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

**Captain Cook Hotel – Club Room II**
**939 W. 5th Avenue**
**Anchorage, Alaska**

**September 28, 2016**

## ATTENDANCE

**Committee Present:** Kristin Erchinger, *chair*
Tom Brice
Gayle Harbo
Rob Johnson
Bob Williams

**Committee Absent:** Commissioner Sheldon Fisher
Norman West

**Department of Revenue Staff Present:**
Jerry Burnett (deputy commissioner)
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:**
Larry Langer (Buck Consultants, actuary)
Melissa Bissett (Buck Consultants, actuary)
David Kershner (Buck Consultants, actuary) *by telephone*
Leslie Thompson (Gabriel Roeder Smith, review actuary)
Paul Wood (Gabriel Roeder Smith)

## I. CALL TO ORDER
CHAIR ERCHINGER called the meeting to order at 2:30 p.m.

## II. ROLL CALL
Five 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. The motion passed unanimously.

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

There were no public comments. MS. HALL said she had no communications for the committee.

## VI. APPROVAL OF MINUTES – June 23, 2016

MR. BRICE moved to approve the minutes of the June 23, 2016 meeting. MS. HARBO seconded. The minutes were approved as presented.

## VII.

### A. FY2018 Contribution Rate Review

**Action: Relating to FY18 PERS Contribution Rate - Resolution 2016-11**

MR. BRICE moved that the Actuarial Committee recommend that the Alaska Retirement Management Board set the Fiscal Year 2018 PERS actuarially determined contribution rates attributable to employers, consistent with its fiduciary duty, as set out in the attached form of Resolution 2016-11. MS. HARBO seconded.

CHAIR ERCHINGER paraphrased for the record a portion of the "Now therefore, be it resolved" paragraph of Resolution 2016-11, as follows: "…the FY2018 PERS contribution rate is set at 25.01 percent, composed of the contribution rate for defined benefit pension of 17.27 percent, the contribution rate for postemployment healthcare of 3.11 percent, and the contribution rate for defined contribution pension of 4.63 percent."

MR. JOHNSON stated that part of the contribution rate calculations would be based upon such things as proxy data analysis. He thought that before voting on that, the committee should at least have a conversation about the resolution of the $2 billion change in health claims experience that was discussed at the June meeting, to find out what Buck Consultants' further review of that has yielded. That was based upon using proxy data, with the prospect that additional new data would come in. He noted that the letter from Buck contained a statement about the impact of the Aetna data on the 6/30/2015 valuation results, including that the total impact on retiree liabilities is a reduction of about 3.5% or $204 million. If total healthcare liabilities are considered (active and retiree liabilities), the reduction is approximately 2%. He wanted more discussion on that and how it compared, if at all, to the discussion at previous meetings about the $2 billion change in the actuarial assumptions of cost experience.

CHAIR ERCHINGER noted that this topic was on the agenda for later. She wondered if the committee should proceed with that presentation first and postpone action on the contribution rates until after the presentation.

MR. JOHNSON said he would be more comfortable with taking things up in that order because the report information is part of the building blocks for the committee to make recommendations.

CHAIR ERCHINGER said there was a motion on the floor to approve the FY18 PERS contribution rate.

MR. BRICE, as maker of the motion, withdrew the motion. MS. HARBO withdrew her second of that motion.

CHAIR ERCHINGER indicated that section B would be taken up next, followed by committee action on the contribution rates.

**B. Updates and Follow-Up:**

1. Health Care Cost Trend
LARRY LANGER and MELISSA BISSETT of Buck Consultants gave a report, with a slide presentation as a visual aid *(copy of Buck's September 28, 2016 slides is on file at the ARMB office)*. DAVID KERSHNER of Buck Consultants also participated by telephone.

Starting with the proxy data update, MR. LANGER said it was two steps when talking about the healthcare gains seen over the past year, where liabilities came in much lower than in the past. At the June meeting, Buck went through a step-by-step reconciliation of all the factors that resulted in the $1.1 billion reduction in the liabilities. A lot of it was data-driven. The claims had been coming in lower than the projections that Buck had been using. Actuaries will commonly project that medical claims will increase by roughly 8% a year, and that is what Buck has been doing as well. For many reasons, including the new third-party administrator and a new contract, medical claims came in much lower than Buck anticipated. It came through bit by bit over the course of time until it really hit heavily this past year. So, $1.1 billion of the change in liabilities was due to the claims experience.

MR. LANGER said the item that is still hanging out there is the proxy data issue. The proxy data was Buck not having all the data that it needed for purposes of developing the valuation. It is very common, when the data is not complete, to try to make assumptions about missing data. Buck made assumptions primarily about beneficiaries and folks of that nature. At the last meeting, Buck promised to get additional enrollment information from Aetna, and they did that. Their recommendation is to continue taking the pension data that they have and appending the Aetna information as they work on the FY2016 actuarial valuations. He said he suspected that, in the past, whenever there has been missing census information, the desire has been to not low-ball the liability but to come in a little bit higher in terms of the counts. When Buck added on the Aetna enrollment information, there was a net reduction of records of about 1,900 people – going from 70,600 to 68,700. There are a handful of records that did not match completely, but in the end, the net reduction in the liabilities was about 3.5%, or about $204 million. That reduction is not reflected in the June 30, 2015 valuation. Buck proposes to continue the process and implement for the FY2016 valuation that they are currently working on.

MR. LANGER stated that Buck did not go back and look deeper at past years' data before the FY2015 valuation because they did not have the extra Aetna information to append. They suspect that the head counts have been consistently overstated within the past valuations, so the year-to-year comparison is somewhat consistent. Much of the change they saw from last year to this year was driven by what the claims experience was. The $204 million net reduction in retiree liabilities is not part of any gain in last year's valuation: it is something Buck will see in the upcoming valuation.

MR. BOUCHER pointed out that the Department of Administration is planning another audit of the dependent enrollment within the next calendar year. There has not been an audit of dependents for quite some time, and it could possibly result in the number of dependents decreasing again.

MR. LANGER referred to a chart of the change in the FY2015 healthcare census information between the current method of using proxy data and the updated method using Aetna's updated data files *(slide 4)*. He noted that this data was only for retirees or people who are in payment. (When talking about active employees, Buck has to make assumptions about actives in terms of percentage of participants who elect spouses, etc.) He said that, in the past, Buck did not have specific information for children within the census information, but now they do, which they added into the census information on the chart.

The next slide was a chart of the FY2015 retiree healthcare valuation liability comparison between the proxy data method and the updated method *(slide 5)*. MR. LANGER said that if there are fewer people in a particular category, that generally translates into a reduction in liability. Children are in a separate category in the updated count, and that means a somewhat smaller increase in liability because children receive the healthcare benefit for a limited time period. The overall difference in liability from the reduction in head counts was $204 million, or a difference of 3.47% compared to using the proxy data method for counting retirees and dependents. He guessed that, all else being equal, the difference would be fairly consistent from year to year to year, meaning retiree healthcare liabilities in the past have been about 3% to 4% higher by using the proxy data. He restated that the use of proxy data was not part of the $1.1 billion reduction in retiree healthcare liabilities, but it was underlying all the numbers in the past.

Responding to MR. JOHNSON, MR. LANGER said there are two pieces to the analysis. At the June committee meeting, Buck had presented a detailed analysis of the $1.1 billion medical claim piece, and the per capita claim cost is a big input to the valuation process. The per capita claim cost actually came down from what was used in the prior year valuation. It seems sort of odd to anticipate that claims went down, because the reality is that the claims have been flat, with maybe a slight decrease in one of the two plans. Buck averages the medical claims over time, so they are still weighting claims from 2013 and 2012, where the claim amounts were somewhat higher. Medical claims was the primary driver of the decrease that was covered in the June meeting minutes.

MR. LANGER said what is still lingering is that the valuation could be tied down a little bit tighter. Whenever Buck goes through a valuation process, there is always room for improving the methodologies they use. Gabriel Roeder Smith (the review actuary) has said that the proxy data is something Buck might want to take a look at. They are not completely disjointed, because the claims information is fed into the actuarial model, and then the census information is developed separately from the claims development. If there are additional bodies in the valuation model, that results in a little higher liability.

MR. BRICE asked what factors would drive the medical claim cost down. He added that he had heard that $200-$350 million could be attributed to savings, subsidies, better use of the provider networks, and that kind of thing. However, he had not heard an explanation for the remaining $600-$700 million worth – and that is a big number.

LESLIE THOMPSON of Gabriel Roeder Smith & Company (GRS) reminded everyone that the $1.1 billion or $2.0 billion is not a change in claim amount: it is a present value of all future benefits. It is not that the medical claims for the retirement plans dropped; it is that Buck's estimate was high. Buck has been explaining why their estimate was too high, not why the claims dropped.

CHAIR ERCHINGER referred to the June 23rd minutes, pages 11-12, which she thought was a good summary of the specific things that resulted in the changes to the claims data, and how dropping FY2011 off the calculation and adding on a lower cost experience in FY2015 made a difference. She added that Buck stressed at the June meeting that a big part of it was that the liability was significantly reduced as a result of what Buck expected versus what happened.

MR. WILLIAMS asked what confidence Buck had in the $204 million net reduction in retiree liabilities number.

MR. LANGER replied that there are still a few records that did not quite match up, but it was not much. He guessed that the range could be $20 million on either side of the $204 million net reduction number. It is rather tight.

MR. WILLIAMS said his fear, when looking at the proxy data, has been that the data might be somehow underestimating the retiree healthcare liability.

MR. LANGER stated that when Buck makes estimates of that sort, there is a tendency to try and overshoot it until they get better data that suggests they can trim off that extra layer.

MR. BOUCHER counseled the committee to consider the net reduction in the liabilities directionally correct, but the $204 million quantification may still take some time as Buck gets more data from Aetna.

MELISSA BISSETT of Buck said that, as they get more data from Aetna than just the pure medical claims experience, they may change their estimate of the per capita cost that they apply to the people in the valuation model. What was happening was that Buck had too many covered people in the model. And perhaps next time they can project better discounts or better rebates then they had factored into the calculation before.

MR. JOHNSON said he appreciated the explanations. He asked Ms. Thompson if she was comforted by the work product that was being delivered today as an explanation.

MR. THOMPSON stated that GRS had a call with Buck and reviewed this at length. She was very pleased with the level of match of the data, and she felt the changes in numbers made a lot of sense.

CHAIR ERCHINGER recalled the discussion at the last meeting about how the per capita health claims were so much lower than Buck expected. She wondered, if Buck re-ran the numbers now with the new covered-participant numbers that are lower than what was used prior, then the per claim cost would be higher, and if that meant that Buck was not so far off the mark as they thought.

MS. BISSETT said no, because when she was calculating the per capita health claim costs it was looking at that population that was truly enrolled, including children. When Buck looked at the valuation, they had spouses in there that were not enrolled, but there were sometimes children that were valued as a spouse. They have straightened those out so they can see just the $204 million difference they are talking about.

2. Assumptions/Trend Rates

MR. LANGER started with the health assumptions and methods, specifically Buck's analysis of premium growth to see if it mirrors with the retiree trends. Retiree premiums have been trending down flat, and that has been somewhat consistent with Buck's per capita claims cost.

MS. BISSETT said she looked at where things are going on retirees and compared it to premiums. The information that Segal puts together was not quite final yet, but indications that she got from the Department of Administration are that retiree contributions are going to stay flat again this year. The active employee premiums have been jumping up. Her initial look at per capita cost development for this year indicates there will still be gain. There was definitely a jump up on the most recent year. She is not recommending any change in the trend assumption at this time because she feels things are going to start turning around. The nice benefit of having a new contract with the third part administrator and the deeper discounts tends to erode over time because the providers' prices increase but the discounts stay the same.

MS. BISSETT said it looked like a bit of a gain again this year in the per capita cost. Part of that is the old year dropping off the calculation, and refining some of the assumptions about how Buck brings those other years forward, as well as taking into account discounts and rebates.

Regarding aging and morbidity, MS. BISSETT said Buck was not planning on changing the method of age adjustment until the next experience study. They will get more information from Aetna on person by person claims to get a better feel for the actual mix of the population and their ages and refine the method that adjusts to the age 65. She stressed that the average costs are still the average costs and will be applied to the ages of the people, so she did not expect a huge difference that way. At the next experience study, Buck will look at the actual factors to see if it really is costing 3.5% more just because a person is a year older.

MR. LANGER spoke to the rehire assumption, which is the concept that a person terminates and then returns to active status, and that results in an increase in the liabilities. Over the past year for PERS the loss was about $31 million, and for TRS it was $12 million. Buck intends to implement something to tighten that down but is not quite sure what. At the June meeting they talked about implementing a rehire load, such as increasing the contributions to the fund by enough to cover the anticipated amount of increase to the liabilities. They will discuss this with GRS and reach a conclusion on how to go about it for the June 30, 2016 valuation. It may involve adding a simple rehire load for the upcoming valuation and doing something more refined when they do the experience review in a couple of years.

MR. BADER returned to the healthcare assumption and said he was not getting the "why" of healthcare costs being down.

MR. BOUCHER said that, looking at costs from 2012, 2013 and 2014, the administration saw a significantly deeper discount for the network through Aetna – upwards of 30-plus percent discount – versus a discount in the twenties with the previous third party administrator. On the trend in overall healthcare, he thought there was merit to the notion that the plans had a reset at a certain level, but the trend has been creeping back toward what it was previously.

MR. BADER said that was what he would expect. He asked if the increase in the number of in-network providers could account for the lower cost of services that participants are getting.

MS. BISSETT replied that it certainly could have something to do with it. She has looked at some of the retiree analysis that Aetna provided to the State. She does not always get that information when she is setting the per capita healthcare costs. Some of what is going on is deeper discounts. If the Aetna network is larger than the prior network, people may still be going to their same provider but now it is in-network where before it was not. She has to dig deeper for that level of information. Buck had anticipated some sort of a discount in the per capita costs, and what is coming back is that it is a better discount than Buck had anticipated. Buck also noted a bit of an uptick in later payments, but it was more about people probably getting better discounts.

MR. BRICE inquired about the impact of changes to the retiree health plan effective in 2014.

MR. BOUCHER did not think there were any impacts. He said he believed it was the network that Aetna brought to the retiree healthcare plan, plus the deeper discounts and significantly better rebates on pharmacy. In the retiree healthcare plan, the pharmacy spend is almost 50% of the overall spend.

MR. BRICE recalled that at the quarterly meeting in August with RPEA, etc., the healthcare savings were reported to be something like $350-$400 million. Then there was another $600-$700 million in savings for which there was no good explanation.

MR. BOUCHER said it was not all considered savings, though, but it was difficult to address the question without the presentation material from that meeting at hand.

MS. BISSETT said there were pieces that Buck thought it could maybe go back to Aetna for, but at the last meeting it was decided that there was no reason to move forward with doing that.

CHAIR ERCHINGER asked if the retiree healthcare plan, like the employee plan, allowed people to go out of state for procedures.

MR. BOUCHER stated that a significant portion of the retirees live outside of Alaska, and that also helps drive the overall healthcare costs down. Then there is the overall aging of the retiree population so that more of them are Medicare eligible, which pays first before the retiree healthcare plan. Further, people in the workforce are tending to retire later, so the period of time when the retiree healthcare plan is the sole payer of medical costs is shorter in duration. That may also be contributing to holding down per capita costs, even though more people are joining the retiree health plan.

CHAIR ERCHINGER said she was curious to know if traveling outside Alaska for medical procedures was having an effect on the retiree healthcare plan costs.

MR. BOUCHER said there has always been a travel benefit within the retiree plan, but he would not describe it as a robust travel benefit. It is a similar situation in the active healthcare plan, but the State is examining it as another way to contain costs.

MS. HARBO stated that she thought travel outside Alaska for medical care has been promoted more under Aetna than under the previous TPA. It is much cheaper to get medical procedures done outside Alaska.

MR. WILLIAMS asked if there was any way to measure how much in medical costs retirees were winding up paying for themselves because their claims were denied.

MR. BOUCHER replied that the best measurement the State has is the appeals process. For both the employee and the retiree plans for the first quarter there were something like 300 appeals. There are over a million claims processed in a year. He said he was not denying that there was an undercurrent of people paying for claims themselves.

MR. WILLIAMS said he did not believe that appeals are a good proxy for what people are paying. He personally has paid for a bill because the process of coordinating with two insurance coverages had dragged on until the provider was demanding payment and threatening to turn the outstanding balance over to collections. He did not intend to wreck his credit rating, so he paid the bill. He is normally a happy, enthusiastic person, but he could not face the idea of going through a multiple appeals process. That is why he would not rely on the number of appeals as a good proxy for what retirees are paying for themselves.

MR. BOUCHER said he understood and sympathized. One way the State has tried to measure that is a customer satisfaction survey that was instituted last August, and it is asking those people about their satisfaction with the health plan. Without going to the retirees themselves, he did not know of a way to quantify how much they are paying because their claims have been denied.

MR. BRICE remarked that healthcare costs are a big deal, and there is a lot of interest on the Board in terms of tagging down that number and what accounts for it. He believed it was a matter that everyone has to keep listening and talking about. It is wonderful when costs swing downward, but everyone knows what happens when it swings the other way. That is a substantial part of how we got to a defined contribution plan problem that we have now.

3. Audit Findings

CHAIR ERCHINGER referenced the spreadsheets in the meeting packet entitled "Actuarial Audit Findings/Comments/Resolution – September 28, 2016" *(on file at the ARMB office)*. Each item described what actions have been taken, and items highlighted in red were still open.

MS. HALL reported that this ongoing report was updated after the June committee meeting and was reviewed by GRS, Buck, the Division of Retirement & Benefits and others. The remaining items on the list will come up as the current valuation process happens. The valuation timeline has monthly calls between the two actuaries so they can try to resolve audit findings and issues as they come up.

CHAIR ERCHINGER remarked that the actuaries working together on audit findings and issues before they reach the committee level was a great improvement to the process. She also liked the progress report on audit findings that the committee gets at each meeting. The committee has an opportunity to focus on these issues, as opposed to getting so far behind on the schedule that there is no time for meaningful discussion on them. She thanked both actuaries for the extra effort to coordinate on issues off-line so the discussion at meetings is more productive.

4. <u>FY2016 Valuation Timeline</u>
*(A copy of the FY2016 valuation timeline was included in the meeting packet and is on file at the ARMB office.)*
MS. HALL reported that she worked with CFO Kevin Worley, Buck and GRS to develop this timeline. At this point, the spreadsheet is informational on how people will do the status updates, how GRS and Buck will work together, and how parts of the valuation process will be brought to the Actuarial Committee starting in February 2017.

CHAIR ERCHINGER mentioned that last year the committee saw staff working together with the actuaries to try and keep things on track, which then allowed everything to get to the board level more quickly so there was time to deliberate. She praised the great partnership on every side to work together in making sure the Board has the information it needs on time and that the legislature has the information it needs.

MR. WORLEY reported that the division is still working on the National Guard Naval Militia Retirement System data. One item is outstanding from the Air Guard, and he has been told the division will see it by Friday of this week. They got the Naval Militia data this morning, and the division will be sending that to Buck as soon as it gets all the data compiled.

**C. FY2018 Contribution Rate Review**
CHAIR ERCHINGER indicated that the committee would return to taking up the fiscal year 2018 contribution rate resolutions that were put on hold earlier so Buck Consultants could give a follow-up report on the healthcare cost trend and other assumptions first.

**Action: Relating to FY18 PERS Contribution Rate - Resolution 2016-11**
<u>MS. HARBO moved that the Actuarial Committee recommend that the Alaska Retirement Management Board set the Fiscal Year 2018 PERS actuarially determined</u>

<u>contribution rates attributable to employers, consistent with its fiduciary duty, as set out in the attached form of Resolution 2016-11.</u> <u>MR. JOHNSON seconded</u>.

CHAIR ERCHINGER read into the record the last clause of Resolution 2016-11, as follows: “Now therefore, be it resolved by the Alaska Retirement Management Board, that the fiscal year 2018 actuarially determined contribution rate attributable to employers in the Public Employees’ Retirement System is set at 25.01 percent, composed of the contribution rate for defined benefit pension of 17.27 percent, the contribution rate for postemployment healthcare of 3.11 percent, and the contribution rate for defined contribution pension of 4.63 percent.”

DAVID KERSHNER of Buck Consultants, participating by telephone, stated that he wanted to make sure that people were not losing sight of the consideration for the allocation of the FY2018 contribution 100% to pension, as the committee decided to do for FY2017. He had not heard that discussion yet. The defined benefit and healthcare rates being adopted are slightly different, depending on whether the state assistance goes entirely to pension or if it is split based on the past service for the unfunded liability.

At the Chair’s invitation, MR. WORLEY drew attention to a two-page letter from Buck at the back of the meeting packet with attached exhibits. He said exhibit one was what the resolution was based upon. Typically, state assistance is allocated part to pension and part to healthcare. At the February 2016 meeting, the committee talked about what to do with the FY2017 state assistance contribution that was coming in July. Because of the funding levels that were presented at the February meeting, the committee recommended that the entire additional state contribution go to pension. Mr. Kershner, in exhibit one, has illustrated what the PERS contributions would look like if divided the way it has normally been done. Exhibit two illustrated what the contributions would look like if all the state assistance went to pension only. MR. WORLEY said he was proposing, via Resolution 2016-11, to maintain what is currently reflected in the pension and healthcare contribution, with the opportunity to go ahead and allocate the FY2018 contribution all to pension and have that reflected when the committee sees the valuation results in February.

CHAIR ERCHINGER asked if there was any objection to continuing with the past practice of allocating the PERS state assistance payment with 3.11% going to healthcare, as Mr. Worley pointed out in exhibit one. Exhibit two would not allocate any of the state assistance to healthcare and it would all go to pension. The resolution states that state assistance will be allocated according to past practice, with a proposal to change that practice in the future when looking at next year’s contribution rates. She said she did not recall, when the committee recommended making that change at the February 2016 meeting, if the Board actually took action to say it was going to allocate 100% of the state assistance to pension and zero to healthcare, and if that was specifically said to take effect for this valuation.

MR. WORLEY referred to the committee meeting minutes, which said the committee had recommended that the full assistance contribution go to pension. He thought it was brought up at the board meeting that week, but he would have to verify that. His proposal at this time was to stay with the past practice of allocating a portion to healthcare. It does not change the total contribution rate.

CHAIR ERCHINGER asked if there was any objection to continuing to allocate a portion of the state assistance contribution to healthcare, as it has been done in the past, for the purposes of approving this resolution.

MR. WILLIAMS said he remembered when the committee discussed this, and the rationale was looking at what percent the pension was funded, which was 75%, and healthcare was close to 100% funded. His question was if there was rationale for not putting more toward pension than healthcare, since pension is where the need is greater, and healthcare seems to be covered.

MR. WORLEY stated that at the February meeting Commissioner Fisher brought up that looking at the funding levels of each of the plans, if the ARMB went ahead and did that ahead of time it ran the risk of not getting funding appropriated for that amount. There was also keeping in mind the actuarial gains that each of the plans had received, and Ms. Bissett earlier pointed out that the healthcare cost trend rate was on a path of heading back up. His thought on that was to continue to fund pension and healthcare as proposed in exhibit one, with the possibility in February 2017 of changing the allocation of the additional state contribution, if the funding level improves again in healthcare.

CHAIR ERCHINGER mentioned the new GASB rules that, in the future, will require reporting the healthcare liabilities on the financial statements. To the extent that the retirement plans are putting more money toward healthcare, and in terms of what percentage of the healthcare liabilities are funded, this may be one of the rare areas where Alaska’s pension systems come out smelling like a rose. For that reason, she did not object to continuing the past practice. Later in this meeting, the committee will be talking with Ms. Thompson about plans for funding policies and so on. That would be a good opportunity for the committee to talk about criteria for when to zero contribute to healthcare, and then get more information about what happens if healthcare is overfunded. Are there tax ramifications to the participants, for example? She did not object to staff’s recommendation in Resolution 2016-11, but she thought these issues should be hammered out before getting to the next rate cycle.

The roll was called, and all five committee members voted yes.

**Action: Relating to FY18 PERS DCR Retiree Major Medical Insurance Contribution Rate - Resolution 2016-12**
<u>MS. HARBO moved to approve</u>. <u>MR. WILLIAMS seconded</u>. The motion passed unanimously.

CHAIR ERCHINGER stated that Resolution 2016-12 resolves that the Fiscal Year 2018 employer contribution rate for the retiree major medical insurance for the Public Employees' Defined Contribution Retirement Plan is set at 1.03 percent.

There was no discussion, and the motion passed unanimously on a roll call vote, 5-0.

**Action: Relating to FY18 PERS DCR Occupational Death & Disability Benefit Contribution Rate - Resolution 2016-13**

CHAIR ERCHINGER read into the record the last clause of Resolution 2016-13, as follows: "Now therefore, be it resolved by the Alaska Retirement Management Board, that the fiscal year 2018 employer contribution rate for public employees' occupational death and disability benefit rate is set at 0.43 percent for peace officers and fire fighters, and at 0.16 percent for all other Public Employees' Defined Contribution Retirement Plan employees."

There was no motion made or seconded. The Chair opened it up for discussion, and there were no comments. The Chair asked for a roll call, which was five yeses.

**Action: Relating to FY18 Teachers' Retirement System Contribution Rate Resolution 2016-14**

MR. BRICE moved to approve. MS. HARBO seconded.

CHAIR ERCHINGER stated that Resolution 2016-14 resolved that the Fiscal Year 2018 actuarially determined contribution rate attributable to employers participating in the Teachers' Retirement System is set at 26.78 percent, composed of the contribution rate for defined benefit pension of 19.16 percent, the contribution rate for postemployment healthcare of 2.59 percent, and the contribution rate for defined contribution pension of 5.03 percent.

The Chair asked for any discussion. MR. WORLEY stated that the same discussion on the PERS contribution rate applied to the Teachers' as well. CHAIR ERCHINGER said that meant continuing on with the past practice of allocating to the healthcare, in addition to pension.

The roll was called, and the motion passed unanimously, 5-0.

**Action: Relating to FY18 TRS DCR Retiree Major Medical Insurance Contribution Rate – Resolution 2016-15**

MR. BRICE moved to approve. MR. WILLIAMS seconded.

CHAIR ERCHINGER stated that Resolution 2016-15 resolves that the Fiscal Year 2018 employer contribution rate for the retiree major medical insurance for the Teachers' Defined Contribution Retirement Plan is set at 0.91 percent.

There was no discussion, and the roll was called. The motion to approve was unanimous, 5-0.

**Action: Relating to FY18 TRS DCR Occupational Death & Disability Benefit Contribution Rate - Resolution 2016-16**

CHAIR ERCHINGER said Resolution 2016-16 states that the Fiscal Year 2018 employer contribution rate for Teachers' occupational death and disability benefit rate is set at 0.00 percent for all Teachers' Defined Contribution Retirement Plan employees.

MS. HARBO moved to approve. MR. WILLIAMS seconded.

CHAIR ERCHINGER commented that she was always very wary of any rates that are zero, having been told once as an employer that their rate was zero and knowing that that could not possibly be true. That started a big discussion at their location about the wisdom of not setting any money aside in a particular year. She understood that this was the occupational death and disability benefit, which is a much smaller plan and probably does not have a lot of time under its belt to really estimate what those liabilities are. She personally does not like a zero contribution rate, but this was not the time to have that discussion. There will be plans with zero contribution rates in the future, and she will want to discuss in more detail why those rates are zero and whether there should be some measure of a rate to offset any potential future rate increases that might be necessary.

MR. WILLIAMS asked why the rate was zero this time.

MR. WORLEY replied that the occupational death and disability plan is quite well funded, and he did not recall there being anyone in that plan. There is a normal cost associated with the plan, and the past service cost reduces it down to zero. Regarding Chair Erchinger's comments about the zero percent employer rate in the past, he thought that when that occurred, the previous PERS and TRS boards had moved toward at least adopting the normal cost rate. This year, the PERS occupational death and disability rate was set at zero as well.

CHAIR ERCHINGER asked Ms. Thompson to put that on the list of things for the discussion about funding policies.

The roll was called and the motion passed unanimously, 5-0.

**Action: Relating to FY18 National Guard & Naval Militia Retirement System (NGNMRS) Contribution Amount - Resolution 2016-17**

MS. HARBO moved to approve. MR. WILLIAMS seconded.

CHAIR ERCHINGER stated that the Fiscal Year 2018 actuarially determined contribution amount for the State of Alaska, Department of Military and Veterans' Affairs to the Alaska National Guard and Naval Militia Retirement System is set at

$907,231, composed of the contribution amount for the normal cost of $603,495, past service cost of $71,736, and expense load cost of $232,000.

CHAIR ERCHINGER observed that the expense load of $232,000 was over one-third of the overall normal cost of the NMNMRS plan. She wanted to look into that further at some point to see if it was an allocation issue or if it was appropriate that way because there are tasks specifically related to that plan.

There were no other comments, and the roll was called. The motion carried unanimously, 5-0.

CHAIR ERCHINGER pointed out an information memorandum in the meeting packet that contained a chart of the history of PERS/TRS contribution rates from fiscal year 2010 through to the proposed rates for FY2018 *(on file at the ARMB office)*. She said it was a very helpful table, and she appreciated that information for the purposes of comparison.

**Information: Judicial Retirement System Contribution**

MR. BOUCHER referred to the informational memorandum in the packet regarding the FY18 employer contribution rate of 74.21% for the Judicial Retirement System (JRS). The commissioner of Administration is the party responsible for establishing a rate for the JRS. Buck Consultants calculated the rate based on the roll-forward actuarial valuation of JRS as of June 30, 2015. The pension portion of the rate was 72.83%, and 1.38% was for healthcare.

**D. Committee Manual/Educational Proposal**

MS. THOMPSON and PAUL WOOD of Gabriel Roeder Smith talked about policies and procedures, using a slide presentation *(on file at the ARMB office)*. MS. THOMPSON said she was tasked with coming up with a funding policy statement, and as she worked on that she saw that it was actually a very big job because basically everything gets baked into the ultimate rate calculations. So, this assignment morphed from a funding policy to what started to look like a policy manual for the actuarial considerations of this committee.

MS. THOMPSON said she put together an annual meeting schedule in order to understand the flow of the committee's work and education for the whole year. The second piece was the PERS and TRS closed plans, the funding policy, and all the topics that have been discussed over time that would be memorialized in the manual. Next was the PERS and TRS defined contribution plans and the death and disability, with the funding policy and other topics for that group. Judicial and the NGNMRS was the final group, and a similar list of topics.

MS. THOMPSON briefly listed the proposed education topics for the Actuarial Committee's quarterly meetings (that could expand into five meetings a year). She then went into detail about the proposed content for the committee manual of policies and practices, starting with proposed contents and subtopics to memorialize under the PERS and

TRS closed pension plans. She said the manual would be set up very similar for the DCR plans, but with certain different subtopics because of the different plan design structure. The Judicial and National Guard plans were different because of being roll-forwards. She is always paying attention to National Guard eligibility service because it is supposed to include all sorts of military service, which she thought should be written in the manual. The last section of the manual was Additional Committee Activities, which were activities that go beyond the annual valuations. She said it would be nice to include a Resources page, complete with hyperlinks so people could access the original source documents.

MS. THOMPSON said the manual would be a living document that would be updated as policies changed. She proposed coming back in December with the manual written as far as she could take it.

CHAIR ERCHINGER thanked Ms. Thompson, and board liaison Judy Hall for working closely with Ms. Thompson, for identifying the major areas of education and also setting the committee on a path to start meaningfully checking things off a list. She said she liked the idea of a manual because she expected there would be a lot of turnover in the future on the committee and the Board, and among the staff. It would be good to have the processes explained and institutionalized so there will be the least amount of disruption possible.

CHAIR ERCHINGER indicated there was a memorandum from GRS outlining the proposal for preparing the Actuarial Committee manual and the costs. She asked for a recommendation to the full Board.

MR. WORLEY pointed out that the GRS proposal did not include the cost for Buck Consultants' time on this project, and he wondered if that, too, needed to be appropriated, because it would be outside Buck's regular services.

CHAIR ERCHINGER said that before the committee took any action, she wanted to ask Ms. Thompson to think about what additional help she would need from Buck and give the committee an estimate. She then provided wording for a motion.

MS. HARBO moved that the Actuarial Committee recommend to the full Board to approve the proposal from GRS in memorandum form, dated September 19, 2016, to engage GRS for the purposes of establishing the Actuarial Committee manual. MR. BRICE seconded.

MR. JOHNSON said it was a great idea to go forward with the manual project, but he thought approval of a certain cost would have to be contingent upon a reasonable finding of cost from Buck Consultants. Otherwise, it might be putting the cart before the horse.

CHAIR ERCHINGER said she envisioned GRS doing the amount of work they are able to do without engaging the services of Buck in costing the committee any more money. The items for which GRS is going to need the engagement of Buck could be excluded from the manual until such time as the committee takes additional action.

MR. JOHNSON indicated that made sense.

MS. THOMPSON stated that so much of what she needed from Buck was already in meeting minutes, so she would retrieve the information from there.

MR. BRICE asked if the committee was within the State procurement process.

MS. HALL replied that the ARMB already has GRS under contract, and there is provision in the contract with GRS for additional services outside of the audit review. At this point, there is money available within that contract to accomplish this project.

The roll was called, and the motion passed unanimously, 5-0.

## VIII. FUTURE MEETINGS

### A. Calendar Review

The schedule of meetings for 2016-2017 was included in the packet.

MS. HALL stated that if the full Board adopted the committee's recommendation with regard to GRS preparing the manual, that would add a December 6 committee meeting to review the GRS manual.

### B. Agenda Items

MS. HARBO asked if there was a Request For Proposal (RFP) for the actuarial audit in FY2018.

MS. HALL said staff would be issuing an RFP after the first of the year.

### C. Requests/Follow-Up

There were none.

## IX. Adjournment

The meeting adjourned at 4:10 p.m., on a motion made by Ms. Harbo and seconded by Mr. Williams.

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