**State of Alaska**
**ALASKA RETIREMENT MANAGEMENT BOARD**
# ACTUARIAL COMMITTEE MEETING

**Anchorage Room – Anchorage Marriott Hotel**
**820 West 7th Avenue**
**Anchorage, Alaska**

**April 20, 2016**

## ATTENDANCE

**Committee Present:** Kristin Erchinger, *chair*
Tom Brice
Commissioner Sheldon Fisher
Gayle Harbo
Rob Johnson
Ed Wesley
Bob Williams

**Committee Absent:** --

**Department of Revenue Staff Present:**
Gary Bader (chief investment officer)
Pamela Leary (Treasury Division director)
Judy Hall (board liaison officer)

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

**Others Present:**
David Kershner (Buck Consultants, actuary)
Todd Kanaster (Buck Consultants, actuary) *on-line*
Larry Langer (Buck Consultants, actuary)
Melissa Bissett (Buck Consultants, actuary)
Leslie Thompson (Gabriel Roeder Smith, review actuary)

## I. CALL TO ORDER

CHAIR ERCHINGER called the meeting to order at 10:05 a.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. MS. HARBO seconded.

CHAIR ERCHINGER moved item VII.C, Legislative Update, to between items A and B, to accommodate Mr. Boucher's schedule as the presenter on that topic.

The agenda, as amended, was approved without objection.

## V. APPROVAL OF MINUTES – February 17, 2016

MS. HARBO moved to approve the minutes of the February 17, 2016 meeting. MR. BRICE seconded. The minutes were approved unanimously.

## VI. PUBLIC/MEMBER PARTICIPATION, COMMUNICATIONS AND APPEARANCES

No one present or listening by telephone indicated they wished to address the committee. MS. HALL said there were no communications or appearances.

For the benefit of three new ARMB trustees now on the Actuarial Committee, CHAIR ERCHINGER briefly explained the purpose of the committee as doing a deeper dive on actuarial issues than was possible at the full board meetings. Per the committee charter, the committee is required to not only hear from the ARMB's primary actuary, Buck Consultants, but also from the review actuary, GRS, both present at this meeting. The review actuary reviews the work of the primary actuary. The two actuaries together then dialogue with the ARMB on any recommendations for changes in actuarial assumptions and inform if the ARMB is doing something that is not standard industry practice.

CHAIR ERCHINGER welcomed the new trustees: Rob Johnson, a PERS appointee; Ed Wesley, a public seat appointee, and Bob Williams, a TRS appointee. She also invited everyone present to introduce themselves.

## VII. A. Legislative Update

JOHN BOUCHER, Deputy Commissioner of the Alaska Department of Administration, provided a handout of the status of the current retirement system bills in the legislature. He spent a few minutes explaining each bill. He said the operating budget was in conference committee. The House and Senate recently decided to fully fund the ARC (actuarially required contribution) of $99.2 million and $116.9 million for this year. There is still potential in conference committee for additional contributions: the Senate version of the operating budget had $114 million additional contribution to PERS and $228 million to TRS.

MR. BRICE thanked Mr. Boucher for his remarks to the House Finance Committee related to the defined contribution retirement plan and notification in terms of recruitment and retaining employees.

COMMISSIONER FISHER stated that while HB90 and SB88 are on hold for this legislative session (related to bringing back some version of a defined benefit plan), the administration is committed to continuing to work on that issue.

CHAIR ERCHINGER asked if there could be some sort of confidentiality agreement that ARMB trustees could sign in order to receive information considered timely for them to know about before it is ready for public access on the state system.

MR. BOUCHER said the department would explore that.

MS. HARBO mentioned a recent study done for the California State Teachers' Retirement System that dealt with the benefits of a defined benefit plan versus a defined contribution plan or cash-balance plan. The study can be found at nctr.org. It talks about teacher turnover and that if a teacher stays until they are vested, there is very little turnover and most of those teachers teach up to 30 years until retirement. In Alaska, only 1,700 of the 5,000 people hired under the Teachers' Retirement System defined contribution plan have taught more than five years. Most of them leave before five years, and they take their retirement money and the employer contributions with them. There is a lot of money going out of the state that would normally stay here.

**B. Review FY2015 Audit Reports:**

**Public Employees' Retirement System & Teachers' Retirement System**

LESLIE THOMPSON of Gabriel Roeder Smith & Company (GRS) stated that the firm conducted an actuarial review of the June 30, 2015 actuarial valuations for PERS and TRS. [*The GRS written reports, dated April 21, 2016, are on file at the ARMB office.*] She said she intended to simply highlight certain items because Buck Consultants would be covering the valuation reports in detail at the full board meeting the next day.

MS. THOMPSON said it appeared that Buck was not using the actual data for the retiree medical plan, but was using the pension data as a proxy for the actual healthcare elections and then adjusting it to run the valuation. However, there is not an issue with Buck using the pension data on the active employee side and adjusting it for probabilities of staying and all that. What GRS had expected to see for the retiree group was actual retiree health care elections data used, and it was not. This would be a departure from standard practice: the actuarial standards of practice do not say that actuaries should use the data for the given plan, but it does say that if they are not, they need to disclose that they are using a proxy, plus what they did to the data to get it to be acceptable. The reason is that the valuation model is at risk for not portraying the liabilities accurately. She said she had reviewed her notes with Buck's Chris Hulla to see that GRS has been asking this question for a while, so it predates the Buck personnel that work with the ARMB now.

CHAIR ERCHINGER asked if Buck's practice would explain the persistent gains or losses in terms of retiree medical.

MS. THOMPSON replied that it could explain it. She added that this committee has been asking for some idea of what is creating the margin in retiree medical and has not received that information yet. She said if there is not access to the actual healthcare elections, and Buck has to use a proxy for that data, then it is not possible to analyze against the actual experience. Melissa Bissett at Buck has aggregate experience data from the carriers to work with, but that does not give names and all the data. She added that not having that actual healthcare data would also explain why, in an experience study a few years ago, GRS did not see the assumption study on the retiree medical plan at the detail level.

MS. THOMPSON next reviewed a couple of items that caught the eye of GRS, which Buck will be talking about in their report. She said the mortality gain on the accrued liability was $34.5 million for PERS in the 2015 valuation. That is quite a pop from the $3 million loss in the prior valuation, and it is a magnitude higher than all the other years. She expects death to increase every year in this plan because the retiree population is increasing. She has done a quick analysis to look at the rate of deaths year after year and found that the rates always seem to hover around 2%. So she was surprised at the large increase in the 2015 valuation.

MS. THOMPSON mentioned that Other as a source of PERS historical pension gains or losses has been discussed at previous meetings. Other still remains a big number, and Buck will be explaining for the committee what is in that category.

MS. THOMPSON stated that the TRS rehire liability remains high, even with the fix that Buck proposed to collect the teacher data later in the fall after teachers that were terminated in the spring get hired back. That leads her to the conclusion to ask Buck whether, since the rehire risk is high and consistent, if there should be an explicit assumption to pay for it because it looks like it is going to be happening every year.

MS. HARBO said she believed the number that Buck came up with of 52 terminated teachers that were picked up as active again for the valuation was too low. She suggested looking at the defined contribution plan numbers, because the DCR people are the last hired/first fired. There were 263 non-vested terminations in the Teachers' DCR plan, while there were only 16 non-vested terminations in the defined benefit plan. In the PERS DCR plan there were 1,607 non-vested terminations and only 114 non-vested terminations in the defined benefit plan.

MR. BRICE raised the possible impact of teachers transferring between school districts within the state.

MS. THOMPSON said that, regardless of the reason, if it cannot be isolated, then she recommended setting a load on liabilities so that the $11 million per year is known upfront and funded upfront.

KEVIN WORLEY, chief financial officer in the Division of Retirement and Benefits (DRB), stated that part of this ties back to the way that school districts term their employees at the end of the school year. DRB gives the school districts direction on how to enter

employee data at the end of the school year, but they do not necessarily follow the directions. There is still a bit of disconnect there, and the division is trying to get more school districts to follow the correct process.

CHAIR ERCHINGER asked if GRS was recommending an adjustment for rehire liability and putting in additional contributions to make the persistent loss go away, regardless of whether the cause is identified.

MS. THOMPSON said yes. She has had plans where she put in contingency loads for rehires or for reciprocity service transfers. She added that the cause of the loss may not be knowable.

Turning attention to PERS retiree healthcare, MS. THOMPSON said there is a massive gain on mortality in the 2015 valuation compared to the magnitude of all prior years. The Other gain of $47 million is quite large. GRS learned that there was a clarification that spouses that have a domestic relations order do not get retiree healthcare benefits, which contributed to a gain because they were removed from the system.

MS. THOMPSON said the model risk she mentioned earlier is in medical claims. She pointed out the $107 million PERS healthcare gain in 2011 rising to an $884 million gain in 2015. These gains cause her great concern, and the $884 million gain this year makes her wonder if the model is working. Gains and losses are the things an actuary did not predict, so how does one not predict almost a billion dollars in medical claims?

MS. HARBO stated that she has said before that approximately 66% of the retirees in both PERS and TRS defined benefit plans are on Medicare, which pays primary on claims. The healthcare cost to the retirement system for those retirees drops significantly.

MS. THOMPSON responded that the Medicare eligible people are already accounted for in the valuation model. The $884 million gain in the 2015 PERS valuation is an unexpected surprise.

MELISSA BISSETT, a healthcare actuary at Buck Consultants, explained that a few years ago Buck was able to more accurately determine which retirees have Medicare Part B only coverage. There are still assumptions that Buck makes on some of the active plan participants, where they do not know the future Medicare coverage for those people. The more accurate data has been in the system for the past few years, and so its impact on the valuation should be consistent now.

MS. THOMPSON stated that GRS does not disagree with Buck's method of calculating the Cadillac Tax, to the extent that they understand it, and they certainly do not disagree with Buck's finding. GRS believes it will be up to the ARMB to decide if it wants to add that in as a cost to the retiree medical plan as well. If the tax has a 0.5% impact on the accrued liability, it will be $39 to $63 million, depending on the liability number used.

MS. THOMPSON pointed out that when GRS says the investment return assumption is 8%, it is actually something close to 8.03% before expenses are taken out. She was bringing it up this year because the 8.0% return assumption is falling out of the range of what is acceptable in the public sector for returns. The peer group average has dropped to 7.75%. The ARMB is facing some political risk there. If the investment consultant and the retirement fund can get to 8.0%, then there really is not a risk.

MS. THOMPSON said that now that there is a rate payroll and a valuation payroll, GRS recommends explaining that in the valuation, and Buck agreed to that.

Defined benefit exhibits for retiree medical do not exist in the valuation report, which goes to they were not studied separately from the experience study.

MS. THOMPSON said she had asked about the 85% marriage assumption for public safety. The marriage assumption is around 70% for non-public safety. Looking at the enrollment data from Ms. Bissett at Buck, it looks like it is more like 50% or 60%. So an employee may be married but they may not be covering their spouse for medical, who may be self-covered. The ARMB may want to talk to Buck about fixing that assumption when the real data is in hand and changing the spouse coverage assumption.

CHAIR ERCHINGER remarked that Alaska is a small state, and the State employs many people: one person of a married couple might be a teacher and the spouse might be a State Trooper.

MS. THOMPSON said that would mean the spouse coverage would be lower than the marriage assumption.

MS. THOMPSON stated that the GRS report contained various comments on wording. One wording she cautioned the ARMB on was phrases along the lines of "this is the Board's funding policy," because the Board at some of the recent meetings, for example, was not entirely of the mind to use level percent of pay, and that sort of thing. She advised changing the wording to something like "in accordance with statute," rather than citing funding policy.

**Defined Contribution Plan Retirement Systems – PERS & TRS**

MS. THOMPSON said that the comments all applied to the PERS and TRS defined contribution plans, as well. GRS found a few things in the DCR plans that Buck was correcting. Referring to pages 3 and 4 of the DCR report, she said new entrant losses are the second highest in absolute value, behind the medical claim losses. New entrant losses look to be consistent and here to stay, so she recommended working with Buck to develop another method that captures this cost and prefunds it.

MS. THOMPSON referred to the back of the report where GRS shows the test lives. These come out nearly identical to Buck's, with one exception. She explained the Test Case 2 – PERS Police & Fire, where there was a difference of -26.5% under DCR deferred disability.

GRS thinks there should be an offset of a defined contribution account balance. Buck's response to GRS was for both to get together with the Division of Retirement and Benefits and see how it is actually being administered and set the method to match the benefits that are actually being paid out. GRS concurs that if there is a specific way that it is being done, the valuation should project that method.

MS. THOMPSON thanked Buck for being so generous in giving GRS all the data for the test lives.

MR. BRICE asked Ms. Thompson to expand on her earlier comment that the ARMB investment return assumption is a bit higher than what is evolving into general practice.

MS. THOMPSON stated that just because the ARMB might be an outlier in practice does not mean 8.0% should not be the return assumption, if it can be justified. The actuarial standards explain to actuaries how to justify the assumption. She said she made the comment because the most recent public fund survey of 126 statewide plans showed the average return assumption has moved off 7.9% and is now around 7.75%. There are other plans like the Alaska retirement funds that have asset allocations like the ARMB that also use Callan Associates, and those plans are moving their return assumption down. In her own practice, the capital market expectations are coming down in all asset classes.

MR. JOHNSON asked if GRS had found other proxy type elements in Buck's reports, besides the instance of Buck using pension data as a proxy for the actual retiree healthcare elections that Ms. Thompson described at the beginning of her report. If so, he wondered if Buck was using proxies in place of the raw data too much.

MS. THOMPSON replied that the instance she described was the only place where she has seen it. She added that this is a serious issue only in that by the time somebody gets into pay status the actuary should be able to get their data.

CHAIR ERCHINGER stated that the ARMB's investment return assumption is 8.0%. Embedded in that is an assumption that inflation is 3.12%, so the ARMB is striving for a real rate of return of 4.88%. If inflation, by Social Security standards, has been adjusted to 2.7%, and the real return target of 4.88% is added to that, then the ARMB is really shooting for a 7.58% return, not an 8.0% return. She asked Mr. Bader if that thinking was reasonable. She added that the Board was deliberately overshooting the mark on its inflation assumption, so it was important to clarify what composed the 8.0% return assumption. It appeared that the ARMB did not necessarily need to hit an 8.0% return in order to earn enough to make the retirement system whole.

Chief investment officer GARY BADER explained that when talking about inflation it is also important to consider its impact on other things in the actuarial assumptions, such as the rate of salary growth. The tendency is to focus on the earnings assumption. If the ARMB is going to re-examine the assumptions, it is important to re-examine all the assumptions impacted by inflation at the same time because the earnings assumption is so powerful. He

commented that other plans seem to be lowering their earnings assumption, but people should keep in mind that the last person leaving the retirement system will be around the year 2090. The focus tends to be very short-term. He doubted the Federal Reserve would continue to repress interest rates the way they are. When the ARMB sets an 8.0% earnings assumption, it is for 30 years and not for what might happen in the next administration or a few times down the road. The fact that it is very long-term is what gives him some comfort for the earnings assumption being at 8.0%.

CHAIR ERCHINGER remarked that over the last year or so all the trustees have had to think long and hard about what used to be the norm and the way they thought about their work on the Board versus what Alaska's new normal is. It is probably timely to consider some deeper dives on the assumptions. This committee touched on it briefly last year when talking about the payroll growth assumption and what happens if there are mass layoffs. The committee should be having those conversations– sooner rather than later, at the very least to understand the longer-term implications of the actuarial assumptions.

The CHAIR thanked Ms. Thompson for her presentation.

**C. Valuation Review:**

LARRY LANGER, DAVID KERSHNER and MELISSA BISSETT of Buck Consultants, the primary actuary for the State retirement systems, appeared before the committee. [*A copy of Buck Consultants' slide presentation and other related material were included in the meeting packet and is on file at the ARMB office.]*

MR. LANGER said he was there to present the draft valuation results for the PERS and TRS defined benefit plans as of June 30, 2015, as well as the defined contribution plan retirement systems of PERS and TRS. He noted that the valuation results determine the contribution amounts for the fiscal year ended 2018. The employer contribution rates are fixed, so the valuation results primarily set the state assistance amount.

MR. LANGER said he appreciated the type of actuarial review that GRS conducted, and he would be addressing Ms. Thompson's comments. It is very helpful to have someone else kick the tires on how the actuarial process is done. There are large sums of money in the retirement plans, and Buck wants to make sure that appropriate funds are collected over the course of members' careers so that benefits can be paid upon their retirement.

MR. LANGER said Buck had a request to review SB207 and SB209, and there were letters included in the meeting packet.

MR. LANGER reviewed the main purposes of an annual actuarial valuation (*slide 3*). He also described in some detail the inputs and results of the actuarial valuation process (*slide 4*). He said there is a process for reviewing the assumptions used for the valuation every four years. The last review was subsequent to the 2013 valuation, and the changes were implemented for the 2014 valuation. Buck will be looking at the assumptions again after the 2017 valuation to implement for the 2018 valuation. The time frame of doing an experience

study every four years is recommended as a good practice to follow. A plan should look at all the assumptions comprehensively.

MR. BADER stated that Buck reported to the ARMB last year on the GEMS model, which created a range of potential acceptable earnings assumptions that went as high as 9.0%, he thought. He asked if that range was still the case.

MR. LANGER said it might be a little bit lower, but it is still above 8.0%. The 8.0% earnings assumption is supportable in the GEMS model; however, he was sure there are some models where 8.0% may not be supported. Everyone has opinions on it, and sometimes it comes down not to a mathematical exercise but to more of a political exercise.

MR. LANGER stated that even though the defined benefit plans are closed and the time horizon is a fair amount shorter, the mortality assumption is another thing coming up that will increase costs. However, there might be things to offset that. His point is that the ARMB will want to take a look at all the actuarial assumptions at once.

Wrapping up his explanation of the valuation process, MR. LANGER said that over the short term the contributions to the retirement funds are going to be governed by these actuarial valuations based upon the assumptions. Over the long haul, contributions are going to be based upon the actual people who died, and the actual amount of investment returns, and how long people worked, and things of that nature. So every year, when Buck comes in, these results are adjusted to reflect what they actually saw happen.

A glossary of actuarial terms was included at the end of the valuation reports.

MR. LANGER referred to the one-page summary of the preliminary key observations from the fiscal year 2015 valuations (*slide 5*). The point of doing a valuation is to refine what Buck was estimating in the prior year and replacing the estimates with actual data. Things happened that they did not anticipate or that were different than what they expected, and those impacted the valuation results.

One significant event that happened over the year ended June 30, 2015 was large additional state assistance contributions. Buck reflected that in the contribution results last year because they knew about the large assistance payments, so any changes in contribution rates will not be driven by that additional state assistance. However, an increase in the funded status of the retirement plans is driven by the additional state contributions.

MR. LANGER stated that the second big driver to valuation results was that retiree medical claims were less than expected, which resulted in the plans appearing much better funded.

Other material events that impacted the valuation results were that the investment return for fiscal year 2015 was less than the 8.0% assumed return. Last year Buck reset the actuarial value of assets to market and restarted the smoothing period, so the FY15 investment return does not have quite the impact that it normally would have, and the investment return was

not really far off of 8.0%. Salary increases were less than expected, which continues to be pervasive through many valuations that Buck does and not just Alaska. Post-retirement pension adjustments were less than expected. There were more deaths than expected. Lastly, there were other refinements to the valuation process that had small impacts to the retirement plans.

CHAIR ERCHINGER asked if there were more deaths than expected because the ARMB changed its mortality table.

MR. LANGER said the changes to the mortality assumption occurred a couple of years ago because the mortality tables in use did not anticipate that people were going to live longer. The change lowered the bar, per se, but the experience is still more deaths than anticipated. The model adjusts for more members being over the age of 65 and covered by Medicare, so liabilities are lowered to account for that. The model also adjusts for there being more retirees in the defined benefit plans. The number of deaths is based upon the ages of the people in the plan as of the prior valuation year-end.

MR. KERSHNER added that the younger a member is when they die the more impact it has on the plan liabilities. The mortality assumption impact in FY15 came from a greater number of younger people dying, combined with just more deaths than expected.

MS. THOMPSON said she had not heard anything in the data to convince her that Buck's interpretation was correct. The year before, there were 507 retiree deaths in PERS, which was a loss of $10 million; this year there were 543 retiree deaths, and it was a gain of $25 million on the liabilities.

MR. KERSHNER said part of that is explainable by who is dying: for example, if it is people who have survivor benefits in place so there is still some residual liability remaining, versus those who have a single-life annuity with no survivor benefits. He added that later Buck would be talking about part of the explanation of why the gain on healthcare is bigger than the gain on pension.

MR. WILLIAMS asked if Buck had the number of deaths broken down by age group and the predictions for each group so he could see where the numbers were coming from.

MR. KERSHNER replied that Buck did not have that prepared, but they could certainly get into those details if the committee wanted them.

MS. THOMPSON mentioned that page 53 of Buck's valuation report had data reconciled by category and was helpful for many of these questions. For example, the deaths for retired members are broken out to 212 who died with a beneficiary and 331 who died without a beneficiary.

**Public Employees' Retirement System & Teachers' Retirement System**
MR. KERSHNER talked at length about the five basic inputs in the FY2015 actuarial valuation process for both the PERS and TRS retirement plans: member data, asset data, benefit provisions, actuarial assumptions, and funding methodology.

*1. Membership data:*
There has been a gradual decline in the number of active members covered by the PERS and TRS plans. That is expected because the plans are closed. Similarly, the number of retirees has been rising. That increase has been leveling off because some of the older retirees are dying off. There are three main impacts of the changes in member data. The average salary increases were less than the long-term assumed salary increases. The committee had talked at the September meeting about whether the valuation should reflect a short-term assumption of perhaps zero or flat salary increases, and then after a period revert to the long-term assumption. Absent any actual change made, Buck continued to use assumptions that were set for the 2014 valuation. So for the year ended June 30, 2015, the expected salary increases were higher than actual increases, and that lowered the PERS plan liabilities by about $91 million.

CHAIR ERCHINGER said she understood that the impact of smaller salary increases is smaller plan liabilities. But there is also the issue of the smaller salary increases driving an increase in the required employer contribution rate, because there is a smaller salary base on which to make contributions into the system. She questioned the statement on slide 7 that the net effect is a decrease in the employer contribution rate.

MR. KERSHNER said that it took into account the effect of all of those on the liability and also on the payroll used to determine the rate. Some cases could have lower salaries than expected, but it could potentially cause an increase in the contribution rate because of the lower salary base over which it is spread.

MR. KERSHNER addressed participant data changes. The biggest element is that the membership data changed from last year to this year versus what Buck expected to happen, in terms of counting retirements, withdrawals, disabilities, etc. There is also the rehires: for this purpose, rehires are lumped into the participant data changes. Buck does not anticipate rehires coming in, and every year any rehires contribute either a gain or a loss. Participant data changes also incorporate what Buck categorizes as miscellaneous effects and data changes that are not captured in some of the specific buckets. The net effect of all the participant data changes for PERS was an overall increase in liabilities. The liabilities due to those factors are higher than what Buck expected them to be based on last year's valuation and created an actuarial loss.

MR. BOUCHER mentioned the rehire liability data fix that Buck did for TRS, and proposed also looking at PERS member school district employees, many of whom have 10-month contracts.

CHAIR ERCHINGER said she is seeing a younger generation of people who, for various reasons, are much more mobile in the workplace and not interested in staying at one employer. In general, there is a significant loss of qualified applicants for jobs that require a higher level of skill because younger people are not staying in the workforce and gaining the skill level to move up in organizations. She thought the rehire issue would be a huge problem for Alaska. It is the combination of the difference in generations' mobility, the lack of a defined benefit plan that provides an incentive to stay for a prolonged period, and the fact that Alaska has a captive population to draw from for certain jobs. It was expected initially that there would be problems with hiring in law enforcement and teaching staff, and both of those have happened. She had wondered if other public employees might escape that impact, but she was certain that was not the case now. There will continue to be a persistent rehire problem because there are not enough qualified applicants to take the jobs, regardless of the pay level. If this is going to be a persistent loss in the valuations, it might be necessary to factor that in.

MS. HARBO stated that counting half-time employees as full-time employees in the valuation does not give a complete picture.

MR. KERSHNER said that gets to the issue of the rate payroll versus valuation payroll. Buck annualizes the payroll for purposes of liabilities, but then they take out the annualization adjustment to determine the contributions.

MR. BRICE commented that not all part-time employees participate in PERS. It would be difficult to aggregate people to be counted into the assumption when they are not even participants in the retirement system.

Concluding the membership data section for PERS, MR. KERSHNER noted that retiree medical claims were much lower than anticipated during the year.

MR. KERSHNER made two corrections to the second blue box on slide 8 for the TRS system to read: "The overall effect of participant data changes was an unexpected ~~increase~~ decrease in liabilities to the System." Similarly, the last sentence in that box should read: "The combination of the demographic and COLA/PRPA experience resulted in a~~n~~ ~~increase~~ decrease in the Employer/State contribution rate for FY18 of approximately 0.52%."

MS. HARBO had a question on how Buck calculated the COLA and PRPA (post-retirement pension adjustment) for TRS (see page 41 in TRS valuation report). She mentioned that in most other states COLA is associated with the cost-of-living allowance, but in Alaska's plans the PRPA does that. COLA refers to the 10% additional retirement payment that some retirees get for staying in the State of Alaska after they retire. She thought Buck might be applying the COLA premium to the base payroll for the entire population of retirees, while only about 60% or less of retirees are getting the extra 10% payment.

Related to the PRPA, MS. HARBO pointed out that in 2015 the Anchorage CPI (Consumer Price Index) was 1.723% for the State of Alaska. The PRPA calculated on the CPI for

Anchorage would have been about $78 a month, based on the average age of 69. She asked how Buck calculated the $550 a month, which appears way too high. The PRPA is also cumulative, depending upon when a person retired. She asked Buck to look into these two calculations for the committee.

MR. KERSHNER said they would examine those and report back.

MR. BOUCHER noted that some retirees, such as "snowbirds," get the 10% COLA for only part of the year.

*2. Asset data:*

MR. KERSHNER explained slides 9 and 10, the calculations of the market value of assets for PERS and TRS, respectively. He drew attention to the "Liquidity Factor" line at the bottom of each chart, which is an approximate measure of the number of years that existing assets will pay benefits, absent any further contributions or investment income. He noted that the liquidity factor rose since the June 30, 2014 valuation, primarily because of the favorable experience in health care in FY15.

The FY15 state assistance contribution of $1.0 billion to PERS and $2.0 billion to TRS increased the funded ratio of each plan.

MR. KERSHNER stated that PERS retirement benefits and medical benefits paid increased in FY15 but were actually less than what Buck expected for the year, based on the projections that were determined from last year's valuation. Most of that is due to the lower medical claims experience.

For TRS, retirement benefits paid increased in FY15 over the previous year, but medical benefits decreased. So not only were actual medical benefit payments less than what Buck expected them to be, the payments in absolute dollars were actually less than what they were the previous year. That is support for the general decline being observed in the medical claims. MR. KERSHNER said he would talk about that in more detail later.

*3. Benefit provisions:*

The benefits provisions are described in detail in Section 6.1 of the actuarial reports. The bottom line is that the PERS and TRS defined benefit plans that provide retirement benefits and medical benefits cover those who were hired prior to July 1, 2006. Post-07/2006, hires were covered by defined contribution plans that provide occupational death and disability benefits and retiree medical benefits. For fiscal year 2015 there were no changes in the benefit provisions from the prior year's valuation.

*4. Actuarial assumptions:*

MR. KERSHNER said Buck has to make assumptions about what the future experience is going to be. There are two types of assumptions used in a valuation: demographic assumptions (retirement, termination, disability, and death) and economic assumptions (interest rate, salary increases, payroll growth, and medical trend rates). There were no

changes from the assumptions that were used in the 2014 valuations because those assumptions have been set for four years beginning July 1, 2014. While medical claims are an assumption and part of the experience review done every four years, Buck analyzes them every single year.

*5. Funding methodology:*
The funding methodology is the payment plan and is the same for PERS and TRS. MR. KERSHNER explained the three elements of the funding methodology (*see slide 13 for details*):
(a) Actuarial cost method – allocates costs to the actuarial accrued liability for past service, and normal cost for current service/the upcoming plan year. The cost method used for pension is the entry age normal cost method, which develops normal costs that are intended to stay level as a percentage of payroll. The level dollar cost method is used for healthcare benefits.
(b) Asset valuation method – actuarial value of assets is used to smooth out over a period of five years the effects of the financial market ups and downs: for example, investment earnings of 3% in FY2015 and 18% in FY14). In 2014, the actuarial value of assets method was modified slightly and reset to market value, and then 20% per year smoothing is used going forward.
(c) Amortization method – There is a shortfall between the plan assets (smoothed value) and the actuarial accrued liabilities. That deficiency is funded over a period of time, and the method chosen is a 25-year period starting at 6/30/2014. The PERS and TRS plans should be 100% funded by 6/30/2039.

MR. JOHNSON asked if the ARMB's chosen method was not necessarily what the actuary would say was the ideal way of doing it.

MR. KERSHNER replied that the methods were chosen by the ARMB, based on input from Buck and the reviewing actuary. Entry age normal, for example, is the most common method used to determine contributions for public sector plans across the country. Similarly, the use of some sort of smoothed value of assets is also the most commonly used. Some plans use ten years for averaging the gains and losses: Buck is using five years in Alaska's case because the plans are closed.

MR. JOHNSON said that meant to him that the methods the ARMB has chosen going forward fall well within the range of what Buck considers to be reasonable and prudent.

MR. KERSHNER said yes.

CHAIR ERCHINGER remarked that it was not a fair characterization to say the methods have been chosen by the Board. These were the methods that were adopted in statute. That is a different issue than whether the Board supports the methods or not, because the Board no longer weighs in on some of those decisions that are now statutorily mandated.

COMMISSIONER FISHER said it depends on the assumption: some were recommended by the Board, and some are in statute. The Chair agreed.

The Chair called a lunch break at this point. The meeting reconvened at 1:15 p.m.

Buck Consultants continued reviewing the actuarial valuation reports, focusing next on the five main valuation outputs: actuarial value of assets, actuarial accrued liability, net actuarial gain or loss, funded ratio, and contributions.

*1. Actuarial value of assets:*

MR. KERSHNER stated that the actuarial value of assets is used to determine the contribution rates. He went through slide 15 in detail so people could understand how the actuarial value of assets is calculated for PERS. The premise is that the actuarial value, or the smoothed value, is used as opposed to the market value primarily to avoid the volatility in the state assistance contributions due to market gains and losses.

MR. KERSHNER pointed out that the PERS actuarial value of assets as of June 30, 2015 was about 4% higher than the market value of assets, and that is because the calculation only recognized 20% of the FY2015 investment loss. The investment return on actuarial value was 7%, compared to 2.9% return on the market value of assets. (When the market return is really high, the actuarial return will not be as high. When the market return is really low, the actuarial return will not be as low.) As the remaining FY2015 deferred investment loss is recognized, that, on its own, will cause the contribution rates to tick upward a little bit, year by year. However, that could be offset by investment gains in future years.

MR. KERSHNER also ran through the corresponding calculation of actuarial value of assets for the Teachers' Retirement System.

Slides 17 and 18 showed the historical investment returns for PERS and TRS since June 30, 2005 (when Buck began doing the valuations). Over a long period of time, the cumulative actuarial return will tend toward the average market return because that is what the method is intended to do.

MR. BRICE asked why Buck used an expected return in the calculation if that is not actually how the retirement funds performed.

MR. KERSHNER said it is because the long-term expected return is 8.0%. Buck knows the investment return will not be 8.0% every year, but over the long term they expect it to be 8.0%.

MR. JOHNSON said he understood the breakout between pension and healthcare on the slides because each has to be held in separate trusts. But he wondered why PERS contributions were broken out by employee and employer, and that was not the case for TRS.

MR. KERSHNER replied that there was no particular reason for the difference in reporting of PERS and TRS. The total contributions for both retirement funds come from members, the employers, and state assistance.

CHAIR ERCHINGER recalled that the Board made the decision to allocate 100% of the contributions for the next year to pension.

MR. KERSHNER said that allocation of contributions to pension will be reflected in next year's valuations.

*2. Actuarial accrued liability:*

MR. KERSHNER said the funded status of each retirement system is the comparison of the actuarial value of assets to the actuarial accrued liability, stated as a ratio. Slide 19 showed the funded ratio at June 30, 2015 for the PERS and TRS defined benefit pension and healthcare components, and a total, and for the PERS and TRS defined contribution plan pension and healthcare components, and a total. For example, the funded ratio for PERS defined benefit pension at fiscal year-end was 67%. The difference from being fully funded is 33%, which is the amount that will be funded by future state assistance contributions.

CHAIR ERCHINGER said she understood the reasons for smoothing investment gains and losses in order to have less volatility when determining the employer contribution rates. However, that seemed to be the usefulness for smoothing, and that smoothing should be thrown out for determining the funded status of the retirement plans. She thought that using the actuarial value of assets would significantly overstate or understate the funded ratio at times.

MR. KERSHNER agreed, pointing out the small print at the bottom that states the funded ratios are different when the fair value of assets is used. There was not room on the chart for that column. The valuation reports contain the funded ratios on both the actuarial value and market value of assets so people can see the true funded ratio. The funded ratio based on market value of assets is lower.

MR. LANGER added that he found it sort of odd why the convention persists of showing the funded ratio based upon the smoothed value of assets. He would rather show it just based upon market value of assets but still make use of the smoothed value of assets for purposes of contributions. Right now there is not that big of a difference, but there have been times where the funded ratio might be inflated by 30% or under-inflated by 15% or 20%. Traditional actuarial techniques rely on this, but he thought there was an evolution of funding policy that might use the smoothed value of assets as an underpinning but go beyond simple conventions. There is a bit more setting contribution rates, instead of the simple deterministic models, stress tested based upon a stochastic or _____ modeling things that project all sorts of different returns to determine if those contributions will be sufficient to keep the plan moving ahead in a proper fashion.

CHAIR ERCHINGER said it is important that, when looking at the funded ratio, the ARMB is looking at today's funded ratio. For example, the $1 billion state contribution to PERS and $2 billion to TRS, and what impact those have on the plans. As long as the Board is looking at the actuarial value of assets both before and after those large contributions, then the comparison is apples-to-apples. When talking to policymakers about the funded status of the retirement plans and trying to figure out how much actual cash should be in the plans, and the ARMB and its actuary understand there is an 80% unrecognized investment loss that is not being reflected, it is important how the information is used and to understand what actuarial value of assets versus market value of assets means. Most people do not understand what that means. It looks like the funded ratio is great, and it is much better than it was before the injection of money. But the PERS funded ratio number on slide 19 does not take into account maybe $700,000 worth of investment losses that have not rolled into the funded ratio yet.

MS. THOMPSON mentioned that the Actuarial Standards Board was putting together another pronouncement on risk that will require actuaries to show both the actuarial and market value of assets so the Board can engage in that discussion on risk with Buck and how it is converging to market value.

MR. BRICE asked what the timeline was. MS. THOMPSON said it was probably a year.

MR. BRICE said part of the discussions in the legislature, when they did the big cash infusion to PERS and TRS, was the intent language on market value versus smoothed value of assets and how to calculate, from their perspective, an accurate funded ratio.

CHAIR ERCHINGER said that was an important point. The Board has discussed what the legislature really meant when they said eliminate smoothing. Maybe they did not really mean eliminate smoothing but to focus more attention on market value so they know where the funded ratios really are. The funded ratios now do not include 80% of where the market value of assets is today.

MR. KERSHNER referred to the valuation reports and stated that for PERS the funded ratio based on the actuarial value of assets is 78.2%. The funded ratio using the market value of assets is 75.3%.

*3. Net actuarial gain or loss:*

MR. KERSHNER noted that the executive summary in the valuation reports contained more detail, because GRS suggested in their review that the "Other" actuarial gain/loss category be provided in greater detail.

He then commented on each of the assumptions, starting with the demographic experience (retirement, termination, mortality for actives and inactive members, and disability). Buck compared the liabilities with what they expected to happen versus what they really are. For example, there was a $3.8 million loss on PERS pension due to retirements being different that what Buck expected. On the healthcare side, it was a $2.6 million gain. The losses are

extra liability compared to what Buck expected, and gains are less liability than was expected.

MR. KERSHNER stated that he has spoken about the effect of rehires earlier. Salary increases were a gain on the actuarial accrued liability because salary increases in the last year were less than what Buck expected them to be. COLA and PRPA increases were a gain on the actuarial accrued liability because those increases were less than what Buck expected them to be. The biggest item was the medical claims experience gain for both PERS and TRS.

Under the "Other" item, MR. KERSHNER said programming changes are refinements to Buck's valuation programming based on the comments they received from GRS on prior reviews and also on other items that Buck identified as they were going through the valuation. He described what makes up "programming changes," as follows: optional forms, QDRO (qualified domestic relations order) benefits, SSLIO benefits, and retirement rates.

Optional forms: previously, disabled retirees that had a joint survivor annuity were valued as single-life annuity. GRS pointed that out in their review, and Buck made the correction and valued those as a joint survivor annuity. It is a loss to the accrued liability because there is now a survivor benefit. It only affected PERS.

QDRO benefits only affect the healthcare. As part of the valuation process, Buck saw an updated handbook on the Alaska website that described the survivor benefits for QDRO participants a bit more clearly. Based on Buck's read of that, they no longer are valuing subsidized medical coverage for the surviving spouse of QDRO participants beyond the death of the participant. That creates a gain.

CHAIR ERCHINGER said she thought that if there was a QDRO and the member dies that the spouse of that member does qualify for health insurance, but not while the member is still living.

MR. KERSHNER said it was the opposite.

CHAIR ERCHINGER asked Buck to check on that, because her understanding was based on inquiries she received from employees and from looking into it over the years.

MR. BOUCHER said it depends upon the circumstance at the time the benefit was elected. The healthcare generally follows the pension benefit. So if a member selected a survivor option for a spouse and then had a subsequent divorce and remarriage, the benefit would eventually go to the first spouse, as well as the healthcare. But the second spouse would not be valued.

MR. KERSHNER explained that on SSLIO (Social Security level income option) benefits Buck had previously been applying the 75%/85% marriage assumption. During the course of GRS's review, they questioned one of the test lives that was an SSLIO benefit recipient.

Buck confirmed that they were valuing subsidized healthcare coverage beyond the death of the participant, and they recognized that that should not have been valued. It should only be valued until the death of the Social Security level income option benefit recipient. By removing the continued spousal coverage, it created a gain (or lower liabilities) of $11.2 million. This only affected PERS because TRS does not have the SSLIO option.

MR. KERSHNER stated that one item identified in the review was that some of the retirement rates were not being applied correctly. Making that adjustment had a very minor impact on the actuarial accrued liabilities.

Buck's valuations still have a "miscellaneous and data changes" category. As is typically the case in annual valuations, the staff sometimes gets more information on the data or corrections and modifications to the participant database. When Buck gets that revised data, it is a data change because the data from last year's valuation and this year's valuation for a participant is different. That gets swept up into "data changes." As long as the effect of the data-related change is not material, Buck does not question it because it is normal operations for data to be refined and modified every year. The one big item is a $38.7 million gain under TRS healthcare, which was due primarily to the Medicare Part B coverage.

MS. BISSETT explained that Buck learned that when an assumption is based on a participant's working history after a certain date that they potentially might be a Medicare Part B only type person. Buck carries that along, and when that person becomes Medicare eligible, if Buck does not get a Medicare Part B only flag from the third party administrator, then it changes and assumes that this person is probably Medicare primary. This was a big driver on the TRS side. Buck errs on the side of "this might potentially happen." Rather than have someone come back with a hospital claim where it turned out they were Medicare B only and it would be a loss, they try to provide for it up front.

MR. KERSHNER pointed out the total line of the experiences versus the actuarial accrued liability on slide 20, saying that the gain/loss on the pension side was less than 1% of the liabilities for both PERS and TRS, which is not a significant amount. The difference is significant on the healthcare side because the medical claims experience gain was so large this year.

The mortality gain for inactives is bigger on the healthcare side than it is on the pension side for both PERS and TRS, but especially for TRS. Most of this is due to Buck using the pension data as a proxy for the healthcare liabilities and making assumptions on the marital status of the record. If the pension participant is married, Buck values medical coverage for the spouse of that retiree. That is the convention that has been used for several years based on the pension data. There were quite a few deaths of participants who, in the data, were recorded as receiving a single-life annuity but they were married. Because of Buck's process for valuing healthcare, if a participant is married they are going to value them with subsidized medical coverage for the spouse. When those people died during the year, Buck was losing essentially one person in the pension valuation, but on the medical side they were

losing two (both the participant and the assumed spouse that was being covered). The deaths of those people created a bigger gain on the healthcare side than it did on the pension side.

MR. BADER asked if Buck was seeing in other retirement plans this wide deviation in the healthcare elements of the actuarial accrued liability gain/loss schedule.

MR. KERSHNER replied that on the healthcare side 90% of the total gain is from the medical claims experience, which is unique to the Alaska plans, in terms of the process that is followed.

MR. LANGER added that Buck has plans where the difference between the trend they are expecting and what actually happens is as big an impact as they will see on assets. It gets funds into several percent rather quickly. He has seen funds recently where instead of the claims going up by 8% they fall by 2% or 3%. Before that, Buck would see the claims leap over the 8%. However, the gains from medical claims experience for PERS and TRS is a lot, and there are several things that have caused this 13% and 14% decreases in the actuarial accrued liabilities over the past year. While there have been questions about the model, he believes the model is working, but refinements could be made in a few areas. Could Buck get a bit more heads-up in terms of where this is going? Buck averages claims over a four-year period, and the claims they had from three and four years ago were rather high. If they do not see the claims increasing, they know they are headed for lower liabilities, and that is a better outcome. Had Buck even had claims coming in at the 8% seen in the trend, it still would have been a gain because they are still factoring in good claims experience from the past.

MS. BISSETT reviewed the key drivers behind the healthcare gains that were a major contributor to the increase in funded status. The experience based on the per capita costs that were developed for this valuation versus what Buck was expecting beat things by about 10%. About half of that is experience. Buck uses the four-year rolling average, with more weighted toward more recent experience, but some of it still has the older experience in there. An older year that was more costly than expected dropped off, and the new year that came into the weighted average was lower and more favorable experience. The third party administrator (TPA) paid claims faster this year, but claims were just lower than expected by about 4%.

MR. JOHNSON asked if Buck did any independent research to see if a large backlog of claims had been filed but not paid, or if they did an experience study of the current TPA.

MS. BISSETT responded that last year she only had about six months of the new health plan administrator's experience. She looks back at at least 12 to 24 months to see how fast claims are getting paid out. Because the new TPA experience was only six months last year, she used a little more conservative factor based on the previous experience that claims took a little longer to get processed. That conservative factor turned out to be a little on the high side, because the new TPA really was paying claims faster. This year she applied less of a load factor on that piece.

MR. JOHNSON noted the more than one billion dollars of savings on medical costs for PERS and TRS combined, which he found astonishing. He said it defies the layperson's knowledge of how medical costs are increasing. He asked if Buck delved deeper into the data when they saw the results.

MS. BISSETT replied that Buck examined whether they were missing some claims that had not been reported to them. She verified that she was not overstating or understating claims, but this was a real phenomenon of lower experience. Buck included some savings factors because of a new TPA coming in effective January 1, 2014, and it is possible the savings came in stronger than anticipated and will be a temporary phenomenon. Also, the claims lag has been reduced, which created about a 3.5% savings, and then the claims costs were better by about 4%. On the trend assumption, Buck looks at Alaska's actual experience over the past few years but also considers what is happening in the marketplace and in the industry. That probably accounts for another 1% or so. Another 1% to 1.5% piece comes from the new TPA's rebates on FY15 benefit payments. Historically, rebates had been reflected in increased assets but had not been put into the medical claims, except for this most recent year.

MS. BISSETT remarked that the question is whether the healthcare gains will continue. She did not see it continuing forever because there is a cyclical pattern to it. A new TPA comes in and the claims drop because the administrator gives network improvements that reduce the base. Then, over time, the providers decide to raise their rates, and those discounts do not mean quite as much, so claims costs ramp back up.

MR. BOUCHER related that a comparison of the TPA quarterly reports for the 2013 span and the 2014 span show claims costs were fairly flat between years. Looking at the most recent reports year over year, that growth trend is starting to re-emerge about the second quarter of 2015. That is an area the administration is concerned about and having to manage to.

MS. THOMPSON referred to an exhibit on page 83 of the PERS valuation report that explains some of what Ms. Bissett was talking about.

At MR. BOUCHER's request, MS. BISSETT addressed the lowering of the long-term healthcare costs trend. She said Buck updated the trend after a bit of debate last year and because the Society of Actuaries long-term healthcare cost trend model had updates last year. Buck reset their starting points, based on what she had seen at the time, and things came in lower this year due to various factors mentioned earlier. There are questions of what the economy will do, and technology is also a factor in there. The trend has definitely come down from 5% to 4.5% over the long, long term. If she sees a trend or some reason to believe an update is warranted, then she definitely tries to get that implemented at the appropriate time.

MS. BISSETT responded to MS. HARBO, saying there would be a bit of a gain if more people than Buck expected went into Medicare status, but the older age of retirees in the closed PERS and TRS plans is built into the whole valuation process.

COMMISSIONER FISHER said there is a lot of concern on the committee. He asked if there was any actuarial practice of smoothing this kind of a change over more than one year to see if the gain or loss actually holds, similar to smoothing gains and losses on investments. Further, he was interested in whether Buck was satisfied with the explanation that the model is working despite such a dramatic gain to the retirement plans from medical claims costs.

MS. BISSETT said Buck uses a four-year smoothing when they develop the medical claims, and it is weighted more towards the most recent years. If she had used just data from one year to the next year, there would have been a large gain last year and a big jump up this year. It just happens that there are multiple factors contributing to the medical claims cost going down.

MS. BISSETT spent a minute describing the data that Buck receives. The composite healthcare data does not necessarily say whether a system-paid person is covering their spouse or not. Buck has notes from possibly a prior state employee that the benefit follows the pension form. A single person would technically be single coverage. But if the marital status is married, while that person is alive and the coverage is free, Buck assumes that the person is covering their spouse. To the extent that that is not true, or the spouse has coverage from another source, that is where Buck would look at other resources to try and refine that assumption. Buck can make an estimate based on information in the data, but then they would be over- or understating one way or the other. So they go to what they believe is the closest to accurate and on the conservative side. That is how Buck gets a member with a single life annuity but showing married – the spouse is covered, but if the member dies, the benefit goes away, thus creating a gain to the system.

MR. WILLIAMS asked if Buck could get the information on whether a member is married. MS. BISSETT said she believed there was a way to get it, and Buck has been looking for another resource to access that will help them improve that assumption. Regardless, she did a comparison as to what the health data on the pension file says for those system-paid members. From the data she got from Aetna, the average number of people who are covered is about 70%. When she compared a sampling of what that data produced to what the valuation would do, it was within 2% or 3% on their method and a bit lower if she took the average based on what is in the healthcare data on the census side. That is why Buck believes that the process they are following is the best they can do based on the information they have received to date. There is an opportunity to look at what the TPA has and if they can provide a supplement to link up with the data from the Department of Administration.

MS. HARBO recalled that in 2006 every plan participant was required to submit a copy of their marriage certificate if they were married. She suggested that it might be time to collect that information again to refresh the data.

MR. BOUCHER stated that the Division of Retirement & Benefits is collecting that information in the active plan now, and is considering a dependent verification for the retiree plan as well.

MS. BISSETT said Buck would have to discuss if it is something that needs to be done. It is also a matter of getting that information incorporated, which can take some time.

MR. WILLIAMS said that if Buck had something in their valuation model that they did not think was right, he assumed they would try to correct it at the time.

MS. BISSETT replied that especially with the medical claims and the trend, which change more frequently. As Buck has been using the pension census as a proxy for the healthcare, it has also been sort of a proxy for participation. While it may be on the conservative side, when they know better information and the historical picture of that, then they can incorporate that into participation assumptions.

CHAIR ERCHINGER said that, from an actuarial standards point of view, if the retirement systems were showing a billion dollar loss on medical claims experience, people would be scrambling to figure it out. She said it sounded like Buck was saying they had done the best they could with the information they have, and the information definitely needs to be improved. Given all that, and to be dramatic for the purpose of making a point, the Board is making very important funding decisions without great information that are going to have huge long-term impacts in terms of not putting money into a system because there is a big gain on medical claims experience that may not even be real. In the same way that other things use a corridor, she thought it made sense to smooth the medical claims experience for a five-year period. This would avoid putting off for five years addressing what is causing the big gain on the assumption and losing five more years of opportunity to earn interest on funds the Board would have put in if it had had better information. She felt it warranted some sort of adjustment, not necessarily just to get the contribution rates up, but in terms of not having a billion dollar number that the Board cannot defend. She asked what Buck typically does when they see this kind of event.

MS. BISSETT responded that Buck would definitely try to look beyond one year to the next, and for sure there is a cumulative gain effect. That $884 million cumulative gain on medical claims experience for PERS gets amortized over the remaining 23 years, so it is not all recognized right away. That would be a change in Buck's assumption on how they weight the experience and whether they want to consider a more frequent update of trend.

CHAIR ERCHINGER asked if Buck would throw out a year because it was not consistent with past trends and they did not trust the data.

MS. BISSETT said they have to use the experience that they have, so it is making a judgment call about how much credibility they would want to give to that. Other factors to

consider are what might be happening going forward and whether those things will trend back up or not. That is more "do we reset the trend for the short term."

CHAIR ERCHINGER remarked that maybe there was no standard way to deal with this kind of anomaly, so the ARMB would just do what it always does. However, she recalls getting a letter from the State one year saying the employer contribution rate was zero, and she called and voiced concern that something was dreadfully wrong, only to be reassured that that was what the numbers showed. For a couple of years employers paid nothing, and everyone was operating with the best information they had. But smart people knew just intuitively that something was wrong. People around this table know that something is just not right, so it does not feel like the best thing the Board can do is what it always does because nobody knows what is happening and there is no rule book for how to handle it. She did not feel comfortable with that action, although she did know what the answer was. She asked Buck and GRS to put their heads together and come up with some options on what could be done to at least stretch out the impact.

MS. THOMPSON remarked that one reason they do not know what to do yet is because the actuaries do not know what is causing the gain. The cause will drive the solution. She said she did not have a big concern over what Ms. Bissett described in the claims cost. She tends to think of the valuations in two pieces: the Melissa piece and the valuation piece. If the model has problems, it is in the interface between those two. The way Ms. Bissett has developed the claims makes sense, and she can look at page 83 and see it. Her concern is that when those claims costs are developed and then applied to the proxy data, that is where the model hits a wrinkle. It would be great to fix the model by using real data and not having to use the pension data as a proxy. Then everyone would know better where it stood. She said she worked on a case quite a few years ago where there were big gains and they were held in reserve for something like three years until things could wash out. Deputy commissioner Boucher at the last meeting raised the question could it possibly swing the other way and next year have a billion dollar loss, if it is a model issue. That is why she felt they had to deal with the model.

MR. KERSHNER said he agreed with Ms. Thompson's comments. There are two things going on: the development of the claims based on the four years of experience, and dropping off an unfavorable year this year. Those claims are then applied to the pension data as a proxy for healthcare. The $884 million cumulative gain for PERS is the difference between applying the newly developed claims based on the four-year weighted average to the data, versus what Buck expected the per capita costs to be based on last year with assumed trend, and applying those to the same proxy data. In this case, the proxy data is consistent between the two. What is giving rise to the $884 million cumulative gain is not the use of the proxy data; it is the difference between what the newly developed claims are versus what Buck expected them to be. He agreed that consideration should be given to some sort of smoothing of that gain, similar to investment gains and losses.

MS. BISSETT pointed out that in that case it would be further smoothing, because Buck is already smoothing to some degree. It would be putting less weight on what they are seeing now versus what they have seen in the past.

CHAIR ERCHINGER noted that Buck has adjustments to make before the final valuations go out, so the committee and the Board will not have an opportunity to meet and vote before the June meeting. She asked committee members if they wished to give any direction on this issue so that it could be taken before the Board for a recommendation at tomorrow's meeting. If nothing is done today, that is what will end up in the valuation reports.

MR. LANGER said often, when the faucet of contributions is turned off, it is really difficult to turn it back on. Instead of instituting additional smoothing techniques, the committee could consider not taking the whole decrease in employer/state contribution rates. The message would be that the ARMB is holding some of the gain aside in anticipation that conditions might rebound. It is a more direct route, as opposed to all the smoothing alternatives.

COMMISSIONER FISHER responded that, in this environment, and for better or worse, the legislature has seen the prior report and already has these numbers in the budget.

MR. BOUCHER stated that the legislature is anticipating a drop in the state assistance payment.

COMMISSIONER FISHER said he wanted to do the right thing, but he did not want to be casual about what the ARMB does. He was a bit uncomfortable about saying that the best analysis says that it is X, and the ARMB has decided not to do X.

CHAIR ERCHINGER said she agreed that could be a slippery slope. However, if the Board were to make a decision to smooth over five years and that gets to a different contribution rate, at least that is a defensible, specific decision. The fact that the legislature has seen the valuation reports is not compelling to her because they are drafts, and the ARMB is supposed to be adopting a rate.

MR. JOHNSON said he agreed with the Commissioner that any decision cannot be random and needs to be backed up. It struck him that so far, of all the points that have been made in the presentation, the committee is the most hung up on the medical claims cost issue. He wondered if it was possible in the realm of actuarial plausibility to do something such as continue forward with last year's assumption on that particular point. Staying with a previous assumption struck him as a way to look at something.

COMMISSIONER FISHER asked if that would eliminate the whole $884 million cumulative gain on PERS.

MR. KERSHNER confirmed that a fair amount of it would go away. There are some non-medical factors related to the cumulative gain, but the medical claims are most of it.

COMMISSIONER FISHER asked how much of the weighted average of claims experience was attributable to the most recent year.

MS. BISSETT said the two most recent years get 35% each, and then the two older years get 20% and 10%, respectively.

Referring to page 83 of the PERS valuation report, COMMISSIONER FISHER had a question on the FY2012 paid claims cost rate of $7,158 per member that Buck adjusted to $9,231. FY2012 is the oldest of the four years of claims experience and gets a 10% weight in Buck's analysis. In the current FY2015 year, the actual paid claims cost rate of $7,131 is not dramatically different from FY2012's $7,158. It is the adjustments that make the difference.

MS. BISSETT explained that the older years have an adjustment because they did not reflect the new administrator yet, and then Buck applied trends to get out to the same projection period.

MR. KERSHNER added that it was to get from FY2012 dollars to today's dollars. The same is done with the other two years of claims experience, so everything is brought up to the same year.

COMMISSIONER FISHER commented that in 2011 the number was probably more like $9,200. That year fell off the four-year experience and was replaced by the 2015 experience, and that was what was driving it.

MS. BISSETT agreed that was part of it. It was also that what came in this year was a lower cost than was projected, based on what she knew last year.

MR. LANGER stated that some good news is sitting in the hopper, in case this next year has a bad claims cost experience.

CHAIR ERCHINGER asked if it made sense to go back and include the year that dropped off in order to mitigate the impact of the gain from medical claims experience.

MS. BISSETT said it means a change in methodology, plus the time needed to run everything again.

CHAIR ERCHINGER remarked that the committee wants to address a problem but also does not want to make a decision on the fly that will have long-lasting potential impacts. She suggested that the committee request a deep dive on the medical claims to make sure it is addressed before the next valuation so there is a solution. She recalled a similar discussion last year, although the cumulative gain then was not to the same degree as now. She said it was not on Buck to resolve this, because they are dealing with the information they have. However, someone has to identify the problem and find out where information is missing.

MR. JOHNSON stated that he has heard anecdotally about slow payment of medical claims. He asked if, in terms of assessing claims, there was any precedent for looking also at the number of claims in process and applying an adjustment from that. Claims in process will include bogus claims, claims for services people are not entitled to receive, and appealed claims, among others. It struck him that the valuation was not taking into account the existence of bad claims in claims filed but not yet paid, particularly during the early period of a new third party administrator.

MS. BISSETT said there is a factor for that in her work. It has been reduced from the past because she has more information from the new TPA that makes it look like claims are being paid faster. Faster processing is true in the industry as well. It does not appear to her that the new TPA is slow in paying claims.

MR. BOUCHER stated that the information the Department of Administration is getting at the quarterly meetings does not indicate slow payment. It was just in early 2014, when the TPA was gearing up, that they were slower in paying.

MR. JOHNSON asked about the range of accuracy for the medical claims cost numbers that Buck presented.

MS. BISSETT said that in looking at the deviation between benefit payments, it is a few percent off here and there. But one big thing happening can throw it off. She has not looked at the outcome, standard deviation-wise, for a while.

MR. WILLIAMS commented that he heard someone say earlier that this was sort of an issue last year too. It seems like there is enough concern that there should be a real push to move away from proxy data to using real data. Earlier, people were discussing about whether a spouse is covered or not covered in certain circumstances: that is a place where the model needs to be corrected. The proxy data may not be the cause of a problem right now, but if the actuary continues to use proxy data it could be a problem in the future. He hoped there was a way to keep refining the data so that the committee is not still talking about proxy data three or four years from now.

MR. BOUCHER assured him that the department has been aware of this issue and is working towards that consistently. The State is getting much better data from Aetna than from the previous TPA by a factor of ten. With the new TPA, some of the long-time concerns are evolving towards better data. In terms of what he heard the actuaries say, most of the gain here is due to using actual claims data, with the exception of how much to adjust for what are typically described as incurred-but-not-paid claims. He thought that through using a new TPA the State has managed to curb costs. However, he was concerned more about the future, because emerging data indicates a rebounding.

COMMISSIONER FISHER said medical claims experience has been smoothed over four years, and it is growing at 8%.

MS. BISSETT said it is about 8% for the pre-Medicare, but the Medicare group is a little bit less.

COMMISSIONER FISHER said those two factors suggest that if this is the valley and medical claims costs rebound, the rebound is sort of built into the future model. He found it interesting that the $884 million cumulative gain on medical claims experience for PERS is roughly comparable to the loss in investment return that was experienced in one year. He asked Ms. Thompson if it was really that big of a swing, in her experience, or if this was in the range of a normal adjustment for a retirement pool this large.

MS. THOMPSON replied that from her experience this was a big swing. The other piece is that healthcare gains have been swinging this way for all the years that she showed in her report. She was not just focused on the one year, even though it is a whopper – it is the accumulation over all years that has her concerned.

CHAIR ERCHINGER asked if GRS would be okay with the committee accepting the recommendations of Buck's report to not smooth the medical claims experience but to accept the large gain for a single year. She noted that Ms. Harbo posed the notion earlier that maybe the historical data is bad, and now the actuary is getting better data from the current TPA than from the prior TPA.

MS. BISSETT reiterated that Buck has to use the data that they have.

CHAIR ERCHINGER asked if GRS would recommend that the committee move forward on the current path but come up with a process to re-evaluate at a deeper level in the coming year.

MS. THOMPSON said her recommendation was to do just that. She would not recommend coming up with a change today because the actuaries really do not know what is wrong, or if anything is wrong. GRS has been pointing out this concern for a few years. A deeper dive to find out what is behind the gain is the way to go before changing anything. She advised that before Buck issues the report, and consistent with ASOP 23, that they should state in the report that they are not using the retiree medical data but using pension data and assumptions regarding election as proxy for retiree healthcare election data, so that users of the report understand that there can be some model risk.

MS. BISSETT stated that the system works and depends on the pieces that go into it. Buck can find a way to refine those pieces and tighten it up. She was not sure to what extent that would be, because her initial sampling did not see a lot of difference.

CHAIR ERCHINGER said there had to be a way to word that so it does not necessarily reflect that the model is not working. She asked how other committee members felt about taking that approach for the coming year.

COMMISSIONER FISHER and MS. HARBO indicated they were comfortable with it.

MR. JOHNSON suggested, if that is the Actuarial Committee's recommendation to the Board, that it carry with it a caution that in future years there could be a dramatic swing in the opposite direction, given the uncertainty of the numbers. He added that he supported the Commissioner's earlier statement that it is important that the committee's assessments be based upon the best expert advice that it is getting.

CHAIR ERCHINGER asked if a couple of committee members could craft a motion of recommendation to the full Board that the committee could act upon later in the meeting.

*4. Funded ratio:* Covered earlier, under *#2. Actuarial accrued liability.*

*5. Contributions:*
MR. LANGER referred to slide 23, which showed the employer/state contribution rates for PERS and TRS for fiscal years 2017 and 2018. He said the contribution rates are applied to total payroll and not split between defined contribution or defined benefit. Of the costs overall, the state assistance contribution is what gets the risk and reward of the contribution changes.

The drop in contribution rates for both PERS and TRS between FY2017 and FY2018 is primarily driven by the medical claims experience.

MR. LANGER noted that the DCR plan costs will continue to increase over time, as more and more DCR members make up the workforce. Long term, the DCR contribution rates will end up around 10% or 11% of payroll.

The total actuarial rate for PERS last year was 29.98%, and it has decreased to 26.88% this year. For TRS the total actuarial rate last year was 33.07%, and it drops to 28.84%. For both plans it is remarkably even in terms of how much is going toward the cost of benefits accruing (normal cost) and how much is going to pay off the past unfunded liability.

MR. LANGER pointed out that the total contribution bill coming due is 26.88% for PERS and 28.84% for TRS. Members contribute a portion. The employer portion is capped at 22% for PERS and 12.5% for TRS. That leaves the state assistance contribution paying the rest: 1.44% for PERS and 11.62% for TRS. He remarked that it looks like the PERS contribution rate was slashed by two-thirds, and the TRS contribution was slashed by 25%. But that is the nature of the state assistance contribution – a lot of variation from year to year because the member contributions and the employer contributions are fixed-percent-of-payroll commitments.

**Defined Contribution Plan Retirement Systems – PERS & TRS**
MR. KERSHNER briefly reviewed the DCR plan results on slide 24. The take-away was that the contribution rates as a percentage of payroll were relatively level versus last year.

MR. LANGER next reviewed projections for the PERS and TRS plans. Buck's projections are deterministic, in that all the assumptions are fixed or static going into the future. The big static assumption contained within both plans is that the market value of assets will achieve an 8.0% investment return – which is a big IF. The primary point is that at the year 2039, according to the contribution policy, the plans are supposed to get to 100% funded. He stressed that that does not happen in every state: there are states or municipalities where the plans are going to run out of money at some point, or never get to 100% funded. The ARMB should be protective of a policy that is designed to fully fund the retirement plans.

MR. KERSHNER went over the list of changes to be reflected in the final 2015 valuation reports that will be provided in June:

- A couple of programming changes, as Ms. Thompson went over earlier, including a PRPA COLA increase.
- Valuation report changes – some additional disclosures of actuarial assumptions.
- The Cadillac tax dollar amount will be estimated and included.
- Disclosure of using pension data as a proxy for the retiree medical data; and some other minor wording changes.

**Follow-up Items**

MR. KERSHNER said there were other items that Buck has to work through that would not necessarily be reflected in this year's valuations. These are the continued use of the pension data as a proxy data; confirmation of the DCR retiree medical plan design; the start of occupational disability retirement benefit; and application of GASB 67 to Occupational Death & Disability benefits.

CHAIR ERCHINGER said that, for those who were interested, the Buck presentation slides included an exhibit on the potential impact of SB 207 and SB 209, proposed legislation that would increase the employer contribution caps.

**D. Review of Audit Findings List – Plan of Action**

CHAIR ERCHINGER drew attention to the "Actuarial Audit Findings/Comments/ Resolution – April 2016" spreadsheet that listed the issues the review actuary, GRS, had identified when reviewing the valuation reports [*on file at the ARMB office*]. The committee had discussed some of the issues previously, and the actuaries had agreed to work together toward a resolution. Some of the issues resulted from the FY2015 valuation reports and recommendations.

CHAIR ERCHINGER stated that, by statute, GRS must review the actuarial reports before the full Board gets the reports. There seems to be some uncertainty about what the statutory requirement means, in terms of when the Actuarial Committee can get the reports and be involved. That issue still has to be addressed, probably with board legal counsel. The committee needs more time for its review so the actuaries are not waiting until the last second to cram a bunch of changes into the valuations.

CHAIR ERCHINGER asked Ms. Thompson to review the report, beginning with the issues where the two actuaries were in agreement on what the resolutions should be. It would facilitate the committee taking up those items first and making recommendations to go to the full Board for approval. Then the committee could tackle the items where there is still disagreement and perhaps ask for further deliberation to find a solution on those by the June meeting.

MS. THOMPSON reviewed the items, as follows:

1. Use of proxy data on PERS & TRS retiree medical: resolved with the caveat that Buck will note in the valuation report that they are using proxy data.
2. Application of lump sum assumption (TRS): Buck concurred – resolved.
3. Cadillac tax method and amount: Buck will disclose in the valuation reports – resolved.
4. Resolved that Buck is using 0% population growth and not modifying payroll because that gets into a lot of other modifications.
5. Description of data changes as part of the new process – resolved.
6. Description of changes to capture rehired teachers (TRS) – resolved for this year. Still open for next year regarding putting in a rehire assumption to deal with all rehires.
7. Description of "other" in assumption gains/losses – resolved to indicate the "other" elements in the valuation report.
8. Add a description of programming changes – Buck concurs, resolved.
9. Methodology changes on payroll – resolved. Buck will clarify that there is rate payroll and valuation payroll.
10. Similar to #9. Use rate payroll instead of "salaries" for reader understanding – resolved.
11. Clarification re ARC – resolved. Buck will make the language notation in the final reports.
12. Age/service charts have a footnote to clarify which payroll Buck is illustrating: Buck agreed – resolved.
13. Footnote on programming changes – resolved.
14. Clarification of teacher count (TRS): resolved, but need an explicit rehire assumption.
15. Language clarification (TRS) – resolved.
16. Language clarification (TRS) – resolved.
17. Explaining "Other" category (DCR) – resolved.
18. Return assumption clarification (DCR) – resolved.
19. Post-retirement benefit adjustments for survivors (PERS & TRS) – resolved in that Buck will look again if they can find a way around the system limitations.
20. PRPA timing and application – resolved.
21. Deferred disability commencement – still open for discussion because it may be that current practice differs from what the document says.
22. Use actual retiree medical data in the valuation, not pension data – resolved with disclosure.
23. Funding policy language – Buck has agreed, with staff and committee input, that they will amend wording. Resolved.
24. Discount rate assumption change – resolved.
25. Clarification of fiduciary responsibility – resolved.
26. Clarification that return assumption is net of expenses – resolved.

27. Disclosure of data (TRS) – resolved with disclosure.
28. Membership counts (TRS) – resolved.
29. Mortality gains (TRS) – Buck resolved with an explanation.
30. Consistency in referring to valuation year, fiscal year, and calendar (TRS) – Buck agreed to look at and resolve that.
31. Explain "Other" (TRS) – resolved. Buck will review and update the final report.
32. Twenty-five new beneficiaries/retirees showed up in TRS – resolved. Buck will review and update the final report, if necessary. GRS will watch for this next year.
33. Large rehire loss (TRS): Open because it is a rehire assumption issue. Buck is reviewing.
34. Rebate information: May be a topic of further education for the committee.
35. Data clarification (TRS) – GRS found that about 50-60% of spouses are covered for medical benefits. Buck has better data that about 75% are covered. This issue is still open on the assumption of how many spouses are covered in retiree medical. Should remain open until there is actual data, so cannot be resolved in this valuation.
36. Large unexplained gain on mortality assumption (PERS): Still open for GRS. Buck is reviewing.
37. Change to blended rate for retiree medical plan in 2015 without explanation (DCR): Buck explained – resolved.
38. Difference in covered payroll (DCR): Buck explained – resolved.
39. Retired member growth rate (DCR) – resolved.
40. Persistent loss in pension (PERS & TRS) – Open but GRS believes it cannot be resolved until next year's experience study.
41. Persistent gains in retiree medical (PERS & TRS) – Open.
42. Termination rates create losses every year (PERS & TRS) – Buck modified their code in 2012, but the losses continue. Open and needs review again. GRS to monitor.
43. Pension and OPEB (PERS & TRS) – resolved, Buck will review the rehire assumption.
44. Confirm eligibility service (NGNMRS) – Open. The data is hard to capture on this system.
45. Need a formal plan document (DCR PERS & TRS) – GRS will continue to monitor development of the plan. Open.

MR. LANGER said he appreciated the comments and going through the list of audit findings to signify what is open and what is closed/resolved.

CHAIR ERCHINGER expressed appreciation that Buck and GRS were able to converse back and forth and address many of the audit findings, thus making the committee's use of time more efficient. She told the three new committee members that normally the committee spends more time on the audit findings, but it had already discussed many of these issues at length in previous meetings, except for the items that were related to this year's valuation reports. She informed everyone that Board Chair Gail Schubert had appointed Mr. Williams, Mr. Johnson, and Mr. Wesley to the Actuarial Committee, making them eligible to vote on committee matters.

**Recommendation to Board re Resolved Audit Findings**

MS. HARBO moved that the Actuarial Committee recommend to the Alaska Retirement Management Board to accept the resolved items on the April 2016 Actuarial Audit Findings/Comments/ Resolution spreadsheet and as stated by Leslie Thompson of GRS and agreed to by Buck Consultants. MR. BRICE seconded.

CHAIR ERCHINGER stated the details of the motion for the record, as follows:
Everything on page 1 of the spreadsheet has been resolved (on some issues Buck has agreed to make changes to the draft valuation reports).
Item 4 on page 2 is resolved
Item 5 on page 3 is resolved.
Item 6 on page 4 remains an open issue; the other items on page 4 are resolved.
Everything on page 5 has been resolved.
Item 14 on page 6 is resolved but requires further action to have a rehire assumption in the future; item 15 – no change in the trend rate for this valuation but it will be taken up as a change in the subsequent valuation; and items 16 and 17 on page 6 are resolved.
On page 7, item 18 and 19 are resolved – item 19 expects that Buck will continue to look for a way around a system limitation, but that may not be possible. Also on page 7, item 20 has been resolved, but item 21 is open.
Item 22 on page 8 is resolved with further disclosures, and item 23 is resolved with agreement to change wording in the valuation reports relative to the statutory language as opposed to the Board's funding policy.
All three items on page 9 have been resolved.
All three items on page 10 have been resolved. Item 27 will require disclosure, which Buck has agreed to.
All three items on page 11 have been resolved. Item 30 will be resolved with a footnote. Item 32 is resolved but open for further work to be done in the future valuation.
On page 12, item 33 is still open, and item 34 will be a future education topic.
Item 35 on page 13 is open.
Item 36 on page 14 is open.
On page 15, items 37 and 38 are resolved. Item 39 is easy to resolve and so will be considered resolved. Item 40 is open and cannot be resolved until the next experience study.
On page 16, item 41 is open. Item 42 is open for later valuation report. Item 43 is open, pending possible explicit rehire assumption. Item 44 is open.
On page 17, item 45 remains open because of need for a plan document.

MS. HALL indicated that she would provide an updated chart tomorrow that included the committee's action taken today.

On a roll call vote, the motion passed unanimously, 7-0.

[*On file at the ARMB office is the April 21, 2016 version of the Actuarial Audit Findings/Comments/ Resolution spreadsheet that listed the issues that had been resolved, along with Buck Consultants' response and what the resolutions were, and that also indicated the status of the unresolved items.*]

**Recommendation to Board re Final Valuation Reports**

MR. JOHNSON moved that the Actuarial Committee recommend acceptance of the Buck Consultants report relating to medical costs, as reviewed by GRS, because the data underlying the report appears to be the best data currently available to the committee. The committee caveats this conclusion with a statement of concern and warning that the data identifying actuarial gains in medical benefit cost assumptions are premised in significant measure by proxy assumptions and input occurring during a time of transition between TPA (third party administrator) reporting systems. These figures may be high and, therefore, understate liabilities, and the continuing trend suggests a potential for increases in medical cost liability calculations in the future. The committee recommends that the foregoing caveat be included in any final valuation determination by the Board. MR. WILLIAMS seconded.

COMMISSIONER FISHER commented that the statement was more negative than he felt. He thought it was that the actuary and the committee do not know the cause of the gains. He had gathered, as the discussion went forward, that while there is a risk, there are lots of risks to a lot of things. He believed the data available was the best data available, and people should dig in and make sure it is right. He did not feel comfortable with a statement that sounded almost like the committee did not believe what it was approving.

CHAIR ERCHINGER called a brief at-ease while committee members reworked the motion.

COMMISSIONER FISHER offered the following friendly amendment:
Based on recommendation by the primary actuary, Buck Consultants, and the review actuary, GRS, the Actuarial Committee recommends acceptance of the Buck report of medical costs. The committee notes that the data underlying these results is based on the best data available to the actuaries and the committee, however, portions of the analysis are based on proxy data and, as such, may change as it moves to actual data during the next valuation. The committee recommends that this note be included in the valuation.

MR. JOHNSON accepted the friendly amendment and reserved the right to speak orally tomorrow when the recommendation was presented to the full Board.

As the second to the motion, MR. WILLIAMS said his concerns were a little higher, but he also accepted the substitute language.

MS. THOMPSON asked if the substitute language would be written into the valuation reports.

CHAIR ERCHINGER said part of the substitute language is requested to be included in the valuation.

MS. THOMPSON said the committee would have to get approval from Buck because they are the signing actuaries.

MR. KERSHNER said he thought it was about the proxy….discussed…[inaudible].

COMMISSIONER FISHER stated that he did not know if it needed to be in the valuation report or the ARMB's approval of the valuation report, but that as board members, their approval has the above note associated with it. Perhaps saying that it is part of the valuation report is further than the committee needs to go. Maybe it is enough to say it is part of the record.

CHAIR ERCHINGER said the purpose of this note is so that people who understand the Board's decision understand that the trustees have some discomfort about that number and want to make a statement about that number. She wondered if it was possible to put in the valuation that the ARMB makes the following comment as a footnote. It is not Buck's statement that they believe the numbers could change if they substituted actual data for proxy data. She believed that if the statement is not in the valuation report, the ARMB will have taken this action but nobody will know it so it does not get to the audience, which is the reader of the valuation report.

MR. KERSHNER stated that he did not think he could put a statement like that in the valuation report. He would have to take it back to Buck's reviewers. He could work up some different language to talk about the volatility of the cost or something like that. However, he did understand what the committee was saying about separating these things, so maybe if it was in the record.

CHAIR ERCHINGER said it was most important to her that it be in the record. That has been an issue in the past for the ARMB. But having it in the record reaches an audience of people listening to this meeting or attending the board meeting tomorrow. The people she believes should be cautioned are the members of the legislature and every employer in the state who will be looking at the valuation reports. They will be wondering next year, if the healthcare gains turn around and go the opposite direction, why nobody told them that it was a possibility.

COMMISSIONER FISHER proposed that the ARMB put a cover sheet on the document, which is what will be posted on the website and distributed.

MR. KERSHNER said a cover sheet on the front page would be reasonable, and it would be clear what the sources are.

MR. WILLIAMS stated that as long as the Board is united in wanting to move away from using pension data as proxy for healthcare data as fast as possible and that this is a concern. He was not convinced on the billion dollar gain on PERS, but as long as the Board is monitoring that and trying to improve the model, that is about the best the Board can do.

COMMISSONER FISHER said everything that he has heard is that the testing that looks at the proxy data against underlying data shows the delta is minor. He was unsure if GRS was saying the proxy data is where the model might be broken or if they thought it might be something more fundamental than that. He thought it was as likely that what has happened is that medical costs were overstated in the past and now have moved to a more accurate statement as it is that the opposite is true. That is why he is uncomfortable with a statement that seems to indicate that the committee thinks the data is bad. He is concerned about an $800-$900 million change, which is meaningful, but he was trying to be more neutral because the committee does not really understand what happened.

CHAIR ERCHINGER noted that Mr. Johnson's original motion talked about proxy data but also the transition between third party administrators.

COMMISSIONER FISHER said he took that out of his friendly amendment because he did not think that it was that relevant, but maybe he was missing something.

CHAIR ERCHINGER said it went to what he was just saying, that maybe the medical data was not correct. And that would most likely be the result of a difference in gyrations between the two TPAs. The commissioner's wording does not specify that it is proxy data, but it could be the result of a number of changing elements, such as the use of proxy data, the change in third party administrators, or some other unknown or unidentified factor.

MR. LANGER stated that the proxy data element is consistent between last year's valuation and this year's valuation. The bigger driver is the difference in medical claims that Ms. Bissett described earlier.

MR. KERSHNER added that if Buck were to get real healthcare data versus proxy data, they would see some variation because proxy data is not going to be exactly the same as healthcare data. But that is not the reason why there is an $880 million gain: that is because the starting per capita costs this year are much less than they were last year. Both of those sets were applied to the same proxy data. What is giving rise to the huge gain are the underlying claims, the new administrator, and the dropping off of an old year's experience in the weighted average. The effect of proxy data is independent of that.

MR. JOHNSON proposed a further amendment to the motion to add back the language that specifically said "…and input occurring during a time of transition between third party administrator reporting systems." Then at the very end, another amendment to clarify exactly where the committee's statement of concern would appear. If it is a recommendation to the Board, it could be included in the letter or resolution of adoption by the Board.

MS. HARBO seconded Mr. Johnson's amendment motion.

MR. WESLEY said it appeared to him that the committee was identifying a possible issue but was not taking action to resolve it in the motion.

CHAIR ERCHINGER acknowledged that was a great point: she thought there was discussion about a follow-up motion after taking action on the motion on the floor.

MR. WILLIAMS said he thought he was convinced that the proxy data is not the cause of the problem, however, it has been pointed out that using proxy data for healthcare data is not a best practice. It could generate a problem down the road, which is the reason to move it in the right direction.

MR. LANGER said he agreed about Buck reviewing the data to see if they can get something better suited. People now are focused in on the $880 million gain in healthcare.

CHAIR ERCHINGER asked the Commissioner to read the new language of the motion.

COMMISSIONER FISHER stated the following: "Based on recommendation by the primary actuary, Buck Consultants, and the review actuary, GRS, the Actuarial Committee recommends acceptance of the Buck report of medical cost. The committee notes that the data underlying these results is based on the best data available to the actuaries and the committee. However, portions of the analysis are based on proxy data and input occurring during a time of transition between TPA (third party administrator) reporting systems and, as such, may change as we move to actual data during the next valuation. The committee recommends this note be included in an adoption letter to be included as a cover page to be distributed with the valuation report."

On a roll call vote, the motion passed unanimously, 7-0.

MR. JOHNSON said he had a motion consistent with the suggestion by Mr. Wesley.

MR. JOHNSON moved that the Actuarial Committee recommend to the full Board that Buck Consultants go forth with analysis consistent with the committee's concerns about the medical report data, and present to the committee as much current actual data as possible, as soon as possible. MS. HARBO seconded.

MR. BOUCHER suggested, since the Department of Administration largely owns the data, that the department somehow be included in that request.

MR. JOHNSON agreed to amend the motion to add, "in cooperation with the Department of Administration." MS. HARBO was fine with the change as well.

The roll was called, and the motion carried unanimously, 7-0.

**E. Further Meeting Schedule – Review 2015-2016 Actuarial Committee Schedule**

CHAIR ERCHINGER stated that the final FY2015 valuation reports will come to the committee for approval at the June 23 meeting. The committee will be reviewing and passing contribution rate resolutions at the September 28 meeting. There is also a list of education topics to be included in future meetings. Perhaps an education topic could be

included in the September meeting agenda, as well as resurrecting the committee charter for action.

She asked that reviewing other assumptions (besides the investment earnings assumption) be added to the list of as-needed topics – such as the payroll growth assumption, in light of the situation in Alaska.

**VIII. Other Matters to Properly Come Before the Committee** – None.

**IX. Public/Member Comments**

There were no comments.

**X. Adjournment**

The meeting adjourned at 4:35 p.m., on a motion made by Ms. Harbo and seconded by Mr. Johnson.

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.

Confidential Office Services
Karen Pearce Brown