State of Alaska
ALASKA RETIREMENT MANAGEMENT BOARD
ACTUARIAL COMMITTEE MEETING

Westmark Hotel - Harper Room
813 Noble Street
Fairbanks, Alaska

September 23, 2015

ATTENDANCE

Committee Present:	Kristin Erchinger, *chair* Tom Brice Commissioner Sheldon Fisher Gayle Harbo Martin Pihl Sandi Ryan Sam Trivette
Committee Absent:	---

Department of Revenue Staff Present:
Jerry Burnett (deputy commissioner)
Gary Bader (chief investment officer)
Bob Mitchell (deputy chief investment officer)
Pamela Leary (Treasury Division director)
Judy Hall (board liaison)

Department of Administration Staff Present:
John Boucher (deputy commissioner)
Kevin Worley (chief financial officer, Division of Retirement & Benefits)

Others Present:
Dave Slishinsky (Buck Consultants, actuary)
Dave Kershner (Buck Consultants, actuary)
Todd Kanaster (Buck Consultants, actuary)
Leslie Thompson (Gabriel Roeder Smith, review actuary) *on-line*
Stuart Goering (ARMB legal counsel, Department of Law)
Joy Wilkinson (Office of Management & Budget)

I. CALL TO ORDER

CHAIR ERCHINGER called the meeting to order at 1:35 p.m.

II. ROLL CALL

All seven committee members were present to form a quorum.

III. PUBLIC MEETING NOTICE

MS. HALL confirmed that public meeting notice had been met.

IV. APPROVAL OF AGENDA

MR. BRICE moved to approve the agenda and MS. HARBO seconded.
Without objection, the agenda was approved.

V. PUBLIC/MEMBER PARTICIPATION, COMMUNICATIONS AND APPEARANCES

There were no appearances before the committee or any communications.

VI. APPROVAL OF MINUTES – August 14, 2015

MR. PIHL moved to approve the minutes of the August 14, 2015 meeting and MS. HARBO seconded. There were no changes, and the minutes were approved.

VII.

CHAIR ERCHINGER stated that the agenda contained follow-up items from the August meeting. These follow-up items were the result of a schedule of all the review actuary findings over the last few years. The ARMB has not had the time to get into these findings because of working on other important issues, and this committee has taken on the responsibility of following up and getting answers. Doing analysis on the GRS recommendations allows the committee to say it has done due diligence and either recommended changes to the ARMB or not. The resolved issues can then be taken off the list.

A. Audit Findings Update

1. Scenario on Present Value of Future Salary Applied to Valuation (Letter of August 24, 2015)

MR. TODD KANASTER of Buck Consultants directed everyone's attention to slide 10 of the Buck actuarial presentation *(on file at the ARMB office)*. He said there was discussion at the last meeting that the present value of future benefits calculation includes decrements, which are the liabilities, and GRS (the reviewing actuary) and Buck both agree on that. Then there is the denominator, where Buck looks at the present value of future salary, which is the funding method for contributing to the plan. That is where GRS and Buck disagree. On slide 10 he explained that the entire bar is basically the present value of future benefits. The question is how much to allocate to the cost of the upcoming year (the light blue part in the middle of the bar) versus how much to allocate to the past service cost or accrued liability (the dark blue part of the bar).

Looking at the exhibit on slide 11, MR. KANASTER said Buck did the present value of future salary calculation for the PERS contribution rate as of June 30, 2014 using the current and alternate methodologies. The difference in the methods amounts to nine basis points in the total contribution rate. Buck does not see much of an issue on the methods used.

CHAIR ERCHINGER stated that the committee had wanted to assess whether a change in the methodology, as the review actuary pointed out at the August meeting, would be material to the contribution rate or not. Buck's exhibits gave the committee exactly what it asked for, and if the difference is immaterial then the committee should not spend a lot of time on it. She asked Leslie Thompson of GRS if she had any comments.

MS. THOMPSON, participating by telephone, said that nine basis points' difference seemed like a pretty small impact.

CHAIR ERCHINGER indicated she agreed, and she thanked Mr. Kanaster for the explanation. She added that hopefully, as the committee progresses, it will be able to prioritize discussion items, in terms of the magnitude of impact, and spend more time on those areas. Regarding the committee's decisions so far, one decision might increase the unfunded liability and one might decrease the unfunded liability, and one decision might put contributions into the system quicker and another decision might put contributions into the system less quickly. It seemed to her that the committee should be coming up with a bigger plan for how it looks at the issues and what its ultimate goal is in terms of funding the system. Determining the goal might help the committee prioritize the small issues, so hopefully the committee could talk about that in more detail in the future.

2. Retiree Medical Disability Rate Issue

MR. KANASTER stated that Buck looked at the disability rate for pension. Buck understood the issue to be their disability rates at early retirement, which are based on the experience study. GRS had pointed out that with a typically higher disability benefit Buck might want to extend those rates out to normal retirement. Buck extended the rates at their highest age through those five years. So for Tiers II and III, they looked at the probability of disability for age 54 and extended that out for the next five years. By doing so, they have to subtract that rate from retirement. Currently, anyone who goes out on disability at age 57 or something Buck would count as retirement. When these people are moved from retirement over to disability and their benefits are valued, Buck calculated the difference as 0.001%. That is strictly because this is going to affect a reduced population (an active participant hired before age 25 is projected to have 30 years of service by the time they reach 55, so they are excluded from there being any difference at all). For people who are older when hired, Buck would look at their projected future dates of early retirement (ages 55-59) and look at the small difference in benefits between retirement and disability. It is a very small difference.

MR. KERSHNER of Buck Consultants said that treating people as retired versus disabled is for future potential decrements. If somebody is currently disabled, Buck values their disability benefit and does not say they are retired.

MR. KANASTER stated that, as GRS pointed out, the disability benefit for a small group of people will likely be higher than the retirement benefit. However, if they are counted as disabled, Buck also has a different assumption for disabled mortality, which will lower the liability. So there are offsetting factors at work, which is part of the reason why the difference in the two approaches is so small.

Responding to MS. THOMPSON, MR. KANASTER said Buck's response to this GRS audit finding is that the difference is so small that they should keep the calculation for the present value of benefits related as is.

MS. THOMPSON agreed that the difference between what Buck is doing and the alternative treatment is small.

3. NGNMRS Confirmation of Eligibility of Service/Data Collection Issues

MR. KANASTER reported that National Guard data has been very inconsistent over the years, and Buck has to follow up on items like unexplained changes in status, for example. He said he asked Buck's data analyst to bring up different topics that she has seen. She mentioned as an example that last year there were over 200 people who showed up as deferred vested, meaning they will receive a benefit when they reach normal retirement age. When Buck checked to verify these people, it was upheld that there were another 200 National Guard people to account for. He did not know how to solve the inconsistent data issue.

KEVIN WORLEY, chief financial officer in the Division of Retirement & Benefits, remarked that the division has worked with the Department of Military and Veterans Affairs (DMVA) on National Guard data off and on for over 15 years. DMVA periodically has good staff assigned to it, but there can be four or five different people working on the data over the course of a year. Some staff is very thorough and others are not so thorough, and the data has been late many times. The division keeps in mind that these are people who are enlisting into one of the Guard categories: they may be assigned the data work over the course of a year but it is not their primary responsibility. Trying to find a stable platform on which to keep the data is part of the e-reporting project that the division is working on. In talking to DMVA, the division has learned that much of the information is kept in folders that travel with the National Guard members. The division has been working with the DMVA administrative services director, who has been very receptive in trying to understand what the division is requesting and how to gather and submit more accurate data on Guard members.

COMMISSIONER FISHER recommended taking this as an action and coming back to the committee with some thoughts and recommendations to work with the DMVA on.

CHAIR ERCHINGER said this was a good conversation to have from the standpoint that when GRS is doing their review and they point out that they are having difficulty confirming the information from Buck due to lack of data, the committee does not know what that means. This puts the focus on the area at issue, as opposed to unfair focus on other pieces of the process.

B. Valuation Timeline Update

Copies of Buck's latest valuation timeline spreadsheet were handed out at the meeting. *[A copy is on file at the ARMB office.]*

MR. KANASTER noted that everything was on time and was at step 10 right now.

Deputy commissioner JOHN BOUCHER mentioned that the valuation timeline is tight. He recommended that the ARMB consider what would be a comfortable time to conduct a full board meeting to make sure the Department of Administration and the actuaries can achieve the objectives they need to. One idea would be to consider scheduling the September meeting a little later in future cycles to make sure most of the work is complete and ready for the ARMB.

MR. KANASTER used the example that if Buck were to adjust the health care cost trend assumption it would first take time to even know if they wanted to do that. If they needed to update the trend assumption this year, they would need Board approval to do that, and it would cause a delay in the already tight timeline.

CHAIR ERCHINGER asked Buck to talk about what is actuarial best practice in terms of making major assumption changes and when they are actually applied.

MR. KANASTER replied that typically the pension assumptions – retirement, mortality, and interest rate – are huge assumptions that Buck will recommend get approved and applied to the next valuation. Health care tends to be a lot more volatile. If Buck were updating the trend rate, they would not be talking about jumping it something like 10%.

Buck's DAVID SLISHINSKY added that oftentimes it is not the long-term rates; it is just the short-term rates. The first three-year rates are set for the valuation, and then the next valuation typically you are into that second-year rate for that valuation date. So health care actuaries look at that and ask themselves if that would be a reasonable assumption for the next few years based upon the old rates, comparing any of the experience over the year, and whether or not that trend in the short term should be adjusted to be blended more that goes to the long-term assumption that is still reasonable. That is one of the reasons why the legislature in statute recognized looking at the trend rate assumptions for health care on an annual basis.

MR. SLISHINSKY said that looking at all the other assumptions on the pension side, Buck does the experience analysis once every four years. The ARMB has the choice about whether to use those results and apply them to the previous valuation or adopt those rates for use in the next valuation.

MR. BOUCHER stated that what started this conversation is the timing in which the Division of Retirement and Benefits can get actual health care data into the system and transmitted along to the actuaries. The hypothetical question they asked was what if the emerging health care data caused the State to take pause and ask if it was something to look at in terms of assumption. That is where a little more time may need to be built in for conversation on that. He did not think there was anything that rose to that level in this particular cycle, but it is a possibility.

CHAIR ERCHINGER said that would involve either making the September meeting later or having an additional meeting, in order to still meet the December deadlines.

MR. BRICE asked if it was contractual with the third party administrator that made this time of year the time to get health care data into the system.

MR. BOUCHER said it was the State's intent to align the latest health care data with the completion of the fiscal year. There is a natural lag for the data from the end of the fiscal year to come in and be analyzed. He noted that it might be possible for everyone to agree to look at a slightly different snapshot in time for the health care data.

MR. BRICE said he understood that it made sense to use the fiscal year-end data for consistency.

CHAIR ERCHINGER agreed that it all made sense, but she also thought there could be something that could rise to the level of an assumption change that really needs to be vetted, especially by the reviewing actuary.

MR. TRIVETTE stated that if there were something significant – and health care could be one of those assumptions – then he thought the ARMB would have to hold another half-day meeting or whatever to address it properly. The potential of not fully vetting something like the health care cost trend rate assumption could be very costly to the systems.

MS. RYAN asked what schedule would work the best for the State. MR. BOUCHER replied that he wanted to come back with a well-thought-out recommendation, but he thought roughly a month or so.

Chief investment officer GARY BADER commented that one of the reasons the committee was holding this meeting now was the belief that the Office of Management & Budget (OMB) needed the state assistance number in order to begin its budget work.

MR. BOUCHER said the next board meeting is December, and that is too late. He added that if the State had another month it could produce the final results for OMB in plenty of time.

CHAIR ERCHINGER asked Buck what they thought about using health care data that did not align with the plan year.

MR. KANASTER responded that there was always concern with using older data because it will be less representative. However, he has talked with Melissa Bissett and it is another option. He pointed out that with the Cadillac tax coming on, even if Buck says there is no change, maybe GRS would weigh in and disagree, saying there should be a change. That is something that would need some time for GRS review in any year.

C. Presentation

[See Buck Consultants slide presentation dated September 23, 2015, on file at the ARMB office]

Asset smoothing:
MR. KERSHNER first gave a short overview of what the asset smoothing method is. He said the approach that Buck adopted this year for the 6/30/14 valuation is to determine the contributions for fiscal year 2017. Rolling forward is an actuarial projection of the liabilities for two years with additional accruals and interest using the 8% valuation interest rate. What had been done in the initial approach was to roll the assets forward two years, assuming the assets earned the 8% return. It was decided to reflect the most recent year (the FY15 actual investment return) for the period 7/1/14 to 6/30/15, and then from that point project it assuming an 8% return for the second year. In this particular year, Buck used a 3.3% estimate for the FY15 asset return. There has been some additional information since the August meeting, but the return number is pretty much at 3.3% either way.

Since the FY15 return of 3.3% is less than the assumed 8% return, there is a deficiency in the assets compared to what was expected, which is called an asset loss or actuarial loss. On a percentage basis, that is 4.7%. That translates to the dollar amount of about $824 million for PERS (Public Employees' Retirement System) and about $361 million for TRS (Teachers' Retirement System). That means that the projected unfunded liability at 6/30/16 is higher for PERS by about $824 million and for TRS by $361 million.

MR. KERSHNER said the question is how to recognize those losses in the asset value for purposes of determining the amortization of the unfunded liability. If Buck applies no smoothing, which means just taking market value as of 6/30/15 plus one-year roll forward, the entire loss is taken at once in the asset value. That asset value is then compared to the actuarially accrued liabilities, and that difference is then amortized over the closed 25-year period for purposes of funding that deficiency.

A five-year smoothing approach is used for PERS and TRS, which basically says that each year the actuarial value of assets will recognize 20% of the loss that occurred in the most recent year, and then another 20% of it will be recognized next year, etcetera. So after five years the asset losses will be fully recognized in the asset value. That is done to avoid the potential ups and downs in the contributions. The previous smoothing method had a corridor, which meant that once the smoothed value of assets was determined it was then compared to the actual market value, and that smoothed value had to be within 20% plus or minus of the market value. That 20% corridor around market value is not part of this year's smoothing method.

MR. KERSHNER stated that at the August meeting the committee asked Buck to calculate the FY17 state assistance contribution for both PERS and TRS using the five-year smoothing and without the five-year smoothing. No smoothing results in a higher state assistance contribution because the full FY15 loss is recognized. The use of smoothing means only recognizing 20% of the FY15 loss in FY15 and another 20% in FY16. By the time Buck is valuing everything as of 6/30/16, 40% of the FY15 loss has been recognized, with 60% of it deferred. Because the full loss is not recognized, the asset value under the smoothing method is higher, so the deficiency or the unfunded liability that is amortized is less. That is why the state assistance contribution is less under smoothing than it is with no smoothing applied, resulting in a difference of about $45 million for FY17.

MR. KERSHNER reviewed a hypothetical set of returns to further illustrate the effect of smoothing versus non-smoothing (slide 5).

MR. KANASTER stated that the main reason Buck made the hypothetical illustration was to make clear that since 60% of the asset loss is deferred, the question that pops up is whether this is a way to save money or is there any bias in having an actuarial value of assets. The illustration has hypothetical returns that have a geometric return of 8% and shows that there is no bias and no way to save money. Yes, there will be lower contributions this year, but maybe next year there could be an 18% return and the opposite would happen.

MR. KERSHNER added that there is no free ride, and ultimately the same amount of money will be contributed over time: it is just a matter of how to get there. On the present value basis, it is pretty much the same as well. The smoothing helps with state budgeting and does not cause a drain, nor does it cause the reverse of a drain in a year of good market performance.

MR. KERSHNER said the question was asked at the August meeting about what other public retirement systems do regarding smoothing. Buck found two surveys for information. In one survey, four of 68 systems used no smoothing (two of those being Alaska's PERS and TRS), and 64 of the 68 systems used smoothing. He clarified that of the four out of the 68 systems that did not use smoothing, it was not clear because the result is the same if strictly using market value with no smoothing, or using smoothing but resetting the value to market value and then using smoothing going forward. The latter is what Buck is doing for PERS and TRS.

The other question from August was what periods of smoothing are used for those public retirement plans that use smoothing. Buck had mentioned that five years is the most common. The survey results show that of the 68 plans that are using smoothing, almost 60% are using five years as the smoothing period.

Responding to MR. PIHL, MR. KERSHNER said some are closed plans and some are not, that the survey did not indicate.

MR. PIHL said he thought it was an entirely different ballgame if a plan is open and ongoing. The comparison should be with closed plans. His question was if the smoothing that Buck was proposing followed legislative direction and intent.

MR. KERSHNER responded that the question was for the committee to debate.

MR. TRIVETTE remarked that Alaska was one of the few states that has a closed plan.

MR. KANASTER agreed that was an accurate statement and a good point, but the surveys did not indicate that piece of information about the public plans.

MR. KERSHNER pointed out that even the Alaska plans that are closed have a lengthy period of time over which the plans are still going to exist. There are employees who are in their 20s and 30s who are ultimately going to retire and then live another 25-30 years in retirement. Even though these are closed plans, it is an extremely long period of time over which Buck is determining the funding. Only a very mature plan that closed maybe 30 years ago would be using market value without smoothing.

MR. PIHL stated that a long time ago the Board was told, possibly even by Buck, that the amortization of the unfunded liability ought to be concluded by the time the last defined benefit employee retired. The legislature extended that.

MR. BOUCHER said his comfort in the current structure is that a closed plan implies the payroll base is shrinking, along with the number of participants. With Alaska's closed plans, the entire payroll is being used, so some of that may be mitigated.

MR. PIHL rejoined that percent of pay aggravated the cost because it would cost more on a long-term basis.

CHAIR ERCHINGER said this was a good conversation, as it was at the last meeting. There is a resolution dealing with asset smoothing to be taken up at the board level. She added that this committee takes seriously the issue of legislative intent: the legislature may have intended to not smooth at FY13 when they also rolled in all the investment gains at that time, when they changed the amortization methodology, and when they extended the amortization period. Maybe the legislature did not mean to say stop smoothing for the rest of the plan. No one can say with certainty what they meant. She found it regretful that the ARMB's need to make a decision about smoothing or not smoothing calls into question whether the Board is deliberately following or not following legislative intent. She did think anyone was intending not to follow legislative intent. She personally believed that when in doubt follow actuarial best practice and trustees will at least keep themselves out of hot water. She thanked Buck for the helpful information, saying that if the Board ends up going along with the Actuarial Committee's recommendation to return to smoothing it will have some actuarial data to support that decision.

COMMISSIONER FISHER stated that the language of the resolution discusses smoothing and it discusses a corridor, and the way it uses the corridor is a bit non-standard and creates some confusion. He asked if the committee would talk about that now or address it offline.

CHAIR ERCHINGER replied that if the Board was being asked to act upon it, then it was a good idea for the committee to talk about it first, perhaps at the end of the agenda.

Level percent of pay versus level dollar:

MR. KERSHNER said another question at the August meeting was funding the normal cost and/or the unfunded amount on level percent versus a level dollar method. Buck used the same Boston College database, which indicated that 53 out of 68 plans use level percent and 13 use level dollar. He made it clear that Buck was not suggesting to fund the normal cost as level dollar, because normal cost is the cost of benefits accruing every year and those are pay-related benefits, so level percentage of pay is the preferable and most common method for a pay-related plan. The question is how to amortize the unfunded liability – level dollar or level percent of pay.

MR. KERSHNER stated that, for illustration purposes using 6/30/14 data for PERS, the unfunded liability amortized using level dollar increases by about 6% over using level percentage of pay.

MR. KANASTER stressed that these numbers do not compare with the PERS valuation, but relatively they would. With the amortization payment going up 6% of pay, the committee will see essentially the same thing in the valuation if the method were changed to a level dollar method.

MR. PIHL mentioned that in the month after 6/30/14 the legislature put $3 billion into the PERS and TRS retirement systems and extended the amortization period. He thought the current numbers would be totally different on Buck's exhibit. State assistance for PERS in 2018 is going to drop to $79 million.

MR. KANASTER said the unfunded liability would go down so the past service amortization would go down. Maybe instead of a 6% difference between level percent and level dollar, it would be a little bit less.

MR. KERSHNER pointed out that Buck's exhibit was still using the 25-year amortization period for the unfunded liability.

COMMISSIONER FISHER said it is the change of the amortization schedule that creates the result that Mr. Pihl described. People tend to use level percent of pay as shorthand to reflect both the change in methodology and an extended amortization period. He thought the message in Buck's example was that if everything was kept consistent, then level percent of pay seems to result in a lower contribution rate.

MR. PIHL said that while state assistance was going to drop to $79 million for PERS, it was going to build back up to around $200 million down the line. With PERS and TRS combined, he thought the state assistance number would come back up to around $500 million.

Deputy commissioner JERRY BURNETT stated that Mr. Pihl's comments are concerning the increase in the net present value of the payments, which comes from both the change in methodology and extending the amortization period. However, budget certainty is also very important. If the assumption is that payroll is going to grow, then using percentage of pay means more of that expense is picked up out of payroll over time. So it is a net present value increase and a budget certainty increase the way the legislature did it, and he thought the committee needed to look at it that way.

MR. PIHL remarked that he is always in favor of showing the whole story, and whenever a level percent of pay versus level dollar calculation is shown it should also reveal what it is over time. Level dollar is going to produce lower cost over time than percent of pay for everybody concerned.

MR. SLISHINSKY stated that HB385 did two things: it shifted the amortization method from level dollar to level percent of pay, and it also extended the amortization period. The committee's question was which one was more expensive. As part of the experience analysis last year, Buck had charts that showed all the different changes and what the impacts were. One of those was under HB385 that changed both of these pieces. When the question came up, Buck looked at it and found that it was roughly 50/50, changing from level dollar to level percentage of pay and then also changing from roughly 15 years remaining amortization to the 25-year amortization.

CHAIR ERCHINGER remarked that she did not remember that. It might be so when looking at a single year, but Mr. Pihl was referring to looking at the entirety going out to the end of the amortization period and the overall cost. The extension of the amortization period has a significantly higher impact to the plans.

MR. SLISHINSKY said he was talking about the contribution, whether the amount or the rate. When Buck looked at it, each of the elements in HB385 reduced the contribution about the same.

MR. PIHL stated that, to the extent that this data was going to be used to guide legislatures and administrators down the road, they should be told the whole story.

CHAIR ERCHINGER said that it is fair to say that the legislature gave budget certainty today and significantly lower contributions today. However, when the ARMB made its very deliberate decisions over the years to recommend changing from level percentage of pay to level dollar, it was also with the recognition that the state is dealing with declining oil revenues and over time is going to be less able to make those assistance payments. The state is better able to cover those not-so-much-higher costs now, even though it is nearly impossible, than the future generations will be able to. Budget certainty is great, but this committee and the board are also concerned about the ability of the state in general to make the payments in the future. That is why everyone is so passionate about the issue, regardless of which side of the issue they sit on. The ARMB's job is to make sure the liabilities can be paid, and none of the options is good.

<u>Present value of future salary calculation</u>: Covered earlier.

Disability rates during early retirement eligibility: Covered earlier.

Healthcare claims and trend rates:
MR. SLISHINSKY said it made sense to think in terms of what Buck does on the pension side first. A pension benefit is determined by a formula that is typically a multiplier or percent times an average compensation amount times years of service. Buck gets data on members that shows how much service they have. The plan defines the multiplier. Then the data Buck gets tells them what the salary is. So they can project the salary and project the service and can calculate what the expected benefits are going to be in future years under the probabilities of members actually working those years and then retiring. That is how Buck determines the liabilities on the pension side with the formula that is defined under statute.

MR. SLISHINSKY said that health care is not so simple because there is not a formula. Buck instead looks at claims that come in on an annual basis, and those claims can be volatile – a lot more than salary is. What actuaries do with those health care claims is determine the per capita experience of those claims and then do a trend-and-blend to smooth out the experience to get data from the last four years into the determination of what the payments are as of the valuation date. That is the process to get the amount of claims expected to be paid for each person. In reality, some people do not have any claims, but this is a way to get an overall amount of health care benefit that would be payable to a retiree, both pre- and post-Medicare eligibility, to determine a projected amount of expected claims using the health care cost trend rate that really is driven by the data that comes out of the claims analysis.

MR. KERSHNER explained that Buck applies the per capita cost of health care claims to every person in the plan. For the current actives who someday may retire, Buck projects the per capita cost forward to when they will retire, using the trend rates, applies those to generate the expected claims that are going to be paid, and then takes the present value. That determines the liability.

MR. PIHL observed that the average claim cost for retirees who have not signed up for Medicare coverage is six times that of retirees who are signed up for Medicare.

MR. KERSHNER said that once a retiree reaches age 65 Medicare becomes primary and the state plan pays second.

MR. PIHL clarified that there are a number of eligible retirees who have not enrolled in Medicare.

MR. TRIVETTE said he understood from DRB that if a retiree is eligible for Medicare and does not enroll the state retiree medical plan will pay nothing on their claims. He thought the state was getting everyone shifted to Medicare who is eligible, so he doubted that very many Medicare-eligible people were being missed.

Healthcare 'Cadillac tax' documentation:
MR. KANASTER reported that the effect of the Cadillac tax is small. Buck has determined

that at this point there is no need to add a liability load or any sort of trend assumption due to the Cadillac tax. Buck has provided documentation to support that position.

MR. KERSHNER said Buck determined the impact to be less than 0.5% of the projected accrued liability at June 30, 2015. The additional per capita costs due to the tax were not expected to impact the trend rates over the long term.

CHAIR ERCHINGER recalled that at the last meeting the reviewing actuary's recommendation was to document why there was no impact at this point, to demonstrate that the Cadillac tax had been thoughtfully considered. Buck's explanation met that goal.

MR. PIHL reported that the City of Ketchikan had a national consulting group look at the Cadillac tax potential for that community, and the number was in the hundreds of thousands of dollars annually. These were PERS and TRS employees. He offered to provide the information to anyone who was interested.

MS. THOMPSON remarked that she thought 0.5% of the accrued liability would have been something that Buck would consider significant enough to load or do something with the tax.

MR. KANASTER replied that it was determined to be small enough that Buck did not believe that they needed to increase any long-term trend rate.

MR. KERSHNER clarified that the impact of the Cadillac tax was determined to be less than 0.5% of the projected accrued health care liability at June 30, 2015, not the total plan accrued liability.

MS. THOMPSON said GRS does not mandate one way or the other and has a practice where they have to do the documentation. However, this could become a crunch when an auditor may disagree. Having the text available will help alleviate that kind of a circumstance, but she had found that the auditors are the ones who ultimately may demand a cost for the Cadillac tax.

MR. TRIVETTE commented that it has been five years since the Affordable Care Act was enacted, and it would probably benefit the committee to get a brief summary of the Cadillac tax provisions. The legislature had asked if the tax was on the whole liability, and it is not; it is just on the health care liability. He wanted to see that number so the committee has something concrete to understand. He has not had any questions about this recently, but he expected he would start getting questions again soon in response to press reports.

MR. KERSHNER stated that Buck would evaluate the Cadillac tax impact every year, as part of the annual health care claims analysis and trend rate assumption, etc.

<u>Payroll reconciliation</u>:
CHAIR ERCHINGER said this item was to help everyone understand the difference between the payroll numbers appearing in the valuation and the total payroll numbers from the Department of

Administration.

MR. KANASTER reviewed the particulars on Buck's presentation slide 19. He explained that the State's payroll number at fiscal year-end for PERS includes all payroll dollars paid for the past fiscal year. That includes the money paid to someone who was hired during the year and who terminated. So anyone who is not active as of the valuation date does not mean anything for Buck's calculations. Buck gets the active payroll data for the prior year from the Division of Retirement & Benefits as of the valuation date. Buck then annualizes the payroll for new entrants and part-timers to calculate the liabilities and rolls it forward one year to look at the liabilities for the upcoming year. The final step, which is new, is to back out the part-timer annualization to calculate the payroll used for the contribution rate. Also new is that Buck rolls everything forward two years at a zero percent population growth rate, which is the payroll used to determine the FY17 contribution rate.

Responding to MR. PIHL's assumption that Buck was using the payroll number from DRB for contributions coming in, MR. KANASTER said Buck uses item (e) for the payroll contributions as of 6/30/14, rolled forward to item (f). He added that they roll it forward one year and eliminate people who are not active as of the valuation date.

MR. PIHL said that was where he had a problem. During the course of the following year there will be new hires coming in to replace those people who left.

MR. KANASTER agreed, adding that if someone was hired one day before the valuation date Buck annualizes that person's salary, so it should all essentially be a wash. If someone quits the day before the valuation, they are not active.

MR. PIHL said there would be thousands of people who left the plans during 2014. MR. KANASTER interjected that theoretically thousands of new hires came into the plans during the year. The people who left are dropped out, and then the salaries of the new hires during the year are annualized.

MR. SLISHINSKY added that the salary scale assumption is applied to convert that annualized pay from FY14 to FY15. He said there is a lot of work that goes into taking the raw data and converting it to valuation-ready data.

MS. RYAN wondered if this could potentially skew the data negatively, because the person leaving the plan to retire will have a higher salary than the new hire coming into the plan. That is what happens for teachers.

MS. SLISHINSKY responded that if a person earning higher pay leaves, typically somebody who is already there is hired into that position.

MR. KANASTER said that besides a higher salary person being replaced by a new hire in a year, everybody else is bumped up a year in salary, so it is all essentially a wash in the total payroll number.

MS. RYAN stated that if she were to retire the person taking her job would make considerably less than she makes. Further, her salary bump-up is about 0.25%.

CHAIR ERCHINGER remarked that this discussion has revealed that the payroll number is complicated, which explains why it has been so confusing for everybody to understand.

MR. SLISHINSKY said it is good to have DRB's payroll data to compare to Buck's data from the previous year to make sure that there is a reasonableness test. Buck is doing an analysis on every single member and then adding it all up; DRB gets the payroll data from the prior year in total, which is a macro number. There should be some reasonable comparison between the two numbers from year to year, but they are never going to be equal.

CHAIR ERCHINGER stated that Mr. Pihl made a great observation when he compared the total payroll numbers and then adjusted them forward at the actuarially assumed rate of pay increases over the remaining life of the amortization period. He recognized that if the payroll numbers are wrong it results in significantly lower employer contributions.

MR. SLISHINSKY pointed out that Buck reduced the total payroll used to calculate contributions for PERS by $95 million. They had been overstating the payroll because they were annualizing the salaries of part-timers, which is appropriate for determining the liabilities of the plan, but it is a little high when using it for contributions. Now Buck is basically using two payroll numbers in the valuation: one for calculating benefits and one for calculating contributions. The other issue on TRS was the non-tenured teachers.

MS. RYAN explained for Mr. Slishinsky how teacher contracts are different from one school district to the next. Non-tenured teachers do not have to be dismissed with cause. Due of funding and tight budgets lately, more and more people are getting a reduction-in-force notice annually.

MR. SLISHINSKY said that has caused the TRS active group measurement as of June 30 to be less than the full year each year, so there is a bias downwards. That is why Buck added step #13 to the timeline to get a supplemental listing of TRS actives in October to pick up those members who were possibly shown in the data as terminated at fiscal year-end but who were rehired at the beginning of the school year.

Added Agenda Item: Correction of Resolution 2015-07 - Asset Value Smoothing

CHAIR ERCHINGER called a 5-minute break at this point. After the break, the CHAIR mentioned that Commissioner Fisher brought up a question about an action item on the ARMB agenda tomorrow, which is the resolution that the Actuarial Committee acted on at its August meeting. *[A copy of Resolution 2015-07- Asset Value Smoothing was distributed to the committee.]* She said the wording in the resolution was incorrect as it related to the actions the committee took at its last meeting. The committee would hear from the actuaries and correct the resolution before the board meeting tomorrow.

CHAIR ERCHINGER read aloud the last paragraph of the resolution: "Now therefore be it resolved by the Alaska Retirement Management Board that the annual actuarial valuation use 5-year asset value smoothing with a 5-year corridor beginning with the June 30, 2014 valuation." She said the words "with a 5-year corridor" should be stricken, because that was not what the committee voted on at the last meeting.

MR. KERSHNER clarified that the June 30, 2014 valuation did not use smoothing; it used market value. The smoothing will start with the June 30, 2015 valuation. However, when Buck determined the contributions for FY17 based on the June 30, 2014 valuation, they did incorporate smoothing.

CHAIR ERCHINGER said that has been the confusion in the discussions about the June 30, 2013 valuations and 2014 valuations. She recalled the committee's August discussion to be that starting with the June 30, 2014 valuation as it was, then begin smoothing going forward.

MS. SLISHINSKY said that was recognizing that it is market value as of June 30, 2014.

MR. KERSHNER stated that was using 5-year asset smoothing on a prospective or going-forward basis. As an illustration, when Buck does the June 30, 2015 valuation, they will not look at the last five years of gains and losses and smooth them. They will look at just the first year. Then the next year they will look at the last two years, etcetera. They will eventually get to five years over a 5-year period.

CHAIR ERCHINGER stated that the committee discussed its intent at the last meeting but perhaps the language could have been clearer. She asked if, based on the committee's understanding of the August discussion, the motion the committee approved at that meeting was incorrect.

MR. KERSHNER replied that it was not that the resolution was not correct, but it was probably not 100% clear.

MR. BOUCHER proposed the wording: "…that the annual actuarial valuation use 5-year asset value smoothing with a 5-year phase-in beginning with the June 30, 2014 valuation."

CHAIR ERCHINGER said she did not think the committee could change the resolution.

MS. HALL said the committee could change the resolution but could not change the wording of the motion that was passed at the last meeting. The language of Resolution 2015-07 was not exactly what the motion was, and all that needed to be done was for the resolution to be consistent with the motion.

CHAIR ERCHINGER asked Ms. Hall to work on the resolution language so that what goes before the full Board tomorrow is what the committee intended to say.

CHAIR ERCHINGER also checked with the actuaries present, before the committee took up the contribution rate resolutions, that they had reinstituted the 5-year smoothing without a corridor.

MR. KERSHNER acknowledged that was correct.

D. FY2017 Contribution Rate Review

Action: Relating to FY17 PERS Contribution Rate
Resolution 2015-08
MR. PIHL moved to approve Resolution 2015-08. MS. RYAN seconded.

CHAIR ERCHINGER said that because the Actuarial Committee did not have a unanimous vote at the last meeting as to whether to smooth or not smooth, she understood that these resolutions assumed a return to smoothing. Resolutions have also been prepared should the full Board decide not to return to smoothing so that the rate resolutions that go before the full Board would be consistent with not smoothing.

The motion passed unanimously.

CHAIR ERCHINGER reminded committee members that these were recommendations to the full Board that they were acting on.

Action: Relating to FY17 PERS Defined Contribution Retirement Plan Retiree Major Medical Insurance Contribution Rate - Resolution 2015-09
MR. BRICE moved to approve. MR. TRIVETTE seconded. The motion passed unanimously.

Action: Relating to FY17 PERS Defined Contribution Retirement Plan Occupational Death & Disability Benefit Contribution Rate - Resolution 2015-10
MS. RYAN moved to approve. MR. BRICE seconded. The motion carried unanimously.

Action: Relating to FY17 TRS Contribution Rate
Resolution 2015-11
MS. HARBO moved to approve. MS. RYAN seconded. The motion passed unanimously.

Action: Relating to FY17 TRS Defined Contribution Retirement Plan Retiree Major Medical Insurance Contribution Rate – Resolution 2015-12
MR. BRICE moved to approve. MS. HARBO seconded. The motion carried unanimously.

Action: Relating to FY17 TRS Defined Contribution Retirement Plan Occupational Death & Disability Benefit Contribution Rate - Resolution 2015-13
MS. HARBO moved to approve. MR. BRICE seconded. The motion passed unanimously.

Action: Relating to FY17 National Guard & Naval Militia Retirement System (NGNMRS) Contribution Amount - Resolution 2015-14
MS. RYAN moved to approve. MR. BRICE seconded. The motion carried unanimously.

Information: Judicial Retirement System Contribution
MR. BOUCHER remarked that the FY17 contribution amount for JRS was one of the higher amounts for this retirement system.

VIII. Future Meetings

A. Calendar Review

The Actuarial Committee calendar from now until June 30, 2016 was included in the meeting packet. The next meeting is scheduled for February 17, 2016 in Juneau.

MR. PIHL observed that the charter had been moved forward to the February meeting.

CHAIR ERCHINGER said she had not brought that forward because the committee had so many other issues before it. She and Commissioner Fisher have had some conversations back and forth in reviewing the charter, and she was waiting to talk to Stuart Goering before having something for the committee. She hoped that would be in February.

B. Agenda Items

CHAIR ERCHINGER stated that Ms. Hall had a list of education topics that have been brought up in previous meetings.

MR. PIHL reported there was an ongoing study across the state having to do with the medical fee schedule. He asked that the Department of Administration track what was going on there. He understood there was a lot of progress toward developing a medical fee schedule. If nothing is done before December, there will be no medical fee schedule in Alaska. Hospitals and providers will be free to charge whatever they want. At the most recent meeting, a hospital representative who had been cooperative in developing the fee schedule reversed course as to supporting or not supporting having a medical fee schedule. In terms of cost containment, this could be a huge item.

MR. BOUCHER said he understood that the current medical fee schedule being developed was for Workers' Compensation reimbursement.

MR. PIHL said he thought it would apply to everything.

CHAIR ERCHINGER stated that medical margins was a future agenda topic. The ARMB has reduced some of the assumptions, and the question has come up about whether there is still enough margin to feel comfortable that there is some conservatism in those.

MR. SLISHINSKY said that will be determined in the 2015 valuation, when there will be a year's experience to determine the level of actuarial gain on that.

C. Requests/Follow-Up – None.

ADJOURNMENT

The meeting adjourned at 3:35 p.m., on a motion made by Commissioner Fisher and seconded by Ms. Ryan.

Note: An outside contractor prepared the summary minutes from staff's recording of the meeting. For in-depth discussion and presentation details, please refer to the recording, staff reports, and written presentation materials on file at the ARMB office.

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Karen Pearce Brown