State of Alaska
ALASKA RETIREMENT MANAGEMENT BOARD
ACTUARIAL COMMITTEE MEETING

Location:
Alaska State Museum, Lecture Hall
395 Whittier Street
Juneau, Alaska

June 19, 2019

ATTENDANCE

Committee Present: Norm West, *chair*
Lorne Bretz
Tom Brice
Gayle Harbo
Allen Hippler
Rob Johnson
Commissioner Bruce Tangeman
Commissioner Kelly Tshibaka (phone)
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)
Greg Samorajski (DOR)

Department of Administration Staff Present:
Kevin Worley (chief financial officer, Division of Retirement & Benefits)
Emily Ricci (DRB, DOA)

Others Present:
Bill Jennings (ARMB IAC)
Stuart Goering (ARMB Legal Council) (phone)
David Kershner (Buck)
Scott Young (Buck)
Leslie Thompson (GRS)
Paul Wood (GRS)

I. CALL TO ORDER
CHAIR WEST called the meeting to order at 1:47 pm.

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. The agenda was approved as presented.

B. Approval of Minutes - May 3, 2019

MR. BRICE moved to approve the minutes of May 3, 2019. MS. HARBO seconded the motion. The minutes were approved as presented.

V. PUBLIC/MEMBER PARTICIPATION, COMMUNICATIONS, AND APPEARANCES

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

VI. A. Actuary Reports - Drafts

2018 Actuarial Valuation - PERS and TRS:

a. Defined Benefit and Defined Contribution Retirement Plans

CHAIR WEST introduced DAVID KERSHNER and SCOTT YOUNG, Buck, to present the June 30, 2018 valuation results. MR. KERSHNER informed today's presentation is very similar to the discussion at the previous meeting. The few revisions made since the last meeting will be highlighted. There may be an additional small modification to the National Guard results that is currently under review with GRS.

MR. KERSHNER advised the purpose of the valuations is to measure each plan's funded status as of June 30, 2018, using participant data and assets. The experience from fiscal year 2018 (FY18) of both liabilities and assets is compared to the expected assumptions from the FY17 valuation. The effects of the new experience study assumptions and methods will be calculated, along with the effects of the Employer Group Waiver Program (EGWP) to PERS and TRS. The assets and liabilities will form the basis for setting the FY21 contribution rates in September.

MR. KERSHNER reviewed the market return, net of expenses, for PERS and TRS in FY18 was 8.2% and the actuarial return was 6.1%. The funded ratio increased from 76.7% to 76.9% for PERS, and from 82% to 84.7% for TRS. MS. HARBO commented the plans' funded ratios are excellent compared to other state plans.

MR. KERSHNER noted the change to new assumptions and methods for the experience study increased the actuarial accrued liability as of June 30, 2018 by approximately 6.1% for PERS, and .9% for TRS. The effect of EGWP reduced the healthcare actuarial accrued liability by approximately 8.5% for both PERS and TRS. All teachers in the State's plan are eligible for EGWP.

MR. WILLIAMS inquired as to the reasons the new assumptions and methods of the experience study increased the accrued liability 6.1% for PERS and only .9% for TRS, and other similar disproportionate effects. MR. KERSHNER explained the starting points are different for PERS than they are for TRS. The effects of the changes reflect the movements. The demographics of each group is different and contributes to the varying effects.

MR. KERSHNER reviewed the highlights of the 2018 valuation results for JRS and NGNMRS. The liabilities as of June 30, 2018 for NGNMRS decreased by $10.7 million due to the elimination of the 798 participants who received a cash-out prior to 2016, and should have already been removed. MR. KERSHNER summarized the minor modifications to the plans since the last meeting. The results shown for the NGNMRS do not reflect the new mortality assumption correctly for the lump-sum factors. The corrected actuarial accrued liability number is down about .9% to $21,934,000.

MR. KERSHNER discussed the FY18 actuarial gains and losses. The two largest gains on the pension side of PERS and TRS were due to less than expected salary increases and less than expected cost of living allowance (COLA) increases and post retirement pension adjustments (PRPA). The largest gain in healthcare was due to medical claims experience. The largest gain in JRS pension was due to less than expected COLA increases. The Cadillac tax initial measurement is included in the claims cost update for DB, and is quantified separately in the full detailed report.

MR. KERSHNER highlighted the new assumptions and methods adopted by the Board in January based on the four-year experience study.

- New economic and demographic assumptions for all plans
- Method used to allocate healthcare normal cost and actuarial accrued liability changed from level dollar to level percent of pay for PERS, TRS, and JRS
- Administrative expense load added to normal cost for PERS, TRS, and JRS
- 25-year layered amortization of unfunded actuarial accrued liability starting June 30, 2018 for PERS DB and TRS DB.

MR. KERSHNER explained Layer #1 is the unfunded liability at June 30, 2018, amortized over the remaining 21 years from the 25-year closed period that started in 2014. Layer #2 is the change in unfunded liability at June 30, 2018, due to the new assumptions, methods, and EGWP implementation amortized over a closed 25-year period. Any future layers of experience gains and losses will be amortized over closed 25-year periods. If there are no future layers, the plans should be fully funded by 2044. The primary reason for introducing layering is to minimize the volatility in the additional State contributions due to potential significant gains or losses in the assets or liabilities. MR. KERSHNER reviewed the effects of the new assumptions and methods on pension occupational death and disability and healthcare liabilities and normal costs.

MR. YOUNG gave a detailed description of the development of the per capital claims cost assumption. The net impact of the new reports reviewed by Segal resulted in lower claims of less than 2% of total claims of the previous year's valuation, approximately $7.2 million, because of audio and vision claims that were incorrectly included. Segal has since worked with the data warehouse administrator and has corrected the issue and the audio and vision claims will be excluded in future reports. MR. YOUNG reviewed the comparison of the expected FY19 per capita costs with the corresponding updated data. All medical and prescription drug categories incurred gains, showing the actual costs were less than the assumptions. The effects of the change to the morbidity assumption were shown.

MR. YOUNG explained the change in the methodology used to determine the 5% assumption of Medicare Part B-only participants. The methodology will continue to be monitored in comparison with the actual data to ensure a reasonable assumption. MS. HARBO commented retiree participants who are not eligible and not covered by Social Security pay for Medicare out-of-pocket. The EGWP is reimbursed by the State, but can be up to $70 a month. MR. YOUNG revisited the previous meeting's discussion regarding the decline or cessation of EGWP. He researched the California plan, CalPERS, example and found the EGWP assumption subsidy is currently comparable to Alaska's and would decline over time to as low as between 5% and 10%, but would not cease. Alaska's EGWP valuation is about 27.5%. The risk and assumption will continued to be monitored in comparison with actual data.

MR. YOUNG reported the historical and projected active counts for PERS and TRS DB. He showed the historical active counts for PERS and TRS DCR, and the historical and projected retiree counts for PERS and TRS DB. The peak is expected to be reached in 2027, at about 43,000 retirees for PERS and in 2028, at about 16,000 retirees for TRS. The number of retirees will then decrease because the DB plans are closed. The historical and projected payroll numbers were shown. The historical and projected asset values comparing the actuarial value versus the market value of assets were discussed for the plans. MR. YOUNG reviewed the historical and projected funded ratios for the plans. He discussed the historical and projected contribution rates as a percentage of total pay for the plans.

MR. YOUNG explained the chart showing the projected total additional State contributions from FY21 to FY39 in excess of 22% for PERS and in excess of 12.56% for TRS. DEPUTY COMMISSIONER TANGEMAN commented the chart seems misleading from a budgetary perspective. He asked if a column showing the delta from the previous year of $30 million can be added to the chart. MR. YOUNG informed the valuation reports include the detailed information, including FY19 and FY20 additional State contributions. MR. JOHNSON commented it may be useful to explain the State would have paid 40% of the $30 million and the new amount is the remainder.

CHAIR WEST requested the charts with the Y-axis starting at a number other than zero be marked with a notation indicating the scale. CHAIR WEST believes it would be helpful to include a history of additional State contributions, perhaps from 2010. MR. YOUNG noted Buck will revise slide 50 with the additional requested information.

B. Update of the 2018 Actuarial Review

LESLIE THOMPSON and PAUL WOOD of GRS provided the update on the 2018 actuarial review. MS. THOMPSON discussed the mission of the review actuary includes bringing forth concerns regarding whether or not the Committee has the opportunity to measure the risks of methods before implementation. GRS is not in disagreement with actuary Buck's recommendation of EGWP, but is concerned the Committee did not get to weigh the method compared to other methods. Another area of GRS' mission involves bringing forth disagreements before the Committee. The Committee will discuss the issues and decide on de minimis status. GRS will not change assumptions without the Committee's permission. GRS is happy with the data work Buck has conducted on Medicare Part B, but remains concerned regarding the continuing gains in this area year-after-year. GRS has not yet conducted the review of Buck's recently issued final reports. GRS has engaged in an abundance of review activity to be discussed by MR. WOOD.

MR. WOOD explained the process of the test life review and the resultant validations are to ensure the assumptions and benefits are being coded properly. The new assumption set was a point of emphasis during the audit. Generally speaking, the new assumption set was properly incorporated, with the exception of the marriage assumption. Buck's experience study noted the changes to the marriage assumption would only apply to post-retirement healthcare benefits and not to pension benefits. After review of the pension test lives, GRS confirmed the marriage assumption was changed for pension benefits. Buck reviewed the summary results for PERS and TRS DB and for PERS and TRS DCR, and decided to re-run the valuations and issue updated results based on the correct marriage assumption.

MR. WOOD noted the National Guard information was not available during the creation of the presentation and is not included. GRS has since been communicating with Buck on the assumptions being used. There was an issue with the mortality being correctly applied in lump sum amounts. GRS confirmed with Buck this issue was not permeating any of the other valuations and was isolated to the National Guard plan. GRS will continue to work with Buck on the National Guard review.

MR. WOOD discussed the final summary on the healthcare claims showed favorable experience that resulted in gains to the plan. This will be monitored. The review of the valuation reports is in process.

A comment was made on the noticeable difference in the communication between GRS and Buck regarding issues and timely solutions. The question was asked regarding the primary factors in this positive change. MS. THOMPSON believes the institution of the monthly calls provided a regular process for discussion. There was not additional lead time for the deadline.

C. Review Audit Findings List

a. Proposed Teleconference Meeting

MR. WORLEY informed he has been involved in the monthly calls between Buck and GRS. The calls have been successful. He explained the late adoption of the experience analysis this year and the subsequent late completion of the valuation reports will lead to adoption of the reports either in September or December, which is well past the audit timeframe. Discussions occurred to determine a schedule to issue the final reports in a timely manner. The options include conducting a teleconference meeting the end of July or beginning of August. Final adoption by the Board through the resolution process would occur at a Board meeting. The Committee agreed to hold a teleconference meeting on July 31st. MS. ALEXANDER will poll the members to determine the time of the teleconference meeting.

D. Review Timelines: Valuation

Buck has provided the draft reports, with the exception of the National Guard draft report because its issue is being resolved.

E. State Contribution Amount Discussion

MR. WORLEY discussed the healthcare funding ratio for PERS DB is 100.4% and for TRS DB is 108%. He advised the Department, as the plan administrator, is notifying the Committee of the intent to dedicate the entire State contribution amount to pension for FY20. No formal action item is necessary from the Committee. CHAIR WEST acknowledged the notification.

MR. YOUNG informed Buck will update slide 50 to also reflect the entire State contribution amount dedicated to pension for FY20.

VII. FUTURE MEETINGS

A. Calendar Review

MS. ALEXANDER noted the July 31st telephonic meeting will be added to the provided schedule of 2019-2020 meetings.

B. Agenda Items - None.

C. Requests / Follow-Ups

MR. HIPPLER requested an explanation of the legal ability of the ARMB to comingle funds from the healthcare trust and pension trust to potentially diminish the State's contribution amount. MR. JOHNSON informed this issue has previously been addressed. The IRS advised, approximately 15 years ago, the two trusts must be separate and the funds cannot be comingled. The Board has a role in setting the State's contribution rate according to statute and the Department of Administration, as plan administrator, can allocate the contributions among the plans. MR. GOERING agreed and noted the past service liability and additional State contribution rate for healthcare is close to zero because of funding status. MR. WORLEY informed the employer has to pay the normal cost rate to healthcare. All of the PERS employees' contributions go directly to pension.

VIII. ADJOURNMENT

<u>MS. HARBO moved to adjourn the meeting.</u> <u>MR. BRICE seconded the motion.</u> The motion passed without objection.

The meeting was adjourned at 3:43 pm.

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.