State of Alaska
ALASKA RETIREMENT MANAGEMENT BOARD
ACTUARIAL COMMITTEE MEETING

Videoconference

MINUTES OF
December 2, 2020

Wednesday, December 2, 2020

ATTENDANCE

Committee Present:	Allen Hippler, *Chair* Lorne Bretz Gayle Harbo Rob Johnson Commissioner Mahoney (Late) Bob Williams
Committee Absent:	Commissioner Tshibaka
Other Trustees Present:	None
IAC Members Present:	Dr. William Jennings

Department of Revenue Staff Present:
Zachary Hanna, Chief Investment Officer
Pamela Leary, Director, Treasury Division
Mike Barnhill, Deputy Commissioner
Shane Carson, State Investment Officer
Scott Jones, Head of Investment Operation, Performance & Analytics
Michelle Prebula, Public Equity & DC Investment Officer
Kayla Wisner, State Comptroller
Grant Ficek, Business Analyst
Alysia Jones, Board Liaison

Department of Administration Staff Present:
Ajay Desai, Director, Division of Retirement and Benefits
Kevin Worley, CFO, Division of Retirement and Benefits
James Puckett, Deputy Director, Division of Retirement and Benefits

ARMB Legal Counsel Present:
Stuart Goering, Assistant Attorney General, Department of Law

Others Present:
David Kershner, Buck
Scott Young, Buck
Tonya Manning, Buck
Ric Ford, Gabriel Roeder Smith
Paul Wood, Gabriel Roeder Smith
Bill Detweiler, Gabriel Roeder Smith

I. CALL TO ORDER

MR. JOHNSON called the meeting of the ARM Board Actuarial Committee to order at 1:00 p.m.

II. ROLL CALL

MR. BRETZ, MS. HARBO, CHAIR HIPPLER, MR. JOHNSON, and MR. WILLIAMS, MR. JOHNSON were present at roll call. COMMISSIONER MAHONEY joined later. COMMISSIONER TSHIBAKA was not present.

III. PUBLIC MEETING NOTICE

MS. JONES confirmed that public meeting notice requirements had been met.

IV. DESIGNATION OF CHAIR

MR. JOHNSON proposed to appoint ALLEN HIPPLER as the Chair of the Actuarial Committee. Hearing no objection, CHAIR HIPPLER was handed the virtual gavel.

V. 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: September 16, 2020

MS. HARBO moved to approve the minutes of the September 16, 2020 meeting. MR. WILLIAMS seconded the motion. The minutes were approved without objection.

VI. PUBLIC/MEMBER PARTICIPATION, COMMUNICATIONS & APPEARANCES -
None.

VII. VALUATIONS AND ACTUARIAL REVIEW UPDATE

A. Preliminary 2020 Valuation Results

MR. KERSHNER said that they did not have the JRS or National Guard results. The JRS results were completed but not in time for the presentation. The National Guard results were delayed because there was a delay in receiving the data. This information will be presented to the committee at the

next meeting in March.

MR. KERSHNER stated that they calculate the funded status of each plan, and that the funded status is the comparison of the plan assets compared to the plan liabilities. He said that the calculation is done at the beginning of the plan year, which in this case is July 1 through June 30 plan year, which means that the calculations on June 30, 2020, are for the beginning of FY21 year. Once they have the assets and liabilities calculated, they look at what they expected the assets and liabilities to be. He said then they compare those expected values to the actual values, and then the differences between those figures are the deviations. Those results will form the basis for setting the FY23 contribution rates.

MR. KERSHNER said that they calculate assets and liabilities by reviewing the financial statements that show the various investments, the different asset classes, the market values, the changes in the market values from 6-30-19 to 6-30-20, the investment income, the contributions that came into the plan during the year, and the amounts that were paid out in benefit payments and expenses. He said then they analyze the movement in the plan values and calculate what the actual return on the assets were during the year. He said that is then compared with what they expected the return to be, which was what was set by the Board based on the last experience study, and that expected return was 7.38 percent.

MR. KERSHNER said that to avoid the market volatility impacting the contributions, they smooth out the market gains and losses by recognizing those gains and losses over a five-year period.

MR. KERSHNER said that on the liability side, everything gets calculated on a present value basis by looking at the current active members who are accruing benefits in the plan, as well as people who are already retired and their beneficiaries, and some of the former employees that have a deferred vested benefit when they ultimately retire, or if they have left employment with the state. He said they calculate a projected stream of payments that they anticipate to come out of the plan assets for each participant over their working lifetime, and then ultimately in their retirement years until they are projected to die, based on the mortality table assumption. He said they calculate everything on a present value basis, the future amounts to be in terms of today's dollars, and then compare the liabilities to the assets. He said they know that when they make those projections of the future benefits to calculate the liabilities, they have to make a series of assumptions as to what future experience is anticipated to be. He said they have assumptions as to how salaries are going to grow over somebody's career as the pension benefits are based on the average pay at retirement.

MR. KERSHNER said they know that in any given year those assumptions are going to be wrong because salaries are not going to increase exactly as expected and that people are not going to live or retire based on their assumptions. He said that over the long term the assumptions are anticipated to be the best estimates over the long term; they calculate those expected liabilities. He said once they have determined the assets and liabilities, they determine what the contribution rates for the employers and that state will be based on the funding policy.

MR. KERSHNER stated that they do not anticipate any future benefit changes, so all of the projections are based on the plan provisions that are in effect as of the valuation date and they only include the participants in the plan as of the valuation date. He said when projections are done, they

anticipate future hires to replace people exiting the workforce, but for purposes of the funding valuation, it is based on all the participants in the plan as of June 30, 2020.

CHAIR HIPPLER asked why do they wait until FY23 to impose the contribution rates: MR. KERSHNER stated that the valuation results at 6-30-20 could be used to set the contribution rates for the upcoming fiscal year, but that does not give any time to budget and plan for those contributions. He said they use what they call a two-year lag, where they set the contributions for the fiscal year two years from the present based on those results so that it gives everyone, including the state, an opportunity to plan for those contributions. He said once the FY23 contributions are set, which will occur in September of 2021, the Board will adopt those FY23 contribution rates.

MS. MANNING asked if that was a choice or if it was required; MR. KERSHNER stated that it was not required but a choice that was based on what the Board had decided at one point to set rates on a two-year look-forward. He said they could do it on a three-year look-forward, but they do not want to set rates too far in advance because they know their assumptions are not going to be realized in any given year.

MR. WORLEY explained part of it relates to the time required to get the data to Buck, have them prepare it, as well as GRS review, and the timing of the reports for review by the committee and Board, and all the adoptions. He said results are typically given in December, and then the first review of the reports is in March, and then they adopt the valuation reports in June. He said it takes a year to get through that whole process. He also said that one way they mitigate the two-year lag is by doing an update each September using the prior year rates and the additional state contribution investment results from the current fiscal year, and then roll forward liabilities to the coming year. By incorporating actual returns for one of the years, instead of two years rolled forward, they have a more current rate. MR. WORLEY said this year they'll update the 2020 rates and the additional state contribution using the FY21 investment results, and then roll forward to 2022.

MR. WILLIAMS asked if it was common to lag it by two years and if it was more common to lag it by one year; MR. KERSHNER stated that one to two years is the most common because it gives more ability to set the rates for budgeting purposes. He said that if they did not have the lag, they would not know what the FY21 contribution rates were. He also said it was common to have at least a one-year look-forward, and a two-year look-forward was also common to allow maximizing budgeting opportunities.

MR. WILLIAMS asked how much of a change and a challenge would it be if they decide to lag one year instead of two years; MR. KERSHNER said there was no challenge. He said if they were doing a one-year look-forward, then the valuation would be used to set the FY22 contribution rates, and those would start on July 1 of 2021, which is the beginning of FY22. He said that would mean that they would have to have the contribution rates adopted, the valuation results fully reviewed in this case by GRS, adopted by the Board, and then have the contribution rates set before July 1 which, as MR. WORLEY explained, is difficult to do.

MR. JOHNSON stated that he did not think the Board had determined that a two-year look-forward was the process but that it was represented by the consultants, by DRB, and by others that two years was needed.

MR. WORLEY said that he did not recall but that it had been two years for as long as he could remember.

MR. KERSHNER that in looking at Slide 6, the assets underperformed expectations and the market return was roughly 4 percent, versus the 7.38 percent expected return, so that generated a loss on the market value of assets. He said because of smoothing, they do not recognize the full loss immediately; they will recognize 20 percent of it this year and then 20 percent the next year, etc. He said the liabilities are generally lower than they expected based on the 2019 valuation, which created liability gains.

MR. KERSHNER explained that the total contribution rate for PERS at 6-30-20 was slightly higher than last year. He said because they were dividing by a slightly higher projected payroll figure than what was expected, the contribution rates were relatively flat versus what they were at 6-30-19. He said that based on the statutes, the employers contribute the same set amounts. He said PERS employers contribute 22 percent of pay, and the TRS employers contribute 12.56 percent of pay. He said to the extent that the contribution rate from the valuation is higher than those fixed rates, the state makes up the difference by the additional state contributions.

MR. KERSHNER said that based on the 2019 valuation projections, the total PERS and TRS additional state contributions for the two plans was projected to be about $320 million which was higher than what was projected a year ago, but not as high as what was projected in September. He said that he would have those projections completed within the next few weeks and would share them with DRB who would then share them with the finance committees.

MR. YOUNG stated that he would talk about the impact of COVID-19 on the valuation for the medical and prescription drug benefits. He said that for the under-65, the dollar amount of claims was much higher - roughly $20 million per month, which was more than the over-65 group due to Medicare coverage which covered a significant portion of the medical costs per person.

MR. YOUNG stated that they saw a big drop in claims starting in March, once the COVID impact started to come to light for both the over-65 and the under-65 groups. He said that was due to people becoming concerned with going places for fear of getting infected and that April had an even bigger drop because it was a full month of those factors being in place. He said that as things started to ease up, claims increased a bit.

MR. YOUNG said what they have to do for a valuation is not take into account the short-term volatility because it is not a good predictor of what the long-term costs will be and looking to the future, the expectation is that the pandemic will be resolved, and there will be vaccines. He said that they should not use those four months of low claims in the calculation of the average expected cost that they expect to see in future years. He said they disregarded the low claims that were specifically due to COVID-19 and replaced them with an estimate of what they think those claims would have been had the pandemic not occurred.

MR. JOHNSON asked if they were disregarding both the low and the high claims and referring to 2019 to come up with a more level view; MR. YOUNG confirmed that was the case and also that

there would be factors that could cause an increase in claims costs. He said there are also things that are potentially going to cause decreases; they are starting to see the results from the shutdown of elective procedures because they are starting to see a big surge of more cases. He said that during the second half of 2020 and the first half of 2021 there could be a higher increase than expected, but it would be temporary for that period.

MR. JOHNSON asked if he saw the COVID pandemic actually influencing mortality factor assumptions; MR. YOUNG stated that it could and that would be something that they will look at when they get the next census data next year and will also look at it at the next experience study and make an appropriate adjustment based on what they see in the data.

MR. KERSHNER added that the mortality projections and analysis have to be very long-term in setting future life expectancies rather than based on short-term events and that it remained to be seen what the long-term impact of COVID might have on the mortality experience of the plan population.

MS. MANNING added that this was something that the actuarial profession was watching closely from different aspects, from life insurance, health, to pensions. She said one of the things to note is there is the short-term impact on the plan as far as whether there is more deaths than expected, and also the long-term impact on both the survival rate of the participants and society's longevity improvement.

MR. FORD added that they were seeing an increase in retirements of older-age people, over the short term, across a lot of their clients. He said it will not necessarily affect the overall liability but will most likely shift someone from the active status to the pay status. He said when they look at their demographics, they most likely will see an increase in the retirements.

MR. WILLIAMS asked if they were confident or were they being overly conservative; MR. YOUNG said that each year they use 24 months of the actual experience to come up with an average expected cost that they use to project forward. He said that they will have some volatility in the short-term, but they were trying to measure the long-term costs, so they want to make sure the starting point does not include that short-term volatility. He does not think they were being overly conservative or overly aggressive but were trying to get a best estimate of what they think the long-term cost would be.

MR. YOUNG said that the magnitude of the prescription drug claims were in the opposite direction as they were for the medical, because the under-65 group had a lot less people, the total dollars were much smaller than the over-65 group, where there was more people. He said the reason was, there was no Medicare offset on the prescription drug side like there was on the medical side and there was a big spike in the month of March, due to the fact that once the COVID impact hit, a lot of people rushed to the pharmacy to refill their prescriptions, or they switched from a 30-day supply to a 90-day mail-order, or they called in approval to get their prescription refilled sooner than they otherwise would have been able to. He said claims were lower in April because people had already received their prescriptions, and May was a bit less as well, but in June claims picked back up to more normal levels.

MR. YOUNG said that they also compared everything to the quarterly reports they received from Optum, and while the pandemic clearly affected medical and prescription claims, overall it was not

as much because even though the pandemic hit in March, people still could go to the pharmacy in April and pick up their prescriptions. He said that they felt it was reasonable to use that experience without any adjustment as a basis for sending out their average cost assumption for the valuation.

MR. YOUNG pointed out that that the state made a change from having their contract with Aetna through the end of 2018 to starting with Optum in 2019. He said that in looking at the Optum quarterly reports that they provided to the State of Alaska, the reports showed a 16 percent per member per month increase from the first six months of 2019 to the first six months of 2020, on the EGWP side. He said the under-65 chart increase was lower at just over 8 percent. He said with a more favorable contract in place with Optum, they saw the big drop that they saw two years ago but now are starting to see the expected typical trend increases that they would see year to year under a normal contract.

MR. KERSHNER said that they have three different measurements. The first measurement is the results from the 6-30-19 valuation, which was the starting point. The next measurement is the 6-30-20 expected. He said the benchmark expected figure at 6-30-2020 for both assets and liabilities is based on if assets had earned exactly 7.38 percent and if salaries had increased exactly as they predicted, which was not likely.

MR. KERSHNER said that the 6-30-20 actual, which was the updated measurement reflecting the new claims, new assets, new data, showed changes since 2019. He said they compared the 6-30-20 actual with the 6-30-20 expected, and the differences between those figures provided the gains and losses.

MR. KERSHNER said that for the two types of benefits, which are pension and healthcare, PERS Pension started with $9.489 billion in assets at 6-30-19. If assets had earned 7.38 percent during the year, they expected the market value at 6-30-20 to be $9.780 billion. He said they knew the assets did not earn 7.38 percent, and the actual market value was $9.469 billion which meant they were $20 million lower because the market return was 4 percent, and they have similar values for the actuarial value.

MR. KERSHNER said that they have approximate FY20 returns for both pension and healthcare assets on a market basis and an actuarial basis, they also have the amount of the asset losses. He said that on the pension side, they had a $311 million asset loss on a market basis because the market value was $311 million less than what it was expected to be. He said they did not recognize that full loss immediately because of their smoothing, and that the actuarial loss or smoothed value loss was only $160 million. He said the difference between the amount that had not been recognized from the FY20 market loss will be recognized 20 percent per year over the next four years. He also said that it was the same situation on the healthcare side.

MR. JOHNSON suggested to MR. KERSHNER that it would be helpful to beneficiaries to see a bar chart that showed the combination of the pension and the health plan

MR. KERSHNER said he would incorporate the suggestion in future charts.

CHAIR HIPPLER asked when was the last time they had an actuarial gain based on the market returns

above the projected market return; MR. KERSHNER said that FY17 and FY18 were gains and FY19 and FY20 were losses.

MR. KERSHNER said that Slide 12 shows the comparison between actuarial accrued liability and the actuarial value of assets and that the difference between the two at 6/30/19 was the unfunded pension liability at $5.46 billion.

MR. KERSHNER showed that at 6-30-20, the difference between the $15.280 billion and the $9.714 billion is approximately $100 million higher than it was the previous year because the liabilities did not go up as much as expected, and assets did not go up as much as expected. The combined impact of that was a slight increase in the unfunded liability.

MR. KERSHNER said that the healthcare trusts were much better funded, that the assets were higher than the liabilities. He said FY20 had a $160 million asset loss on the pension side and a $90 million liability gain; the loss was larger than the gain, which was why the unfunded liability had increased now versus a year earlier.

MR. KERSHNER explained that Slide 13 showed the assets, the smoothed value divided by the liabilities, had the funded status at 6-30-19 on the pension side as 63.7 percent. He said that if everything had gone according to assumptions, they would have expected to see a slight uptick in the funded percentage, but it turned out to be slightly lower than what it was a year earlier.

MR. KERSHNER explained that on the healthcare side it was a little better in that they expected the funded status to increase slightly because they were continuing to contribute the normal cost, but because of the favorable liability experience on the healthcare side, the funded status on the healthcare trust was actually better than it was a year earlier.

MR. KERSHNER explained that payroll was actually higher than what it was projected to be based on last year, so that helped to keep the contribution rates lower. He said had payroll increased as they had expected, the contribution rates would have been divided by a lower payroll figure, and therefore the contribution rates would have been higher.

MR. KERSHNER reminded everyone that were two basic components to the contribution rate. He explained that there was the normal cost, which was the cost of benefits expected to accrue in the current year as actives earn one more year of service toward their ultimate benefit. He said they earn additional benefits, and the value or the cost of that benefit is called the normal cost which is independent of the assets in the plan. The second component is the amortization of the unfunded liability.

MR. KERSHNER explained that in looking at the amortization of the unfunded liability last year it was 16.83 percent and that the plans in total were not as well-funded, particularly the pension trust, that had increased slightly to 17.44 percent. He further explained that both pension and healthcare had actuarial asset losses because actuarial return was 6 percent, which was less than the 7.38 percent, which explains the losses on the actuarial value of assets.

MR. KERSHNER went on to explain the gains or losses on the actuarial accrued liabilities. He

said that for the main categories of sources of gains or losses, they have the demographic experience, which is a combination of retirement, termination, disability, and mortality. He said that they had mortality losses on the pension side and gains on the healthcare side; that mortality can affect pension benefits differently than it can affect healthcare benefits.

MR. WILLIAMS said that he has always been surprised by how much gains they have every year. He then asked if there was a point where they would get closer to what it actually is, or are they being overly conservative. He also asked why, on the healthcare side was the prediction off by $2.4 million; MR. YOUNG explained that some things are harder to predict based upon what actually gets reported to them in the statements each year; those have been higher or lower than the expectation from the prior year. He said that claims cost gain for 2020 was largely because of the methodology used to calculate the average cost. He said as they phase out Aetna, which was much higher, they will still have some gains year to year. He said it was a lot smaller than it was last year because they phased out a lot more of those gains. He explained that once they get all of the historical experience phased out of the average, they should not have gains because of that reason. He said the only gains they would have would be if there were other factors that caused the experience to be higher or lower than expected.

MR. YOUNG said that projecting per capita costs on the medical side was much more difficult than projecting salary increases on the pension side because plan sponsors have much more control over that. He explained that with healthcare there are many factors that cause changes from year to year that to try to predict with exact precision what percent it would increase from one year to the next would be challenging.

MR. KERSHNER said that what they do not want to see would be biases towards either gains or losses year after year. He said that if they see that, then when they get to the next experience study that is one of the things they will evaluate and would tweak the assumptions to reflect the new estimate or expectations of the future, based on the most recent past.

MR. YOUNG said that to answer the question posed by, MR. WILLIAMS, there was no inherent conservatism built into the methodology used to calculate the assumption. He said the other presentation that they did not go through, provides full transparency of how they take the claims and the enrollment they receive, and how they calculate the average cost that issued in the valuation, which was something that JRS reviews every year, and there was inherent bias one way or the other.

MR. KERSHNER commented on TRS stating that the pension trust was 75 percent funded versus 75.3 percent last year. He said it was expected to increase to 76 percent, but because the asset losses were larger than the liability gains, the funded status had actually decreased slightly, and on the healthcare side, it was the same story for TRS as it was for PERS. He also pointed out the larger mortality loss because they had fewer deaths, and more benefits being paid for a longer period than they expected based on the mortality assumption.

MS. HARBO said that she was wondering about next year, because of Mr. FORD's comment about increasing retirement. She said that she anticipates a lot of teachers will want to retire after the horrible year of trying to teach kids; that it would be interesting if that plays out in the next year's analysis.

MS. MANNING stated that she agreed with MS. HARBO; that she had personal experience with family members who were in that situation.

MS. HARBO said that particularly older teachers, ones that are in their 50s or 60s, are more prone to get the COVID infection or to get serious complications from it, so they don't want to be in the classroom and be subjected to it.

MS. MANNING agreed.

MR. KERSHNER stated that PERS DCR is slightly better funded this year, at 116.4 percent overall, than it was a year earlier, and that was largely because the healthcare was slightly better funded. He said on the DCR plans, the retiree medical liabilities were a much larger proportion of the total than the occupational death and disability. He stated that the contribution rates were much smaller in number, again because of the magnitude of the liabilities and the number of people in the plans, but relatively constant, relatively stable at 1.43 percent versus 1.46 percent this year.

MR. YOUNG explained that there was an assumption that had been in place since the DCR plans were started that each year in the future, the DCR plans would get 0.2 percent less in value relative to the DB plans to address differences in plan design. He said they looked at it periodically every year to justify it, and there was certainly a rationale to keep it; but this year they looked at some other ways to view it and did some projections. He said that based on GRS' feedback, they came to the conclusion that it was reasonable to take that assumption out of the valuation, and so in consultation with GRS, they decided that this was a good year to do that. He explained that it meant that they were not reducing the cost by .2 percent a year any longer, and so that created a higher liability, which was why there was a loss for removing that assumption this year.

MR. KERSHNER said that the next steps they are going to complete were the JRS and National Guard valuations. He stated that they are going to run the 30-year projections of assets, liabilities, and contributions. He said those would give them the newest estimate of what FY23 additional state contributions are projected to be, which they will present at the meeting in March and will also share those numbers with DRB so that the finance committees and budget committees have those numbers as early as possible.

B. Actuary Review Update

MR. WOOD commented on the discussion of the contribution lag. He said that it was common in the public sector and that he has clients that do the same two-year lag. He said that an interim update to recognize additional asset experiences during that lag period does strengthen the policy.

MR. WOOD said that he wanted to give some context on the 4 percent rate of return. He said it was a phenomenal return, given what they had seen across the public sector and that he has clients who have returns close to zero. MR. WOODS gave a "hats off" to MR. HANNA and his team for that particular return.

MR. WOOD said that they have reviewed MR. YOUNG's claims adjustment due to COVID, and

they found that to be reasonable. It goes back to MR. WILLIAMS' point about making sure they have a good jumping off point, and that they are projecting benefits so far into the future that they want to make sure that they start off at a reasonable point. He said the adjustment that MR. YOUNG made checks that box.

MR. WOOD said that there were two changes in their report this year and that MR. YOUNG touched on one of them. MR. WOOD wanted to discuss the other one. He said that elimination of the .2 percent trend on the DCR plans had been a recommendation for some time and that they were happy to see that it was being removed. MR. WOOD said that as part of their discussions with Buck this year, they received the inputs to their models that they used to develop their relative value factors. He said he was able to use those inputs in the model and determined that they were within a couple percent which was reasonable.

MR. WOOD said that they have all the test life information with the exception of the National Guard and the judges, which they should get soon. He said they will try to replicate the present value of benefits for those test lives to help validate the reasonableness of the liability number.

MR. WOOD said that Buck was going to provide them with those reports, they will review the math, the data disclosures, the assumptions, and methods section, as well as review for any necessary disclosures to satisfy the Actuarial Standards of Practice. He said there would be a new disclosure in the report this year pertaining to ASOP No. 56, which is a modeling standard of practice, and Buck will have a comment pertaining to their model.

VIII. ARMB ACTUARY AUDIT PROCUREMENT

MS. LEARY said the action item that was in the packet discussed the independent audit procurement. She said the action memo was in reaction to follow-up after the committee and the Board directed staff to prepare an RFP for the independent audit. She said there was a recommendation that the review actuary could perform the independent audit function.

MS. HARBO stated that Aon was the first independent audit actuary and Segal was the second one.

MS. LEARY stated that was correct and noted that there had been two recommendations in the 2009 report, one of which was to have the review actuary also perform the role of the independent audit actuary. She said they asked MR. GOERING as well as GRS to find out if there was any reason why that could not happen. She said according to the statute, there did not appear to be any reason why the review actuary could not also perform the independent audit role and GRS concurred.

MS. LEARY stated that the action memo was a recommendation to direct the staff to pursue a sole source procurement, which was allowable based on the ARM Board's procurement rules, and if it was in the best interest of the beneficiaries of the pension funds. She said they would contract with GRS to do the audit work as well as be the reviewer.

MR. JOHNSON said that it sounded like a good idea, assuming successful negotiations occur with GRS that offer a significant savings to the ARM Board or to the trust funds and beneficiaries.

MR. BRETZ asked if MS. LEARY would comment on the first recommendation by Aon; MS. LEARY said the first recommendation was that there not be an audit of the experience study as most of the assumptions were looked at by the review actuary. She stated that perhaps the action item was not complete, in terms of timing, that perhaps they should be looking at the 2020 valuations rather than the 2019 valuations, which were originally going to be part of the procurement process. She said that perhaps they would need to add to the recommendation that the work be completed on just the recent valuation reports.

CHAIR HIPPLER asked when was that last time that was done; MS. LEARY said that it was last done in 2012; MR. BRETZ said that he supports the recommendations to only do the actuarial valuation.

MR. WILLIAMS said that when he first came on the Board and committee, he was surprised that they had an actuary, and another firm reviewing their work, and then every four years there was someone that reviewed both of them; that it seemed a bit like overkill. He said then someone in a sidebar conversation mentioned that there had been a big actuarial mistake in the past that was very expensive, and this was one of the checks and balances that was put in. He then asked if, based on everything that they were discussing, they were still comfortable that they had enough checks and balances that they will never have a similar mistake as they had in the past; MR. JOHNSON said that yes, that was where it all came from, that there needs to be some kind of analysis along the lines of a third review and that they are not statutorily barred from using GRS.

MS. HARBO stated that she was comfortable with GRS doing the review and that they did not want to see another $3 billion hit to the pension plans as they had from the previous actuary.

MS. LEARY added that the type of work between the second and the third actuary are different. She said the review actuary is focused on test data rather than a complete audit, which is what would happen in the independent audit of Buck's data.

MR. WOOD said their review was focused on the test lives, they look at a handful of people every year, replicate those benefits, replicate the present value of those benefits for those people, and then based on the sample of participants, find the results are reasonable. He said that what separates the independent audit from the review function is that they replicate a full valuation of every single participant in the plan.

MR. BRETZ asked MS. LEARY if it was possible for her to modify the action item to incorporate the first recommendation and any dates that need to be changed; MS. LEARY said the recommendation was more broad as was the statute; it did not specify the valuation or experience study, but they can add that to the recommendation to focus on the most recent valuation reports.

MR. BRETZ asked if it would then require an experience study analysis; MS. LEARY said that she would be happy to do whatever the committee needed her to do.

CHAIR HIPPLER said that MR. BRETZ had wondered if they had to amend the motion to reflect the fact that it does not have to be an experience study.

MR. JOHNSON stated that they did not have a motion yet; that MS. LEARY presented language that would need to be converted to a motion and wondered if MS. LEARY would look at the language of her recommendation to show them where the amendment would be and they would then make a motion on that.

CHAIR HIPPLER asked if they would clarify the time frame for the review; MS. LEARY stated that the review had been scheduled for FY22 starting sometime in July. She said that in terms of the language, they could change the recommendation to state that the ARM Board Actuarial Committee recommends the Board direct staff to pursue a sole source procurement contract for an independent audit of the state's actuary, focused solely on recent valuation reports with GRS, since it would be in the best interest of the beneficiaries of the pension funds.

MR. BRETZ moved to approve the item. COMMISSIONER MAHONEY seconded the motion.

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

IX. FUTURE MEETINGS

A. Calendar Review - None.

B. Agenda Items - None.

1. Actuarial Committee Charter

MR. JOHNSON said that the Actuarial Committee Charter was before the Committee to remind the Board that there were drafts of the charter and for whatever reasons, the charter never was adopted. He further stated that best practice suggests that they adopt it, but rather than springing it on everyone, there are drafts that have been circulated. He said as a future agenda item, they should take up the Board adopting the charter or recommend that the ARM Board adopt the charter for the Actuarial Committee, which was the reason it item was set for a future item.

CHAIR HIPPLER asked who was drafting up the charter and manual; MR. JOHNSON said there were drafts that, unless someone had objections to, already existed and MS. JONES had copies of those and would circulate those in time for the next meeting for people to consider if they wanted to make further changes.

CHAIR HIPPLER asked if there were any comments on the drafts. There were none.

2. Actuarial Committee Manual – Addressed under IX.B.1.

C. Requests/Follow-Ups – None.

X. PUBLIC/MEMBER COMMENTS – None.

XI. ADJOURNMENT

MS. HARBO moved to adjourn the meeting. MR. BRETZ seconded the motion. The motion passed

without objection.

The meeting was adjourned at 3:09 p.m.

ATTEST:

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Corporate Secretary

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.