

State of Alaska
ALASKA RETIREMENT MANAGEMENT BOARD
ACTUARIAL COMMITTEE MEETING

Videoconference

MINUTES OF
March 16, 2022

Wednesday, March 16, 2022

ATTENDANCE

Committee Present: Allen Hippler, *Chair*
Bob Williams
Lorne Bretz
Donald Krohn
Commissioner Lucinda Mahoney
Dennis Moen
Sandra Ryan

Committee Absent: Michael Williams
Commissioner Paula Vrana

Department of Revenue Staff Present:
Zachary Hanna, Chief Investment Officer
Pamela Leary, Director, Treasury Division
Shane Carson, State Investment Officer
Scott Jones, Head of Investment Operations, Performance & Analytics
Ryan Kauzlarich, Assistant Comptroller
Alysia Jones, Board Liaison
Grant Ficek, Business Analyst

Department of Administration Staff Present:
Ajay Desai, Director, Division of Retirement and Benefits
Kevin Worley, Chief Financial Officer, Division of Retirement and Benefits
Roberto Aceveda, Counseling and Education Manager
Emily Ricci, Health Care Policy Administrator, Division of Retirement and Benefits

ARMB Legal Counsel Present:
Benjamin Hofmeister, Assistant Attorney General, Department of Law

Others Present:
Steve Center, Callan
Paul Erlendson, Callan

David Kershner, Buck
Scott Young, Buck
Brett Hunter, Buck
Jeffrey Walton, Buck
Tonya Manning, Buck
Caitlin Armour, Buck
Paul Wood, Gabriel Roeder Smith
Bill Detweiler, Gabriel Roeder Smith

I. CALL TO ORDER

CHAIR ALLEN HIPPLER called the meeting of the ARM Board Actuarial Committee to order at 1:00 p.m.

II. ROLL CALL

MR. KROHN, MR. BRETZ, COMMISSIONER MAHONEY, MR. MOEN, MS. RYAN, MR. WILLIAMS, and CHAIR HIPPLER were present at roll call.

III. PUBLIC MEETING NOTICE

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

IV. A. APPROVAL OF AGENDA

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

B. Approval of Minutes: December 1, 2021

MR. WILLIAMS moved to approve the minutes of the December 1, 2021, meeting. MR. KROHN seconded the motion. The minutes were approved without objection.

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

VI. ACTUARIAL UPDATES

A. June 30, 2021, Valuation Results (PERS, TRS, PERS-DCR, TRS-DCR, JRS and NGNMRS)

MR. KERSHNER presented highlighted of the 2021 valuation results. He noted that the presentation was similar to what they had discussed in December. He said they had updated the results since December because the plans were better funded than they thought due to excess market return. He said that there were only a couple of minor changes. He then turned it over to MR. YOUNG to follow up on CHAIR HIPPLER's question from the previous meeting regarding the spike in prescription drug claims

B. Discussion of Increase in March 2020 and March 2021 Prescription Incurred Claims and Underlying Reasons

MR. YOUNG noted that the chart on slide 11 showed the monthly per member cost. He confirmed their suspicions that the prescription costs had risen in March of 2020 because the participants were getting three-month prescriptions due to concern that their monthly prescription may not always be

available due to the pandemic. He said they had reviewed the Optum quarterly reports which supported their theory. He noted that another reason for the increase in prescription costs were from people refilling earlier than they otherwise would have, as well as an increase in the home delivery rate.

MR. KERSHNER then returned to the 2021 valuation results. He explained that slides 49 through 52 discussed the liability gains and losses by plan for PERS and TRS DCR plans, noting the largest source of gain on the pension side was the COLA and PRPA increases because the CPI for calendar 2020 was negative, so there was no CPI or no post-retirement pension adjustment granted. He noted the largest source of loss was salary increases that were larger than expected. He said for healthcare side the largest gains were due to the favorable claims experience.

MR. YOUNG explained that the plan changes were smaller than the gains for medical and were for pre-Medicare members and noted some preventative benefits had been added as of January 1, 2022 and would increase the cost slightly. He said the prior valuation estimated non-prescription drug claims would increase six-and-a-half percent but that the actual increase was two-and-a-half percent. He said the on the Medicare side there was a five percent decrease.

CHAIR HIPPLER asked if the gains realized from COLA/PRPA were from salary increases not being as high as projected. MR. KERSHNER responded affirmatively, saying that it was mostly due to no PRPA being given. He said the CPI for 2020 was zero, so there were no PRPA increases given. CHAIR HIPPLER stated that they know they'll have significant loss on this in 2023 based on the 2021 inflation, MR. KERSHNER said that was correct.

C. 2021 Valuation Projections (PERS/TRS)

MR. KERSHNER said the pension trust was projected to reach a hundred percent funding much sooner than projected due to the significant market performance in 2021. He said that due to the math, when full funding is reached, there will still be some outstanding amortization payments which would result in contribution rates because the amortization was a component of the contribution rate. He said for TRS FY 33 through FY39 were showing projected additional state contributions. He said they were suggesting that the ARM Board consider modifying the amortization method so when the plan reached full funding, they would eliminate all remaining amortization layers. He said that slide 55 illustrated that with two different alternatives.

COMMISSIONER MAHONEY asked if there was an option where instead of waiting till the end, if it could be amortized over the life of the contributions; MR. KERSHNER said that was possible, but the ARM Board adopted the 25-year layered amortization in 2018 because the statutes specified the amortization be over a closed 25-year period. He noted that it was possible to amortize over a shorter period, but that it may be in conflict with the statutes, and therefore more of a legal question.

MR. KERSHNER noted that slide 66 discussed the additional state contribution projections for TRS from FY23 through FY39 and briefly touched on what each colored line of the chart represented. He said that if there was a concern about funding the plan above one hundred percent, then they should make a change and what that change would be, depended on what happens to the asset returns.

COMMISSIONER MAHONEY asked if there was a timeframe for making the change; MR. KERSHNER said there was no requirement, that it was more informational as to why the pension

trust was projected to be over one hundred percent funded and the alternatives to avoid that from occurring. COMMISSIONER MAHONEY requested that the board further examine this to get a better understanding of the numbers with the goal of getting to fully funded and avoiding an overfunded situation.

D. Sensitivity Analysis

MR. YOUNG explained what they had done in the past with sensitivity and showed slide 71 which illustrated what it would look like if the next two years was ten percent worse than expected and where the losses would be.

COMMISSIONER MAHONEY asked if they could provide alternative asset return scenarios; MR. KERSHNER said they could work with DRB to develop some alternative scenarios. He said that he would provide them at the next meeting.

E. Valuation Timeline

MR. KERSHNER noted that the valuation timeline was being provided for information purposes only. He added that they were on track and that the final valuation report would be provided at the June meeting.

F. Draft June 30, 2021, Valuation Reports

MR. KERSHNER said the draft valuation reports for PERS, TRS and the DCR Plans were in the packet starting on page 98.

G. Actuarial Education

- 1. Explanation of the 25-year layered unfunded liability amortization methodology**
- 2. Example showing the development of the FY 22 Additional State Contribution of TRS**

MR. KERSHNER noted that on page 419 of the pdf was a document titled State of Alaska 25-Year Layered Unfunded Liability Amortization Methodology that explained what the 25-year layered amortization was and explained that there were two types of amortization methods and discussed them briefly.

VII. REVIEW OF VALUATION RESULTS AND RECOMMENDATIONS

MR. WOOD introduced himself and his team to the new board members and explained what their role was. He then turned to page 3 (pdf page 430) that showed the items covered in their presentation: Claim and Enrollment Review, Assumption Review, and Test Life Review.

MR. WOOD noted a favorable claims experience, meaning the per capita claims costs (PCCC) did not increase as much as expected. He explained that Pre-Medicare costs had increased, and prescription drug costs had decreased during the year due to plan changes and would be monitored going forward to see if claims would swing back in the other direction.

MR. WOOD said that as shown on page 7, the new Medicare Part B assumption was causing consistent gains, and the return expectations were continuing a downward trend across the country.

MR. WOOD explained how they performed test life reviews stating that they track raw data to make

sure the right inputs were going into the valuation system and reviewed the benefit amounts that were calculated and then replicate it for present value benefits for liability calculations. He said that sample lives tell them if the assumptions were being correctly employed and if the benefit provisions are being valued correctly.

MR. DETWIELER explained the five findings that related to PERS DB Peace Officer/Firefighters, TRS DB, and PERS PF DCR OD & D and what their recommendations were regarding the findings. He said the summary of their recommendations for the plan were on page 20.

CHAIR HIPPLER recessed the meeting from 2:27 p.m. until 2:34 p.m.

VIII. ASSUMPTION FOR EXPERIENCE STUDY

Updated Economic Assumptions

Demographic Assumptions

MR. KERSHNER said the slides started on page 450 of the pdf packet. He reviewed the background for the experience study located on pages 4 through 6 of the slide deck. He said the ARM Board requested the plan actuary conduct an experience analysis of the retirement system once every four years with the exception of healthcare costs and trend rate which are analyzed annually. He explained that the assumption used in the valuation should represent the actuary's best estimate of reasonable long-term expectations and that the Actuarial Standard of Practice No. 51 required the actuary to indemnify risks that may reasonably be anticipated to significantly affect the plan's future financial condition.

MR. KERSHNER then moved on to the different demographic assumptions listed on page 8 and briefly explained them noting the A/E (actual/expected) ratios were developed for each assumption that had credible experience and they wanted the A/E ratios to be as close to a hundred percent as possible. He said in some cases where statistically credible data does not exist, they proposed no changes to the current assumptions because of the lack of basis on which to make the changes.

MR. KERSHNER said experience was analyzed on a liability-weighted basis for mortality, retirement, and ultimate withdrawal experience. All other assumptions were analyzed on a headcount weighted basis. He then moved to page 12 and explained the mortality assumption. He noted that the mortality improvement scale currently used had been updated every year since 2017 but the assumptions set in 2018 were set without the updates, so they were proposing a slight change to the study and to also adopt the private sector tables, Pub-2010, the most current version of the tables. He then skipped to page 16 to discuss the graphs regarding Post-Commencement Mortality Experience - PERS/PERS DCR. He then moved to page 23 through 25 showing the current and proposed mortality assumption and explained the summary of their proposed assumption.

MR. KERSHNER then discussed the retirement assumption located on page 27 explaining the retirement assumption was used to predict ages at which people were expected to retire. He said slide 29 was an example of the retirement experience of unreduced retirement.

MR. KERSHNER then jumped ahead to page 36 and discussed the withdrawal assumption, explaining that it was used to predict patterns of termination of employment. He said page 39 was an example of the withdrawal experience for TRS. He noted that the appendix to the presentation had

all the details by group, gender, death rate and all of the A/E ratios. He then moved to page 48 to discuss the rehire assumption for those who had left state employment, then returned, their benefit stops while employed. He noted they were not proposing a rehire assumption for the DCR plans as the trusts are all overfunded currently and better able to absorb any losses they get from rehires. He said they were proposing modified rehire assumptions for the DB plans.

MR YOUNG said page 51 showed the Medicare Part B only assumption, and that certain participants when they retire were not eligible for Medicare Part A. He then moved to page 53 noting that the proposed inflation rate was originally 2.0% but they felt that was too low and modified it to 2.25%. He said the updated proposed economic assumptions were shown on pages 54-57 which showed a summary of the nominal investment return assumptions – current and proposed. He then touched on pages 58 through 60 which showed cost effects of the proposed assumptions.

CHAIR HIPPLER asked, if on average, was it a higher increased rate or a lower increased rate than before; MR. KERSHNER said that it was dependent on which group, some groups were higher, and some were lower than the average. CHAIR HIPPLER asked about the healthcare trend rates and if he was reading it incorrectly; MR YOUNG noted that they left fiscal 2022 rates the same because they would not be used until the next valuation.

CHAIR HIPPLER noted that the next five years, the projection was a higher increase in healthcare costs than initially projected; MR. YOUNG said that was correct. CHAIR HIPPLER asked if they changed everything in line with the inflation rate of 2.5, would that impact the assets and liabilities, or would everything be impacted equally and net out at zero; MR. KERSHNER said that it would not affect the assets at all, only the liabilities.

MR. HANNA noted that Callan would be presenting on Friday on their capital market assumptions as well as inflation and he would discuss the time frame, inflation, and nominal return expectations.

CHAIR HIPPLER said that he would like to see in the presentation to the board, long-term inflation forecasts over the last couple of years for any possible trends.

MS. MANNING agreed with CHAIR HIPPLER about having comparisons on different inputs of the inflation assumption; she said that they would be sure to honor that request.

IX. UPDATE ON RFP FOR REVIEW ACTUARY CONTRACT

MS. LEARY reminded the committee that the actuary contract was expiring at the end of June. She said the RFP was put out the end of February and proposals were due April 20th. She said it would be an initial three-year contract with two optional two-year extensions. She explained they would have a meeting to review the proposals and thought they should determine who should be part of the committee to review the proposals.

MR. WILLIAMS said that he was discussing that with CHAIR HIPPLER, and it would be announced at the board meeting.

MR. BRETZ asked if there was a record of who served on the last evaluation committee. MS. LEARY responded that they did not have that information on hand but would be happy to follow up.

X. REIVEW COMMITTEE CHARTER – None

XI. FUTURE MEETINGS

- A. Calendar Review - None**
- B. Agenda Items - None**
- C. Requests/Follow-ups - None**

XII. PUBLIC/MEMBER COMMENTS – None.

XIII. ADJOURNMENT

MR. MOEN moved to adjourn the meeting. MR. KROHN seconded the motion. The motion passed without objection.

The meeting was adjourned at 3:51 p.m.

ATTEST:

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.