- ActiveCare spousal coverage is subsidized by other tiers.
- Elimination of spousal coverage would reduce ActiveCare premiums by 2.3%.


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TRS-Care for Retirees

- TRS-Care was created in 1985 as an interim solution but has endured almost 30 years. It was redesigned in 2004 to provide an additional decade of solvency.
- Texas Insurance Code, Chapter 1575 requires that a basic health care plan be offered at no cost to retirees.
- Optional plans may be offered, including coverage for eligible dependents. Retirees selecting an optional plan pay a premium based on the plan selected, years of service, and Medicare status.
- TRS-Care currently offers three plan options. TRS-Care 1, the basic plan, provides catastrophic coverage. TRS-Care 2 and TRS-Care 3 offer more comprehensive benefits, including a carve-out prescription drug benefit.
- TRS-Care participants across plans:
(as of August 2014)

August 2014 Enrollment	
TRS-Care 1	29,996
TRS-Care 2*	56,210
TRS-Care 3*	158,362
TOTAL	244,568

*Includes Medicare Advantage Enrollment


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TRS-Care Funding Sources

Funding sources

- The law provides that the state contributes 1.0% of active member payroll. The General Appropriations Act reduced this contribution to 0.5% for FY 2013 but fully restored to 1.0% for FY 2014.
- School districts contribute between 0.25% and 0.75% of active member payroll. The current contribution rate is 0.55%.
- Active school employees contribute 0.65% of payroll.
- Retirees pay premiums for any plan option other than TRS-Care 1 retiree-only coverage.
- Medicare Part D retiree drug subsidy.
- Investment income.

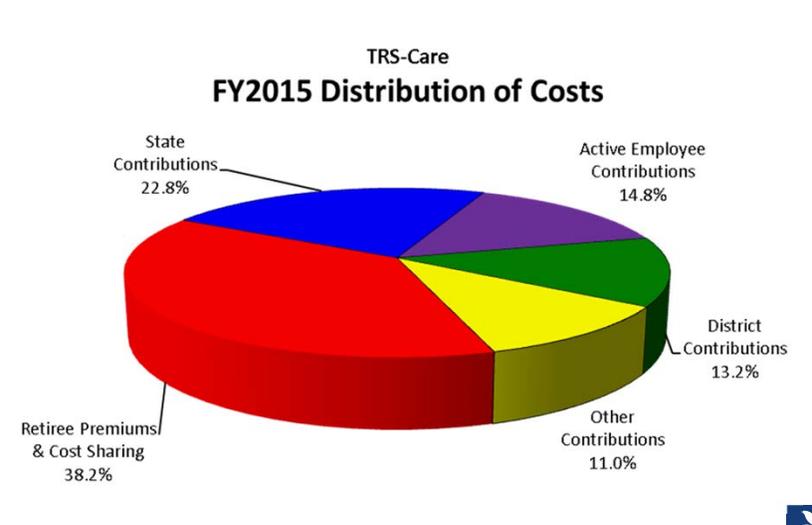
** The funding is based on active member payroll and not actual health care costs.*


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TRS-Care FY2015 Distribution of Costs



Category	Percentage
Retiree Premiums & Cost Sharing	38.2%
State Contributions	22.8%
District Contributions	13.2%
Active Employee Contributions	14.8%
Other Contributions	11.0%


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TRS-Care

- TRS added Aetna Medicare Advantage option for health care that began January 1, 2013.
- In 2012, TRS selected Express Scripts for prescription drugs, achieving better pricing beginning September 1, 2012, and offered a new Medicare Part D option which began January 1, 2013.
- The participation rate for Medicare Advantage is approximately 68%, and the fund is projected to be solvent through 2014-2015 biennium.
- However, the **shortfall** for the 2016-2017 biennium is projected to be in excess of **\$750 million**. TRS will continue to update the estimate as more actual claims experience becomes available.



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TRS-Care Funding

Financial History & Projection Through FY 2019 with Data Through August 2014

Fiscal Year	Contributions								Expenditures					Ending Balance (Invoiced Basis)
	Retiree Contributions	State Contributions	Supplemental Appropriations	Active Employee Contributions	District Contributions	Investment Income	OMS& Part D Subsidies	ERRP Subsidy	Medical Incurred	Drug Incurred	Medicare Advantage Premiums	Administrative Costs		
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	\$2,168,998	\$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	\$25,428,612	\$37,420,711	\$0	\$20,789,215	\$0	\$8,802,914	\$0	\$0	\$17,206,324	\$15,458,710	\$0	\$5,212,074	\$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	\$23,838,871	\$0	\$15,801,047	\$0	\$0	\$62,897,189	\$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	\$55,932,083	\$0	\$28,656,041	\$0	\$16,467,438	\$0	\$0	\$108,246,693	\$45,712,060	\$0	\$11,468,928	\$225,230,665	
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	\$12,19,847	\$255,796,513	
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	\$224,937,663	
FY 1997	\$87,657,794	\$67,616,395	\$0	\$33,803,197	\$0	\$16,202,440	\$0	\$0	\$148,823,489	\$62,530,982	\$0	\$14,097,454	\$203,970,554	
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	\$15,616,678	\$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	\$100,227,960	\$85,505,637	\$0	\$42,738,069	\$0	\$6,932,485	\$0	\$0	\$203,029,971	\$110,903,247	\$0	\$16,837,127	\$24,256,451	
FY 2001	\$113,213,445	\$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	(\$15,550,211)	
FY 2002	\$143,797,748	\$94,792,026	\$285,515,036	\$47,378,092	\$0	\$7,440,560	\$0	\$0	\$287,729,918	\$163,979,754	\$0	\$19,017,292	\$71,945,978	
FY 2003	\$182,954,010	\$98,340,798	\$124,461,063	\$49,170,399	\$0	\$3,394,956	\$0	\$0	\$368,462,963	\$200,281,000	\$0	\$21,090,329	(\$2,917,487)	
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	\$28,285,158	
FY 2005	\$322,780,191	\$202,397,566	\$64,172,167	\$101,198,788	\$80,914,228	\$13,000,988	\$0	\$0	\$413,030,095	\$229,522,988	\$0	\$33,133,010	\$127,156,868	
FY 2006	\$326,844,082	\$215,466,940	\$0	\$140,183,511	\$118,607,527	\$21,195,792	\$34,611,607	\$0	\$427,953,404	\$259,532,887	\$0	\$34,434,969	\$462,485,967	
FY 2007	\$323,957,945	\$238,190,720	\$0	\$154,823,968	\$136,008,512	\$32,871,539	\$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	\$29,252,147	\$59,486,239	\$0	\$496,767,018	\$334,742,500	\$0	\$39,656,301	\$728,439,244	
FY 2009	\$329,723,191	\$267,471,269	\$0	\$173,856,364	\$149,924,613	\$17,842,143	\$61,330,735	\$0	\$511,239,020	\$353,893,845	\$0	\$41,184,391	\$800,148,391	
FY 2010	\$332,481,933	\$279,350,547	\$0	\$181,512,856	\$155,918,241	\$11,679,229	\$70,795,686	\$0	\$575,339,788	\$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	\$8,168,540	\$66,216,008	\$70,629,797	\$608,461,211	\$384,017,059	\$0	\$47,151,354	\$890,970,304	
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	\$741,031,656	
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	\$375,291,282	\$296,990,741	\$0	\$192,783,981	\$173,034,941	\$1,698,024	\$137,677,069	\$0	\$714,665,024	\$684,446,432	\$62,892,586	\$52,386,573	\$170,421,890	
FY 2016	\$382,137,484	\$302,252,555	\$0	\$196,339,661	\$176,297,139	\$416,968	\$144,712,000	\$0	\$755,744,660	\$707,499,330	\$82,497,154	\$52,158,981	\$274,111,968	
FY 2017	\$387,975,081	\$308,573,006	\$0	\$200,727,454	\$179,624,887	\$0	\$153,688,432	\$0	\$799,618,332	\$787,070,948	\$95,233,285	\$51,229,199	(\$727,229,92)	
FY 2018	\$393,627,217	\$314,744,467	\$0	\$204,583,903	\$183,019,190	\$0	\$162,754,687	\$0	\$845,711,895	\$873,829,518	\$109,665,218	\$51,407,169	(\$1,149,113,779)	
FY 2019	\$399,553,659	\$321,039,356	\$0	\$208,675,581	\$186,481,379	\$0	\$171,684,575	\$0	\$897,729,265	\$968,227,767	\$125,776,180	\$52,374,579	(\$2,105,786,569)	

NOTES

- Actual data through August 31, 2014
- 70% participation in Medicare Advantage and 83% participation in Part D plan, which was effective 1/1/2013; CY2013 CMS Subsidy values assumed for Part D Revenue.
- State Contribution rate of 1%, District contribution rate of 0.55% and Active Contribution rate of 0.45%.
- Enrollment assumptions based on GASB headcounts
- 4% increase in payroll growth for FY2014; 2% increase in payroll growth thereafter.
- Medical trends: 7% for Care 1; 7% for Care 2; 7% for Care 3.
- Pharmacy trends: 7% for Care 2; 7% for Care 3; 7% for EGWP plans.
- Interest Rate: 6.4%
- Medicare Part D Risk Score of 0.811 beginning January 1, 2015



TRS-Care Funding Highlights

- **State** From FY 2001-FY 2005, the state granted supplemental appropriations of \$849 million.
- **Active Members** Since TRS-Care's inception, active members have contributed approximately \$2.3 billion for retiree healthcare. In FY 2014, active members contributed approximately \$189 million to fund TRS-Care.
- **Districts** Since FY 2004, districts have contributed approximately \$1.5 billion to TRS-Care. In FY 2014, districts contributed approximately \$170 million.

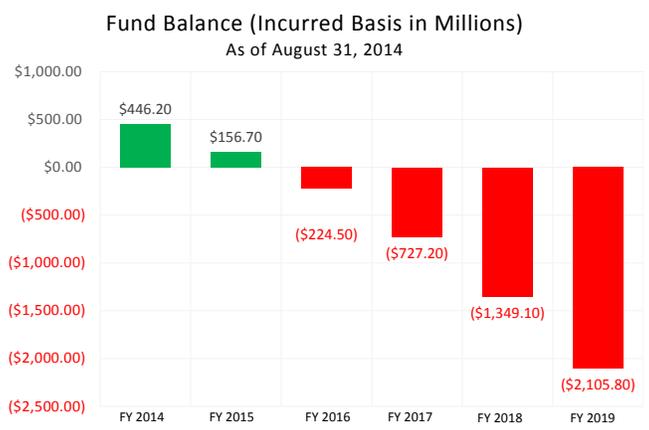
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TRS-Care Funding Projection

Fund Balance (Incurred Basis in Millions)
As of August 31, 2014



Fiscal Year	Fund Balance (Millions)
FY 2014	\$446.20
FY 2015	\$156.70
FY 2016	(\$224.50)
FY 2017	(\$727.20)
FY 2018	(\$1,349.10)
FY 2019	(\$2,105.80)

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Key Findings

- TRS-Care is facing a severe projected funding shortage for 2016-2017 in excess of \$700 million. Without additional funding, the sustainability of the program in its current structure is at significant risk.
- There is no correlation between funding streams and health care claims costs.
- Non-Medicare retirees are the biggest cost driver to the program.
- 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 ERS. For example, the premium for Retiree Only coverage under ERS is 100% funded by the state.


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Key Findings

- The plan costs for non-Medicare retirees are 4 ½ times the costs of retirees with Medicare Parts A & B.

Projected TRS-Care-3 Per Member Per Year Costs			
FY 2015			
Plan	Medicare Part A and Part B	Medicare Part B Only	Non-Medicare
Retiree enrolled in both Medicare Advantage and Medicare Part D plans.	\$2,908	\$6,998	\$13,220
Retiree NOT enrolled in either the Medicare Advantage or Medicare Part D plans.	\$4,275	\$7,269	\$13,220


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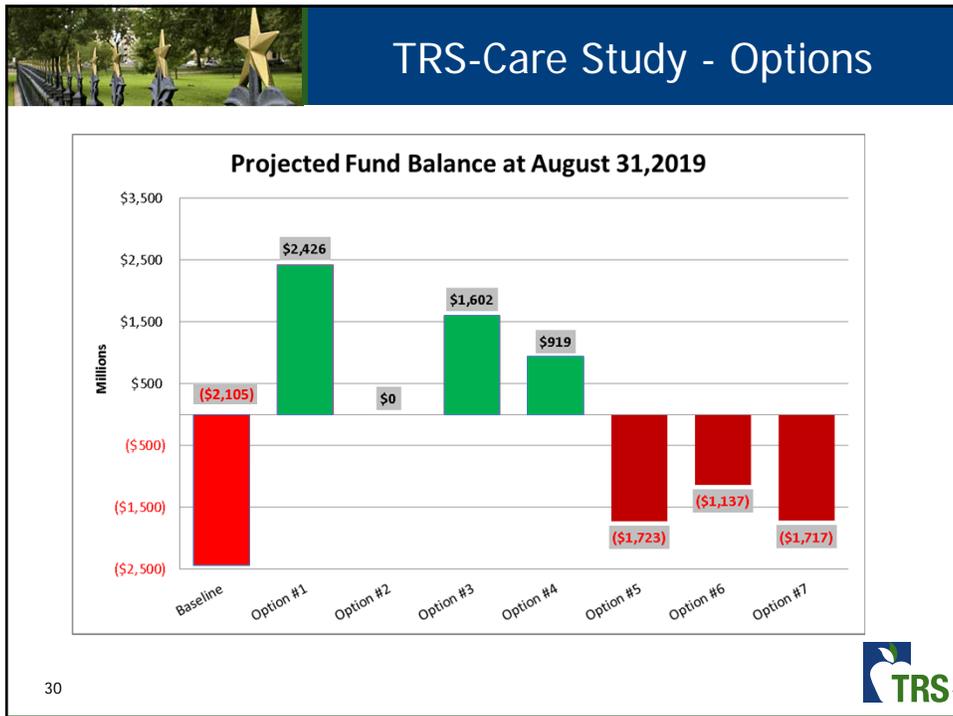


TRS-Care Study - Options

1. Pre-fund the long-term liability
2. Fund on a pay-as-you-go basis for the biennium
3. Fund for a 10-year solvency
4. Retiree pays full cost for optional coverage
5. Require purchase of Medicare Part B; mandatory participation in Medicare Advantage and Medicare Part D plans
6. Fixed contribution
7. Consumer-directed plan for the non-Medicare population


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TRS-Care Option 1: Pre-funding

Option 1 Pre-fund the long-term liability

- Current contribution is 2.2% of active member payroll from state, districts, and active employees.
- FY 2013 annual required contribution (ARC) to pre-fund would have been 5.86%.
- Advance funding would require contribution rates to increase by 2.7 times current rates.
- Each 1% of payroll is equivalent to approximately \$280 million per fiscal year.

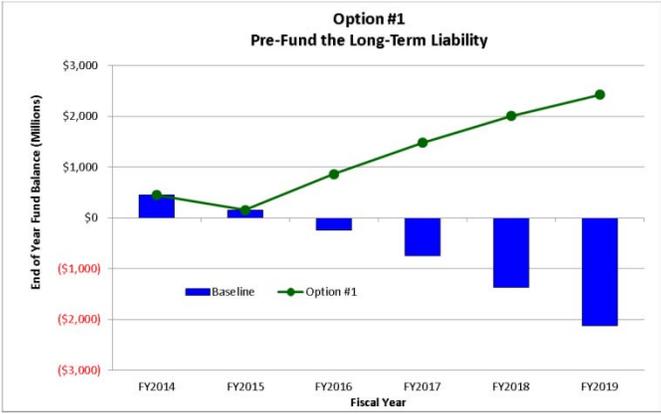
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TRS-Care Option 1: Pre-funding

Option #1
Pre-Fund the Long-Term Liability



Fiscal Year	Baseline (Millions)	Option #1 (Millions)
FY2014	400	400
FY2015	100	100
FY2016	-200	800
FY2017	-600	1,400
FY2018	-1,200	2,000
FY2019	-2,200	2,400

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Option 2 Fund on a pay-as-you-go basis for the biennium
 (Same as ERS). Fund cost of program for biennium.

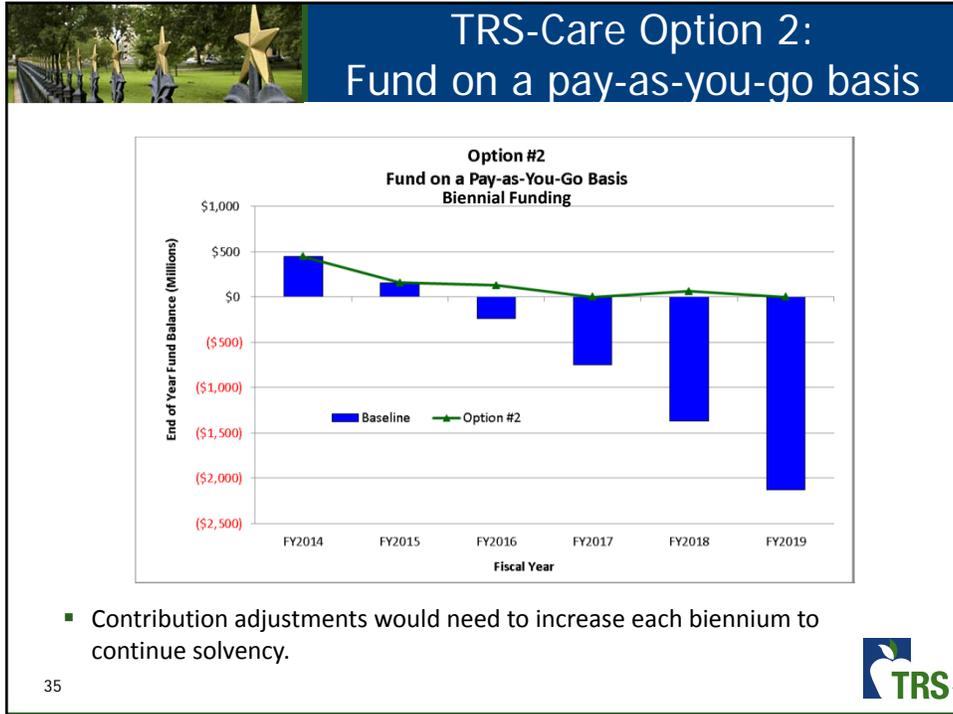
- Option 2(a). Increase in state contribution only
- Option 2(b). Increase proportionally shared by the state, school districts, and employees
- Option 2(c). Increase proportionally shared by the state, school districts, employees, and retiree premiums
- Option 2(d). Includes increases in 2(c) with smaller retiree premium increase and benefit reductions

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Option	Description	Impacted Parties					Impact on State Appropriations for the 2016-2017 Biennium
		State	District	Active Employees	Non-Medicare Retirees	Medicare Retirees	
Option #2:	Fund on a pay-as-you-go basis thru FY2019						
	Option 2(a)	✓					\$685,352,994
	Option 2(b)	✓	✓	✓			\$311,524,089
	Option 2(c)	✓	✓	✓	✓		\$193,987,116
	Option 2(d)	✓	✓	✓	✓	✓	\$193,987,116

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Option 3 Fund for 10-year solvency

- Option 3(a). Increase in state contribution only
- Option 3(b). Increase proportionally shared by the state, school districts, and employees
- Option 3(c). Increase proportionally shared by the state, school districts, employees, and retirees

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TRS-Care Option 3: 10-Year Funding

Option	Description	Impacted Parties					Impact on State Appropriations for the 2016-2017 Biennium
		State	District	Active Employees	Non-Medicare Retirees	Medicare Retirees	
Option #3:	Fund on a pay-as-you-go basis thru FY2025						
	Option 3(a)	✓					\$1,602,625,932
	Option 3(b)	✓	✓	✓			\$728,466,333
	Option 3(c)	✓	✓	✓	✓	✓	\$560,754,574


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TRS-Care Option 3: 10-Year Funding

Fiscal Year	Baseline (Millions)	Option #3 (Millions)
FY2014	0	0
FY2015	-100	0
FY2016	-200	100
FY2017	-300	200
FY2018	-400	300
FY2019	-500	400
FY2020	-600	500
FY2021	-700	400
FY2022	-800	300
FY2023	-900	200
FY2024	-1000	100
FY2025	-1000	0


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TRS-Care Option 4: Retiree pays full cost for optional coverage

Option 4 Retiree pays full cost for optional coverage*

- 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 \$616 per month for FY 2016.
- Increase premium for TRS-Care retiree 3 and spouse, both non-Medicare from \$635 to \$1,811 per month for FY 2016.
- In FY2014, the average monthly annuity was \$1,995.

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

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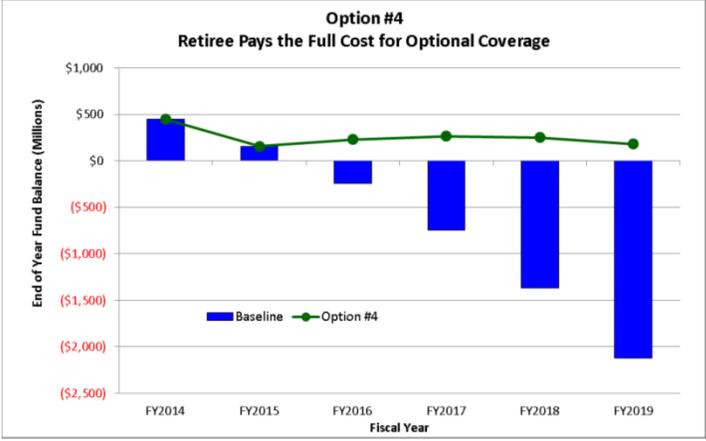


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TRS-Care Option 4: Retiree pays full cost for optional coverage

Option #4
Retiree Pays the Full Cost for Optional Coverage



Fiscal Year	Baseline (Millions)	Option #4 (Millions)
FY2014	450	450
FY2015	100	200
FY2016	-150	250
FY2017	-750	250
FY2018	-1350	250
FY2019	-2100	200

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TRS-Care Option 5: Mandatory Medicare Part B/MA

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

- Current participation of eligible retirees.
 - Medicare Advantage 68%
 - Medicare Part D 80%
- Retirees who do not purchase Medicare Part B would be enrolled in TRS-Care 1.
- Grandfather current Medicare enrollees (large penalty for not enrolling in Part B when first eligible).
- Remove incentives currently offered to enroll in Medicare Advantage and Part D plans.
- 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.

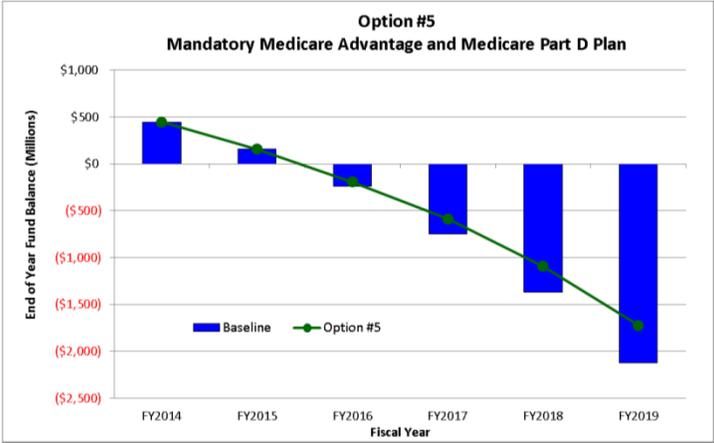

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TRS-Care Option 5: Mandatory Medicare Part B/MA

Option #5
Mandatory Medicare Advantage and Medicare Part D Plan



Fiscal Year	Baseline (Millions)	Option #5 (Millions)
FY2014	~\$400	~\$400
FY2015	~\$100	~\$100
FY2016	~\$0	~\$-100
FY2017	~\$-200	~\$-400
FY2018	~\$-400	~\$-800
FY2019	~\$-600	~\$-1,800


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TRS-Care Option 6: Fixed Contribution

Option 6 Fixed Contribution for non-Medicare retirees

- Health Reimbursement Account (HRA) for current TRS-Care 2 and Care 3 non-Medicare retirees.
- TRS would deposit a monthly stipend into retiree's HRA.
- Non-Medicare retiree would obtain coverage in the federal public exchange.
- At age 65, open enrollment opportunity for TRS-Care Medicare Advantage and Part D plans.
- For example, potential savings per non-Medicare retiree currently enrolled in TRS-Care 3 are projected to be about \$4,500 per year.
- Cautions
 - Retiree disruption.
 - Federal exchange is in launch year. Uncertainty with regard to rates in the future and political climate.

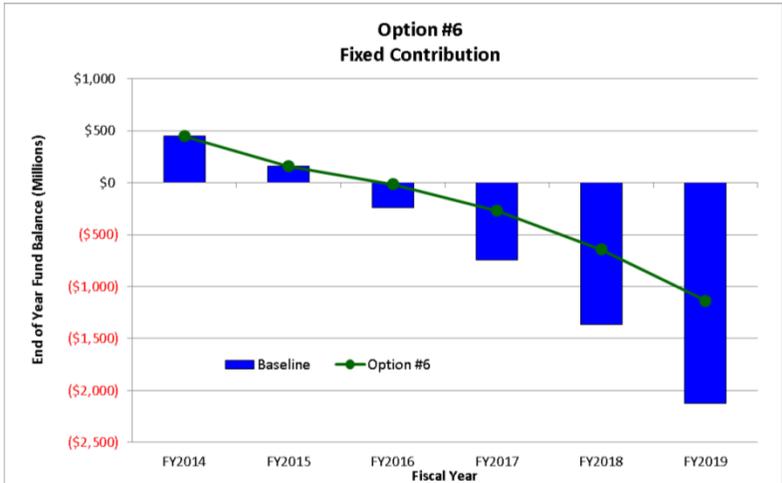

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TRS-Care Option 6: Fixed Contribution

**Option #6
Fixed Contribution**



Fiscal Year	Baseline (Millions)	Option #6 (Millions)
FY2014	\$400	\$450
FY2015	\$150	\$150
FY2016	(\$100)	(\$100)
FY2017	(\$650)	(\$650)
FY2018	(\$1,350)	(\$1,350)
FY2019	(\$2,100)	(\$1,650)


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TRS-Care Option 7: Consumer Directed Plan

Option 7 Consumer Directed Health Care Plan

- Eliminates TRS-Care 2 and TRS-Care 3 for non-Medicare retirees.
- Implement Accountable Care Organizations (ACOs) and high performance networks.
- Includes reference-based pricing.
- Requires participation in disease management as applicable.
- Premium for the plan is assumed to be \$280 per month for non-Medicare retirees.



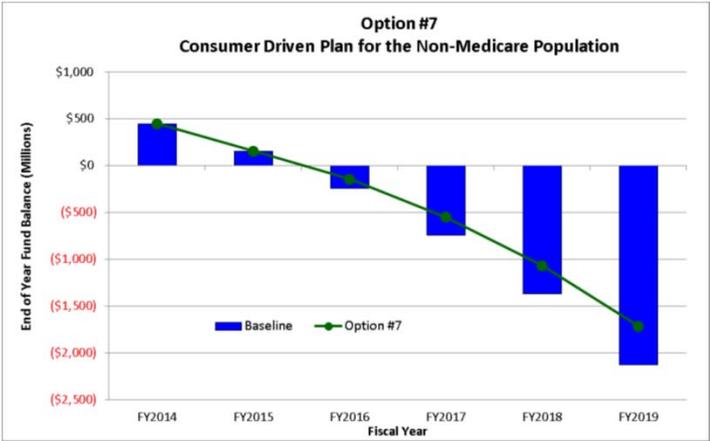
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TRS-Care Option 7: Consumer Directed Plan

Option #7
Consumer Driven Plan for the Non-Medicare Population



Fiscal Year	Baseline (Millions)	Option #7 (Millions)
FY2014	~\$400	~\$450
FY2015	~\$100	~\$150
FY2016	~\$-100	~\$-250
FY2017	~\$-600	~\$-500
FY2018	~\$-1,300	~\$-1,100
FY2019	~\$-2,100	~\$-2,200



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Combine TRS-Care and TRS-ActiveCare

Option 1: Offer same benefit as ERS HealthSelect

- Significant difference in the level of funding per employee/retiree between ERS and TRS

	TRS-Care-3	TRS-AC 2	TRS-AC 1-HD	ERS HealthSelect
Monthly Premium	\$90-310*	\$330**	\$100**	\$0
Medical Deductible	\$300	\$1,000	\$2,400	\$-0-
Out-of-pocket maximum	\$3,700	\$6,000	\$6,350	\$6,350
Drug Deductible	\$-0-	\$200 brand-name drugs	Combined with medical deductible	\$50
Retail short term ¹				
Generic	\$10	\$20		\$5
Brand preferred	\$25	\$40	20% after deductible	\$35
Brand non-preferred	\$40	\$65		\$60
Mall Order and Retail-Plus (90 day supply)				
Generic	\$20	\$45		\$15
Brand preferred	\$50	\$105	20% after deductible	\$105
Brand non-preferred	\$80	\$180		\$180

* Premium range based on years of service and Medicare eligibility.
 ** Assumes \$75 state contribution and \$150 minimum district contribution. Districts can contribute more to lower employee costs.



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Combine TRS-Care and TRS-ActiveCare

Option 1: Offer same benefit as ERS HealthSelect

- Employer (state and district) contribution would need to increase to \$12.3 billion for the 2016-2017 biennium.
- Required funding would be greater if employer also provided 50% contribution toward cost of dependent coverage.
- Assumes all districts would participate



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Combine TRS-Care and TRS-ActiveCare

Option 2: Increase employer funding to \$400 per participant

- Combines TRS-Care and TRS-ActiveCare and increases funding from the employer (state and district) from \$189 per retiree and \$225 per active employee to \$400 per month.
- With the \$400 per month contribution employee only and retiree only coverage the FY 2016-2017 plan could be offered at a premium of \$58 per month.
- The only option for Medicare eligible participants would be a Medicare Advantage plan with the same benefits as Care 2.

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