DEPARTMENT OF DEFENSE
MEDICARE-ELIGIBLE RETIREE HEALTH CARE BOARD OF ACTUARIES
4800 MARK CENTER DRIVE, SUITE 03E25
ALEXANDRIA, VA 22350

September 29, 2021

MEMORANDUM FOR THE RECORD

SUBJECT: Minutes of the August 6, 2021, Meeting of the DoD Medicare-Eligible Retiree Health Care Board of Actuaries

These are the minutes of the August 6, 2021, meeting of the DoD Medicare-Eligible Retiree Health Care Board of Actuaries (Board). The Board advises on the actuarial valuation of the Medicare-Eligible Retiree Health Care Fund.

List of Attachments:

1 – Meeting agenda
2 – List of attendees
3 – DoD Office of the Actuary handout
4 – Meeting transcript

We have reviewed and agree with the meeting minutes. Responsibility for the accuracy of each attachment resides with the organization creating it.

David Osterndorf, Chairperson
DoD Medicare-Eligible Retiree
Health Care Board of Actuaries

Inger M. Pettygrove
Designated Federal Officer

MEDICARE-ELIGIBLE RETIREE HEALTH CARE BOARD OF ACTUARIES
MEETING MINUTES

August 6, 2021
10:00 a.m.
Virtual Meeting

HIGHLIGHTS/KEY BOARD DECISIONS

Introduction:

- Transcript Pages 3-6: Chairperson David Osterndorf expressed the Board's appreciation for former Chairperson Ms. Trygstad's 15 years of service on the Board. Mr. Osterndorf announced that the meeting is being held with a quorum of two Board members, after consultation with legal counsel, due to the delay in appointing the new Board member caused by the zero-based review of all DoD federal advisory committees. He strongly encouraged DoD to avoid similar processes and delays in the future as the Board's function is technical and not responsible for policy-making. He expressed the Board's concern that delays such as the one experienced this year impair the Board's ability to perform its important function in providing oversight for the financial integrity of a critical program for military retirees. He also expressed appreciation for efforts undertaken by OACT staff in helping the board successfully meet its statutory requirement in an accelerated timeline.

Agenda Item 2: September 30, 2019, Actuarial Valuation Results

- Transcript Pages 6-9: The DoD Office of the Actuary (OACT) presented the Medicare-Eligible Retiree Health Care Fund's (MERHCF) valuation history and gains/losses to the Fund.

- Transcript Page 8: MERHCF per capita normal costs for FY 2022 are $5,506 and $2,138 for active duty and reserve, respectively. These per capita normal costs are restated from the meeting handout. The actuarial liability as of September 30, 2019, was $452.8 billion and the unfunded liability was $175.0 billion. The Treasury payment for October 1, 2020, was $7.0 billion.

- Transcript Pages 8-9: There was an experience gain of $1.7 billion and an assumption loss of $3.5 billion, leading to a total valuation loss of $1.8 billion.

Agenda Item 3: COVID 19 – Public vs. Military

- Transcript Pages 9-16: At the request of the Board, OACT presented a high-level comparison of COVID-19 cases and vaccinations between the general U.S. and military populations. OACT concluded that the military population had fewer COVID-19 cases and higher vaccination rates primarily due to the differences in geographic distribution of the populations, yielding less COVID-19 impact to the paid claims under the program.

Agenda Item 4: September 30, 2020, Actuarial Valuation Proposals

- Transcript Pages 16-17: Fiscal Year 2020 Fund Balance and Yield was discussed, with a beginning balance of $278.5 billion and ending balance of $290.3 billion. The annual effective yield was 2.7%.

- Transcript Pages 17-23: Active employee and retired beneficiary counts for FYs 19-20 were presented, showing a relatively stable covered population and a slightly increased number of deaths in excess of expected, potentially due to the pandemic.

- Transcript Pages 23-27: Medical cost/trend experience was discussed as shown on page 5 of OACT's handout. MERHCF total incurred outlays decreased by 2.0% from FY19 to FY20. Per capita costs had a decrease of 3.7%. USFHP premiums had an increase of 8.6%.

- Transcript Pages 27-32: OACT proposed a 25 basis point decrease in the discount rate assumption to 4.50%, and no change in the Ultimate Medical Trend of 4.75%. The proposed rates reflect consideration of assumptions from Blue Chip Financial Forecasts and the DoD Board of Actuaries as well as MERHCF's historical experience.

- Transcript Pages 32-37: Revised in-patient (IP) and out-patient (OP) medical trend rates were proposed after considering information from the past year's CMS Actuarial Report, as well as MERHCF's recent experience and short-term expectations due to COVID-19. For prescription drug trends, OACT analyzed MERHCF's experience, industry reports, and the effects of federal pricing rules. COVID-19 caused a delay in medical service, which is expected to return to pre-pandemic levels in 3 to 4 years.

- Transcript Pages 37-41: OACT proposed assumptions related to administrative cost loads and decrement rates. The IP and OP admin load decreased from 2.10% to 2.00%. The Retail Pharmacy admin load decreased from 1.70% to 1.60%. Modifications were proposed to mortality, active duty disability retirement rates, reserve rates/factors, and including the Coast Guard experience, based on more recent experience of the population covered by the MERHCF.

- Transcript Pages 41-42: OACT proposed medical cost assumptions, the average claims level was updated for FY2020 experience, and no changes were proposed for the valuation claims costs age grading.

- Transcript Page 43-44: The Board approved OACT's proposed methods and assumptions for calculating the FY 2023 per capita normal costs, the September 30, 2020, unfunded liability (UFL), and the October 1, 2021, Treasury UFL amortization and normal cost payments.

ATTACHMENT 1

MEDICARE-ELIGIBLE RETIREE HEALTH CARE BOARD OF ACTUARIES MEETING AGENDA

August 6, 2021
10:00 AM – 1:00 PM
Virtual Meeting (DoD365/MS Teams)

CVR/MS Teams Link:
https://dod.teams.microsoft.us/l/meetup-join/19%3adod%3ameeting_a739036b313b4df3963d770c217ab965%40thread.v2/0?context=%7b%22Tid%22%3a%22102d0191-eeae-4761-b1cb-1a83e86ef445%22%2c%22Oid%22%3a%228579b9d6-4eca-4d0f-97de-ca16b54a063d%22%7d

Call-In (for audio only): Dial: 410-874-6739 Conference ID: 790 127 84#

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(1) Please ensure your audio is muted when not speaking or actively participating.
(2) Please identify yourself before asking a question.

***

1. **Meeting Objective** (Board)

   Review and approve actuarial assumptions and methods needed for calculating*:

   a. FY 2023 per capita full-time and part-time normal costs
   b. September 30, 2020 unfunded liability (UFL)
   c. October 1, 2021 Treasury UFL amortization and normal cost payments

2. **September 30, 2019 Actuarial Valuation Results**
   (Chelsea Chu, DoD Office of the Actuary)

3. **COVID 19 – Public vs. DoD**
   (Phil Davis, DoD Office of the Actuary)

4. **September 30, 2020 Actuarial Valuation Proposals**
   (Nick Garcia, Joe Lam, Chelsea Chu, DoD Office of the Actuary)

*Board approval required

ATTACHMENT 2

MEDICARE-ELIGIBLE RETIREE HEALTH CARE BOARD OF ACTUARIES
MEETING ATTENDEE LIST

August 6, 2021

	NAME	POSITION or OFFICE
1	Dave Osterndorf	Chairperson
2	Stuart Alden	Board Member
3	Pete Zouras	DoD Chief Actuary
4	Inger Pettygrove	DoD OACT
5	Chelsea Chu	DoD OACT
6	Phil Davis	DoD OACT
7	Joe Lam	DoD OACT
8	Nick Garcia	DoD OACT
9	Qian Magee	DoD OACT
10	Hyung Ju Ham	DoD OACT
11	Paul Bley	General Counsel
12	Chris Borcik	CCRC Actuaries
13	Matt Schmidt	CBO
14	Edith Smith	Capitol Crusader
15	Richard Virgile	Coast Guard (Retired)
16	James Fasano	OSD OUSD C
17	Jim O'Neill	USCG
18	Daniel Lee	OSD OUSD C
19	Todd Rose	OSD OUSD (C)
20	Patricia Lewis	USFHP
21	Alicia Litts	OUSD (C)
22	Tim Wilder	Milliman
23	Coralita Jones	DFAS

ATTACHMENT 3

MEDICARE-ELIGIBLE RETIREE HEALTH CARE BOARD OF ACTUARIES
DOD OFFICE OF THE ACTUARY HANDOUT

August 6, 2021

Medicare-Eligible Retiree Health Care Fund
Board of Actuaries Meeting

Department of Defense
Office of the Actuary
August 6, 2021

Medicare-Eligible Retiree Health Care Fund (MERHCF) Valuation History

Board Meeting	Per-Capita Normal Costs for	Full-time	Part-time	Liability ($B) as of	AL	Fund	UFL	UFL Payment ($B) on	amount
Summer 2016	FY17R	**$4,213**	**$1,704**						
Summer 2016	FY18	**$4,890**	**$1,955**	9/30/15	**$427.3**	**$232.8**	**$194.4**	10/1/16	**$5.7**
Summer 2017	FY19	**$4,632**	**$1,844**	9/30/16	**$409.4**	**$239.3**	**$170.1**	10/1/17	**$6.6**
Summer 2018	FY19R	**$4,471**	**$1,760**						
Summer 2018	FY20	**$4,621**	**$1,847**	9/30/17	**$406.4**	**$250.2**	**$156.2**	10/1/18	**$5.7**
Summer 2019	FY21	**$4,911**	**$1,952**	9/30/18	**$436.3**	**$265.7**	**$170.6**	10/1/19	**$6.6**
Summer 2020	FY22	**$5,156**	**$2,050**	9/30/19	**$452.8**	**$277.8**	**$175.0**	10/1/20	**$7.0**
Summer 2021	**FY23**	**?**	**?**	**9/30/20**	**?**	**?**	**?**	**10/1/21**	**?**

Valuation (Gains)/Losses ($B)

Val Date	Experience asset*	other	total	Assumptions trend	admin	other	total	Benefits	TOTAL
9/30/16	$7.3	($11.2)	($3.8)	($41.8)	($2.6)	$16.7	($27.7)	$0.0	($31.5)
9/30/17	$4.7	($6.8)	($2.2)	$0.9	($0.5)	($1.0)	($0.6)	($14.1)	($16.9)
9/30/18	$1.4	($5.9)	($4.4)	($4.5)	($0.2)	$22.3	$17.6	$0.0	$13.2
9/30/19	$4.4	($6.1)	($1.7)	($21.8)	$0.3	$25.0	$3.5	$0.0	$1.8
9/30/20	$6.5								

* Includes yield as well as budget lead time effect.

Medicare-Eligible Retiree Health Care Fund

($ in billions)

Fiscal Year	Fund Balance Beginning of Year	Contributions Received: From Uniformed Services, for Normal Costs	Contributions Received: From Treasury, for Unfunded Accrued Liability	Investment Income	Benefit Payments: DC	Benefit Payments: PC	Benefit Payments: Total	Fund Balance End of Year	Effective Annual Yield
2016	$233.5	$6.8	$3.3	$6.1	$2.0	$7.8	$9.8	$240.0	**2.5%**
2017	$240.0	$7.2	$5.7	$7.9	$2.1	$7.8	$9.9	$250.8	**3.2%**
2018	$250.8	$8.4	$6.6	$10.7	$2.2	$7.9	$10.1	$266.4	**4.1%**
2019	$266.4	$7.8	$5.7	$9.1	$2.3	$8.1	$10.5	$278.5	**3.3%**
2020	$278.5	$8.1	$6.6	$7.7	$2.4	$8.2	$10.6	$290.3	**2.7%**

Note: Fund balances are book values.
Benefit payments are on a paid (not incurred) basis.

Active Service Members

	9/30/19	9/30/20	% Change from End of FY19 to FY20
DoD			
Active duty	1,409,079	1,419,816	0.8%
Reserve	716,643	708,007	-1.2%
Coast Guard			
Active duty	40,266	40,782	1.3%
Reserve	6,229	5,883	-5.6%
PHS Active duty	6,159	5,970	-3.1%
NOAA Active duty	323	324	0.3%
TOTAL			
Active duty	1,455,827	1,466,892	0.8%
Reserve	722,872	713,890	-1.2%

Note: These are end of FY counts.

Retired Beneficiaries and Dependents

(all Uniformed Services)

	9/30/19 R	9/30/20	% Change from End of FY19R to FY20
Retirees			
Sponsors			
Non-Medicare-eligible	1,035,068	1,033,091	-0.2%
Medicare-eligible	1,190,075	1,200,734	0.9%
Total	2,225,143	2,233,825	0.4%
Spouses			
Non-Medicare-eligible	929,767	922,026	-0.8%
Medicare-eligible	733,379	737,389	0.5%
Total	1,663,146	1,659,415	-0.2%
Others			
Non-Medicare-eligible	865,157	863,109	-0.2%
Medicare-eligible	13,566	13,540	-0.2%
Total	878,723	876,649	-0.2%
Survivors			
Spouses			
Non-Medicare-eligible	78,161	76,956	-1.5%
Medicare-eligible	516,588	519,068	0.5%
Total	594,749	596,024	0.2%
Others			
Non-Medicare-eligible	30,843	30,650	-0.6%
Medicare-eligible	8,015	8,201	2.3%
Total	38,858	38,851	0.0%
Retirees and Survivors			
Non-Medicare-eligible	2,938,996	2,925,832	-0.4%
Medicare-eligible	2,461,623	2,478,932	0.7%
Total	5,400,619	5,404,764	0.1%

MERHCF Incurred Outlays

Aggregate ($ in millions)	FY 2019	FY 2020	% Change from FY19 to FY20
Purchased Care			
IP	$896	$793	-11.4%
OP	$2,994	$2,868	-4.2%
Rx	$3,304	$3,435	4.0%
Other	$141	$125	-11.3%
TOTAL	$7,335	$7,222	-1.5%
Direct Care			
IP	$640	$617	-3.6%
OP	$775	$758	-2.2%
Rx	$979	$871	-11.0%
TOTAL	$2,394	$2,245	-6.2%
US Family Health Plan			
Capitation Rates	$732	$783	7.0%
Other	$4	$3	-6.4%
TOTAL	$736	$787	6.9%
Grand Total	$10,464	$10,254	-2.0%

Per Capita	FY 2019	FY 2020	% Change from FY19 to FY20
Purchased Care	$3,061	$2,981	-2.6%
Direct Care	$997	$925	-7.2%
TOTAL	$4,058	$3,907	-3.7%
US Family Health Plan	$15,418	$16,748	8.6%

Notes:

1. PC Retail Rx incurred amounts are net of incurred Rx rebates.
   Incurred Rx rebates in FY 2019 / FY 2020 were $456m / $506m.
2. Medicare is primary payer in most cases with PC IP and PC OP.
3. TRICARE is primary payer in most cases with PC mail order Rx, DC (IP, OP, Rx) and USFHP.
4. Purchased care "other" includes: admin costs and certain claim adjustments or payments not already included in claims; some admin costs are included in the claims line.
5. Average USFHP capitation rate is influenced by various factors, including changes in plan (among six plans), demographic mix (age / gender), and utilization experience.
   In addition, Rx rebates are applied to experience period on a paid (not incurred) basis in the development of the USFHP rates.
6. Effective FY 2016, PC mail order Rx ingredient cost is the amount Defense Health Agency (DHA) pays to replenish inventory at the mail order warehouse.

MERHCF Valuation Key Economic Assumptions
Discount Rate and Ultimate Medical Trend

	September 30, 2019 Val	September 30, 2020 Val (Proposed)
Discount Rate	4.75%	4.50%
Ultimate Medical Trend	4.75%	4.75%
MERHCF Ultimate Medical Trend		
Real per capita gdp	1.50%	1.50%
Inflation	2.75%	2.75%
Margin or excess medical cost growth	0.50%	0.50%
Total	4.75%	4.75%
MERHCF Discount Rate		
Real yield/Real interest	2.00%	1.75%
CPI	2.75%	2.75%
Total	4.75%	4.50%

MERHCF Valuation Medical Trend Assumptions

September 30, 2019 Val

		DC			PC			USFHP
From FY:	To FY:	IP	OP	Rx	IP	OP	Rx	
2019	2020	1.19%	1.42%	4.75%	0.20%	0.93%	4.84%	1.15%
2020	2021	5.22%	8.04%	4.58%	4.31%	8.04%	3.89%	6.13%
2021	2022	4.13%	6.12%	4.59%	3.27%	6.12%	3.93%	4.81%
2022	2023	3.43%	5.13%	4.59%	2.57%	5.13%	3.96%	4.07%
2023	2024	3.33%	5.23%	4.60%	2.48%	5.23%	4.00%	4.10%
2024	2025	3.48%	5.71%	4.61%	2.60%	5.71%	4.03%	4.42%
2025	2026	3.33%	5.52%	4.62%	2.49%	5.52%	4.07%	4.30%
2026	2027	3.52%	5.46%	4.62%	2.63%	5.46%	4.11%	4.34%
2027	2028	3.61%	5.54%	4.63%	2.70%	5.54%	4.14%	4.43%
2028	2029	3.68%	5.50%	4.64%	2.75%	5.50%	4.18%	4.44%
2029	2030	3.75%	5.45%	4.64%	2.88%	5.45%	4.21%	4.47%
2030	2031	3.82%	5.40%	4.65%	3.00%	5.40%	4.25%	4.50%
2031	2032	3.88%	5.36%	4.66%	3.13%	5.36%	4.29%	4.53%
2032	2033	3.95%	5.31%	4.66%	3.25%	5.31%	4.32%	4.55%
2033	2034	4.02%	5.26%	4.67%	3.38%	5.26%	4.36%	4.58%
2034	2035	4.08%	5.22%	4.68%	3.50%	5.22%	4.39%	4.60%
2035	2036	4.15%	5.17%	4.69%	3.63%	5.17%	4.43%	4.62%
2036	2037	4.22%	5.12%	4.69%	3.75%	5.12%	4.46%	4.63%
2037	2038	4.28%	5.08%	4.70%	3.88%	5.08%	4.50%	4.66%
2038	2039	4.35%	5.03%	4.71%	4.00%	5.03%	4.54%	4.67%
2039	2040	4.42%	4.98%	4.71%	4.13%	4.98%	4.57%	4.68%
2040	2041	4.48%	4.94%	4.72%	4.25%	4.94%	4.61%	4.70%
2041	2042	4.55%	4.89%	4.73%	4.38%	4.89%	4.64%	4.71%
2042	2043	4.62%	4.84%	4.74%	4.50%	4.84%	4.68%	4.72%
2043	2044	4.68%	4.80%	4.74%	4.63%	4.80%	4.71%	4.74%
Ultimate		4.75%	4.75%	4.75%	4.75%	4.75%	4.75%	4.75%

September 30, 2020 Val (Proposed)

		DC			PC			USFHP
From FY:	To FY:	IP	OP	Rx	IP	OP	Rx	
2020	2021	6.08%	9.55%	-2.10%	6.08%	9.55%	2.93%	7.55%
2021	2022	12.20%	9.03%	4.13%	12.20%	9.03%	3.38%	9.59%
2022	2023	4.55%	4.04%	3.18%	4.55%	4.04%	2.96%	4.13%
2023	2024	3.00%	3.97%	3.25%	3.00%	3.97%	3.04%	3.51%
2024	2025	3.48%	5.71%	3.31%	2.60%	5.71%	3.12%	4.27%
2025	2026	3.33%	5.52%	3.38%	2.49%	5.52%	3.19%	4.16%
2026	2027	3.52%	5.46%	3.45%	2.63%	5.46%	3.27%	4.21%
2027	2028	3.61%	5.54%	3.52%	2.70%	5.54%	3.35%	4.30%
2028	2029	3.68%	5.50%	3.59%	2.75%	5.50%	3.43%	4.32%
2029	2030	3.75%	6.46%	3.66%	2.80%	6.46%	3.50%	4.89%
2030	2031	3.81%	6.35%	3.72%	2.92%	6.35%	3.58%	4.91%
2031	2032	3.87%	6.24%	3.79%	3.04%	6.24%	3.66%	4.92%
2032	2033	3.94%	6.14%	3.86%	3.17%	6.14%	3.74%	4.93%
2033	2034	4.00%	6.03%	3.93%	3.29%	6.03%	3.82%	4.93%
2034	2035	4.06%	5.92%	4.00%	3.41%	5.92%	3.89%	4.93%
2035	2036	4.12%	5.82%	4.07%	3.53%	5.82%	3.97%	4.93%
2036	2037	4.19%	5.71%	4.13%	3.65%	5.71%	4.05%	4.92%
2037	2038	4.25%	5.60%	4.20%	3.78%	5.60%	4.13%	4.91%
2038	2039	4.31%	5.50%	4.27%	3.90%	5.50%	4.21%	4.90%
2039	2040	4.37%	5.39%	4.34%	4.02%	5.39%	4.28%	4.88%
2040	2041	4.44%	5.28%	4.41%	4.14%	5.28%	4.36%	4.86%
2041	2042	4.50%	5.18%	4.48%	4.26%	5.18%	4.44%	4.84%
2042	2043	4.56%	5.07%	4.54%	4.38%	5.07%	4.52%	4.82%
2043	2044	4.62%	4.96%	4.61%	4.51%	4.96%	4.59%	4.80%
2044	2045	4.69%	4.86%	4.68%	4.63%	4.86%	4.67%	4.78%
Ultimate		4.75%	4.75%	4.75%	4.75%	4.75%	4.75%	4.75%

MERHCF Valuation Assumptions
Decrements and Administrative Load

	September 30, 2019 Val	September 30, 2020 Val (Proposed)
Decrements	Consistent w/Sept-18 Val, except: (1) One more year of MI, (2) Update MI Scale (based on MIL MI), (3) Updated Active Duty Disability Retirement Rates, (4) Updated Reserve Rates/Factors	Consistent w/Sept-19 Val, except: (1) One more year of MI, (2) Update MI Scale (based on MIL MI), (3) Updated Active Duty Decrement Rates, (4) Updated Reserve Decrement Rates, (5) Include Coast Guard Experience in Rates

Admin Load		
IP & OP	2.10%	2.00%
Rx	1.70%	1.60%
USFHP	0.40%	0.40%

MERHCF Valuation Assumptions
Claim Costs Development

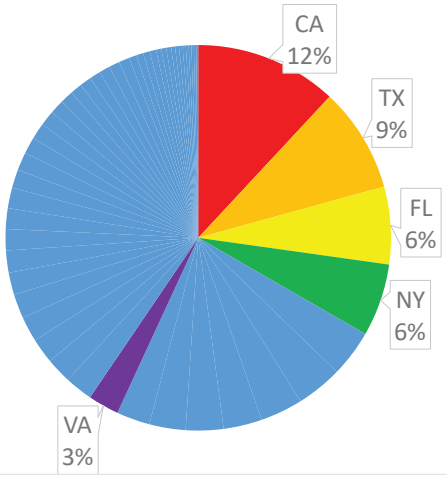
	September 30, 2019 Val	September 30, 2020 Val (Proposed)
Average Claims Level	FY 2019 experience	FY 2020 experience
Claims Age Grading		
Direct Care	Blend of FY 2015 - 2017 experience	Blend of FY 2015 - 2017 experience
Purchased Care	Blend of FY 2015 - 2017 experience (2017 for Rx)	Blend of FY 2015 - 2017 experience (2017 for Rx)
USFHP	Blend of FY 2015 - 2017 rates by gender	Blend of FY 2015 - 2017 rates by gender

COVID-19 Comparison: Public and DoD Population Comparison

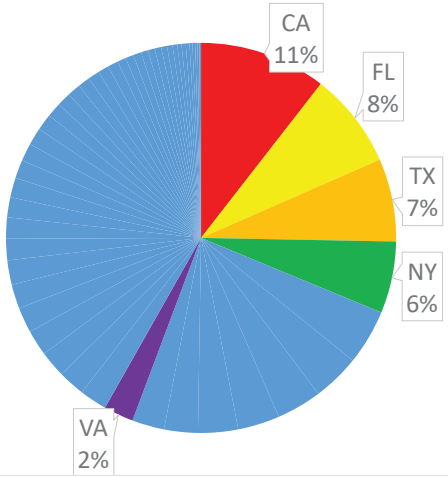
Department of Defense
Office of the Actuary
August 6, 2021

Population Breakdowns By State

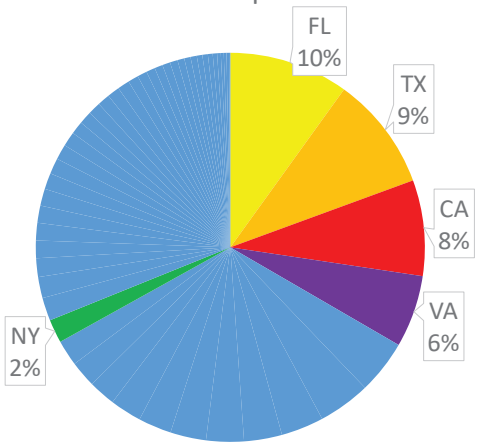
Entire Country Population



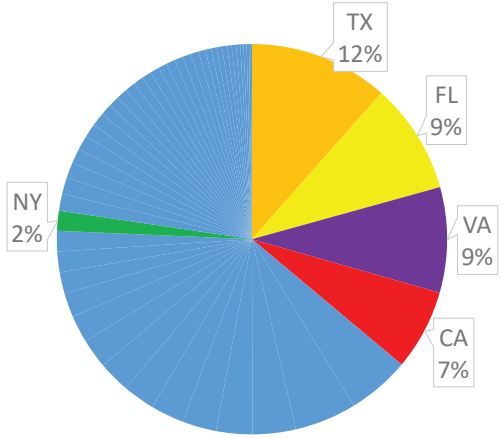
U.S. Medicare Beneficiary Population



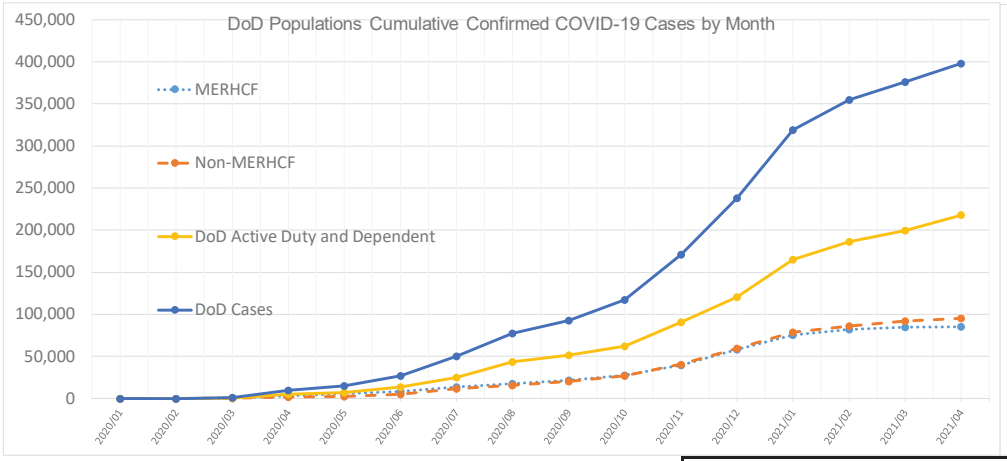
MERHCF Population

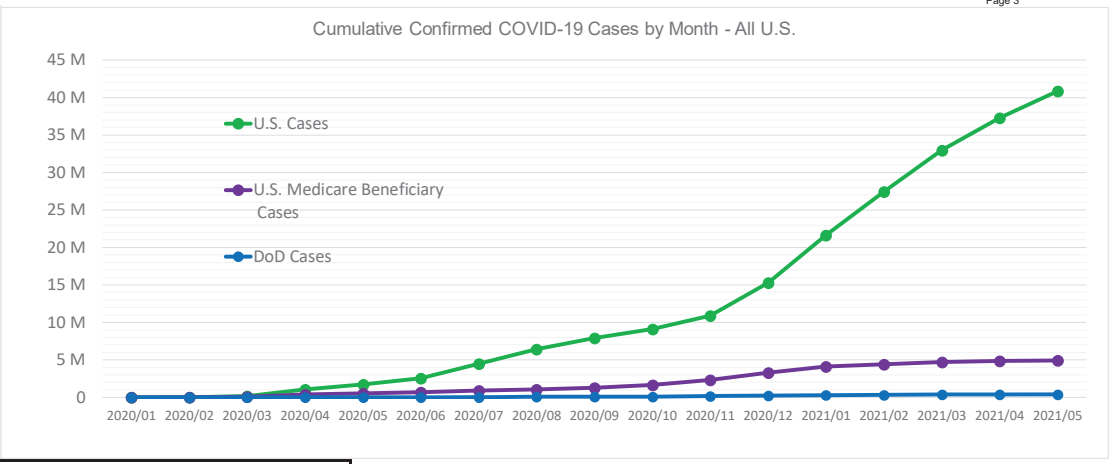


Non-MERHCF Population

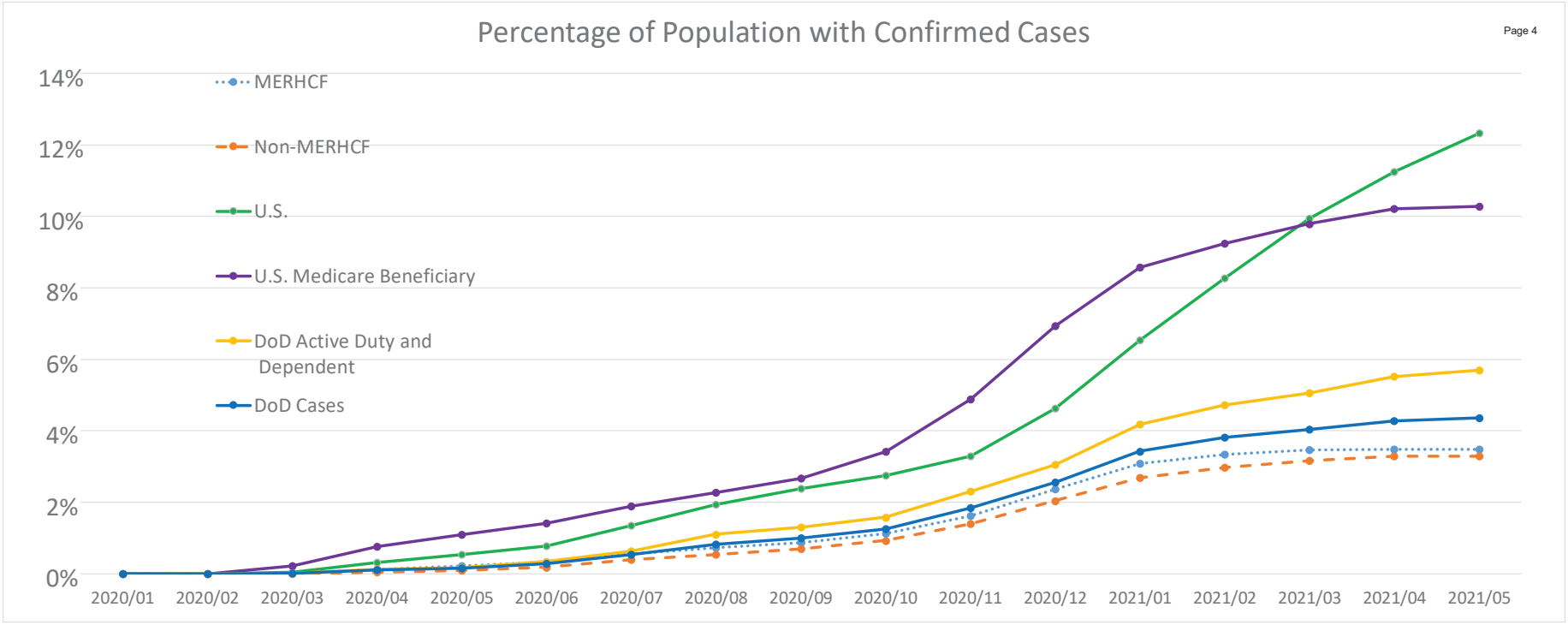


COVID-19 Cases Population Comparison





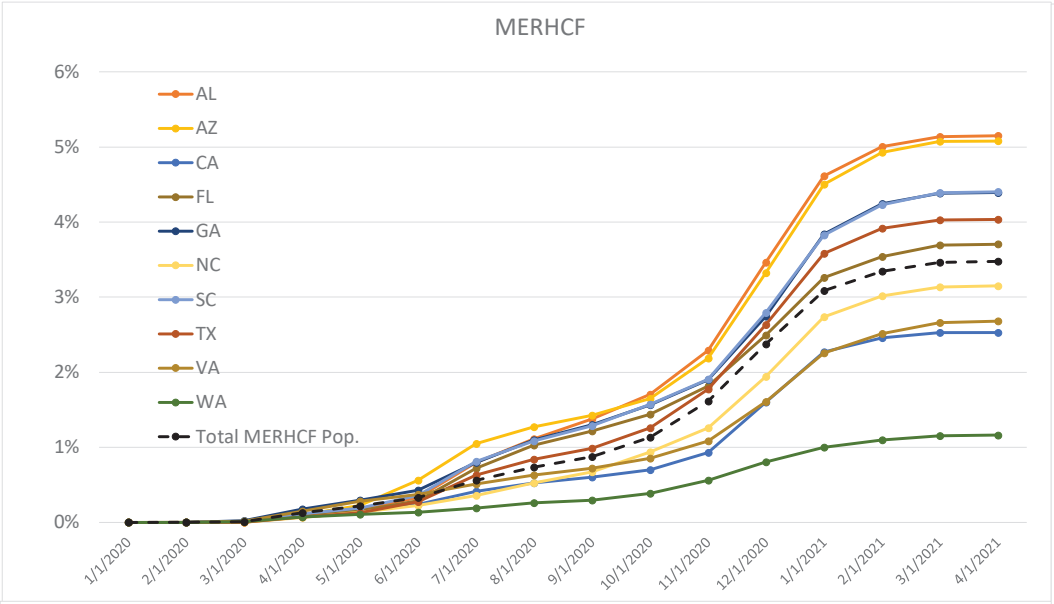
Number of Cumulative Confirmed COVID-19 Cases					
Month	MERHCF	Non-MERHCF	DoD Active Duty and Dependent	U.S. Medicare Beneficiary Cases	U.S. Cases
2020/01	2	0	0	0	6
2020/02	4	0	0	9	38
2020/03	293	101	443	108,831	164,245
2020/04	3,092	1,391	5,130	361,528	1,031,492
2020/05	5,405	2,621	6,846	523,931	1,762,180
2020/06	8,037	5,288	13,436	674,467	2,588,847
2020/07	13,618	11,483	24,834	906,168	4,487,597
2020/08	17,954	15,853	43,557	1,089,794	6,416,743
2020/09	21,411	20,084	51,280	1,282,293	7,884,527
2020/10	27,634	27,002	62,404	1,638,155	9,126,510
2020/11	39,556	40,542	90,741	2,337,229	10,907,564
2020/12	58,173	59,431	120,668	3,324,699	15,334,687
2021/01	75,678	78,398	164,915	4,107,532	21,660,507
2021/02	82,012	86,337	186,469	4,428,116	27,425,634
2021/03	84,841	91,746	199,700	4,691,018	32,936,639
2021/04	85,144	95,183	217,841	4,895,796	37,298,162
2021/05	85,144	95,183	224,790	4,925,668	40,846,450

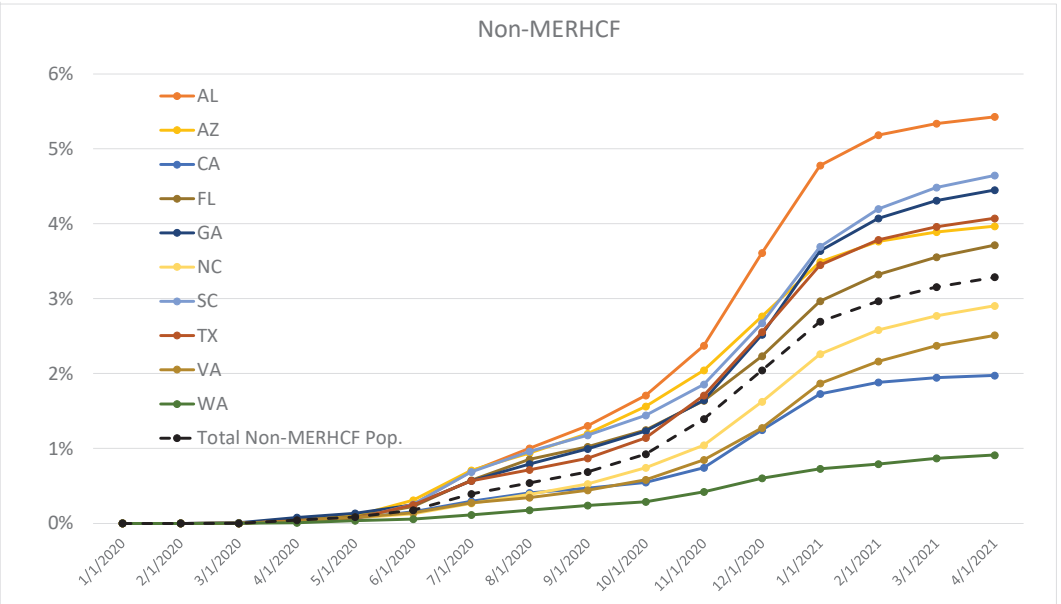


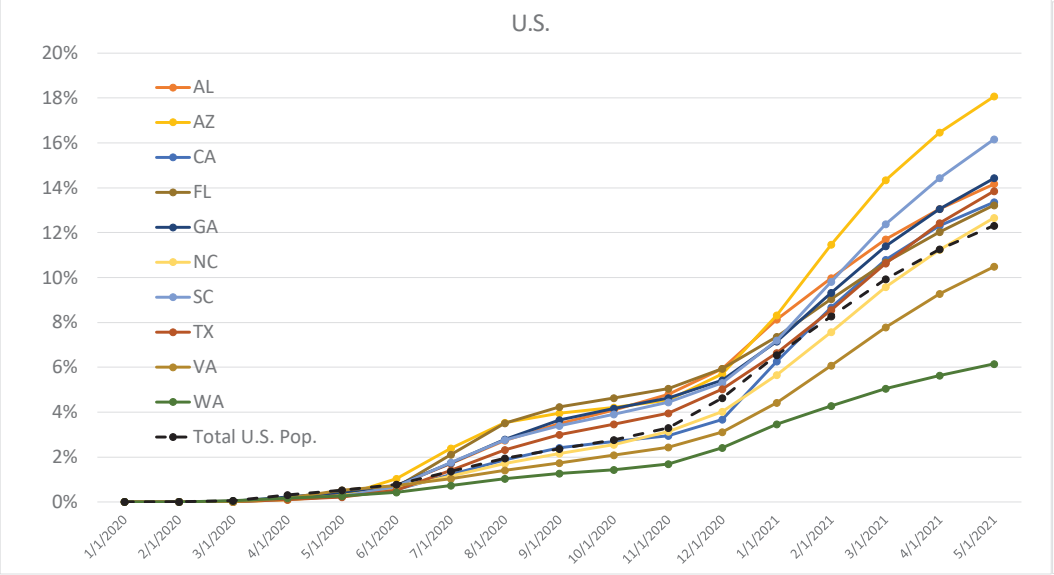
Percentage of Population with a confirmed Case of COVID-19					
Month	MERHCF	Non-MERHCF	DoD Active Duty and Dependent	U.S. Medicare Beneficiary	U.S.
2020/01	0.0001%	0.0000%	0.0000%	0.0000%	0.0000%
2020/02	0.0002%	0.0000%	0.0000%	0.0000%	0.0000%
2020/03	0.0120%	0.0034%	0.0112%	0.2272%	0.0496%
2020/04	0.1268%	0.0476%	0.1300%	0.7546%	0.3112%
2020/05	0.2216%	0.0897%	0.1735%	1.0935%	0.5317%
2020/06	0.3293%	0.1811%	0.3405%	1.4077%	0.7811%
2020/07	0.5578%	0.3935%	0.6294%	1.8914%	1.3539%
2020/08	0.7352%	0.5439%	1.1039%	2.2746%	1.9360%
2020/09	0.8764%	0.6911%	1.2997%	2.6764%	2.3788%
2020/10	1.1300%	0.9293%	1.5816%	3.4192%	2.7535%
2020/11	1.6166%	1.3951%	2.2998%	4.8783%	3.2909%
2020/12	2.3759%	2.0422%	3.0583%	6.9393%	4.6266%
2021/01	3.0858%	2.6923%	4.1797%	8.5732%	6.5351%
2021/02	3.3432%	2.9667%	4.7260%	9.2424%	8.2745%
2021/03	3.4596%	3.1577%	5.0613%	9.7911%	9.9372%
2021/04	3.4761%	3.2860%	5.5211%	10.2185%	11.2531%
2021/05	3.4819%	3.2891%	5.6972%	10.2809%	12.3236%

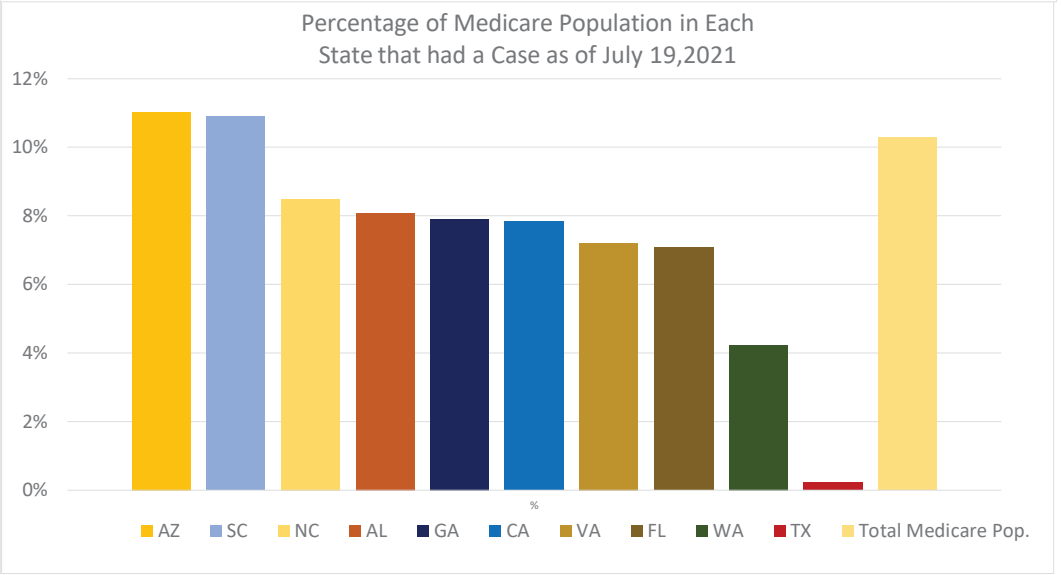
1) One record per beneficiary with the earliest date of care is selected.
2) Beneficiary IDs are counted by month of the earliest date of care.
3) Population Totals for Entire U.S. Population are from the 2020 Census.

Percentage of Population With A Case Over Time





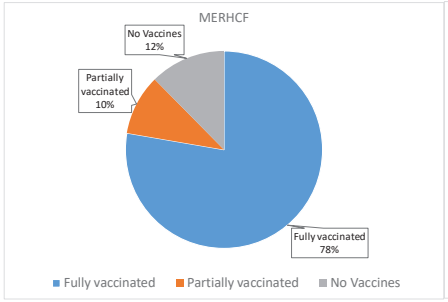


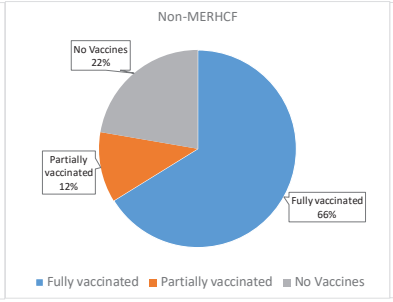


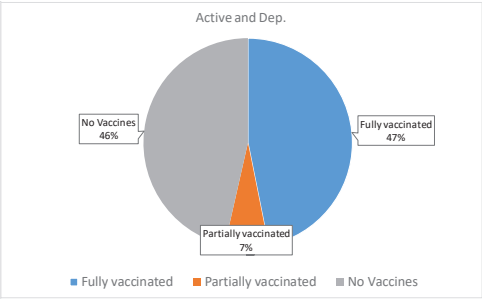
*Note we do not have the Medicare Cases by State over Time, so we showing the overall rate as of July 19, 2021 using CDC COVID-19 Surveillance Public Use Data with Geography.

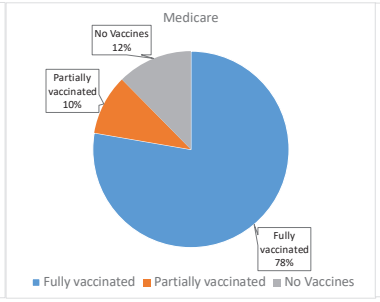
*The drastically low rate in TX is most likely due to reporting errors, as CDC reports only 7,635 cases for Texan's older than 65.

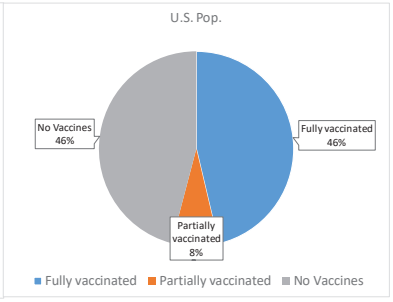
Vaccination Numbers



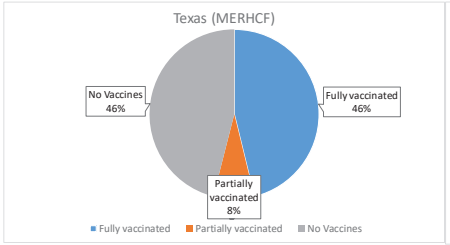


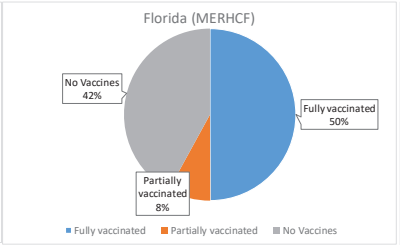


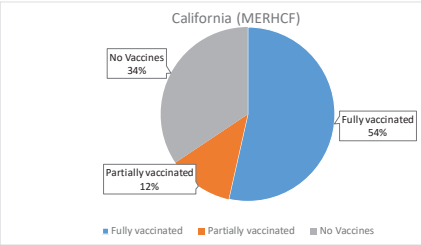


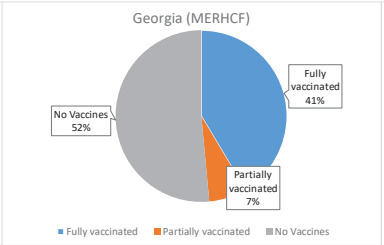


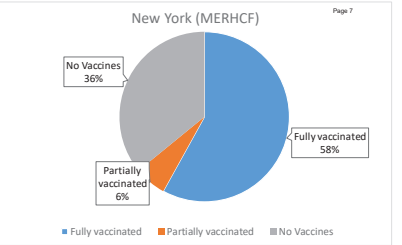
	Number of People Vaccinated				
	MERHCF	Non-MERHCF	Active and Dep.	Medicare	U.S. Pop.
Fully vaccinated	1,900,041	1,915,763	1,826,820	37,226,911	153,461,017
Partially vaccinated	242,090	332,799	261,590	4,743,197	25,853,044
No Vaccines	303,224	645,340	1,811,038	5,940,974	152,135,220
Total	2,445,355	2,893,902	3,899,448	47,911,083	331,449,281



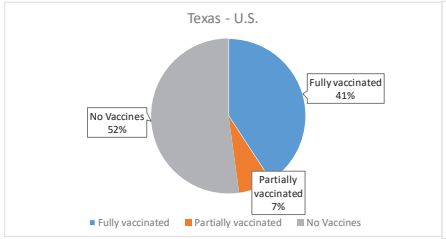


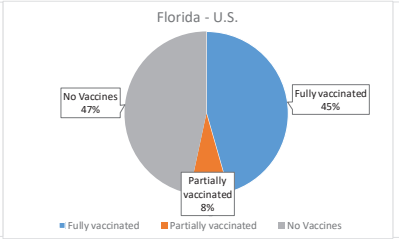


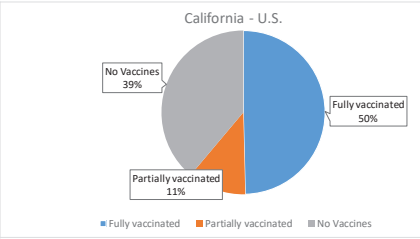


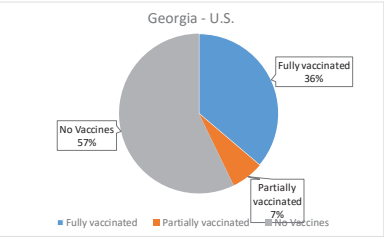


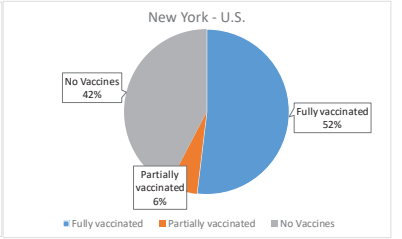
	MERHCF				
	California (MERHCF)	Florida (MERHCF)	Georgia (MERHCF)	New York (MERHCF)	Texas (MERHCF)
Fully vaccinated	231,811	277,793	116,707	61,517	290,925
Partially vaccinated	52,407	44,628	19,913	6,416	49,044
No Vaccines	148,803	233,667	144,938	38,023	289,810
Total	433,021	556,088	281,558	105,956	629,779











	Entire State Population (U.S.)				
	California	Florida	Georgia	New York	Texas
Fully vaccinated	19,618,597	9,814,909	3,877,365	10,484,346	11,888,907
Partially vaccinated	4,555,340	1,679,053	708,588	1,161,581	2,046,963
No Vaccines	15,364,286	10,044,225	6,125,955	8,555,322	15,209,635
Total	39,538,223	21,538,187	10,711,908	20,201,249	29,145,505

Appendix

Number of Cases/Claims:

- Cases for entire U.S., as well as the breakdown by State, comes from the CDC.
- MERHCF and Non-MERHCF Retirees number of claims and claims per state comes from TED ODS (Purchased Care Only). Only one case of COVID-19 per person is reported (as of May 3, 2021).
'- We use the following International Classification of Diseases (ICD), Tenth Revision (ICD-10), diagnosis codes to identify COVID19 cases on claims and encounters:
  - B97.29 (other coronavirus as the cause of diseases classified elsewhere) - before April 1, 2020
  - U07.1 (2019 Novel Coronavirus, COVID-19) – from April 1, 2020 onward.
- Active Duty and Dependents comes from the DoD website (defense.gov/Explore/Spotlight/Coronavirus/) counts published every M-W-F and are refined by the Joint Staff Crisis Management Team (As of June 2, 2021).
- Medicare Beneficiaries number of cases comes from the CDC.

Populations:

- Population for the entire U.S. comes from the 2020 census.
- Populations for the MERHCF and Non-MERHCF groups come from M2.
- Population for Medicare comes from Fee For Service Population and is Beneficiaries with Part A and Part B; and represents all U.S. states, Washington, DC, Puerto Rico, and the U.S. Virgin Islands.
- Active Duty and Dependent Populations come from DEERS Beneficiary counts.
- Percentages are then calculated by dividing the number of cases by the population for each specific group.

Claims vs Cases:

- Not every claim will go into our system and not every diagnosed case of COVID-19 will have a Purchased Care claim.
- Thus, the MERHCF and Non-MERHCF Retiree number of cases is most likely less than the actual number of diagnosed cases within those populations.

Vaccinations:

- We use Vaccination Rates from the CDC and apply to our MERHCF and Non-MERHCF Populations to get Vaccinations numbers for those Populations.
- Vaccinations Numbers and Percentages by Age and State come from the CDC.

- MERHCF and Non-MERHCF come from multiplying U.S. vaccination percentages for ages 65+ by the population numbers.
- Active Duty vaccination numbers come from DoD website (defense.gov/Explore/Spotlight/Coronavirus/).
- Active Duty and Dependents comes from multiplying Population number by the percentages for Total Population.
- Number of people with 1 dose comes from difference of those with 1+ dose and 2 doses.
- Number with 0 vaccine comes from difference of total population number with those with 1+ dose.
- Vaccination numbers are as of June 2021

USE OF THIS INFORMATION FOR USES OTHER THAN THE INTENDED PURPOSE IS NOT RECOMMENEDED.

ATTACHMENT 4

MEDICARE-ELIGIBLE RETIREE HEALTH CARE BOARD OF ACTUARIES MEETING TRANSCRIPT

August 6, 2021

UNITED STATES DEPARTMENT OF DEFENSE

DEFENSE HUMAN RESOURCE ACTIVITY

BOARD OF ACTUARIES

VIRTUAL MEETING (MS TEAMS)

MEDICARE-ELIGIBLE RETIREE HEALTH CARE

Alexandria, Virginia

Friday, August 6, 2021

PARTICIPANTS:

DAVID OSTERNDORF
Chairman

STUART ALDEN
Board Member

CHELSEA CHU
Actuary

PHIL DAVIS
Actuary

NICK GARCIA
Actuary

JOE LAM
Actuary

INGER PETTYGROVE
Actuary

CORALITA JONES
DFAS

JAMES FASANO
USD Comptroller

PETE ZOURAS
Actuary

RICK VIRGILE
Actuary

* * * * *

P R O C E E D I N G S

(10:02 a.m.)

MR. OSTERNDORF: Okay, good. Let's go ahead and get the meeting started. Good morning, everyone. I welcome you to the 2021 MERHCF Board of Actuaries annual meeting. The Board is meeting with only two members this year. The term of Lynette Trygstad ended on May 1st and we would, again, like to express our appreciation for Lynette's 15 years of service on the Board. She provided great value.

Due to the delay caused by the zero-based review of all the DOD's federal advisory committees, we were not able to get her replacement appointed in time for her to participate this morning. After consultation with our general counsel, we're holding this meeting with a quorum of two members. I am Dave Osterndorf. I'm the chair of the Board. Our other Board member, Stu Alden, is also in attendance at the virtual meeting.

Just some quick housekeeping. The

meeting is being recorded just like an in-person meeting, so I would ask all attendees to mute their microphones or phones unless they are speaking. We will pause at the end of each section to see if there are any questions from the attendees. If you're going to ask a question, please identify yourself, including name and office, before asking the question. Please leave your cameras off unless you are speaking. If you are calling in to the meeting, please make sure that you email Kathleen Ludwig, whose email address was included in the email sent previously, with your name and organization so we have a record of your participation.

The DFAS presentation on the MERHCF trust fund investments will be included in the minutes for this meeting. And DFAS will be on the line to answer any questions you may have.

I guess, before we get into the content of the meeting, I do want to note some of the challenges caused by the unusual circumstances of the past year. Clearly, the global pandemic's

added to the workload and created additional considerations for us. This was obviously out of the control of anyone associated with this program. However, we were also meaningfully disadvantaged by the review process associated with the zero-based review of DOD advisory committees. I'd like to note for the record that the delay in reauthorizing our Board, which was only finished two weeks ago, has meant that we've had to scramble to receive and assess the necessary backup material from the Office of the Actuary staff to allow us to provide the oversight with which we are entrusted.

Given that this Board is a highly technical, apolitical body, not responsible for policymaking, has historically been comprised of members who have served or are serving in actual leadership roles with some of the largest and most impactful firms from the industry, we would encourage DOD leadership and the current and future administrations to avoid similar processes for this Board in future years. A zero-based

review in combination with the pandemic and the timing of the ability to put a new member onto the Board has really added to our challenges in getting this done appropriately, and we really are hoping to avoid that in future years.

I'd also like to express the Board's appreciation for the additional efforts undertaken by the staff and the Office of the Actuary. I particularly note the additional hours and efforts of Chelsea Chu, who, in helping us navigate through this accelerated timeframe, has done yeoman's work.

With that, I would like to get into the content of our meeting today. The objective of today's meeting, as stated in item 1 of the agenda, is to review the Office of the Actuary's proposed methods and assumptions used to calculate the fiscal 2023 per capita normal costs for full-time and part-time personnel; the September 30, 2020, Unfunded Liability; and the October 1, 2021, Treasury Unfunded Liability Amortization and normal cost payments. In order to do that, we'll

ask members of OAC to provide key relevant information to both deliberations.

I believe we're going to begin with Chelsea Chu, who will review last year's valuation assumptions which were generated by incorporating assumptions approved by this Board in our previous annual meeting. Chelsea?

MS. CHU: Thanks, Dave. People on the phone, please go to the handout. The filename is MERHCF Board Handout on fiscal 08-06-2021 Final PDF file. And the cover page is Medicare Eligible Retiree Health Care from the Board of Actuaries Meeting. So, Nick, please put the Board handout on the screen. Thank you. Yeah. Please turn to the page 1.

So here shows the history of the valuation result and which improved per capita normal costs, liability, and the unfunded liability payment in the three boxes from left to right.

If you look to summer 2020 line, the Board member approved assumptions for valuation

(inaudible) September 30, 2019, in the full meeting last summer. We promulgated FY '22 normal costs was 5,156 for full-time service member and $2,050 for part-time service member. The middle box shows the accrued liability. About like (phonetic) $453 billion, (inaudible) $278 billion, and the unfunded liability, $175 billion as of September 30, 2019. The unfunded liability payment there is about $7 billion on October 1, 2020.

Next slide. In yellow. We will calculate the FY '23 normal cost liability as of September 30, 2020. And the unfunded liability payment is October 1, 2021, after the Board member approve the assumption we are going to propose later in this meeting. Below, it shows history of the valuation gain and the losses as of September 30, 2019. We had the total valuation loss of $1.8 billion, which is combined (inaudible). We have (inaudible) and a gain of $1.8 billion and assumption loss of $3.5 billion. We don't have any benefit changing, and so there's no gain/loss

for benefit changes.

And the next slide, the asset loss is about $6.5 billion. The maturity of the asset loss is because the fund yield was lower than 20. This is all I want to state for Agenda Item Number 2. Any questions?

MR. OSTERNDORF: And again, if any meeting attendees have questions, please go ahead and unmute and go on camera if you're on your computers and let us know of any questions you may have. Stu, any questions for Chelsea?

MR. ALDEN: Not here, no. No.

MR. OSTERNDORF: Then let's go ahead and move on to the next item on the agenda. At the request of the Board, OAC has completed some additional analysis to help us understand the impact of the pandemic, particularly some of the issues around prevalence of COVID-19 as reflected in the MERHCF population's areas of residence and really understanding what the likely comparison is of the MERHCF population versus the national population, both Medicare population and the

general population.

So Phil Davis from the -- with DOX (phonetic) will show us comparisons of COVID-19 data for MERHCF versus the U.S. public. Phil?

MR. DAVIS: Awesome. Thank you. So, like Dave said, we are showing some comparison of the DOD population as well as the public, meaning Medicare. And for everyone on the phone, we are looking at the file titled "COVID-19, Public Versus DOD Comparison Final." And as we transition to the first page of graphs, or page 2 title, you can just see a geographic breakdown of where these populations reside.

So the first graph, the top left is for the entire country's, as per the U.S. Census. And we can see the top four states are California, Texas, Florida, and New York. And this holds true for the entire U.S. Medicare beneficiary population. And then the bottom two pie charts are MERHCF population as well as our non-MERHCF retirees. You can see that the major change is that New York and Virginia essentially switched

places, which leads some credence to our idea that geographic breakdown has an effect on our population in terms of COVID.

And now, going to page 3, we can see the raw number of cases. So this first graph on the left, in the yellow line, we have the active duty and dependent number of cases on a cumulative basis. And then the orange dashed line is our non-MERHCF retirees. The blue dash line is our MERHCF retirees. And I just want to point out that, for our MERHCF and non-MERHCF, these aren't the true number of cases, we suspect, because they had to trickle their way into our database and we were only able to get those if they had an associated claim. So everyone that had a positive test is most likely not showing up in our database. And then this blue line, the DOD cases, is just the sum of these three lines.

And then this graph on the right, we have the total number of U.S. cases in green and then the total number of U.S. Medicare beneficiary cases in purple. And we carry over the DOD cases,

the blue line, over to the right. And now, looking at them as a percentage of the population, we can see that the U.S. and the U.S. Medicare beneficiaries are much higher than our populations. And again, just to reiterate, our report, our numbers here are most likely underreporting the actual number of percentages of cases just because we don't have access to that information at this time.

And then breaking down these percentages on a state- by-state basis, we have the top 10 states in population for our MERHCF population. So the sum of the populations of all these states makes up more than 50 percent of the populations for each of these groups. So it can give a pretty good idea of, on a state-by-state basis, how COVID is -- (inaudible) there. And we can see some common trends among all these populations, such as Washington appearing to be the lowest out of all these, as well as Alabama and Arizona tending to be high. And just want to point out that the -- for the Medicare population, we were not able to

get access to information for a state-by-state case over time. So these are the percentages as of July 19th. And also to point out this extremely low rate for Texas is most likely a reporting error on the CDC side, just because it's not reasonable to think they only had 7,600 cases for their Medicare population.

And now transitioning to vaccination numbers. Here we have vaccinations -- vaccination rates for the populations as a whole. And I just want to point out that these are fairly rough estimates. We were able to get the vaccination rates for the CDC by state and by age, and then we applied those to our populations. So this is a rough estimate, but it gives us the best idea we have with the data available.

And we can see that MERHCF is about 88 percent with some form of vaccination. Non-MERHCF is about 80 percent in active duty and dependents. We were able to get an actual count of vaccinations for active duty and it's about 60 -- 66 percent with some form of vaccination. And the

dependent population being about two times the size of the active duty tends to bring it back down towards being more in line with the general population.

And then transitioning to vaccines on a state breakdown, these are the top five states in terms of number of cases within the United States, which is Texas, Florida, California, Georgia, and New York. And we can see that comparing for the general population versus our MERHCF, across the board, we're about 5 to 6 percent higher for all these states, again using just a fairly rough estimate.

And then the last page is just the sources and where we got this information, as well as the explanations for any calculations we made, for instance the vaccination estimation or the percentages. And are there any questions at this time?

MR. OSTERNDORF: Phil, is it fair to conclude from this number, while less definitive, that it appears that the MERHCF was benefited by

having people who were less likely to be living in some of the areas that had some of the COVID hot spots? I guess that's question one.

And question two is, given the relatively high push within the military to get vaccination rates high, presumably in the future the retiree group should have a higher instance of vaccinations than general population?

MR. DAVIS: Regarding question one, staying with the data we have available, that is definitely a reasonable conclusion to have. And from our percentages, even if we -- these are underreporting what the actual number of cases are, I think just the difference will still tend to be lower than what the entire U.S. or the entire Medicare population has. And I do believe that with the recent push for vaccinations, it is reasonable to conclude that our population will have a higher vaccination rate and hopefully a, I guess, a lower rate of COVID going forward with new variants.

MR. OSTERNDORF: Thank you. Any other

questions? Stu, any questions?

MR. ALDEN: No, not from me.

MR. OSTERNDORF: Anybody of the meeting attendees, any questions? All right.

Then let's move on to our next agenda item. And the staff from OAC will give us a significant amount of additional information that goes into the development of their proposed assumptions for us to review in the meeting. I think it's Chelsea and Joe and Nick who are going to jump in and go through this material.

MR. LAM: Yes. Thank you, Dave. Hi, good morning. My name is Joe Lam. The screen we are sharing shows annual effective yields and the trust fund's beginning of year and end of year balances from 2016 to 2020. In Fiscal Year 2020, the beginning of the year fund balance was 278.5 billion. With the normal cost and Treasury's contribution, and netting out the benefit payments, the end of the year fund balance was 290.3 billion, an increase of 11.8 billion.

With an investment income of 7.7

billion, the annual effective rates for Fiscal Year 2020 is 2.7 percent. Now, note that the fund balances are book values and benefit payments on a pay basis. I also want to point out that, because the total contribution of 14.7 billion is greater than the 10.6 billion benefit payment, we did not need to sell any assets to cover the benefit payments.

Overall, Fiscal Year 2020 numbers are consistent when compared to the past years. With that, any questions? Okay, great. Next agenda item.

MR. GARCIA: Thanks, Joe. So I'll take this slide. The next two slides I'll be showing a summary of MERHCF population data. On page 3 of the handout PDF, I'm showing a summary of active service members as of the end of Fiscal Year 2019 and 2020. I'll note that the DOD active and reserve populations are the same for the retirement and the health valuations. These numbers are shown in the top rows here. And we get these numbers from the Defense Manpower Data

Center.

Also, recall that MERHCF pays benefits to non-DOD uniform services which include the Coast Guard, public health services and NOAA. And we show this population in the middle of the table. This data is obtained directly from each component. Every year, we send out a data request. I'll note that Coast Guard retirees are now going to be part of the Military Retirement Fund, which is in line with MERHCF and that will start in Fiscal Year '23. And I'll again bring that up later on when we discuss decrement rates.

One future change to this table I'll note, this year, is that the result of the Coronavirus Aid Relief and Economic Security Act which passed in March 2021, it authorized the Public Health Service to commission a ready reserve component, ready reserve officers. So, like the Coast Guard, we will have a reserve category for the Public Health Services next year.

I'll point out that the Coast Guard data is the most -- has the most variance. However,

given the relative size compared to the DOD totals, it doesn't have a -- it has a very little impact on the grand totals. And if you go down to the bottom where I show the grand totals, you'll see that there was a slight increase in the total active duty population of.8 percent and the reserve component decreased slightly. However, overall, the active and reserve populations are very stable from one year to the next. And this is in line with the OSD Comptroller projections. So, are there any questions on this slide?

MR. FASANO: Hi. This is James Fasano from OSD Comptroller. So these are the actual active service members. How sensitive are these forecasts for the projections of personnel, and how do they play into the development of your rates? I ask that because we're seeing these service (inaudible) over the past week and, as everyone might be aware, DOD's top line is -- had been much lower than it was planned to be. And the services are projecting, at least for the next five years some, from our perspective, relatively

large, in the tens of thousands, twenties of thousands depending on the component, declines in strength over.

MR. GARCIA: Well, the development of the rates, I would have to defer to the chief on that and how sensitive are the -- Comptroller projections.

MR. ZOURAS: Right.

MS. PETTYGROVE: Let me just jump in and say chief is Pete Zouras, the chief actuary for DOD.

MR. ZOURAS: I would say the rate that the Board is -- you know, that we're proposing and the Board is approving are -- the per capita rates, themselves, are not sensitive. Over time, if there is a downsizing or, you know, there's some impact in the rates that we would at a future meeting reflect, then there would be some sensitivity. But just for -- just, you know, the current rates or the rates that we're going to promulgate, there's only sensitivity to the extent that the population is declining, that you're

multiplying the per capita rates against.

MR. OSTERNDORF: Are there other questions?

MR. VIRGILE: Pete? Hi, this is Rick Virgile. Again, my last meeting as the former Coast Guard actuary, not the current one. My understanding of the rates is that they don't reflect new entrants. It's a static population. And that there's been recruiting problems in the last few years because of COVID. And so there will be more new entrants coming in than usual. And when they do join in the future, they'll bring a lower normal cost rate with them that could, over time, lower the normal cost rate. But that doesn't have any immediate impact.

MR. ZOURAS: That's right. We selected a period for the rates that we're proposing that did not include 2020. So, yeah, over time, I think what you said is accurate.

MR. OSTERNDORF: And, Pete, just to clarify that, if the demographic profile of the future new entrants starts to look meaningfully

different than the existing profile, then we would likely see the meaningful impact on per capita normal costs if it is a relatively traditional looking profile that would not be the case. Is that fair?

MR. ZOURAS: Yes.

MR. OSTERNDORF: Thank you. Are there any other questions? Okay, let's keep moving.

MR. GARCIA: Okay, so going to page 4 in the PDF handouts, I'm showing a summary of retired beneficiaries, dependents, and survivors as of 2019 and 2020. For illustration, I'm also showing the non-Medicare eligible population which is -- this is a subset of retirees who can eventually become eligible for MERHCF benefits but currently are not receiving MERHCF benefits. Looking at the last columns, you'll see that there is very little change in the beneficiary data overall. The largest percent increase was 2.3 percent in the survivor/other Medicare eligible category which includes children, parents. However, given that we use a sponsor-based valuation model, this does

not affect the liability or the normal cost.

The largest percent decrease was at the 1.5 percent in survivor, spouses, non-Medicare eligible category. And, again, this was -- the non-Medicare population is shown for illustration and has no impact on the valuation results. Moving to the bottom of the row -- bottom rows, you'll see that there was a slight increase in the total Medicare eligible population of.7 percent. So even though, this year, we did have more retiree deaths than expected, the increase in retirements and other factors that were going on throughout the year resulted in a net increase.

And overall, the beneficiary population has been stable from one year to the next. So are there any questions on this page? Okay. If there aren't any questions, I guess I'll pass it back to Joe.

MR. LAM: Great. Thank you, Nick. Yes. This page shows incurred claims in 2019 and 2020. The incurred claims are by purchased care, direct care, USFHP on an aggregate basis and a per capita

basis. So let's go over changes in the incurred claims from 2019 to 2020.

In aggregate, the total purchased care incurred claims dropped by 1.5 percent or 113 million. The first footnote below points out that the prescription care, the purchased care, prescription drug claim amount are net up (phonetic) rebates. In 2019, the drug rebate was 456 million and the 2020 rebate was 506 million.

On the direct care side -- okay, right there, yep -- the total incurred claims dropped by 6.2 percent or 149 million. Now, except for the purchased care prescription drug, incurred claims from both purchased care and direct care are all lower across the board from 2019 to 2020. We think that this is mainly due to the delays of healthcare utilization caused by COVID-19. As for the 4 percent increase in the purchased care prescription drug, we think that there was some shifting of the claims from direct care to purchased care.

On the USFHP side, because of the

capitation arrangement, it went up 6.9 percent or 51 million. I want to point out that each year, DOD negotiates the capitation rates with the USFHP carriers. The negotiation process is a long process. It takes about eight months or so. The 2020 -- therefore, the 2020 capitation rates were put in place way before the onset of COVID-19.

Altogether, in the grand total line, the total incurred claim amount went down 2 percent or 210 million. On the per capita basis, purchased care and direct care together drop 3.7 percent or $151. On the USFHP side, it went up 8.6 percent or $1,330. Any comments or questions?

MR. OSTERNDORF: And I believe there's a question from the attendees. I just want to ask one question first, just to remind myself. The USFHP population is a closed population, right? You had to be in USFHP at a previous point in time to be able to use that plan in your retirement years?

MR. LAM: Yes, sir.

MR. OSTERNDORF: Okay. Thank you. I

believe there was a question from the attendees.

MR. SMITH: Yeah, this is Matt Smith from CBO. And I do have a question about USFHP. I don't know if it's more of a question or a comment, but do you have any insight as to why those rates keep going up? I mean, I look back the last five years, I think there's only one year where the rate actually lagged the overall per capita rate for the MERHCF population. And it just seems to me, you know, if they're actually following the letter of the law, this should not be happening.

MR. LAM: Yes. Yes, sir. As Dave pointed out that this is a closed block of business. And because it's a closed block, people who are covered by USFHP, they get older and older. It's the aging impact of the morbidity. And as well as we know that USFHP beneficiaries, they tend to be not as healthy. So that's why we see that the capitation rate's been going up, trending up. And because, for 2020, these rates were put in place before the onset of COVID, so it

really didn't reflect the, you know, lower utilization or delay of the utilization because of COVID.

MR. SMITH: Thank you.

MR. OSTERNDORF: And just one additional clarification, so I remember. USFHP is the only place where, for inpatient and outpatient services, we are not secondary to Medicare. Is that correct?

MR. LAM: That's correct.

MR. OSTERNDORF: Okay, thank you.

MR. ZOURAS: I don't know if Bob Moss have any thoughts on that, additional?

MS. PETTYGROVE: I'm not 100 percent sure Bob's online.

MR. ZOURAS: Got it.

MR. OSTERNDORF: Okay. If there are no other questions, let's keep moving.

MR. LAM: Okay, this is Joe Lam again. This is -- what we are sharing on our screen compares the proposed 2020 discount rate and trend to the 2019 discount rate and trend. The proposed

discount rate in 2020 is a quarter percent lower than last year, 4.5 percent, you know, we are proposing. Last year we had 4.75 percent. The proposed trend remains at 4.75 percent, same as last year.

The second half of this page shows the breakdown of the proposed trend and discount rates. On the trend side, all three components, real per capita, GDP, inflation, and margin, they all remain the same as last year at 1-1/2 percent, 2-3/4 percent, and half a percent, respectively. On the discount rate side, the real interest rate dropped by a quarter percent, From 2 percent to 1.75 percent. And the CPI remains at 2-3/4 percent. Questions? Comments?

MR. ZOURAS: Did you want Joe to talk about the rationale for dropping the real interest by a quarter?

MR. LAM: Yes, sir. We are proposing to drop the real interest by a quarter percent because it will be more in line with our latest projection. Yes.

MR. OSTERNDORF: And that recognizes the, in many ways, the composition of the fund here, which is mostly invested in PIPS and government bonds. And so it's a question of, you know, essentially what seemed best in premium someone will pay above inflation for those securities. Again, is that a fair assessment?

MR. LAM: Yes, that's a fair assessment, sir.

MR. FASANO: Hi, this is James Fasano from Comptroller. I know that the law directs what we invest in. I think Pete may have mentioned that some of our sister trust funds have different rules around what they can invest in that allows a -- allows them to gain a slightly higher interest rate. Could anyone comment on the differences between, you know, the Medicare Eligible Retiree Trust Fund and other investments across the government? Over.

MR. OSTERNDORF: I don't know if someone from DFAS might want to field that? I know you had meetings with OPM. Is it Laurie on the line?

Or can Coralita speak to that?

MS. JONES: Good morning. This is Coralita. So can you be more specific with the question? I heard you ask --

MS. PETTYGROVE: This is Inger Pettygrove, Office of the Actuary. My only comment would be that I -- to the other trust funds that we work with, are all very constricted, equally constricted in what they can invest in. I believe I've heard that other agencies outside DOD have different investment rules, but the ones we work with are all -- we're all Military Retirement Fund, VSI, and Education Benefits are all concerned as well.

MR. FASANO: That's exactly what I'm (inaudible).

MS. PETTYGROVE: Yeah, and I feel like we could (inaudible) confirmation for you, you know, from OPS and, you know, whoever else, those securities. But anyway, that's my very limited understanding of it.

MS. JONES: Correct. And this is

Coralita from DFAS. We actually do meet with OPM. And their structure is basically set up much like ours. And how they invest and the investments that they use is very much like how our investments are structured. And they use (inaudible) and the type of bonds and type of securities and investments they purchase. Just very much like the same type of securities (inaudible) that we invest in. So it's roughly the same, I mean, the same type of securities that we purchase. In meeting with them earlier this year, it was suggested at our midyear Board meeting.

MR. FASANO: Thank you, Coralita. We'll definitely -- probably something to pick up on. And we'd like to understand the differences between the potential rules. Over.

MS. JONES: Yeah, I feel like you should contact us after the meeting, we can follow up on that.

MR. OSTERNDORF: Yeah, and (inaudible), I do appreciate the input because I think this has

been an area that, you know, while we review investment returns and see how they stack up relative to assumptions, there is a concern at times about the relative performance for the fund compared to what we could potentially optionally do if there was, you know, greater flexibility. So you know, this Board will, you know, continue to factor that into some of our recommendations as we go forward. If there's no other questions, let's keep going.

MS. CHU: Okay, this is Chelsea Chu and I'm going to talk about the valuation medical trends assumptions. On this page you will see two boxes. The box on the left just shows that year's medical trend rates. And then the box in the right, it shows the proposed trend assumption for valuation as of September 30, 2020.

As you know, and our data also shows the COVID-19 pandemic caused the delay in medical service. We expect the MERHCF beneficiary will make up their debate (phonetic) medical service in three to four years. We expect these to happen

quickly in the first two projection years and then more slowly until pre-pandemic levels are reach.

As you can see, the trend are higher from FY '20 to FY '22 than from FY '22 to FY '24. Beginning in FY '24, we expect the medical utilization will be back to the average pre-pandemic level. Therefore, we use the 2020 trustee report from Center for Medicare and Medicare Service as our guide for projecting the trends. And then the trend operating to the ultimate medical trend, 4-3/4 percent, which Joe just proposed.

I would like to make a note here about a CMS Trustee court (phonetic). As of today, the 2021 quota has not been reached (inaudible) yet. However, we believe the 2024 in active medical rate in the CMS 2020 report are reasonable (phonetic). Okay, any questions?

MR. OSTERNDORF: Chelsea, I do have one. The fact that we have relatively similar trend rates between the direct care pharmacy and the purchased care pharmacy, and knowing that earlier

you said that the data is showing that we've had a meaningful move from direct care to purchased care in terms of the channel or pharmacy purchasing, you know, essentially means that we're assuming that that movement, in terms of more purchased care and less direct care in the pharmacy, is an ongoing switch. Is that correct?

MS. CHU: Yes. So far, we project that.

MR. OSTERNDORF: Thank you.

MS. CHU: Thank you. So for the U.S. average, (phonetic), the right column, basically the trend are the weighted average trends of the inpatient, outpatient, and the pharmacy. And there is also trending (phonetic) down to the ultimate trend for in this report. Any question? If not, I will hand it over to Nick, who will talk about the decrement assumptions on next page.

MR. GARCIA: Thanks, Chelsea. Yes, this is Nick Garcia again. So on page 8, at the top of this page --

MR. OSTERNDORF: I see a question. A hand raised there for a second.

MR. GARCIA: Oh, for a second there -- okay, let me go back to the previous slide.

MR. SMITH: I'm sorry, Chelsea. Sorry to jump in late. Maybe I missed this. When the inpatient growth rate from 2021 to 2022, 12.2 percent, is that by pent-up demand? How are you getting there?

MS. PETTYGROVE: And Matt, this is you, right?

MR. SMITH: Matt Smith, I'm sorry.

MS. PETTYGROVE: Matt. That's okay. Matt Smith, CBO. I just want to make sure the court reporter doesn't --

MS. CHU: So Matt, your question is like the 12.2 percent from 2021 to 2022 inpatient trends (phonetic), how do I get there?

MR. SMITH: Yes, yes.

MS. CHU: Okay. Mainly because we assumed the impact -- the debate Craig (phonetic) will be -- will catch up in two years. But the first year, that mean 2020 to 2021, is kind of a slower than the second year, which means like from

'21 to 2022. So many that the utilization jump up, so cause the 12 percent rate (phonetic). And please remember, we study the (inaudible) in 2020 member rate, it was very low. So that mean even you see (phonetic) like a 6 percent from 2020 to 2021, still lower than the 2019 rate. So even with the 12 percent jump, it's still lower -- again, still lower than 2019 rate. But we kind of expect you will gradually back to the pre-pandemic level at, like, three or four years overall.

MR. SMITH: Thanks, Chelsea.

MS. CHU: Mm-hm.

MR. ALDEN: Chelsea, this is Stu. I just wanted to note something else here. I was thinking back to our discussion about USFHP. And so these rates here are the trend rates before any kind of aging, right? But that group, we've got a closed group there, so the additional aging that you get on them, we would expect. Even if our assumptions held true, we would see increases for USFHP higher than the ones that are shown here. Isn't that right?

MS. CHU: Yes, because for the aging thing, we will show in the incurred trend estimate of the starting point.

MR. ALDEN: Yep, yep. Yep. Okay, yeah. Thank you.

MS. CHU: Okay. So, Nick, we can go back to. Thank you.

MR. GARCIA: Okay. Thanks, Chelsea. Yep, this is Nick Garcia. So on this page, we're going to be showing the decrement and administrative load assumptions. To start, top of this page are the changes to the decrement assumptions. So this year, we're proposing for our various different decrement changes for this 2020 MERHCF evaluation, which includes updating the mortality improvement scales, updating the pre- retirement decrement rates for active duty and reserves, and lastly including the Coast Guard experience in the development of the rates. And I will point out that, yes, MRF and MERHCF have the same pre-retirement population, and so there's that overlap there.

I'll note, based on our military specific analysis of experience, that all the other decrement assumptions continue to be reasonable, in our professional judgment. And we will continue to monitor all the assumptions for reasonableness in the future. Also, all Board-approved decrements are published each year in our MERHCF eval (phonetic) report so that -- and that should be ready around the end of this year.

The first proposal is for the mortality improvement scales that are used to improve death rates. Our usual practice is to include the most recent experience so we can incorporate emerging trends in the mortality experience. For the MERHCF evaluation, this proposal has a minimal impact on the population projection. If we go down to the -- moving to the active duty decrement rates, the proposal is to update the experience study period to Fiscal Years 2015 to '19. Currently we're using a 20-year period which includes data going back to 1982 and all the way

up to 2008. So we are using the same types of decrement assumptions as before. The only difference is that we're calculating these assumptions using the most recent data, most recent experience. Under these new rates, the probability of reaching a 20-year service for active duty new entrant is unchanged.

So if we go to the updated reserve decrement rates, similar to active duty, we are proposing to update experience study period to Fiscal Years '17 and '19. Currently we use 2005 to 2009. Again, we're using the same types of decrement assumptions. The only difference is that we're calculating these assumptions using the most recent experience. And the probability of getting to 20 years of service slightly increases from 14 percent to 18 percent.

Last decrement proposal is to include the Coast Guard experience in the rates, in the rates -- development of the rates. And this only applies to pre-retirement decrement rates. And so, in future valuations, the plan is to add Coast

Guard data to post-retirement decrement rates, but that hasn't -- so that will happen at some point in the future. With the Coast Guard, if we estimated that the probability of making 20 years of service of a new entrant to the full-time Coast Guard to be 84 percent for officers and 27 percent for enlisted. So now I will pass this over to Joe so he can cover the admin load.

MR. LAM: Thank you, Nick. But if there aren't any questions on what Nick just went through.

MR. GARCIA: Oh, yeah, sure. We can take questions. Or I was going to see maybe after Joe? Either way.

MR. OSTERNDORF: Why don't you go ahead, Joe, and then we'll see if there's any questions on this page, though.

MR. LAM: Okay, thank you. Yes, the admin load is an adjustment, represents administrative costs and certain claim adjustment or payments not included in the data for -- and this year, inpatient and outpatient, we proposed 2

percent. It's a slightly decrease from last year. Prescription drug, 1.6 percent. Again -- oh. Okay, thank you. Prescription drugs, 1.6 percent. Again, slightly below last year. USFHP remains at 0.4 percent. Any questions or comment about this page?

MR. ZOURAS: I'll make a comment. This is Pete. At the updating of the decrement rates, could not have been done without the help of three new OACters? And so, yeah, it was a heavy lift for us. And despite the challenges that we faced, you know, working remotely, the zero-based review, and the pandemic, but we were able to get it done. So, yeah.

MR. OSTERNDORF: And I would second that, Pete. This is, I know, a very substantial undertaking. And I appreciate your group's ability to get those completed. All right, so no other questions. Why don't we keep moving?

MR. LAM: Great. Thank you. This is Joe Lam. Nick, can you make the page a little bigger? Thank you. On this page, we propose to

update the average claim level to Fiscal Year 2020's experience and no change in the claim's age grading assumption. Now, the claim's age grading is also -- sometimes we refer it as claim vector or claim curve. Earlier this year we spent a few weeks to examine the claim vector using the most recent three years of claim experience. We notice that the shape of the claim vector in our examination was very much in line with the current claim vector. We also tested the claim vector from our study and put it in our valuation model. We did a quick test run, but we didn't see any significant impact in the results. And in general, we don't update claim vector every year. Therefore, we propose to keep the current claim vector assumption. Any questions?

Okay. That's all our proposed assumptions. I'm going to turn this over to the Board for approval.

MR. OSTERNDORF: Let me see if there are any questions from meeting attendees on any of the material that was just covered. And, Stu, any

additional questions from you on the content?

MR. ALDEN: No, not from me.

MR. OSTERNDORF: All right. So, given the information that has been presented, our task now is to find (phonetic) on the method assumptions that have been presented to be used for the purposes of computing the amount stated in Agenda Item 1. If there are no initial questions, I would like to suggest that we approve these methods and assumptions. And, Stu, do you agree with that? And, if so, would you like to make a motion that we approve them for the stated use?

MR. ALDEN: I agree. I move that we vote to approve the methods and assumptions that have been put forth today.

MR. OSTERNDORF: And since I'm the only remaining member of the Board, I guess I will second that motion. Stu, how do you vote on the motion?

MR. ALDEN: I vote aye.

MR. OSTERNDORF: I vote aye as well. The motion's therefore passed and the assumptions

are approved for use in the calculation of the Fiscal '23 per capita normal costs, the 9-30-20 unfunded liability calculations and the 10-1-21 amortization normal cost payments.

I'd again like to thank the staff from OAC for all their hard work in this process and all the effort that was put in, in a very trying period of time. It was very much appreciated. And the fact that we had to do this with such a compressed period, again, it's something that we're very grateful for the additional efforts.

With that, I will declare this meeting adjourned. Thank you all for your attendance.

MS. PETTYGROVE: Dave, I figure I'm just going to jump in. There are a few people who joined late. We need to have a record of the attendees. You can contact anybody from the Office of the Actuary. Kathleen Ludwig is our primary POC on that. But just to make sure that we knew you were here. We know most of the players. But some people who called in on the phone, we weren't quite sure who you were. So I'd

appreciate -- and if anybody right now doesn't know how to do that, you know, let me know now or just send somebody an email after the meeting.

Okay, I will take silence as no problems out there. And I'm going to request that Board members and OAC staff members stay on the line for a minute.

REPORTER: But, Ms. Pettygrove, is --

SPEAKER: This meeting is no longer being recorded.

REPORTER: That's it for the transcribed portion, right? You don't want anything else in the transcript?

MR. OSTERNDORF: Correct.

REPORTER: Okay, thank you very much.

MS. PETTYGROVE: The meeting is closed and whoever turned on the recording can -- oh, it's already stopped. Thank you.

(Whereupon, at 10:59 a.m., the PROCEEDINGS were adjourned.)

* * * * *

CERTIFICATE OF NOTARY PUBLIC

COMMONWEALTH OF VIRGINIA

I, Mark Mahoney, notary public in and for the Commonwealth of Virginia, do hereby certify that the forgoing PROCEEDING was duly recorded and thereafter reduced to print under my direction; that the witnesses were sworn to tell the truth under penalty of perjury; that said transcript is a true record of the testimony given by witnesses; that I am neither counsel for, related to, nor employed by any of the parties to the action in which this proceeding was called; and, furthermore, that I am not a relative or employee of any attorney or counsel employed by the parties hereto, nor financially or otherwise interested in the outcome of this action.

Mark Mahoney

Notary Public, in and for the Commonwealth of Virginia

My Commission Expires: August 31, 2025

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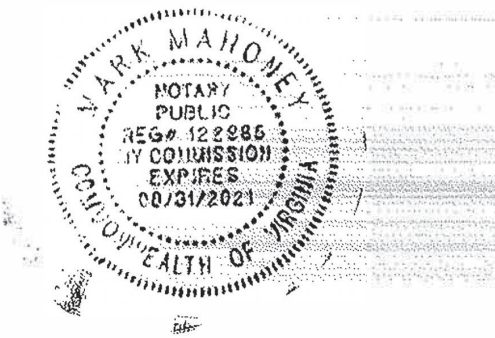

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