State of Alaska
ALASKA RETIREMENT MANAGEMENT BOARD
ACTUARIAL COMMITTEE TELECONFERENCE MEETING

11th Floor Treasury Conference Room
State Office Building, 333 Willoughby Avenue
Juneau, Alaska

February 12, 2018

ATTENDANCE

Committee Present:	Kristin Erchinger, *chair* Tom Brice Commissioner Sheldon Fisher Gayle Harbo Rob Johnson Commissioner Leslie Ridle Norm West Bob Williams
Committee Absent:	---

Department of Revenue Staff Present:
Pamela Leary (director, Treasury Division)
Bob Mitchell (chief investment officer)
Mike Barnhill (state investment officer)
Stephanie Alexander (board liaison)

Department of Administration Staff Present:
Ajay Desai (director, Division of Retirement & Benefits)
Kevin Worley (chief financial officer, Division of Retirement & Benefits)

Others Present:
Scott Young (Conduent Human Resource Services, actuary)
David Kershner (Conduent Human Resource Services, actuary)
Bill Detweiler (Conduent Human Resource Services, actuary)
Leslie Thompson (Gabriel Roeder Smith & Company, review actuary)
Paul Wood (Gabriel Roeder Smith & Company, review actuary)

I. CALL TO ORDER

CHAIR ERCHINGER called the meeting to order at 1:02 p.m.

II. ROLL CALL

All nine committee members were present at roll call to form a quorum.

III. PUBLIC MEETING NOTICE

Board liaison STEPHANIE ALEXANDER confirmed that public meeting notice had been met.

IV. A. APPROVAL OF AGENDA

MR. BRICE moved to approve the agenda. MR. WEST seconded. The motion passed without objection.

B. APPROVAL OF MINUTES – December 6, 2017

MS. HARBO moved to approve the minutes of the December 6, 2017 meeting. MR. BRICE seconded. The minutes were approved as presented.

V. PUBLIC/MEMBER PARTICIPATION, COMMUNICATIONS AND APPEARANCES

No one present at the meeting or listening by telephone indicated they wished to speak to the committee. MS. ALEXANDER stated that she had received no communications for the committee.

VI. A. ACTUARIAL VALUATION PROCESS

CHAIR ERCHINGER asked the actuaries, when talking about any proposed changes in assumptions, to be clear about which changes are solely expected to be included in the FY2017 valuations versus the changes that are being looked at as possible outcomes of the experience study but will not be included in the FY2017 valuations.

DAVID KERSHNER of Conduent Human Resource Services, the State's actuary, referred people to the short slide presentation. *[Conduent had provided the committee in advance with a copy of their slide presentation entitled "State of Alaska Retirement Systems – Actuarial Presentation to the ARMB Actuarial Committee – Preliminary 2017 Valuation Results," dated February 12, 2018, on file at the ARMB office.]*

BILL DETWEILER, Conduent's team manager for the State of Alaska Retirement Systems, and SCOTT YOUNG, the healthcare actuary were also present by telephone.

Key Takeaways from FY2017 Valuations

Addressing the Chair's request, MR. KERSHNER stated that the only assumption change that was discussed at the December 6 meeting that is reflected in the valuation results is the trend rate changes that were shown on slide 43 of the December slide presentation. Mr. Young will go through those in more detail later. Every other assumption, except for the annual update to the health claims experience, is the same as what it was in the FY2016 valuation. The other assumptions that Conduent presented at the December meeting were proposed for use beginning with the FY2018 valuations.

MR. KERSHNER began with a review of the significant events that occurred during FY2017 that are reflected in the FY2017 valuation results.

The PERS (Public Employees' Retirement System) and TRS (Teachers' Retirement System) defined benefit plans' funded status remained relatively unchanged from 6/30/16 to 6/30/17. The slight increase for PERS and slight decrease for TRS were a combination of the changes in the liabilities versus what was expected and the changes in the assets versus what was expected.

Fiscal year 2017 was a good year for the assets. The market return was approximately 13%. Due to the five-year smoothing that is applied to the assets, the return on the actuarial value of assets was only 5.5%. Since that is less than the assumed 8.0% rate of return on assets, there was actually a loss on the assets.

MR. KERSHNER summarized the main sources of gains and losses on the defined benefit plan liabilities during FY17 as follows:

- PRPA/COLA increases were less than expected (*favorable impact*)
- Salaries increased less than expected (*favorable*)
- Medical per capita costs were lower than expected (*significant favorable impact*)
- Fewer retirements than expected & retirements not as early as expected (*favorable*)
- Elimination of healthcare duplicate records (*favorable*)
- Healthcare trend rates increased, particularly prescription drug trend rates (*unfavorable impact*)
- Fewer terminations than expected, so more actives remaining in the plans (*unfavorable*)

CHAIR ERCHINGER asked what the difference was between "fewer retirements than expected" that had a favorable impact on plan liabilities and "fewer terminations than expected" that had an unfavorable impact.

MR. KERSHNER explained that because the actual experience produced less turnover than was expected during the year, there were more active employees by 6/30/17, which meant the plan was holding liabilities for more people. This affects both the healthcare-related liabilities and the pension-related liabilities. In this case, he was talking specifically about the defined benefit (DB) plans, only because the defined benefit plans are the lion's share of the liabilities compared to when he includes the defined contribution (DCR) plans.

MS. HARBO commented that maybe the actuary should rethink this for TRS because not many of the Tier I and Tier II members are going to terminate; they are going to stick it out until retirement. The most TRS terminations right now are in the DCR plan.

MR. KERSHNER replied that that would be part of Conduent's experience analysis when they review the termination experience for the last four years and try to tweak the current turnover assumptions, which were set four years ago, to account for the fact that fewer people are terminating than Conduent expected. They currently are using the same assumptions that were set in 2014, based on the experience study that was done at that time. Conduent has turnover assumptions that are applicable to all the employees overall, and they are age- and service-related. But they do have different turnover assumptions for DCR participants than for DB participants.

COMMISSIONER RIDLE asked if the terminations in the defined benefit plans are actually taking their money out of the retirement systems.

MR. KERSHNER said that some people do and some do not. Conduent makes an assumption that those who terminate before they become vested will receive a refund of their contributions, and people who are vested may take the greater of the value of their deferred benefit or a refund of their contributions.

MR. WILLIAMS asked if Conduent had a slide of estimates for terminations. He said defined benefit plan teachers would have started teaching before 2006 (when Tier III was created) and would be vested by now. There is a very strong incentive to make it to at least 20 years, and there is another benchmark at year 25. If Tier I and Tier II teachers had any type of financial advice, it would be fairly reckless of them to just take a cash payout after they are vested and have those benefits.

MR. KERSHNER said that is factored into the valuation, when they [unintelligible] the value of the member's deferred benefit rather than the refund of their contributions. He referred to table 4 in the TRS valuation report, which has the turnover assumptions that were set four years ago. Conduent uses different assumptions for the first eight years of employment, and thereafter they grade down by age. For a 45-year-old the turnover assumption is approximately 3% for males and about 3.5% for females. This is what Conduent will be looking at when they review the demographic experience. When they present to the committee, it will be what the actual experience has been over the last four years, the current assumption, and then potential changes to that assumption to best estimate what the future experience will be. It is not surprising that there are fewer terminations than expected in FY17. Last year there were also fewer terminations than expected, so losses on the turnover experience.

MR. KERSHNER moved on to show a chart of the comparison between the 6/30/16 and 6/30/17 valuations of the defined benefit PERS and TRS funded ratios (*slide 4*). On PERS, liability gains were more than asset losses, therefore, there was an overall net gain of about $6 million. On the TRS side, the actuarial asset loss was slightly larger than the liability gains, resulting in an overall net loss of about $8.3 million.

MR. KERSHNER next showed a chart of the comparison between the 6/30/16 and 6/30/17 valuations of the defined contribution PERS and TRS funded ratios (*slide 5*). It was broken down into occupational death and disability, healthcare, and then the total. The funded ratio of healthcare declined significantly. Conduent added a note at the bottom since the preliminary draft was sent out that explains that the decline in the DCR healthcare funded ratio is mainly due to the change in trend rates. Because the prescription drug trend rates were increased, the liabilities increased; therefore, the funded ratio declined.

MS. HARBO asked if there was enough information in the DCR plan, given there are at most only ten retirees in each of the PERS and TRS defined contribution retirement plans.

SCOTT YOUNG of Conduent replied that they used the experience from the DB plans and then adjusted it for the difference between the DB and the DCR retiree health plan designs to project what they expect the cost to be for the DCR participants. He agreed there is not enough experience to model the DCR plan healthcare cost on its own.

MS. HARBO asked if the DCR retirees would have prescription drug coverage.

MR. YOUNG said that, from everything that he has seen in the plan description and summaries on the State's website, the DCR group does have prescription drug coverage, and that is the majority of the cost. They can use an HRA (health reimbursement account) to pay for some coverage, but it is certainly not enough to cover all of the costs. The Teachers' picks up a significant portion of the plan costs.

COMMISSIONER RIDLE stated that she would check on that.

MR. KERSHNER explained a chart showing a comparison of preliminary contribution rates for PERS and TRS as of 6/30/17 versus 6/30/16 (*slide 6*), noting that all the contribution rates are a percentage of total DB and DCR payrolls. He said the slight rate increases reflect the effects of the assets and liability gains and losses that he just discussed. He noted that the DCR rates are added to the DB rates because the 22% contribution rate cap for PERS and the 12.56% cap for TRS is on a total payroll basis, including the DCR plans.

Slide 7 showed a summary of the sources of liability gains and losses for PERS and TRS during FY17, separated into pension and healthcare for each retirement system. These liability gains and losses resulted from actual experience during FY17 compared to what was expected based on the assumptions. MR. KERSHNER pointed out that (the demographic assumption) termination was a loss for PERS pension of about 9.3% and for healthcare about 12.6%. So, the total loss to the PERS DB plan because terminations were less than expected during FY17 was approximately $21.9 million. There was a $19.3 million loss to TRS for terminations being fewer than expected.

Continuing with the slide on the sources of DB liability gains/losses in the year, MR. KERSHNER stated that salary increases and COLA/PRPA increases were the largest sources of the gains to the PERS DB plan because salaries and cost-of-living adjustments and post-retirement pension adjustments were less than what the assumptions were expecting. He added that the total gain/loss relative to the liabilities is relatively insignificant because some gains and some losses offset each other. In the PERS healthcare column, mortality for inactives was a $61.3 million gain. Most of that gain stemmed from Conduent having received retiree enrollment data from Aetna for the 6/30/16 valuation that included many duplicates of dependent lives, and they discovered and corrected that when performing the 6/30/17 valuation. The valuation report will include a footnote that references that $61.3 million gain as well.

Still on the chart of the sources of DB liability gains/losses in the year, MR. YOUNG addressed the medical claims experience, the new trend assumptions, and the Cadillac Tax impact in the PERS and TRS healthcare columns.

There was a big change in the medical claims experience for the non-prescription-drug per capita costs. Conduent received information in a different way than they have in the past for both the claims and the enrollment. For the medical portion, the actual claims are about 15% to 19% lower than last year's valuation projected. So it is a gain, from the valuation perspective, because the expected costs are a lot lower than were seen in the prior year.

The trend assumption loss is almost entirely due to the prescription drug change that he talked about in December, in particular increasing in the short term from 5.5% to around 9%.

The Cadillac Tax impact is one that previously was deemed immaterial because it was so small, but a couple of things changed to cause it not to be immaterial anymore. One was the change in the prescription drug trend rate. Because those costs are expected to increase in the future, the average cost provided by the plan is going to be higher and more likely to hit the excise tax limit in the future. Then the recent tax law contained a change in the way that tax limit is increased in the future to use a chained Consumer Price Index (CPI) rather than a regular CPI index. That chained CPI is generally lower because it accounts for the fact that people substitute goods and products for things that are more expense, so it produces a lower increase. With the costs going up more than they used to be, and the limit going up less than it used to, it causes the potential Cadillac Tax impact to be higher, which is no longer immaterial. Conduent must actually measure some impact for that change.

MR. JOHNSON asked if the impact from the EGWP (Employer Group Waiver Program) prescription drug subsidy was embedded in the DB liability gain/loss chart on slide 7.

MR. YOUNG said that for the DCR plans there is an assumption that EGWP is going to come into effect, but that assumption is not yet reflected in the valuations of the DB plans.

Responding to MS. HARBO about the Cadillac Tax impact appearing on the liability gain/loss chart for the first time, MR. YOUNG said that in prior years the impact was 0.1% or less and Conduent considered it immaterial. Now the impact exceeds 0.5% and they cannot ignore it. Whether the Cadillac Tax actually goes into effect is a whole other discussion because the effective date has been changed four times, and nobody seems to like it. However, it is the current law, and Conduent felt they needed to appropriately value it. They measured it to be $42 million for PERS and about $17.5 million for TRS.

MR. YOUNG clarified that the Cadillac Tax impact is still immaterial for the DCR plans because the only benefits provided by the plans are for people who are Medicare eligible. When projecting out the limits for the Cadillac Tax, the Medicare costs are so much lower for the DCR groups that the impact is very, very immaterial. Conduent does not add an explicit Cadillac Tax impact amount for those plans.

MR. KERSHNER explained the miscellaneous and data changes category on the liability gain/loss chart, saying that Conduent tries to identify the more significant items in this catch-all category. For example, they refined their programming to correct for double valuing certain disabled spouses. That resulted in relatively small gains for the PERS healthcare and TRS healthcare in the 6/30/17 valuations.

MR. KERSHNER stated that the remainder of the presentation focused on the large medical claims experience gains. He reminded the committee of a long discussion a couple of years ago, which he characterized as "peeling of the onion," where four or five things were going in the same direction, which gave rise to some significant gains on the healthcare liabilities. Some similar things were going on this year, so he wanted to give the committee more background about what has given rise to some fairly large liability gains due to just the medical claims experience.

MR. YOUNG reviewed the following background information on medical claims experience gains in the 6/30/17 valuations (*taken largely from points listed on Conduent's slide 9*):

- Fiscal years 2013 and 2014 claims experience are no longer in the weighted average since the actuary recommended at the last meeting and implemented using three years of experience instead of four years.
- Both 2013 and 2014 included relatively unfavorable claims experience that now drops out of the weighted average entirely. That contributes to the gain in the claims cost.
- Change in weighting from 35%/35%/20%/10% over four years to 40%/40%/20% over three years also had an impact.
- Claims data provided to Conduent for the 6/30/17 valuation cleanly split out the medical claims between those who are prior-to-eligible Medicare and those who are Medicare eligible. Previous reports from Aetna were based on the age of the retiree only, not the age of the actual person getting coverage. This meant that in a family where the retiree is over 65 and the spouse and other dependents are under 65, all of those claims were considered as over 65. The reverse would be true as well for retirees under age 65 with dependents over age 65. There are thousands of people in that situation, and it has been very difficult to get claims split between Medicare and non-Medicare, which is absolutely crucial for valuations. This year Conduent was able to get specific splits of that information right from the data warehouse, so they did not have to make any estimated adjustments.
- Conduent also now has more accurate pre-Medicare and Medicare enrollment counts, which they use to develop a per capita cost for the valuations.
- The big gains are only occurring on the medical claims experience side. Prescription drug costs experience is very consistent with last year, no big gains or losses, and very much in line with what was expected.
- For fiscal year 2015, the report from the data warehouse had a significant drop in costs compared to prior reports. Conduent challenged it and verified it with staff, who felt that it was right. Conduent is still using it in the 40/40/20 weighting, but it produces an average cost significantly lower than fiscal 2016 and fiscal 2017 experience.
- One way to mitigate this impact is to use a 50/50 weighting on the most recent two years of experience rather than a 40/40/20 weighting on the most recent three years of experience.

Continuing with the background for large medical claims experience gains, MR. YOUNG referred to charts on slides 11 and 12 that compared the per capita claims cost development for the medical costs reflected in the 6/30/16 and 6/30/17 valuations. He reiterated that the Medicare Part B only participants (a very small group, well under 1% of the population) and the prescription drug costs are not included because they are either immaterial to the valuation (Medicare Part B only) or did not generate a noticeable gain or loss.

MR. YOUNG pointed out that the updated claims and enrollment data that Conduent received for the FY17 valuations produced lower medical costs for pre-Medicare, and, to a lesser extent, the same thing on the post-65, in terms of dollar amounts. The two most recent years are very consistent with each other, but the third prior year (2015) is a lot lower. It looks inconsistent but builds in a little more favorable experience. If the committee thinks Conduent should not account for that, they could use only two years of claims experience and change the weighting of each year to something like 50/50.

MR. JOHNSON remarked that reductions in medical claims cost experience seemed to be counterintuitive from what he hears and reads about. He asked what Conduent thought had caused the reduction, which he understood was contrary to the trend nationwide.

MR. YOUNG replied that in the FY16 valuation Conduent had 225 million claims for pre-Medicare and 20,049 lives. When they received the improved data this year, it shows 237 million claims for pre-Medicare but 24,400 lives. There are a lot more people in the pre-Medicare group, so doing the average results in a lower-per-person cost. That is not necessarily counter to what one sees in the real world; it is just that the data is reallocating between Medicare and non-Medicare. With more people in the higher cost pre-Medicare group, the resulting average cost is going to be lower.

MR. YOUNG pointed out an offsetting factor on the Medicare side. The prior valuation had $83 million in Medicare claims and 40,480 lives. Now there is $65.7 million in Medicare claims. The pre-Medicare group gained 4,000 lives, and the Medicare side lost 4,000 lives. The math works out to that being a slightly lower cost on the Medicare side as well.

MR. YOUNG stated that to make sure this lined up with reality Conduent got a report from Kevin Worley in the Division of Retirement & Benefits that shows the actual claims experience being incurred every month. Conduent took the actual medical claims for the first six months of this fiscal year and doubled them to assume what they would be on an annual basis. They compared that to what the FY17 valuation was producing and found it was very close – within less than a percent on PERS and less than 5% on TRS. If they had used the total expected payments from the 6/30/16 valuation, the medical claims for FY17 would be 13%-15% higher. So, they feel a lot better that the expected costs they are getting now are more in line with the actual medical claims experience, because they have compared it to the actual experience and it compares very favorably.

MR. KERSHNER indicated they had concluded presenting the preliminary valuation results for fiscal year 2017.

<u>Actuarial Valuation Timeline</u>

CHAIR ERCHINGER asked Conduent about the status of the timeline for the valuations, as well as when the committee could plan on reviewing any final assumptions from the experience study to possibly forward to the Board for approval.

BILL DETWEILER reported that after falling behind schedule on the valuations at the end of last year and the first month of this year, they are currently caught up and back on schedule. The preliminary results that were discussed today were completed a few weeks ago. Since then, Conduent has completed draft defined benefit plan and defined contribution plan reports for both PERS and TRS. The review actuary, GRS, is currently reviewing those valuation reports and has asked a few questions on test lives. Conduent will be responding to those in the next couple of days, as well as any other questions that GRS has. GRS will then issue a draft of their review report sometime early in March.

MR. DETWEILER stated that Conduent's draft reports with the full valuation results and GRS's review report findings will be presented to the committee and discussed in detail at the March 28 meeting. Any follow-ups from those discussions can be presented and discussed further at the meeting in May. After that point, hopefully everyone is comfortable with the results and Conduent can issue the final reports to be approved and adopted at the June meeting.

CHAIR ERCHINGER asked if GRS was able to meet the early March deadline for issuing their draft review report.

LESLIE THOMPSON of GRS said they are in the process of formulating their findings for the draft valuation reports received from Conduent last week. They have some questions and concerns that still need to be addressed, as Mr. Detweiler mentioned. GRS got the reports about a week and a half behind schedule, so they are now running a week and a half behind schedule. Being able to meet the early March deadline will depend on whether they can get answers to the questions they have raised. GRS has significant concerns on the healthcare piece and how to formulate questions on the one-billion-dollar gain.

CHAIR ERCHINGER said she still had a question about what information the committee may want or need to take before the full Board, with respect to asking them to approve any assumption changes. At this point, the discussion has been mostly about healthcare assumptions. But there is a question about whether the full Board should be taking action to approve the changes, even the changes in the trend assumption, and the change to using three years data instead of four years in the weighted average claims experience.

CHAIR ERCHINGER said she wanted to be able to ask Ms. Alexander to add a recommendation at the March 28 meeting from the committee to the full Board accepting those assumption changes. She thought the May timeframe for making any last-minute changes was basically too late because Conduent will be issuing their final report around that time.

MR. KERSHNER stated that, unless there are significant changes in the assumptions or the data, Conduent should be able to turn that around fairly quickly if the Board decides, for example, to use a different weighting to the per capita claims costs.

CHAIR ERCHINGER asked Ms. Alexander to be prepared for the March meetings of both the committee and the Board and have a resolution ready for the committee to accept/recommend the assumption changes to the Board. Then, assuming the committee goes that direction, a resolution could be prepared for the full Board to consider at its meeting that same week.

MS. ALEXANDER indicated she was adding that to her March 28 calendar.

CHAIR ERCHINGER thanked both actuaries for working together.

Experience Study Timeline

MR. KERSHNER stated that the current timeline is for a discussion at the March 28 meeting about the demographic assumption recommendations, based on the last four years of experience. On March 9 the materials are due to Ms. Alexander for distribution to committee members. One week prior to that is when Conduent is currently scheduled to send their assumption recommendations to GRS. That is a fairly condensed timeline to analyze a lot of assumptions and make recommended changes.

MR. KERSHNER said that, given that GRS may not have sufficient time to review Conduent's assumption recommendations, his suggestion is to delay the demographic assumptions discussion until either the tentative committee meeting in May or the scheduled June meeting. If the May meeting were scheduled, Conduent then would have ample time to give GRS enough time to review the assumption recommendations. Then the committee would still be in a position to ask Conduent to make changes to the preliminary recommendations. Conduent would be prepared at the June 21 meeting to discuss any adjustments to those recommendations for adoption by the Board.

CHAIR ERCHINGER suggested that the committee hold a meeting on May 3, in order to give GRS adequate time to review the demographic assumptions, because they are already going to be pressed for time to do their review on the valuations timeline. It seems unfair to expect GRS to review both of those, give enough feedback to Conduent, and prepare their reports to the committee and the Board. She asked Ms. Thompson if she supported moving the demographic assumptions discussion to a meeting in May.

MS. THOMPSON replied that she would appreciate having more time to do their review, especially with the experience study and so many serious changes.

MR. KERSHNER clarified that the intent was to move Conduent's presentation of the demographic assumptions, the committee's discussion, and GRS's comments about the preliminary assumptions entirely from the March meeting to the May meeting. He added that Conduent would develop a new timeline internally and let GRS know when they intend to send them the recommended demographic assumptions and analysis and backup materials. It would not necessarily be by the March 28 meeting date.

MS. THOMPSON said she thought GRS would need four weeks because they want to review all Conduent's underlying data and analysis for the assumptions they are recommending.

MR. KERSHNER said that meant Conduent would have their recommended assumptions to GRS by March 15.

MS. ALEXANDER responded to MS. HARBO, saying she would issue an updated calendar with the adjustments just discussed.

B. ESTIMATED COST IMPACTS OF EACH ASSUMPTION CHANGE

CHAIR ERCHINGER said she had asked for these four schedules because different economic assumption alternatives that were presented and discussed at the December meeting represent big dollar amounts to the retirement systems (*schedules included in the meeting packet and on file at the ARMB office*).

MR. KERSHNER explained how to read the schedules for PERS and TRS that reflected potential changes in economic assumptions and trend rates. At the December meeting, Conduent's alternative #1 and alternative #2 were presented for all of the assumption changes in total. After the meeting they were asked to break those assumption changes down into the components, which were (1) the trend rates, (2) the interest rate assumption, (3) the salary increase assumption, (4) the inflation assumption, and (5) the payroll growth rate.

CHAIR ERCHINGER thanked Conduent for providing that information, which should be helpful, especially for staff, as they start talking about the various investment return assumptions and the inflation assumption, and so on, to be able to see what the impact of those would be.

MR. JOHNSON asked for the rationale for selecting the order of assumptions to compound on each other. For example, he thought Conduent would want to have an inflation assumption calculated before they came up with a salary increase assumption – but it was done in the reverse order.

MR. KERSHNER said there was no magic to the order of assumptions to compound on each other. Part of the reason that Conduent did not do this analysis to begin with is that all these assumptions are interrelated: the inflation assumption is an underlying element of the interest rate assumption, the salary increase rate, and also the trend rates. The numbers would be slightly different if Conduent placed the assumptions in a different order, but the magnitude of the decreases or increases in the accrued liabilities would still be relatively the same. In other words, the impact of the trend rates would be a larger increase than the impact of the interest rate assumption. And the impact of the inflation assumption would still be lower than the impact of the salary assumption.

C. REVIEW ACTUARY UPDATE

MS. THOMPSON stated that GRS is very concerned about yet another billion-dollar gain in retiree medical. It could just be GRS needing to get familiar with what happened, but it might not. She said she is not at the point where she agrees the gain comes from better claims experience. It looks to her like something else has gone on.

MS. THOMPSON expressed concern about whether the pre-Medicare and Medicare claims data was being characterized properly as an item. She recalled when Chris Hulla was the healthcare actuary, later followed by Melissa Bissett, and their frustration about not being able to get data that was separated by pre-Medicare or Medicare-eligible, and then eventually being able to get the Medicare split data so things were better.

MS. THOMPSON said she also wanted to know how the validation of actual medical claims experience was made with DRB staff so that the actuary now has it right and can make sure that it is not reversing next year if Aetna changes its reporting to a different way.

PAUL WOOD of GRS reported on the test lives review so far. They have submitted some questions to Conduent and are waiting for responses. GRS had raised some issues last year that Conduent had agreed to that were not implemented this year, so they will look for that in the test lives next year.

MS. THOMPSON added that she did not know why Conduent did not make the changes – if they were running out of time, or if some new information came to light, or if they had a change of heart. GRS is trying to pin down why the changes were not made and is expecting a response this week.

CHAIR ERCHINGER said she looked forward to further discussion on the billion-dollar gain on healthcare. About two years ago the committee was talking about a gain of similar or higher magnitude and was concerned about not being able to pin down the reason for the gain at that time. The concern was that if they got it wrong, it would result in underfunding and then turning around later and increasing the contribution rates even higher. A lot of information has been given to the committee about what potentially is adding to the gain, but this time she would really like GRS to get a lot more comfortable with this billion-dollar gain than the last big gain, because they are compounding on each other. She asked both actuaries to work together to reach comfort around that item. She said Conduent has experienced some staff turnover, which might be why the previous changes were not implemented, but the committee is expecting an update on that issue as well at the next meeting.

VII. FUTURE MEETINGS

A. Calendar Review

The schedule of meetings for 2017-2018 was included in the packet. March 28 is the upcoming meeting in Juneau, where the draft review of the FY17 actuarial valuation reports will be on the agenda.

MS. THOMPSON indicated she was not sure if the review of the actuarial reports would be ready for the March 28 meeting.

CHAIR ERCHINGER asked her to work with Ms. Alexander on the audit findings list to see if anything new has risen to that level or if anything can be dropped from the list.

There will be a May 3rd committee meeting, followed by a June 20 meeting in Anchorage.

B. Agenda Items

MR. JOHNSON said he was troubled with Ms. Thompson's critique of the GEMS model at the last meeting. He wanted a further report from GRS on the one hand and from Conduent on the other to provide more information about the use of the GEMS model, because it is such a critical element in the matters the committee is considering.

CHAIR ERCHINGER said that issue was brought up at the last Board meeting, when there was a request for the investment advisors to weigh in with additional information. They had previously reported to the Board as a whole on some research that they did on the GEMS model. It will be helpful to get information from them as well. If the committee is going to have that conversation, she would like to know what plans that are not using any model are using. It sounded like they are relying on surveys of investment advisors to try to come up with a consensus opinion. If the committee is going to be concerned about the GEMS model, she would like to be equally focused on what the alternative option is and why the ARMB should be more comforted about the use of that alternative than using the GEMS model.

CHAIR ERCHINGER proposed that she work with Ms. Alexander to get GRS and Conduent to decide how best to approach that issue.

MS. HARBO spoke up that she would like another discussion of the pre-Medicare and post-Medicare members. She has the same concern that Ms. Thompson expressed and has been asking since 2003 or earlier about how many pre-Medicare and post-Medicare members there are. She recalled a schedule from three or four years ago that showed the numbers by tier, and she would like to see that again. Her concern is the possibility that data issues could start all over again if there is a new third-party administrator, and the numbers could change drastically.

MR. YOUNG said he was putting together a presentation that tells the entire story of how Conduent developed the per capita costs this year from the data they received from the State and from Aetna. He would send it to GRS and the State, and people can fully audit what Conduent did and freely question and challenge it. He added that he fully understood that in the past there has been some volatility.

CHAIR ERCHINGER noted that the meeting agendas are quite full right now dealing with the experience study and the valuation reports. Once those items are completed, the committee will have more time to focus on other topics. She urged committee members to be thinking about their priorities for future meetings.

MR. WILLIAMS stated that he would like a committee discussion about the signs it should be looking for and what swings or changes are reasonable in a closed retirement system. He was surprised and questioned the billion-dollar increase in the past just as hard as if it had been a billion-dollar cost. He wanted to be able to identify a substantive change that may continue into the future. An example is he does not believe the 3% expectation for defined benefit terminations is going to hold true. He thought it was going to trend toward zero percent because if someone is vested in the system, over time, terminating and cashing out becomes more and more reckless. The assumption that 3% of members will do that seems high.

CHAIR ERCHINGER said she had a similar thought when looking at the magnitude of the healthcare gain. There was a one-billion-dollar adjustment a few years ago that the ARMB was not entirely comfortable with. Maybe the committee should not account for the current gain until there is more data to support that it actually is a real gain and is not going to reverse itself in the subsequent years. She said she understood what Mr. Williams was saying and thought it was a very good point.

CHAIR ERCHINGER stated that the committee has talked about having some future discussion items that are really best practices. GRS and Conduent have provided some suggestions, such as training that is specific to closed systems. Mr. Williams' question is a good topic to add to the list for future discussion or training (the magnitude of a change, and if the committee is not entirely comfortable with the reason for the change, is there a point at which the magnitude causes the committee to step back and say it is not going to do this until it has better proof).

C. Requests / Follow-Ups

Requests were brought up throughout the meeting.

VIII. Adjournment

Ms. Harbo moved to adjourn the meeting, and Mr. West seconded. The meeting adjourned at 2:52 p.m.

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

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Karen Pearce Brown