

October 2020

Select Committee on Statewide Health Care Costs

Request for Information on Interim Charge #1: Examine the primary drivers of increased health care in Texas. This examination should include a review of: current health care financing strategies; fragmentation of the care delivery administrative burden; population, health, and social factors that contribute to rising rates of chronic disease and poor health; insurance coverage and benefit design; lack of transparency in the cost of health care services; regional variations in the cost of care; consolidation and lack of competition in the provider and insurance markets; health care workforce capacity distribution; and fraud, abuse, and wasteful spending.

EXECUTIVE SUMMARY

TRS experiences the same cost drivers as other employer-based purchasers of health care. The largest determinate of cost growth in most years is changes in price of health care, including payments to doctors and hospitals and the cost of pharmaceuticals. While this trend will likely continue, the size of TRS membership offers a unique ability to help counteract large-scale provider market leverage—the primary driver of rising prices. TRS provides health coverage for more than 710,000 active and retired public education employees and their families and paid out approximately \$3 billion in claims in FY 2019.

TRS-ActiveCare provides health coverage for more than 480,000 public education employees and their families and paid out nearly \$2 billion in claims in FY 2019. Nearly 1,100 school districts participate in TRS-ActiveCare, and the program is funded through a self-funded health plan model. The premiums paid by public school employees are combined with district funds (a minimum of \$150 per employee per month) and state funds (\$75 per employee per month) into a pool that makes up TRS-ActiveCare.

TRS-Care provides health care coverage for more than 230,000 retired educators and their families and is funded on a pay-as-you-go basis. TRS-Care is funded by a percentage of payroll, with 1.25% contributed by the state, 0.75% contributed by the employer, and 0.65% contributed by active employees. Retirees contribute a premium that varies based on Medicare status and number of dependents.

Through diligent management and competitive contracting, TRS keeps medical costs growth down significantly when compared to other self-funded or fully insured employers in Texas. While others saw a 24% increase on average from 2013-2019, TRS health plans only saw a 7% increase. Within TRS-ActiveCare, our most popular plan, TRS-ActiveCare HD, has a total cost that is approximately 14% below the median of comparable plans offered by non-participating Texas school districts in

2020. The TRS-Care program covers retirees without Medicare as part of a self-funded high deductible health plan, TRS-Care Standard. Coverage for participants with Medicare is through the TRS-Care Medicare Advantage plan. TRS-Care Medicare Advantage is a fully-insured medical plan, meaning that TRS contracts with an insurance company to the risk of providing coverage for enrollees' health care events. This generates savings for the TRS-Care fund, which TRS then uses to lower costs to members and protect the solvency of the program.

The combined scale of TRS' health programs allows the agency to compel unique contracting provisions that yield significant savings. For example, TRS recently completed a procurement for third party administrator (TPA) services for both TRS-ActiveCare and TRS-Care. The recent procurement is expected to produce an estimated \$754 million in savings across both trust funds in the next 3-5 years.

Additionally, effective September 1, 2020, TRS introduced new plans in TRS-ActiveCare, lowering health care costs and reducing premiums for families with children by as much as 8%. The new plans center on the relationship between members and their primary care physicians (PCPs). By focusing care around a PCP, TRS can help members focus on high-quality, high-value care through a variety of mechanisms. After the changes made this year, the affordability of TRS plans improved. Long term, however, affordability will remain an issue as employers weigh competing budget priorities amid the growing cost of health care.

Many school districts have struggled to increase contributions and maintain affordability for their employees. Some school districts have sought to exercise a loophole in the Texas Education Code District of Innovation statute and are currently offering employees a non-TRS plan alongside TRS-ActiveCare plans. This competing coverage is often presented as cheaper, but it is not comparable to the coverage TRS offers and excludes important benefits such as specialty drug coverage and a robust network of contracted providers. If these competing plans disproportionately attract healthier employees, this could drive up the average cost of our membership through adverse selection.

COVID-19 is also having a unique impact on health care utilization and financial trends. The full, long-term impact of the pandemic is currently unknown at this time. But COVID-19 will continue to have a significant impact on cost and utilization for at least the near future.

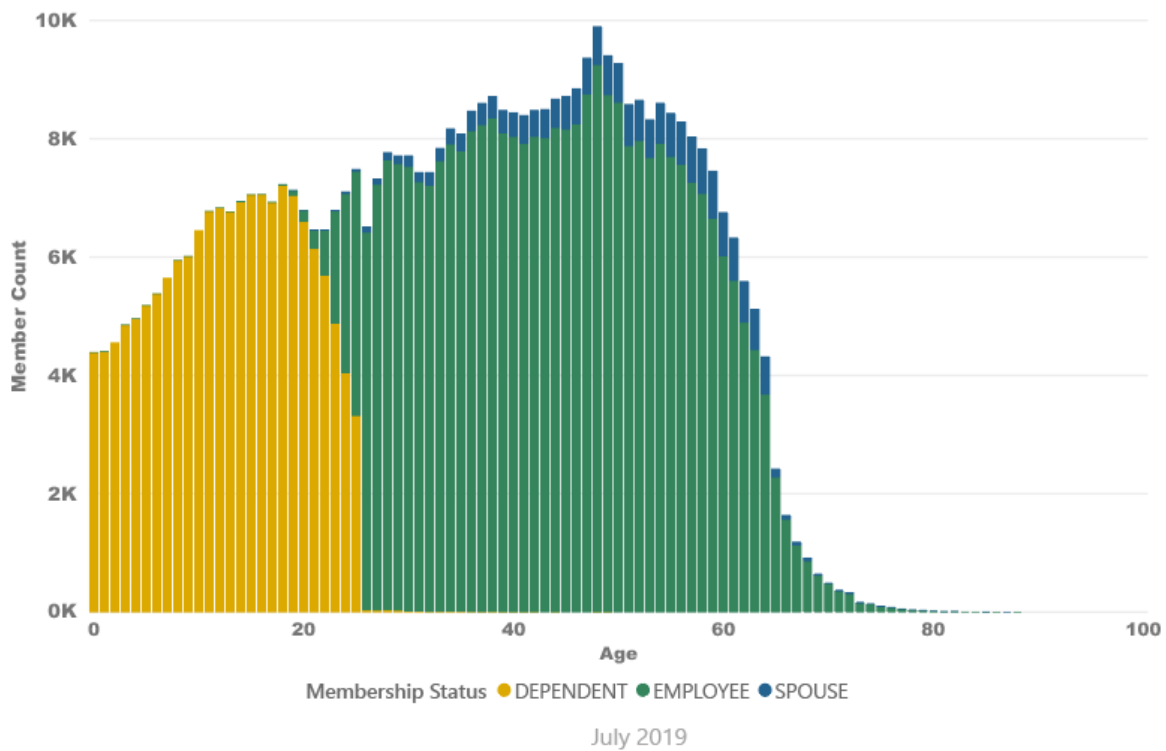
TRS COVERS A LARGE AND DIVERSE GROUP OF TEXANS

The Teacher Retirement System of Texas (TRS) has a long history of delivering health benefits to public education affiliated participants. Since 1986, TRS has provided health coverage to retirees through TRS-Care. Starting in 2002, TRS has also offered coverage to public education employees through TRS-ActiveCare. In fiscal year 2019, TRS provided health coverage to 712,888 people,

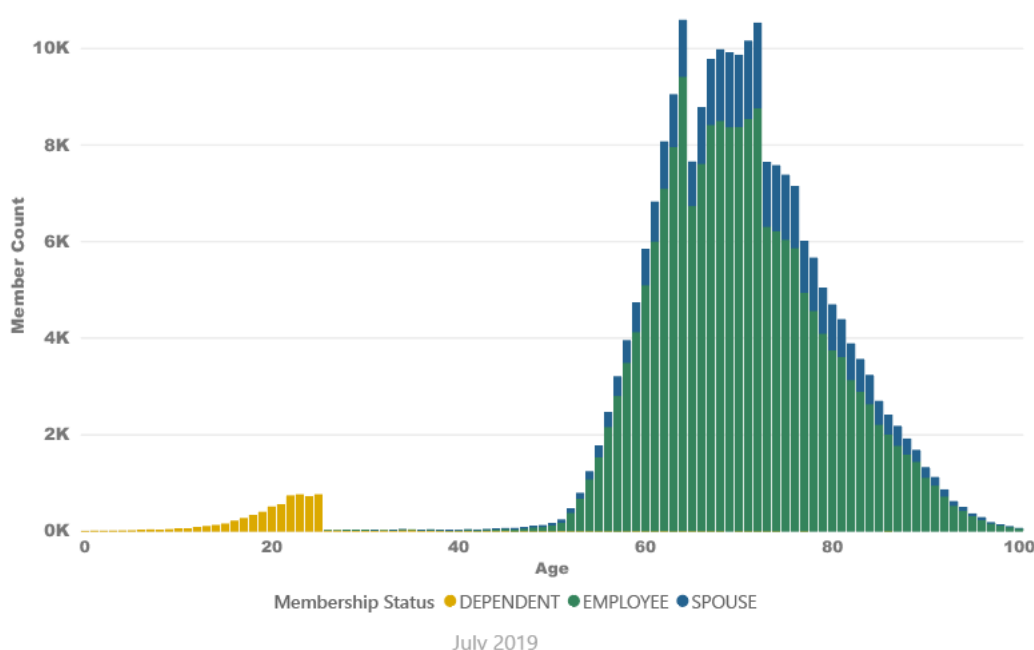
including 483,113 public education employees and their families and 229,775 retirees and their families.

In TRS-ActiveCare, 76% of enrolled employees are female. Among dependents, it is 54% male. Among the employees, the average age is 45, while the average age of dependents is 18. In TRS-Care, the gender balance for retirees is similar to enrolled employees (76%), but for dependents it is predominately male (66%).

TRS-ActiveCare Membership by Age and Dependent Status



TRS-Care Membership by Age and Dependent Status

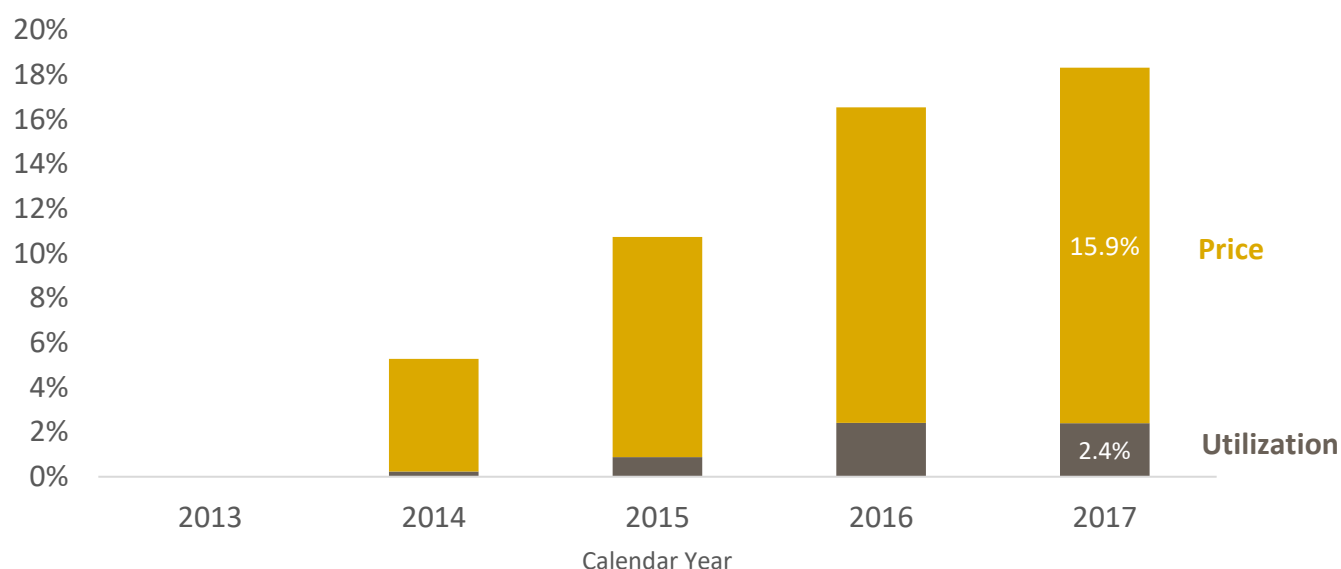


Consistent with the general population, the prevalence of chronic conditions increases with age. Within TRS-ActiveCare, for example, approximately 14.5% of members had hypertension in fiscal year 2019. In TRS-Care, though, the rates were 60.7%.

PROVIDER MARKET LEVERAGE DRIVES PRICE INFLATION

TRS experiences the same cost drivers as other employer-based purchasers of health care. While changes in utilization and the health of our members contribute to cost growth, the largest determinate of cost in most years is changes in prices. Between 2013 and 2017, for example, utilization within employer-based coverage in Texas increased by 2.4% per person. Prices, however, increased by 15.9% according to the Health Care Cost Institute.

Cumulative Per Person Cost Growth in Texas Employer Based Coverage



Source: [Health Care Cost Institute](#)

Efforts to negotiate high-value care on behalf of members must contend with provider market leverage. For example, many smaller districts that participate in TRS-ActiveCare are in rural parts of the state. Rural areas of the state, on average, typically experience higher health care costs and offer fewer medical providers. These communities benefit from participation in the larger group offered by TRS. However, implementing innovative plan designs can be more challenging due to the smaller and more dispersed population. Negotiating lower prices with the only hospital in a rural area is obviously more challenging when trying to ensure an adequate network than if there were two or more viable options for our members.

Even in more urban areas of the state, hospital mergers and consolidation have resulted in more limited competition among medical providers. This can also be exacerbated when hospitals acquire physician groups and other providers.

Similarly, limited competition in prescription drug manufacturing drives significant price inflation. High prices are common for new medications that offer break-through treatments while under patent. The high prices of these drugs typically drive large increases in cost for the entire prescription drug benefit, even though most drugs filled by TRS members are generic. In fiscal year 2020, half of all prescription drug spending in TRS-ActiveCare was for 0.7% of members, even though 88% of prescriptions filled were for generic medications. In fiscal year 2020, half of all

prescription drug spending in TRS-Care was for 2.0% of members, even though 85% of prescriptions filled were for generic medications.

Participants and employers that participate in TRS' statewide program benefit from its combined scale and market position. Within TRS-ActiveCare, our most popular plan, TRS-ActiveCare HD, has a total cost that is approximately 14% below the median of comparable plans offered by non-participating Texas school districts in 2020.

TRS also faces a constrained market of qualified vendors for third-party administration. This is in part due to the size and complexity of TRS programs, but also due to increased national merger and acquisition activity.

THE SIZE OF TRS MEMBERSHIP REDUCES ADMINISTRATION COSTS

While these challenges will likely continue, the size of TRS membership confers an economy of scale that allows for cost-effective administration. By bringing a large number of people to third-party administration contracts, TRS can lower administration costs with its partners. In fiscal year 2019, only 3.8% of health-related expenses at TRS went to administrative costs. This included the costs of both TRS employees and vendors working for TRS. As a result, 96% of funds in the TRS plans goes directly to health care costs, including payments to doctors, hospitals, and for prescription drugs.

The Benefits of Efficiency

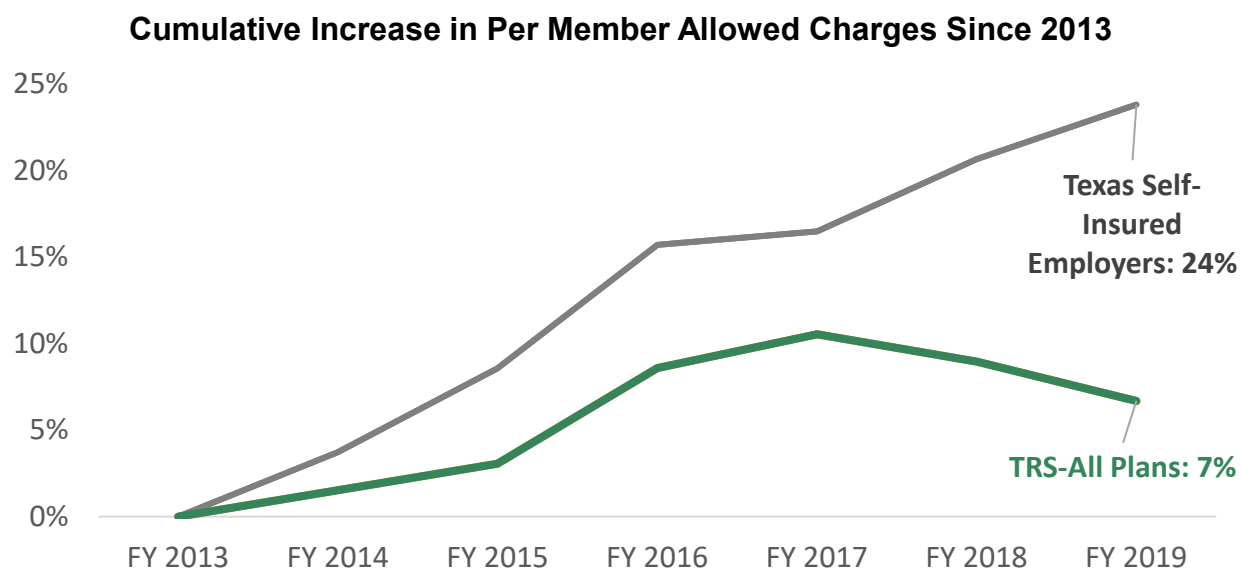


Employers with a smaller number of covered participants often need to purchase fully insured products to provide these services. The administrative costs for these can be as high as 15% of expenses.¹

By spreading risk across a large number of school districts and participants, TRS is able to offer several self-insured products. TRS directly pays claims and only incurs the cost of processing claims, providing customer service, and developing networks with the carriers for its TRS-ActiveCare HD, TRS-ActiveCare Primary, TRS-ActiveCare Primary+, TRS-ActiveCare 2, and TRS-Care Standard products. TRS also provides coverage to participants with Medicare through the TRS-Care Medicare Advantage plan, which is a fully-insured medical plan, meaning that TRS contracts with an insurance company to the risk of providing coverage for enrollees' health care events. This generates savings for the TRS-Care fund, which TRS then uses to lower costs to members and protect the solvency of the program.

THE SIZE OF TRS MEMBERSHIP ALSO HELPS CONTAIN PROVIDER PRICING PRESSURE

TRS has experienced per-member cost growth well below the market with a cumulative increase since fiscal year 2013 of 7% compared to 24% for self-insured employers in Texas.

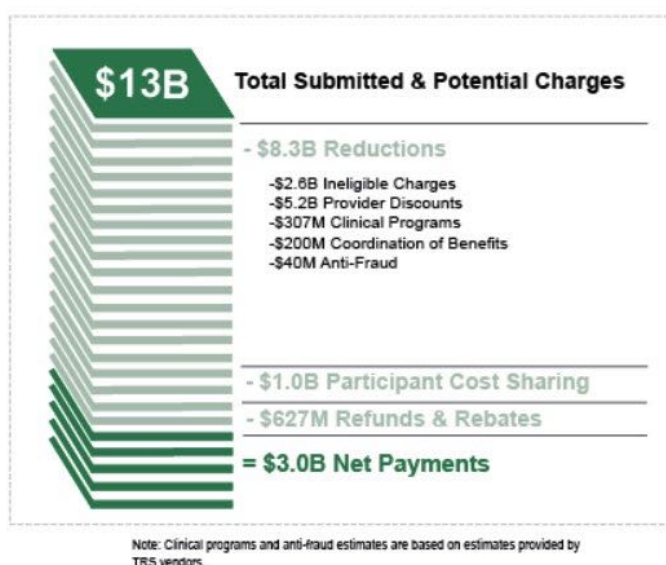


Note: Self-Insured is based on employers with similar administrative services only contracts. Rebate information is only available for TRS data. Excludes rebates from TRS All Plans would increase cumulative growth to 12%. Cost growth is based on allowed charges. Source: Milliman & GRS.

¹ [US Department of Health and Human Services](#)

This comparison does not control for differences and changes in plan design. For example, other employers in Texas typically provide larger contributions to reduce employee premiums and cost sharing. As result, their members may be able to afford more medical care in richer benefit designs. This contributes to the difference in cost growth between TRS and other Texas self-insured employers.

TRS Reduced Plan Costs by \$10 Billion in FY2018



Provider discounts and low administrative costs also contribute to the low cost growth in TRS. In fiscal year 2018, for example, TRS reduced plan costs by \$10 billion through reductions to submitted charges, participant cost sharing, and refunds and rebates. Contracted provider discounts represented the single largest reduction in cost from charges submitted by providers, accounting for \$5.2 billion in savings.

Other reductions and savings accrued from clinical programs, avoidance of duplicative and ineligible charges, coordination with other sources of insurance, and anti-fraud activities. We

work closely with our vendors to ensure they are monitoring any duplicative and potentially fraudulent charges on an ongoing basis, and we review claims as part of an annual claims audit. Efforts from anti-fraud activities totaled \$40 million and coordination of benefits to ensure members' primary insurance plans paid benefits returned \$200 million to the funds. Refunds and rebates are primarily due to rebates on drugs negotiated with pharmaceutical manufacturers.

To maximize the affordability of care for our members, TRS has a comprehensive and competitive procurement process for third party administrator (TPA) contractors. TRS recently completed a procurement for TPA services for both TRS-ActiveCare and TRS-Care. As part of the process, TRS evaluated the costs of recent TRS claims at the bidding TPAs' network rates. This allowed TRS to identify which TPAs have the best discount contracts with providers that TRS members already see. These discounts were taken into consideration, along with a variety of other criteria, including customer service, network adequacy, and disease management programs in selecting new administrators for the TRS plans.

In February 2020, the TRS Board of Trustees awarded new health administrator contracts. Effective September 1, 2020, TRS switched to Blue Cross Blue Shield of Texas (BCBSTX) for TRS-ActiveCare. On January 1, 2021, TRS will switch to UnitedHealthcare for TRS-Care Medicare Advantage and

BCBSTX for TRS-Care Standard. TRS estimates this procurement will generate an estimated \$754 million in savings across both trust funds in the next 3-5 years.

TRS similarly procures pharmacy benefit manager (PBM) services to obtain industry leading discounts on drugs and conducts routine market checks to determine when to conduct a new procurement. The discounts that TRS negotiated were so significant in the most recent PBM procurement that net spending on drugs decreased by 15% per person in fiscal year 2018 and 6% in fiscal year 2019. Plans typically see significant growth in pharmacy cost each year. According to the Segal Company, for example, plans similar to TRS saw growth of approximately 8% in total pharmacy spending in calendar year 2018.²

These procurements ensure that TRS can obtain market leading discounts with providers and limits cost growth to promote access to affordable care for our members.

TRS INVESTS IN VALUE-BASED AND PRICE TRANSPARENCY INITIATIVES TO ENCOURAGE OPTIMAL USE OF HEALTH CARE SERVICES

TRS has a comprehensive strategy to manage utilization and encourage health plan participants to and use cost-effective, high-quality health care providers and services.

Education is critical to this strategy, and TRS shares information with participants and employers, continually emphasizing key messages across its communications platforms to help members know:

- Where to access medical and drug cost estimators to compare prices and quality metric among health care providers and services;
- Where to access care and when to use urgent care and telemedicine to avoid unnecessary use of emergency care;
- That using therapeutically equivalent generic medications when appropriate; and
- How to set up and utilize health savings accounts (HSAs) with the TRS-ActiveCare HD and TRS-Care Standard plans that are HSA-compliant.

In addition, TRS has implemented a member rewards program for new TRS-ActiveCare Primary and Primary+ plans where members receive a deposit into a health reimbursement account to be used to pay for other medical expenses when members actively shop for more cost-efficient procedures. TRS has implemented value-based programs to deliver high-quality care to members. This includes offering enhanced benefits for members that receive care through Blue Distinction Centers, which are recognized by BCBSTX as providing exceptional care and clinical results and working with

² [2020 Segal Health Plan Cost Trend Survey](#)

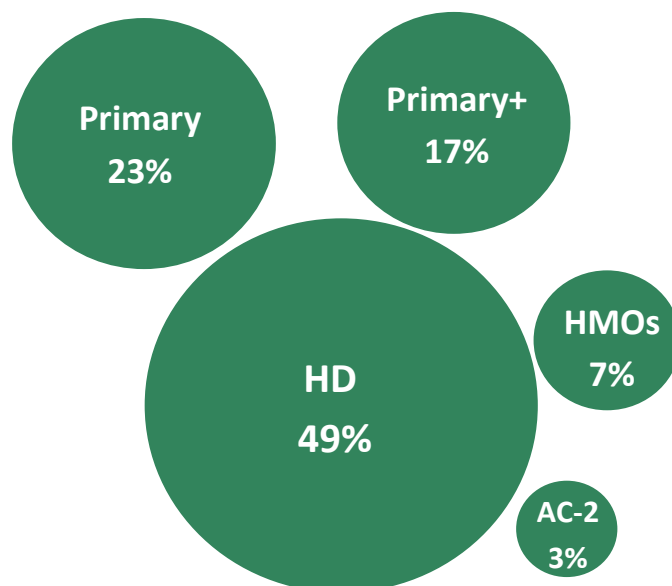
contracted medical administrators and pharmacy benefit managers to implement value-based payment approaches for specific conditions and providers.

TRS IS TRANSITIONING TO PRIMARY FOCUSED MODELS TO DRIVE HIGHER-VALUE HEALTH CARE

TRS is committed to offering health benefits that members value, and over the last year, TRS met with hundreds of school districts to identify improvements they wanted to see in TRS-ActiveCare. Based on feedback received by school districts, the TRS Board of Trustees approved changes to re-engineer TRS-ActiveCare, lowering health care costs and reducing premiums for families with children by as much as 8%. TRS is providing improved pricing, more network choices, simplified coverage and a new plan with a lower premium and copays for doctor visits. A survey of school benefit staff indicates a majority anticipate a positive reception by public education employees.

September 2020 Employee Enrollment

Effective September 1st, 2020, TRS introduced a new plan, TRS-ActiveCare Primary, and redesigning and renaming TRS-ActiveCare Select to TRS-ActiveCare Primary+. These two new plans are centered on the relationship between members and their primary care physicians (PCPs) to improve the quality and affordability of care for members. By focusing care around a PCP, TRS can work with BCBSTX to help members focus on high quality, high value care through PCP referrals to specialty care.



As of September 2020, approximately 40% of TRS-ActiveCare members we enrolled in the new PCP-focused primary plans, indicating the new plans were received positively by employees and effectively addressed needs identified from meeting with districts.

The Primary plans have a large, statewide network that ensures access to care while excluding out-of-network providers. By excluding out-of-network providers, TRS can maximize high-value care and encourage providers to negotiate favorable discounts. These cost savings are passed onto the member and have allowed TRS to make a number of benefit enhancements. Some of these enhancements in the Primary plan include:

- Copays that allow participants to access non-preventive care before meeting the deductible:
 - \$30 copays for PCP visits and \$70 copays for specialists;
 - Lab work and diagnostic imaging done in an office setting included are included in this copay; and,
 - \$30 copays for mental health visits.
- A \$250 reduction in the individual deductible and \$500 reduction for family deductible.
- Individuals only need to meet the individual deductible in child, spouse, & family tiers.

These benefit enhancements can also help reduce the cost of the plan by attracting additional healthier members and encouraging the use of more-cost effective care, such as sick visits at PCPs with a \$30 copay. TRS continues to offer TRS-ActiveCare HD for a broader network where members can see specialists without a PCP referral.

As part of the effort to re-engineer TRS-ActiveCare and make it more valuable to public education employees, TRS evaluated the benefits and drawbacks of offering regional plans where members could only see providers within their region. Some districts expressed concerns with the regional networks already offered in TRS-ActiveCare that created hard boundaries between adjacent districts and employees some areas of the state. The new plans being offered by TRS eliminate these hard boundaries. This promotes enhanced access to care for members who may live on the edge of a region, and the new networks being offered through BCBSTX are tailored to the needs of each region to ensure network adequacy with strong provider discounts.

In addition to these efforts, TRS is collaborating with a multi-state agency workgroup to share data and benchmark performance for subpopulations. Specifically, the agencies have worked collaboratively to build a comprehensive database from 255 data sources comprising over \$96 billion in health care claims. Based on the goals outlined in the General Appropriations Act,³ agencies will continue the collaboration and data analysis throughout the second project year, working to analyze programs, services, and policies to identify best practices, efficiencies, pricing and contracting efficiencies and strategies.

³ [2020-21 General Appropriations Act, House Bill 1, 86th Legislature, Regular Session, 2019, Article IX, Health Related Provisions, Section 10.06.](#)

RISING HEALTH CARE COSTS MEAN AFFORDABILITY WILL REMAIN AN ISSUE

When TRS asked participants in its 2019 Member Satisfaction Survey what would improve TRS-Care and TRS-ActiveCare, the top responses were related to affordability with members desiring lower deductibles, out-of-pocket expenditures, and lower premiums.

In the 2019 survey, retirees enrolled in TRS-Care overwhelmingly saw its value. Seventy-nine percent of retirees enrolled in TRS-Care found the benefits valuable, with 29% describing them as very valuable whereas fewer than 47% of respondents said the benefits provided by TRS-ActiveCare were valuable.

The affordability of care for our members in TRS-ActiveCare also impacts cost growth. Though TRS has limited cost growth through procurements and value-based initiatives, health care inflation has still outpaced the growth in employer contributions. As coverage becomes more expensive for employees, TRS may experience adverse selection as members with fewer health care needs seek alternative coverage.

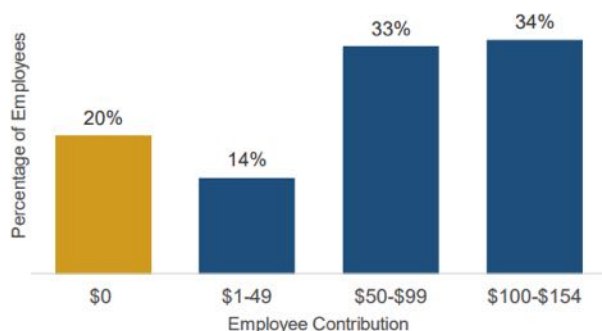
State statute requires that state funding for TRS-ActiveCare be distributed through the school finance formulas, and the Texas Legislature appropriates funding for schools through the Texas Education Agency. For TRS-ActiveCare, TRS only receives money transferred by school districts and similar employers to TRS.



TRS gross premiums reflect the total cost of care and are set to ensure adequate funding for benefits. School districts then determine how much they can contribute as a component of their total compensation package to their employees. The state is required to contribute \$75 per employee per month while school districts are required to contribute at least \$150 per employee per month. School districts use a mix of state and local funding to make this contribution to TRS. When TRS-ActiveCare was created in 2001, the \$225 total minimum contribution from the state and employer per employee was intended to allow TRS to offer a \$0 premium for employee-only coverage.

However, this \$225 minimum has not changed since the creation of TRS-ActiveCare in 2001. School districts can contribute more than \$225. Most districts do, and this additional contribution reduces

20% of Full-Time Employees Had a \$0 Premium for Employee-Only Coverage in the 2019-20 Plan Year



Note: Estimate for full-time employees in the 2019-20 plan year.

the employees' share of the total premium.

However, based on data collected for the 2019-20 plan year, only 20% of employees have a \$0 employee contribution for employee-only coverage in the high deductible plan.

As a result, in fiscal year 2019, TRS estimates that employees paid for 46% of the total premium. Including cost sharing, employees paid for approximately 60% of their medical and pharmacy costs in fiscal year 2019.

After the changes TRS made this year, the affordability of the plans improved. Premiums for employees with enrolled children, for example, decreased in every program currently open to new members. In the TRS-ActiveCare Primary family, TRS-ActiveCare Primary+ employee & spouse, and TRS-ActiveCare Primary+ family tiers, premiums decreased by more than \$100 per month. Long term, however, affordability will remain an issue for many public education employees due to district funding constraints.

As many participating employers have struggled to increase employer contributions and maintain the affordability of TRS-ActiveCare for their employees, some have tried to search for cheaper sources of coverage. Some school districts, for example, are currently using the district of innovation waiver process through the Texas Education Agency to exempt themselves from statutory TRS-ActiveCare participation requirements. These districts are offering employees the choice of a non-TRS plan alongside the choice of TRS-ActiveCare plans.

This competing coverage is often presented as cheaper, but it is not comparable to the coverage TRS offers and excludes important benefits such as specialty drug coverage, potentially putting members at financial risk. If the competing plans disproportionately attract healthier employees, this could also create financial risk to TRS-ActiveCare. This would drive up the average cost of our membership as a disproportionate number of members with expensive pharmacy costs remain, requiring additional premium increases. To counteract this risk, TRS has worked with BCBSTX to communicate the value of TRS-ActiveCare.

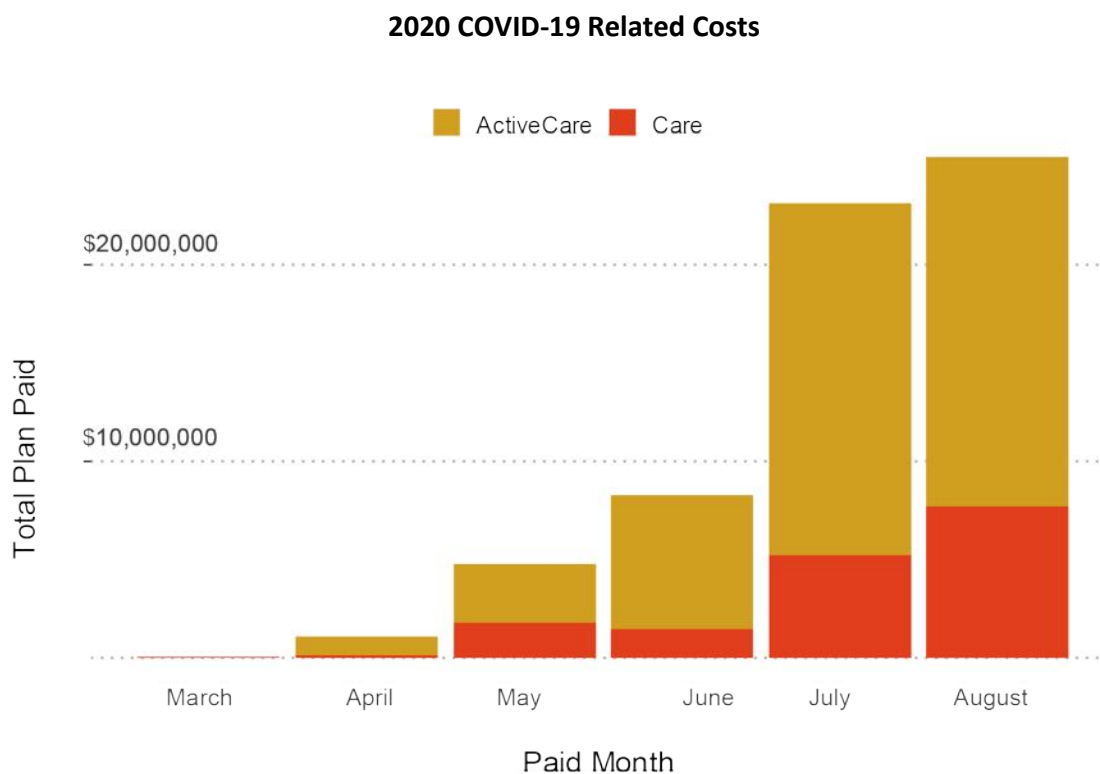
The 85th Legislature passed legislation that restructured TRS-Care and provided additional funding to address the solvency of TRS-Care. In response to the legislative changes in 2017, approximately 30,000 participants left the TRS-Care program. As a result of the decrease in enrollment and higher

out-of-pocket costs among retirees that remained, the health of the TRS-Care fund has improved. During the 2019 86th Legislative Session, the Legislature appropriated \$231 million to keep TRS-Care premiums at the same rates established in 2018. Originally, health care premiums were expected to increase each year for our retirees, but we are able to maintain 2018 rates going into the 2021 plan year, which is not typical of a health care plan.

COVID-19 HAS AN IMPACT ON UTILIZATION PATTERNS

Price inflation, the health of our membership, and adverse selection will continue to be important cost drivers for TRS. COVID-19 is also having a unique impact on health care utilization and financial trends.

Based on claims paid through the end of July 2020, there were more than 6,003 confirmed cases of COVID-19 and an additional 30,228 suspected cases. This represented approximately 7.6% of the TRS-ActiveCare and TRS-Care Standard enrollment. Claims received and paid through the end of July 2020 totaled \$46.6 million for TRS-ActiveCare and \$16.2 million for TRS-Care Standard.



In addition to these new costs, TRS has experienced decreases in some other types of care. Based on preliminary analysis, these declines appear to be most pronounced in April and July of 2020. The extent to which the new costs associated with COVID-19 will be offset by reductions in other

sources of care is unknown at this time, as is the full magnitude of COVID-19 costs. A new vaccine, depending on costs, could have an impact on expenditures in the near future, for example. TRS will continue to monitor the impact of the COVID-19 pandemic on the health care trust funds.

While TRS and its members face new challenges amid COVID-19, TRS continues to find ways promote access to high-value health care. In addition to recent initiatives that have improved discounts with providers and focused care around PCPs, TRS has reduced cost-sharing for certain benefits so that members can be tested and treated for COVID-19 while accessing routine care through telemedicine when appropriate. TRS has provided health coverage to members for more than three decades and remains committed to a long-term partnership with employees both active and retired, schools, and the Texas Legislature.