State of Alaska
ALASKA RETIREMENT MANAGEMENT BOARD
ACTUARIAL COMMITTEE MEETING

Location:
Teleconferenced Meeting
Alaska

May 3, 2019

ATTENDANCE

Committee Present: Norm West, *chair*
Lorne Bretz
Tom Brice
Gayle Harbo
Allen Hippler
Rob Johnson
Commissioner Bruce Tangeman
Commissioner Kelly Tshibaka
Bob Williams

Committee Absent: None

Department of Revenue Staff Present:
Bob Mitchell (chief investment officer)
Pamela Leary (director, Treasury Division)
Zach Hanna (deputy chief investment officer)
Stephanie Alexander (board liaison)

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

Others Present:
David Kershner (Buck)
Scott Young (Buck)
Paul Wood (GRS)

I. CALL TO ORDER
CHAIR WEST called the meeting to order at 9:02 a.m.

II. ROLL CALL
Nine committee members were present at roll call to form a quorum.

III. PUBLIC MEETING NOTICE

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

IV. A. Approval of Agenda

MS. HARBO moved to approve the agenda. MR. BRICE seconded the motion.

MR. JOHNSON requested to add an informational agenda item relating to the appointment of the Performance Audit Consultant RFP Committee, to come after Item V. Public/Member Participation. There was no objection.

The amended agenda, including the addition of the Performance Audit Consultant RFP Committee item, was approved without objection.

B. Approval of Minutes - December 12, 2018
January 11, 2019

MS. HARBO moved to approve the minutes of December 12, 2018, and January 11, 2019. MR. WEST seconded the motion. The minutes were approved as presented.

V. PUBLIC/MEMBER PARTICIPATION, COMMUNICATIONS, AND APPEARANCES

There was no one present at the telephonic meeting who wished to speak to the committee.

PERFORMANCE AUDIT CONSULTANT RFP COMMITTEE

MR. JOHNSON requested volunteers to serve on the Performance Audit Consultant RFP Committee on behalf of the ARM Board. MR. BRICE, MS. HARBO, and MR. BRETZ volunteered to serve on the committee.

VI. A. Actuary Reports
2018 DRAFT Actuarial Valuation - PERS, TRS, JRS, and NGNMRS

1. Defined Benefit and Defined Contribution Retirement Plans

CHAIR WEST introduced DAVID KERSHNER and SCOTT YOUNG, Buck, to present the preliminary results of the June 30, 2018 valuations and review the actuarial/experience gains and losses. The purpose of the valuation is to measure the plans' funded status, compare actual FY18 experience (liability and assets) to anticipated experience based on 2017 valuation assumptions, and to provide a basis for setting FY21 contribution rates. Three additional items of discussion will be included:

- Effects of new assumptions and methods adopted in January 2018
- Effects of the new Employee Group Waiver Program (EGWP) implementation
- Impacts of two alternative methods for the layered amortization of the unfunded liability

MR. KERSHNER noted adjustment requests from GRS and/or the Committee will be considered and Buck will return at the June meeting to present the full valuation results.

MR. WILLIAMS asked if other plans are discounting EGWP. MR. YOUNG noted he is not aware of any other plans that are discounting the effect of EGWP. It is current law and it is assumed to continue perpetually, or until the law changes.

MR. KERSHNER reviewed the highlights of 2018 valuation results and separated the results into three categories; PERS and TRS DB, PERS and TRS DCR, and JRS and NGNMRS. For PERS and TRS DB, the estimated market returns net of expenses was 8.2%. The FY18 market return assumption was 8%. The FY19 market return assumption has been changed to 7.38%. Because the plans recognize prior year market losses over a five-year period, the actuarial return was 6.1%. This resulted in an asset loss.

MR. KERSHNER explained the PERS and TRS DB actuarial funded ratio for PERS is consistent with expectations with an increase from 76.7% to 76.9%, and for TRS, it is better than expected, with an increase from 82% to 84.7%. The actuarial accrued liability is consistent with expectations with an increase of approximately 6% or $1.3 billion for PERS, and just under 1% or $95 million for TRS. The EGWP implementation decreased the healthcare liability by approximately 8.5% or $711 million for PERS, and approximately 8.4% or $248 million for TRS.

For PERS and TRS DCR, the estimated market returns net of expenses was 8%. The actuarial return was 7.9%. The actuarial funded ratio for PERS increased from 92.5% to 103.9%, and increased from 102.6% to 128.3% for TRS. The actuarial accrued liability decreased by approximately 7.6% or $11 million due to the new assumptions and methods. The EGWP implementation further decreased the healthcare liability by approximately 3.4% or $4 million for PERS, and approximately 3.4% or $1 million for TRS. Overall, the DCR plans are better funded this year than previously.

For JRS and NGNMR, the estimated market returns net of expenses was 8.3% for JRS and 4.6% for NGNMRS. The actuarial return was 8% for JRS and 5.3% for NGNMRS. The NGNMRS assets are invested more conservatively and therefore produce a lower return. The actuarial funded ratio for JRS increased from 84.1% to 86.3%, and increased significantly from 122% to 185.4% for NGNMRS. The increase was primarily due to the new information of the elimination of 798 participants from the data because they received a cash-out prior to 2016. This was an unexpected gain to the plan. The information has been verified by staff.

MR. BRICE commented on the previous problems of communicating appropriate information relating to participants by DMVA. He noted incorrect information can have a significant impact on the plans. MR. BRICE asked DRB for their impressions regarding DMVA in terms of providing correct and audited information. KEVIN WORLEY, Chief Financial Officer, DRB, explained DMVA provides information annually. However, the DMVA does not have access to the information regarding who is receiving a benefit and who has cashed-out. DRB will begin providing Buck with the list of lump sum payment information for each fiscal year. This was a combined error and is being resolved.

MR. KERSHNER explained a chart showing the assets, liabilities, and funded ratios for PERS and TRS DB. Both healthcare plans are funded over 100%. Based on that information, Buck believes the ARM Board should consider contributing the entire FY20 additional State contribution to the pension trusts, rather than splitting the contribution between pension and healthcare. MR. KERSHNER believes the possible effect for next year is the PERS healthcare funded ratio could decrease to below 100%, and the TRS healthcare funded ratio could decrease, but remain above 100%. MR. KERSHNER noted he can provide at the June meeting an estimation of the June 30, 2019 funded ratios considering both alternatives, split contribution between pension and healthcare or total contribution to pension.

MS. HARBO inquired of Buck and GRS regarding any downside to contributing 100% to pension. MR. KERSHNER does not believe there is a downside. Contributing 100% to pension will have a positive effect on the FY21 additional State contributions. PAUL WOOD, GRS, agreed. MS. HARBO supported moving forward with a motion.

AJAY DESAI, Director DRB, suggested staff author the recommended motion and bring it back as an action item during the June meetings. There was no objection. MR. WORLEY summarized the intent of the Committee is to allocate 100% of the additional State contribution for PERS and TRS to the pension portion and 0% to the healthcare portion. There was no objection.

MR. KERSHNER explained a chart showing the assets, liabilities, and funded ratios for PERS and TRS DCR. Both plans remain overfunded in occupational death and disability because of the small number of people receiving benefits. The healthcare is better funded in 2018 than in 2017.

MR. HIPPLER requested MR. KERSHNER discuss the seemingly low actuarial accrued liability of $16,000 for occupational death and disability (Occ D&D) in the TRS DCR. MR. KERSHNER explained there are two portions of the actuarial accrued liability; the normal cost rate, which is the handful of people who are currently receiving disability benefits or survivor benefits, and the past service rate, which is the low projection of future death and disability events for the current active members. PERS and TRS DCR plans began in 2006. The past service for each member is small relative to the future service. Most of the liability for the Occ D&D benefits are anticipated to result in future years.

MR. WORLEY informed he will request CATHY LEA to create a write-up on the reason the Occ D&D number is low for TRS DCR. There are no current TRS members receiving either occupational disability benefits or survivor benefits. The Occ D&D is an employer paid cost. MR. WORLEY advised discussion can occur with CHAIR WEST and counsel STUART GOERING to determine additional review of this matter during the June meeting. The discussion will include whether to keep the Occ D&D contribution rate at the normal cost rate, or if it is possible to move it to a zero contribution rate within the current statutory structure.

MR. KERSHNER explained a chart showing the assets, liabilities, and funded ratios for JRS and NGNMRS.

MR. KERSHNER reviewed the specifics of the FY18 actuarial gains and losses, excluding the experience study effects of the new assumptions, for the plans. MR. KERSHNER noted the numbers on the slides within parenthesis are favorable gains to the plans and the numbers without parenthesis are unfavorable losses to the plans. The difference in the actual versus the expected contributions in DB is due to the lag of rates being set for FY18 based on the 2015 valuations. Salary increases and COLA/PRPA increases on the pension side were less than expected for both PERS and TRS DB, resulting in a gain for the plans.

MR. KERSHNER noted gains were created on the healthcare side in the categories of changes in dependent coverage elections, medical experience, and modified Part B only assumption. MR. YOUNG provided additional information and a detailed description regarding the three categories.

MR. BRICE asked what is embedded in the EGWP implementation savings of $710,657 million of the prescription drug subsidies. MR. YOUNG noted the amount shown is the present value of all future years' savings.

MR. KERSHNER reviewed the actuarial gains/losses for the DCR plans. The EGWP figure is an updated estimate given by the service providers. The Cadillac tax initial measurement was deemed immaterial for these plans last year. This year, it is $1.6 million for PERS and $375,000 for TRS, assuming the law goes into effect in 2022, as it is currently structured. The law has been delayed four times already and may be delayed again as 2022 approaches.

MR. KERSHNER reviewed the actuarial gains/losses for JRS and NGNMRS. He noted approximately $7.5 million of the $8.2 million gain in the demographic experience column was due to the retirees not receiving the anticipated benefit increases. The amount should have been in its own column of COLA increases. The correction to the chart will be made for the June meeting.

MR. KERSHNER continued the presentation outlining the effects of the new assumptions and methods for the plans based on the experience study that were adopted in January. Changes were made to the economic assumptions, including the decrease of the investment return from 8% to 7.38%, the decrease of the inflation rate from 3.12% to 2.5%, the decrease of the salary increase rate, and the increase of medical trend rates.

Changes were made to the demographic assumptions regarding the population projected through the years and into retirement, including mortality and disability expectations. The method used to allocate healthcare benefits for PERS, TRS, and JRS was changed from level dollar to level percent of pay. An administrative expense load was added to the normal cost for PERS, TRS, and JRS. A 25-year layered amortization of the unfunded liability was adopted and begins with the 2018 valuations.

MR. KERSHNER reviewed the charts showing the effects of the new assumptions and methods to Pension/Occ D&D. The effects are consistent with the previously presented analysis and projections. Similarly, the effects of the new assumptions and methods to healthcare are consistent with the previously presented analysis and projections.

MR. KERSHNER discussed the current layered amortization method of the unfunded liability, the new amortization method, and the impacts of two alternatives for the new method. The current method allows each year's unfunded liability to be amortized over a closed 25-year period starting in 2014. The new method uses a 25-year layered amortization starting in 2018. Alternative #1 is the new method, which layers the unfunded liability at June 30, 2018, using current assumptions/methods, including FY18 experience, and amortizes the layer over 21 years. A second layer is the change in unfunded liability at June 30, 2018, due to new assumptions/methods and EGWP implementation and amortizes the layer over 25 years.

Alternative #2 implements three layers. The first layer is the outstanding balance at June 30, 2018, of the 2017 unfunded liability, before reflecting FY18 experience, and amortizes the layer over 21 years. The second layer is the change in unfunded liability at June 30, 2018, due to FY18 experience, using current assumptions/methods and amortizes the layer over 25 years. The third layer is the change in unfunded liability at June 30, 2018, due to new assumptions/methods and EGWP implementation and amortizes the layer over 25 years. Under either alternative, one new 25-year layer will be created each year based on the experienced for that fiscal year.

MR. KERSHNER showed and discussed the FY19 amortization amounts for both Alternative #1 and Alternative #2 methods. The amortization amounts are slightly higher under Alternative #2 in FY19 and the next few years. MR. KERSHNER explained when all future years for the current layers are considered, the total amortization amounts will be higher under Alternative #1 by $167 million for PERS and $49 million for TRS. The 22% employer contribution rate remains the same under both alternatives. The additional State contribution amount would be less in the current years for Alternative #1. No proposal was submitted to change from the implemented Alternative #1 to Alternative #2 at this time.

MR. YOUNG described the development of the per capita claims cost. This assumption is reset every year. The past experience information is collected from the State of retiree medical and prescription drug claims. The average cost is determined and the projected cost for the current valuation year is developed. This year, the consulting firm Segal reviewed the claims experience provided by the State and discovered the audio and vision claims were incorrectly included in the reports received for the June 30, 2017 valuations. The claims were too high in last year's valuations by about 2% of gross claims or $9.9 million. The net impact is FY17 claims are lower by $7.2 million. The revised FY17 claims, along with the FY18 claims, were used in this year's claims cost development. All of the FY18 actual medical and prescription drug claims costs came in below expectations.

MR. YOUNG advised the morbidity assumption is being updated as part of the experience study completed during 2018. He discussed the impacts decreased the per capita costs for pre-Medicare medical, pre-Medicare prescription drugs, Medicare prescription drugs, and Retiree Drug Subsidy (RDS). The impacts increased the per capita costs for Medicare Parts A&B medical and Medicare Part B only. MR. YOUNG discussed the methodology used for the 1% to 2% of participants who are not eligible for Medicare Part A and only eligible for Medicare Part B. GRS agreed the change in methodology is reasonable.

MR. YOUNG explained the RDS was equal to 14% of the Medicare prescription drug cost, based on actual historical RDS receipts for the last three years. However, the RDS is only valued for the six-moth period from July 2018 through December 2018, at which point EGWP was implemented. The EGWP estimated subsidy for 2019 annual total is $1,160. This is an increase compared to the RDS estimated subsidy of $527. MR. YOUNG reviewed a chart of EGWP estimates based on various requests, which included a timeline summary of information and valuation dates, sources of the EGWP savings, estimated reduction, and the plans included. The most recent valuation date estimate for all the plans combined was June 30, 2018, and reflected an estimated reduction of $965 million.

MR. KERSHNER reviewed the comparison of the employer/State contribution rates as of the valuation dates of June 30, 2017 and June 30, 2018. The projected contribution rate totals are expressed as a percentage of total pay of each of the plans and are for informational purposes only. The adoption of the FY21 contribution rates will occur in September. For PERS and TRS DB, the projected contribution payroll decreased for both from 2017 to 2018, primarily because of actual pay increases were lower than expected and the new salary increases are projected at a slower rate. The total contribution rate increased for PERS from 22.25 to 24.55, and increased for TRS from 22.80 to 24.37, due to the costs being spread over a smaller projected payroll figure.

The PERS and TRS DCR employer contribution rates for the same 2017/2018 period decreased from 1.64 to 1.61, and decreased for TRS from 1.17 to .99. JRS contribution rate for the same period increased from 74.42 to 83.94, and remained at zero for NGNMRS.

B. Review Timelines: Valuation

MR. YOUNG noted Buck is a little behind in providing information to GRS to complete their review, because of a significant legislative bill that has been taking up Buck's attention. MR. WOOD conveyed GRS will do everything within their power to meet the deadline and identify any comments or questions based on the review to present at the June meeting. MR. BRICE requested MR. WOOD be given the opportunity to comment on today's presentation. MR. WOOD provided general comments. He stated the State of California is not assuming EGWP will remain indefinitely and their valuations gradually eliminate the EGWP savings by 2026. He noted the approach by Buck regarding EGWP is not unreasonable. MR. WOOD agreed with the maintaining Alternative #1 for the amortization layering based on the information presented. He would have liked to see the effects of shortening the layering periods and if that would have presented a loss, which would have changed the conversation. The gain/loss for the plans looked favorable, but this was the first time GRS has reviewed it. More detailed comments will be shared within the GRS reports after a full review of the information.

VII. FUTURE MEETINGS

A. Calendar Review

MS. ALEXANDER advised the next meeting will be held in June. The provided schedule of 2019-2020 meetings has been updated to reflect the modifications for this year.

B. Agenda Items - None.

C. Requests / Follow-Ups

CHAIR WEST requested DRB to present in June in relation to today's meeting. There was no objection.

VIII. ADJOURNMENT

MS. HARBO moved to adjourn the meeting. MR. WEST seconded the motion. The motion passed without objection.

The meeting was adjourned at 11:31 a.m.

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