TRS ACTIVECARE
TEACHER RETIREMENT SYSTEM OF TEXAS

MANAGING RISING HEALTHCARE COSTS:

TRS STRATEGIES AND A DISTRICT PERSPECTIVE

TRS · ESC Region 1 · 2026

Meet today's presenters

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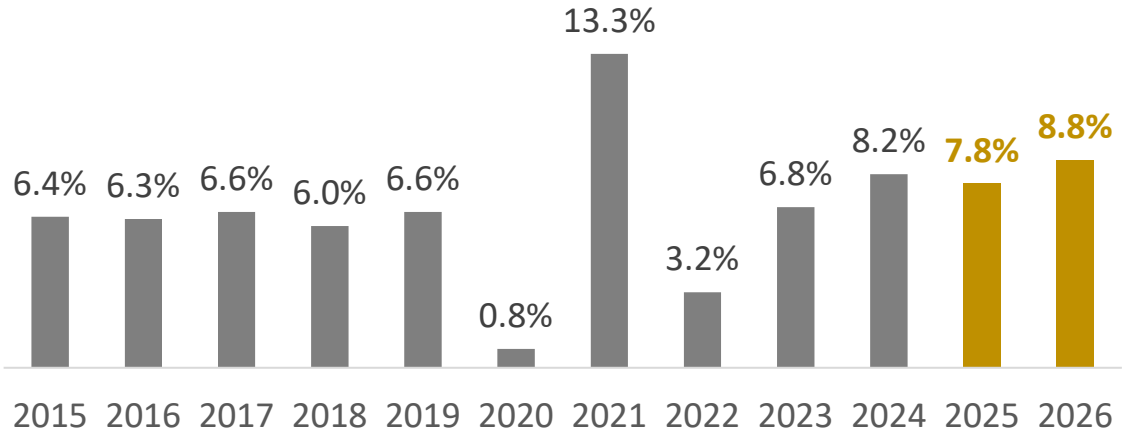
Executive Director of Business & Finance, Zapata County ISD

HEALTHCARE COSTS CLIMB, DISTRICTS RESPOND

Segal survey shows high forecasted cost trends



Segal median medical trend forecast, 2018–2026

Source: The Segal Group, 2026 Health Plan Cost Trend Survey

8.8% Median medical trend forecast for 2026

11% Pharmacy median trend forecast for 2026

5.5% TRS-ActiveCare projected medical trend, FY26

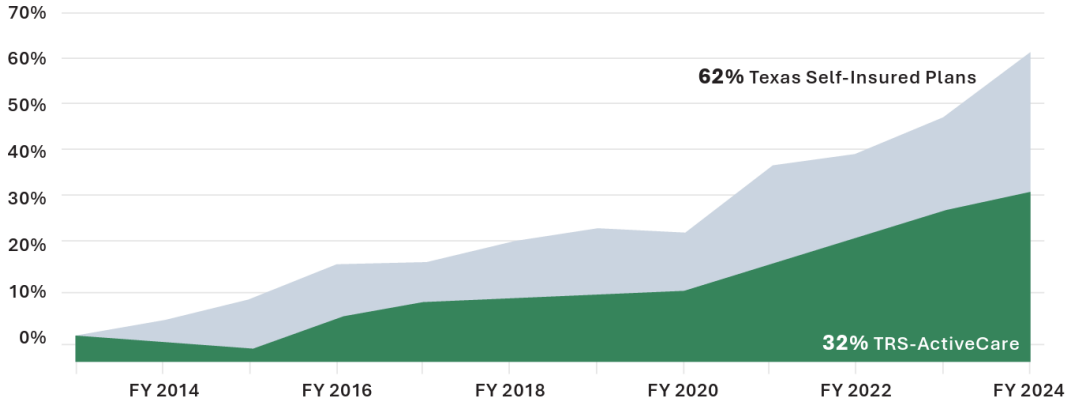
TRS medical trend is expected to stay well below market — double-digit trends may be the norm for most employers in 2026.

Affordability challenges

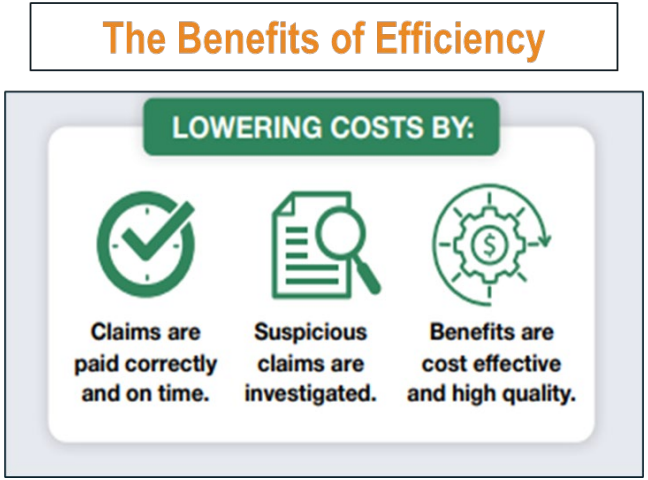
- Healthcare inflation (3.5%) is outpacing regular inflation (2.8%)
- Rising pharmacy costs
- Dependent coverage more expensive
- Contribution dynamics
- Mergers and acquisitions of provider groups

Efficiency: Actively managing health care costs

Cumulative cost growth almost 50% lower than peer employer health plans since 2013



Costs reflect allowed charges to both the plan and the participants. These are net of rebates. TRS plans include all self-insured ASO plans. Milliman data for Texas ASO does not include pharmacy rebates. The comparison does not adjust for changes in plan design or demographics over time



Stability: steady rate changes over time

On average, rates increased by less than 10% annually

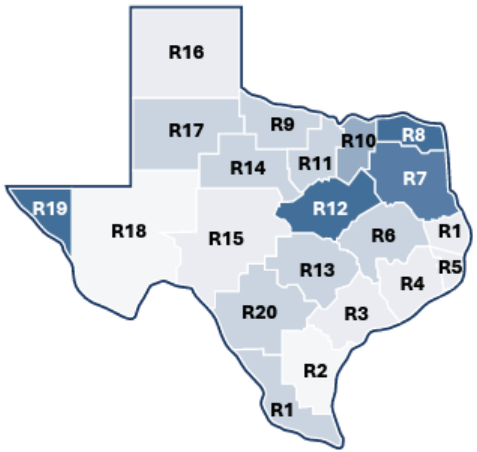
Historical Premium Changes using total TRS-AC Enrollment

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Regional Rating 2023	2024	2025
% Increase to Average Monthly Premium - All TRS-AC		5.7%	5.9%	2.8%	5.0%	-3.9%	3.3%	-1.3%	0.5%	0.1%	-0.2%	-2.9%	6.2%	-6.1%	6.5%	8.7%

Average premiums are increasing over time, but TRS-ActiveCare rates are still below what they would be without TRS cost management efforts and legislative support.

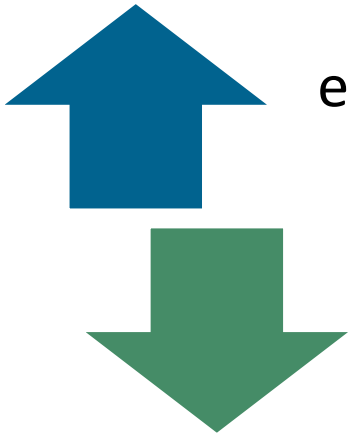
TRS-ActiveCare Primary plans cost **14% less** than similar coverage by education employers that do not participate in TRS-ActiveCare. Even without supplemental funding, costs are 4% less!

TRS-ActiveCare All Tiers Average change in Rates by Region, FY 2025-2026



Rising health costs push districts to act —and most join or stay with TRS-ActiveCare

Record number of employers joining for PY27



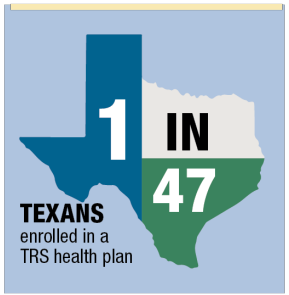
25 employers joining

2 employers leaving

7% (~38K) increase in net eligible employees covered

80%

Texas public school employers participated in TRS-ActiveCare plans for their employees



WHAT'S DRIVING HEALTHCARE COSTS IN TEXAS AND YOUR REGION

Top diagnoses & chronic conditions across Texas

Top Medical Categories

1. Cancer
2. Preventive care & checkups
3. Heart & blood vessel conditions
4. Joint, bone, & muscle conditions
5. Injuries, poisoning & other external causes

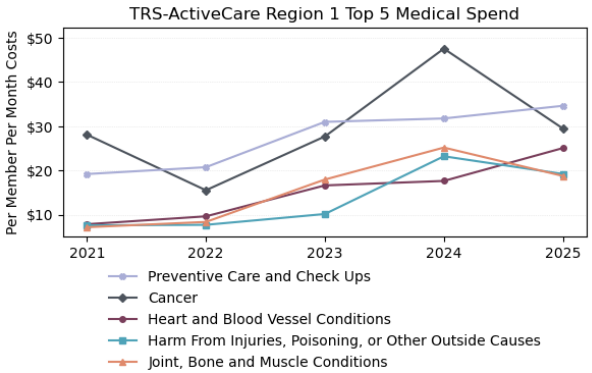
Top Chronic Conditions

1. Hypertension
2. Hyperlipidemia
3. Diabetes
4. Depression
5. Asthma

These top diagnostic categories account for **~50% of the overall claims!**

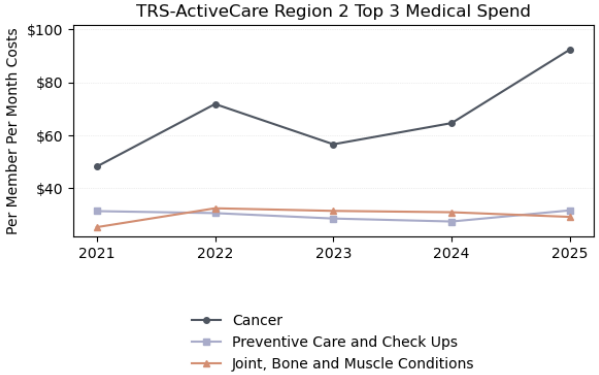
FY2025 top 5 medical spending across regions

ESC 1



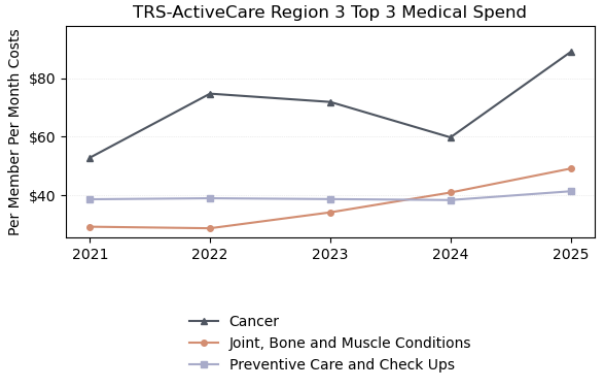
- ↓ **Cancer** treatment PMPM cost remains among top 2 spend
- ↑ **Preventive Care** and **Heart and Blood Vessel** Conditions PMPM Cost increased

ESC 2



- ↑ **Cancer** treatment PMPM cost increase about 43% from FY2024-25
- ↑ **Preventive Care** PMPM Cost increased 15% from FY2024-25

ESC 3



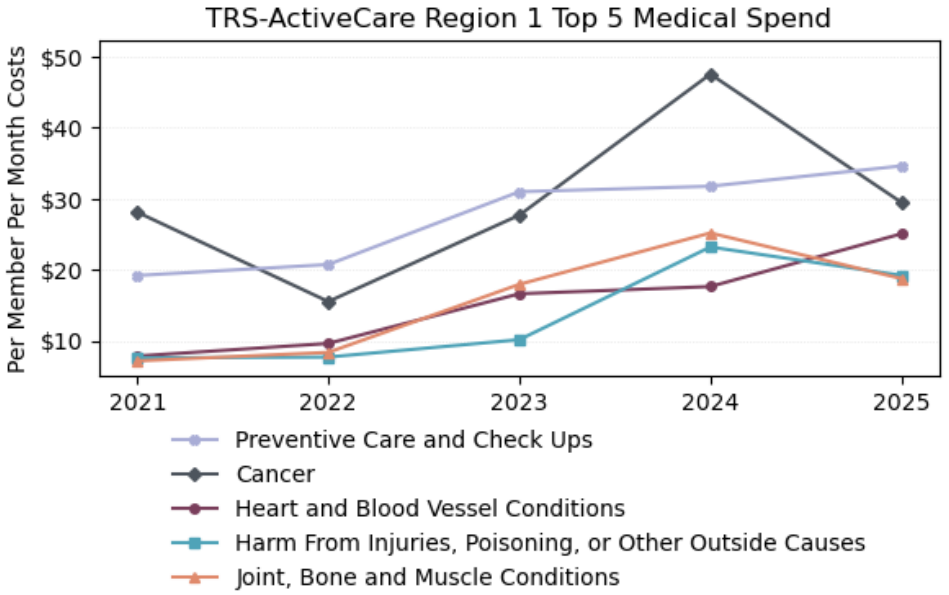
- ↑ **Cancer** treatment PMPM cost increase about 50% from FY2024-25
- ↑ **Preventive Care** PMPM Cost increased 8% from FY2024-25

PMPM costs are based on claims incurred during the fiscal year, does not account for rebates and other claims incurred but not reported(IBNR). Data subject to change upon receipt of more IBNR claims. Data includes Hight Cost Claimants (HCC).

Region 1 - FY2025 top 5 medical spending

- ↓ **Cancer** treatment PMPM cost
  - PMPM costs remains among top 2 spend.

- ↑ **Preventive Care** and **Heart and Blood Vessel** Conditions PMPM Cost increased in FY2025



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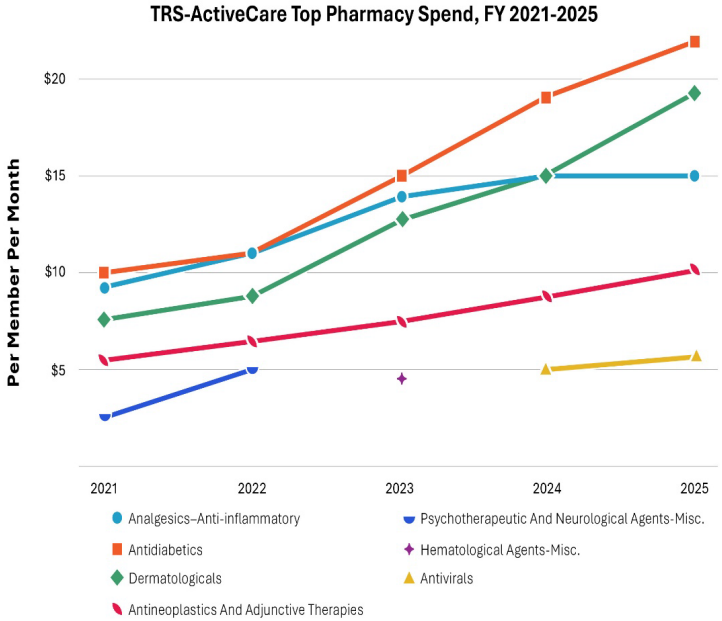
Top pharmacy treatment categories across Texas



The chart highlights the top five most expensive drug classes on a PMPM basis each fiscal year. Hematological Agents and Psychotherapeutic and Neurological Agents did not make the top five drug category in FY 2025 but were major cost drivers in recent years. Pharmacy costs are shown based on claims incurred during the fiscal year. Pharmacy costs represent gross paid claims and are not net of rebates. No adjustments were made for claims that were incurred but not yet reported. Source: TRS

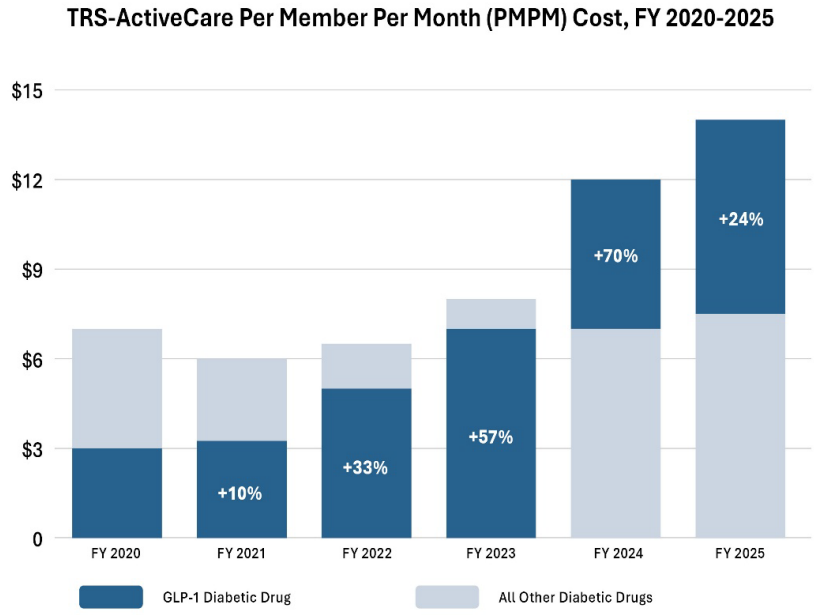
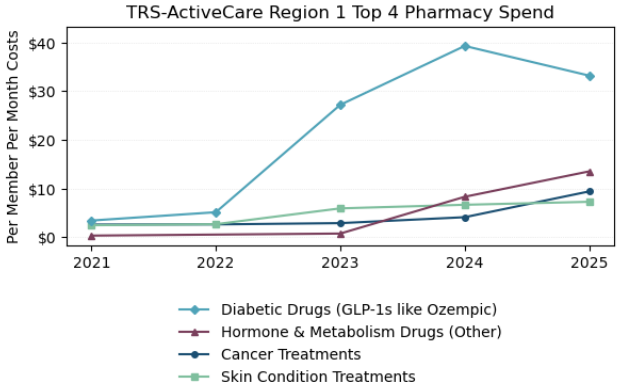


Figure shows pharmacy costs based on claims incurred during the fiscal year. Pharmacy costs represent gross paid claims and are not net of rebates. No adjustments were made for claims that were incurred but not yet reported.

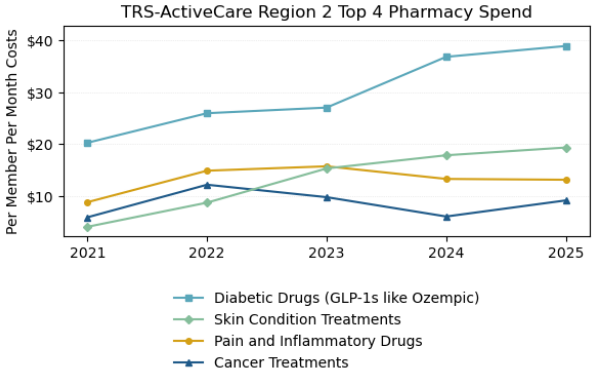
FY2025 top 5 pharmacy spending across regions

ESC 1



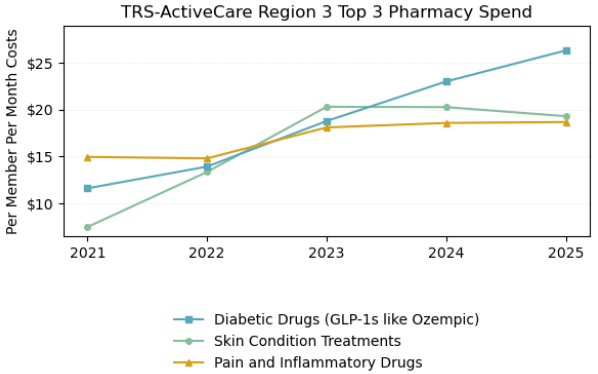
- A1C requirement for appropriateness & efficacy for all users of GLP-1 diabetic drugs like Ozempic
- ↑ Hormone and Metabolism Drug and Cancer Treatment PMPM costs increased
- Biosimilar strategies encourage the use of less costly and equally effective drugs to treat skin conditions.

ESC 2



- A1C requirement for appropriateness & efficacy for all users of GLP-1 diabetic drugs like Ozempic.
- Biosimilar strategies encourage the use of less costly and equally effective drugs to treat skin conditions , Pain and Inflammation.
- ↑ Cancer Treatment Drugs PMPM costs increased about 50% in FY2025

ESC 3



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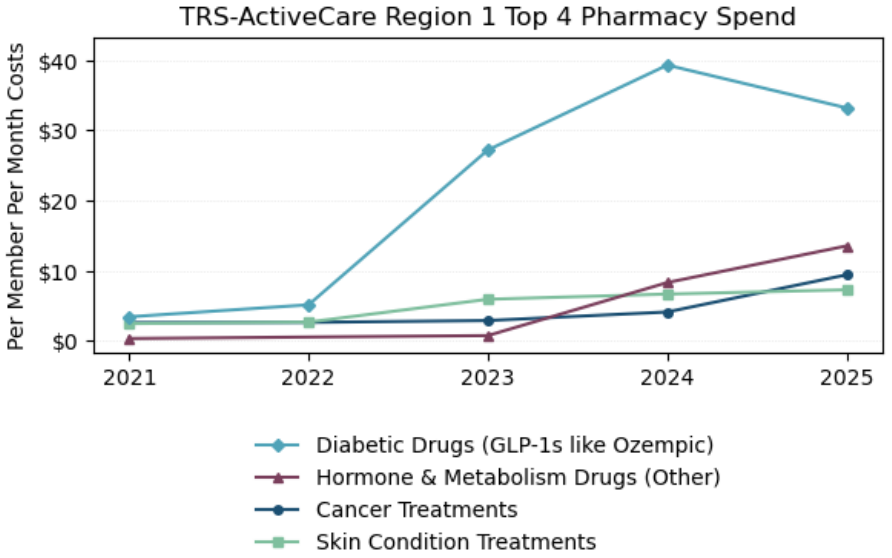
Region 1 - FY2025 Top 4 pharmacy spending

- A1C requirement for appropriateness & efficacy for all users of GLP-1 **diabetic drugs** like Ozempic.
- ↑ **Hormone and Metabolism Drug** and **Cancer Treatment** PMPM costs increased in FY2025 .
- Biosimilar strategies encourage the use of less costly and equally effective drugs to treat **skin conditions.**



PMPM costs are based on claims incurred during the fiscal year, does not account for rebates and other claims incurred but not reported(IBNR). Data subject to change upon receipt of more IBNR claims. Data includes Hight Cost Claimants (HCC). *Other Hormone & Metabolism Drugs includes drugs that don't fall into standard categories.*

TRS APPROACH: BALANCING COST, VALUE, AND STABILITY

Low administrative costs

97¢

of every $1 contributed goes directly to member health care

Most self-funded plans run 10–15% admin cost

55¢ Medical claims

42¢ Pharmacy drug claims

<3¢ Program administration

Almost every dollar funds care — the remaining share covers staff, claims processing, anti-fraud, and customer service.

Claim cost management

Pharmacy Management

- Prior authorization and step therapy generate meaningful savings
- Specialty drug controls manage the highest-cost claims
- Focus on appropriate, evidence-based utilization

Value-Based Care & Networks

- High-quality provider networks, including Blue Distinction Centers
- Steering members toward higher-value care through tiering and pilots
- Quality outcomes paired with a lower total cost of care

Data-Driven Decision Support

- Ongoing claims analysis across the statewide pool
- Identifying emerging trends and intervention opportunities
- Supporting employer and district decision-making

Plan design & innovation

- **Benefit adjustments that manage utilization**
  - Reduction in prior authorization requirements for certain services
  - Copay and tier changes that steer members to cost-effective options
  - Site-of-care guidance that redirects high-cost procedures
  - Direct access to physical therapy without a referral
- **New programs such as MSK and virtual PT pilots**
  - Airrosti virtual musculoskeletal recovery at no cost to members
  - Lantern in Region 10, 11 and 14
  - Motion+ in Region 4
- **Innovation plans piloted**
  - Targeted rollouts matched to local provider networks
  - Results measured before scaling statewide

Individual saving through Member Rewards

Up to $599
earned in rewards per member

$50-$60
average reward amount

~$1M
net savings per quarter

2×
shop rate, PY25 Q4 → PY26 Q1

Funding coverage, setting premiums, and minimizing cost growth

How It's Funded

- $225/month minimum: $75 state + $150 employer, set by 2001 Texas law
- 89% of employers pay above the minimum—about $373/month on average

How Premiums Are Set

- Total premium = state + district + employee contributions
- Based on prior-year claims cost plus expected inflation
- TRS sets total premiums; employers set the employee share

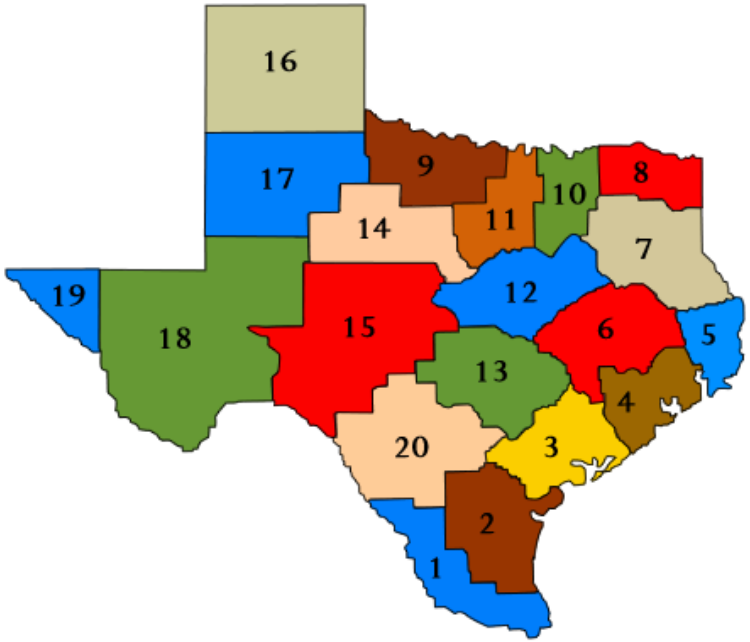
Stability & Savings

- Average rate increases held under 10% per year
- Primary plans cost 14% less than comparable non-TRS coverage
- Still 4% less even without supplemental funding

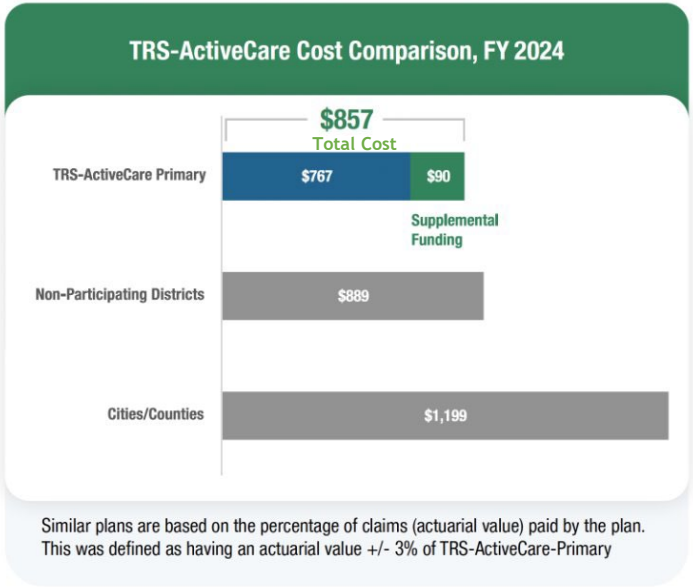
Regionally rated plans with statewide network

- Healthcare costs vary from region to region.

- Regional rating gives employees flexibility to see any provider within the broad network while maintaining competitiveness of TRS-ActiveCare and promoting equitable rating of health plans.
  - Pricing = localized
  - Safety Net & Stability = Texas-sized



TRS-ActiveCare Market Comparison



TRS-ActiveCare Primary plan costs **14% less than comparable plans with supplemental funding.**

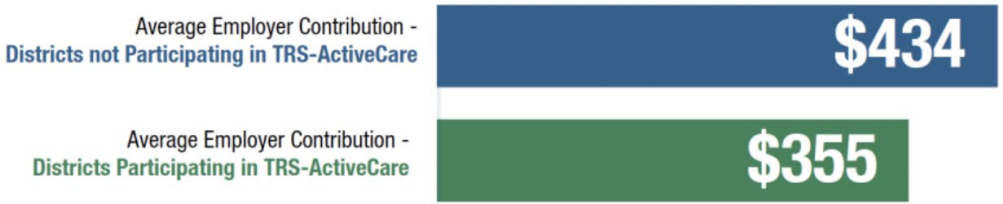
TRS-ActiveCare Primary plan costs **4% less on average than similar plans even without supplemental funding.**

TRS-ActiveCare remains competitive, with below-market costs, even without supplemental funding.

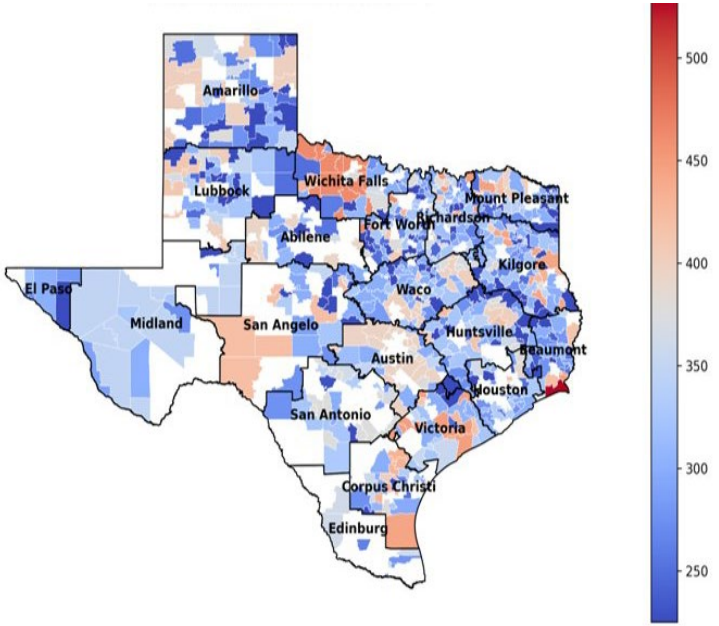
Contribution dynamics

On average, employers participating in TRS-ActiveCare **contribute $373/month** while employers outside of TRS-ActiveCare contribute more (roughly $434).

Only **37% of employers** increased their contribution in 2025-26.

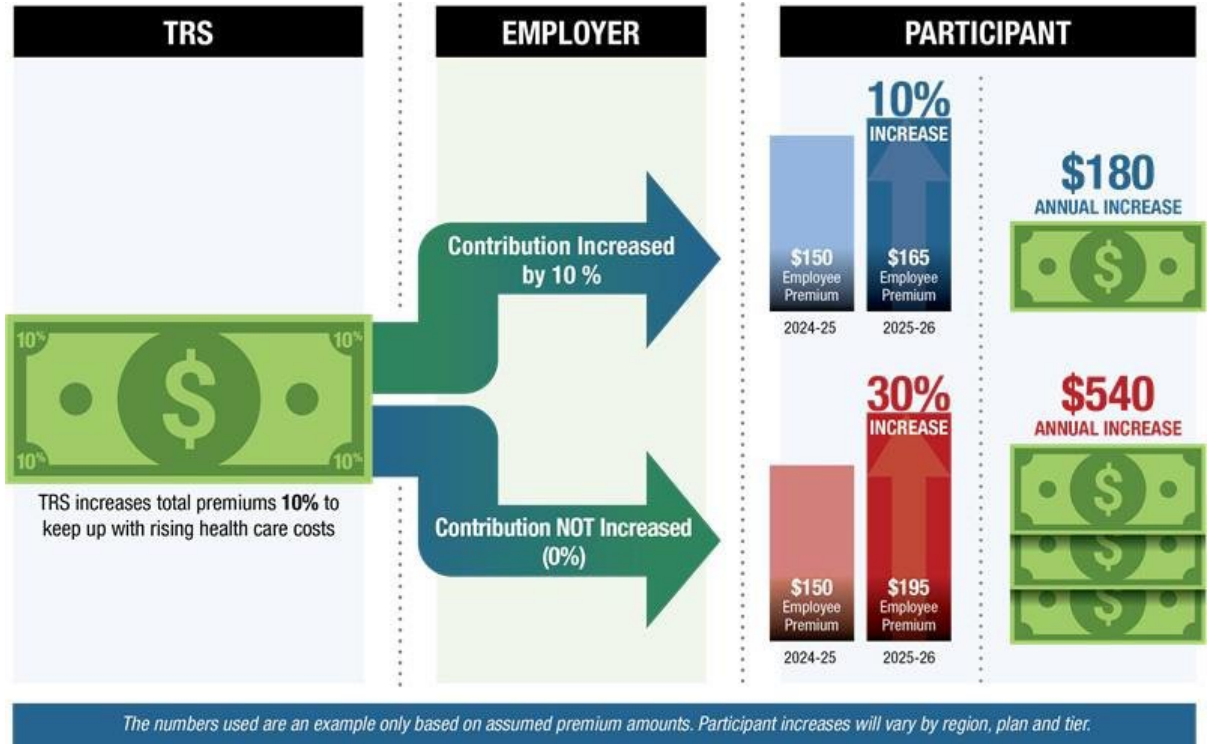


Some Clusters of Contributions Visible in 2024 Minimum Contributions Geography



Source: Internal TRS Data Warehouse

Impact of Employer Contributions



If employer contribution is increased:
- Lower employee costs
- Higher enrollment
- Healthier risk pool
- Plan stability

If employer contribution remains flat:
- Higher employee costs
- Declining family enrollment
- Risk pool worsens

ZAPATA CISD: A DISTRICT PERSPECTIVE

Why we explored opting out

- Cost pressures
- Desire for control

What we evaluated

- Alternative plans
- Risk exposure
- Administrative complexity
- Provider networks and access to care

What we learned

- Tradeoffs
  - Cost
  - Risk
  - Stability
- Hidden costs and unknowns

Why we stayed

- TRS support and guidance
- Stability of the statewide pool, especially on high-cost claimants
- Operational simplicity
- Employee access and network stability

Lessons for other districts

- Key considerations for decision-makers:
  - Understand your risk tolerance
  - Look beyond premium
  - Consider administrative capacity and employee access
- Advice for peers

TRS-ActiveCare and district partnership

- Rising costs are real—but manageable
- Regional variation matters
- District decisions have real financial impact
- TRS + employer partnership is critical

QUESTIONS AND DISCUSSION