

State of Alaska
ALASKA RETIREMENT MANAGEMENT BOARD
ACTUARIAL COMMITTEE MEETING

Teleconference/Videoconference

MINUTES OF
April 30, 2020

Thursday, April 30, 2020

ATTENDANCE

Committee Present: Norm West, Chair
Lorne Bretz
Tom Brice
Gayle Harbo
Allen Hippler
Rob Johnson
Commissioner Mahoney
Commissioner Tshibaka
Bob Williams

Committee Absent: None

Other Trustees Present: None

Department of Revenue Staff Present:

Bob Mitchell, Chief Investment Officer
Pamela Leary, Director, Treasury Division
Zachary Hanna, Deputy Chief Investment Office
Stephanie Alexander, Board Liaison
Mike Barnhill, Deputy Commissioner
Michelle Prebula
Anna MacKinnon
Grant Ficek

Department of Administration Staff Present:

Kevin Worley, CFO, Division of Retirement and Benefits
Ajay Desai, Director, Division of Retirement and Benefits
Nimeri Denis, DRB

Others Present:

Stuart Goering, Assistant Attorney General, Department of Law

Marybeth Daubespeck, Empower
Richard Ward, Segal Consulting
Paul Wood, Gabriel Roeder Smith
Bill Detweiler, Gabriel Roeder Smith
David Kershner, Buck
Scott Young, Buck
Ric Ford, Buck
Tonya Manning, Buck
Tyler Fondrk, Buck

I. CALL TO ORDER

CHAIR NORMAN WEST called the meeting of the ARM Board Actuarial Committee to order at 3:16 p.m.

II. ROLL CALL

CHAIR WEST, MR. BRETZ, MR. BRICE, MS. HARBO, MR. HIPPLER, MR. JOHNSON, MR. WILLIAMS, COMMISSIONER MAHONEY, and COMMISSIONER TSHIBAKA were present at roll call.

III. PUBLIC MEETING NOTICE

STEPHANIE ALEXANDER confirmed that public meeting notice requirements had been met.

IV. A. APPROVAL OF AGENDA

MS. HARBO moved to approve the agenda. MR. WILLIAMS seconded the motion. The agenda was approved without objection.

B. APPROVAL OF MINUTES: December 11, 2019

MR. BRICE moved to approve the minutes of the December 11, 2019 meeting. MS. HARBO seconded the motion. The minutes were approved without objection.

V. PUBLIC/MEMBER PARTICIPATION, COMMUNICATIONS & APPEARANCES – None.

VI. BUCK UPDATES

A. Updated Actuarial Reports: 2019 Draft Actuarial Valuation Reports

CHAIR WEST explained that most of this meeting would focus on the actuarial draft review from Buck, associated questions, and the timeline for finishing the final report.

DAVID KERSHNER from Buck reminded Trustees that the preliminary valuation results had been presented at the December meeting, then draft valuation reports had been issued for the March meeting. Shortly after that, Buck received comments from GRS on the reports, so they updated those and sent them out on April 2nd. He went through a summary of the items that changed in the reports, using PERS as an example.

Some of the items were corrections of typos and small details, which led MR. WILLIAMS to ask

whether it's common for a report of this size to contain some errors, and whether the level of proofreading was adequate. MS. TONYA MANNING replied that she would hate to say it was common, but in spite of a strong and strict review policy, some errors still get through.

COMMISSIONER MAHONEY, acknowledging that this was her first Actuarial Committee meeting, asked whether GRS has provided numerical changes to these reports in the past; MR. WOOD from GRS replied that they've done these audits a number of times and have a deep understanding of the benefits that are being valued, and usually their suggestions for improvement have no material impact, but are applied to future reports. If there were a material change, it would be highlighted and discussed at this point.

MR. KERSHNER went on to discuss the roll-forward valuation results for the JRS and National Guard. He said they were asked to make a change to the salary increase assumption for the JRS plan because salaries were frozen for two years. Revising assumptions to reflect the salary freeze reduced the liability by about 6 percent, and he went over market return on assets, funded ratio, and contribution rates. Noting that the National Guard is pension only, he said liabilities there were rolled forward without any changes in assumptions. The National Guard plan is overfunded, so the additional state contribution is zero.

B. Review Updated Timelines: Valuation

MR. KERSHNER stated that today is the review of the updated valuation reports, and they anticipate issuing final reports in a couple of weeks, which will be adopted by the Board at the June meeting.

C. Trustee Question Responses: Experience Gains

SCOTT YOUNG explained how the gain attributed to the medical prescription drug claim experience was calculated, noting that the new Optum contract provided much better pricing and larger rebates than were available from Aetna. He responded to a question asked in December of what the gain or loss would have been if they hadn't switched to Optum; he explained how they made their estimate, and said the result was the average cost being almost exactly as expected for pre-Medicare and just under 3 percent from expected for Medicare. He said that indicated that the assumption was an accurate estimate from the prior valuation, and proved that it really was the move to the new contract with Optum that caused the gains. He said GRS had reviewed this and thought it was reasonable.

MR. YOUNG then followed up on a request from MR. WEST that same morning asking to see more year-by-year results to help support that total impact. He showed an Excel spreadsheet with all the formulas and calculations. MR. WEST and MR. WILLIAMS expressed their appreciation for this detailed information, and MR. WILLIAMS asked whether this level of savings will be maintained; MR. YOUNG replied that they fully expect these savings to continue, but it's impossible to say. He added that things change fast in the prescription drug market, and some experts would say that best practice is to put the contract out for bids every three years.

Later in the meeting, MR. HIPPLER said that he appreciated the net value analysis, the illustration, and the medical actuarial gain spreadsheet, which helped the math make sense to him. He asked if it's correct that over half of the medical liabilities are from prescription drugs; MR. YOUNG answered yes, the vast majority of the liability for Medicare participants is attributable to prescription

drugs. However, on pre-Medicare, the medical cost is a lot higher because Medicare is not offsetting all those costs. MR. HIPPLER commented that that helps him see how a 10 percent decrease in drug price could have such a massive impact.

COMMISSIONER TSHIBAKA asked whether that is typical for plans that Buck works with; MR. YOUNG replied that it is, because Medicare Part A and B offset so much of the medical costs. MR. WILLIAMS asked if it isn't also true that the cost to the plan for people pre-Medicare is dramatically more per person than after Medicare because Medicare knocks off so much of the cost; MR. YOUNG replied that looking at the table of average costs, the pre-Medicare portion of medical is over \$14,000 per year, but once retirees become eligible for Medicare, it drops to \$1,500 per year.

D. Trustee Question Responses: Sources of PERS/TRS Funding

MR. KERSHNER responded to a question from MS. HARBO asking what portion of the public plan general funding comes from employee contributions and employer contributions, and what percentage comes from investment earnings. He said they created an illustration showing how the funded status of the plans impacts the portion of the funding. In expected funding for FY 21, employee contributions are \$61 million, which represents about 3 percent of the total funding. Employer contributions are, for PERS, the 22 percent contribution minus the DCR contribution rate, multiplied by payroll. This comes to \$369 million, representing about 19.1 percent of the total. The additional state contribution represents about 10 percent. That means that employers and the state are contributing almost 30 percent of the expected funding for FY 21, and the remainder comes from the expected investment earnings, which means about two thirds is coming from expected investment earnings. MR. KERSHNER then reviewed a hypothetical column showing how it would differ if the plan had been 100 percent funded at the end of FY 18.

VII. ACTUARIAL DASHBOARD PRESENTATION

MR. KERSHNER introduced TYLER FONDRK to demonstrate a digital tool that Buck has developed to help plan sponsors see the results in a different way from the valuation reports. MR. FONDRK, a Buck actuary who has been working in the data analytics office, said that Buck has a full digital suite, one facet of which is called Be Equipped, an advanced data analytics platform data visualization tool. After his presentation was interrupted by connectivity problems, he resumed by saying that this tool is very versatile, and he would show a simple application to supplement the 2019 valuation results prepared by MR. YOUNG and MR. KERSHNER.

MR. FONDRK demonstrated the Be Equipped tool through various views and breakdowns of data, showing how it could be used to get an overview or a very detailed and specific view, and how interactive it is. CHAIR WEST asked whether the ARM Board has access to this; MR. FONDRK replied that they don't right now, but Buck could give them access if they think it would be helpful or useful. COMMISSIONER MAHONEY asked whether this was available as part of the contract, or for an extra fee; MS. MANNING replied that this is included in the current offerings by Buck, and they could customize it if requested, though that might carry additional cost. COMMISSIONER MAHONEY asked if the intent was that the audience would be the Trustees or all members; MS. MANNING said they thought it would start with being open to Trustees and then Trustees could control what they illustrated to members and how interactive it would be. MR. FONDRK concurred that it is more geared toward the Trustee level. MR. WILLIAMS and MS. HARBO expressed their

excitement about this tool.

AJAY DESAI commented that they've been asking Buck for something like this for a couple of years, and they are pretty excited about it. He said he believes it will be a valuable resource for DRB, DOR, and the Board. However, he cautioned that it could be dangerous to make it available to people who have no specialized educational background or training. COMMISSIONER MAHONEY asked when this would be available; MR. FONDRK said it could be immediately. MS. MANNING added that they would like to set up a training session to walk Trustees through how to use it. CHAIR WEST said, "Let's get her done."

VIII. REVIEW ACTUARY

PAM LEARY directed committee members to an action memo recommending that the Board exercise the first one-year optional extension of the GRS contract.

MR. BRICE moved that the Actuarial Committee recommends that the Board direct staff to exercise the first one-year contract option during the regular Board meeting. MS. HARBO seconded the motion.

A roll call vote was taken, and the motion passed unanimously.

IX. FUTURE MEETINGS

A. Calendar Discussion

MS. ALEXANDER noted that they aren't sure yet whether the June meeting will be in Juneau or by videoconference.

B. Agenda Items – None.

C. Requests/Follow-Ups – None.

X. PUBLIC/MEMBER COMMENTS – None.

XI. ADJOURNMENT

MS. HARBO moved to adjourn the meeting. COMMISSIONER MAHONEY seconded the motion.
The motion passed without objection.

The meeting was adjourned at 4:50 p.m.

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