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

September 28, 2023

MEMORANDUM FOR THE RECORD

SUBJECT: Minutes of the July 28, 2023, Meeting of the DoD Medicare-Eligible Retiree Health Care Board of Actuaries

These are the minutes of the July 28, 2023, 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 (MERHCF or 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

July 28, 2023
10:00 a.m.
Virtual Meeting

HIGHLIGHTS/KEY BOARD DECISIONS

Introduction:

- Transcript Pages 2-3: Chairperson David Osterndorf opened the 2023 Board Meeting. Mr. Osterndorf outlined several agenda items and the objectives for the meeting. He also expressed the Board's appreciation for efforts undertaken by the DoD Office of the Actuary (OACT) staff.

Agenda Item 2: September 30, 2021, Actuarial Valuation Results

- Transcript Pages 3-4: OACT presented the MERHCF valuation history and gains/losses to the Fund. MERHCF per capita normal costs for FY 2024 are $6,405 and $2,553 for active duty and reserve, respectively. The actuarial liability as of September 30, 2021, was $519.2 billion and the unfunded liability was $207.4 billion. The Treasury payment for October 1, 2022, was $10 billion.

- Transcript Pages 4-5: In FY 2021, there was an experience gain of $13.1 billion and an assumption loss of $36.8 billion, leading to a total valuation loss of $23.8 billion. In FY 2022, there was an experience gain of $12.1 billion attributable to asset performance with returns in excess of the valuation assumption.

Agenda Item 3: September 30, 2022, Actuarial Valuation Proposals

- Transcript Pages 6-7: Effective fund yield and balance for each fiscal year from 2017 to 2022 were presented. In FY 2022, we had a beginning balance of $312.1 billion and an ending balance of $345.1 billion. The annual effective yield was 8.4%. It was noted that the fund has benefitted from the high inflation environment. The investment income was $27.1 billion due to a majority of the Fund being invested in TIPS.

- Transcript Pages 7-8: Active service member counts for FYs 21-22 were presented, showing a decrease across the board compared to last year, mainly due to the services facing recruiting challenges. The decrease was somewhat offset by increased retention. This is the first year the Fund includes Public Health Service reserves, with a count of 64.

- Transcript Pages 8-9: Mr. Alden inquired if we should expect to have National Oceanic and Atmospheric Administration reserve members in the future, and it was confirmed. Mr. Osterndorf asked if there was a change in the average age of the population given that there is an increase in retention of existing service members. OACT confirmed that there is a slight increase in average age from 29.49 last year to 29.64 this year.

- Transcript Pages 10-12: Counts of retired beneficiaries and dependents were presented for FY21 and FY22. Across the categories, there was a slight increase in the number of Medicare-eligible beneficiaries. OACT presented the incurred outlays for FY21 and FY22. It was noted that there is a continuation of the prior trend post-COVID of spending moving from direct care to purchased care. OACT confirmed that there are no new entrants into the USFHP plan as it is a closed plan.

- Transcript Pages 12-13: OACT proposed no change to the discount rate assumption of 4.50%, and no change in the Ultimate Medical Trend of 4.75%. Similar to other boards such as Social Security, OPM, and CMS, OACT proposed to keep the assumptions the same. OACT confirmed that there has been a change in the investment policy: a smaller percentage of the Fund is invested in TIPS (60-70%, vs. 75-85%). The target average duration shifted from 20 to 15 years.

- Transcript Pages 14-21: Mr. Osterndorf expressed the Board's view that the investment policy should be very closely tied to a strong asset liability matching approach as well as setting an appropriate discount rate. Lt Col Keough from IAC provided background information on changes to investment policy as well as the reason for the changes to acquire more leverage to make broader decisions in investments.

- Transcript Pages 22-27: Lt Col Keough and Lt Col Pagoaga discussed the unusual yield curve in treasuries being a factor for modification in investment policy. The US Treasury yield curve was presented and it was noted that the upward shift of the inverted yield curve was the driving factor for investment recommendations. The IAC members confirmed that asset liability matching was a very important element of their deliberations in setting investment policy and expressed their willingness to be involved in the asset liability study requested by the Board.

- Transcript Pages 27-29: OACT presented the medical trend assumptions for direct care (DC), purchased care (PC), and USFHP. Proposed trends reflect the most recent experience with short-term expectations to return to pre-pandemic levels. OACT noted a continued shift to PC from DC along with a consideration for the emerging blockbuster drugs, such as Ozempic and Wegovy.

- Pages 29-31: Mr. Osterndorf commented how our experience showed a significant drop-off in terms of services due to the pandemic, and how the expectation to return

to normalcy is still a year or two away. He added that the care patterns for both pre- and post-Medicare are relatively consistent.

- Transcript Pages 31-34: OACT proposed the use of weights for 2021 and 2022 mortality experience period, an update to survivor long-term rate of improvement, and an update to spouse-per-sponsor rates using 2022 experience. It was noted that the Society of Actuaries did not publish a new projection scale in 2022.

- Transcript Pages 34-38: OACT proposed a reserve rate update to adjust projection of reserve retirees with an emphasis on gray area. Rates based on experience in FY17 and FY19 will be used to model individuals either age 63 or 41 years of service. There was a discussion regarding why individuals eligible for retirement with age 59 and 41 years of service were not retiring. OACT confirmed with advisors that members would need to apply for retirement to become eligible for health benefits. Since there is limited interaction with former service members who have not yet applied for retirement, there is insufficient information to understand the rationale behind the deferred retirement dates.

- Transcript Pages 38-39: OACT proposed a 10% increase in disability retirement rates to reflect the Promise to Address Comprehensive Toxics (PACT) Act. It was noted that the 10% increase is a moderate reflection of PACT Act and does not speculate on what services will do in the future in terms of members leaving service prior to the passage of the PACT Act who might ultimately be entitled to benefits even if they had not met standard retirement eligibility, due to the potential for retrospective review of any disability retirement entitlement.

- Transcript Page 39: OACT proposed assumptions related to administrative cost loads and decrement rates. The IP and OP admin load decreased from 2.00% to 1.50%, and the Retail Pharmacy admin load was unchanged.

- Transcript Pages 39-43: The average claims level was updated for FY2022 experience, and no changes were proposed for valuation claims cost age grading. Mr. Osterndorf stated concerns regarding the discrepancy between mortality improvement assumptions for MRF and MHS. He described the self-correcting phenomenon associated with greater improvement: members would be receiving benefits longer but would be receiving less benefits due to improving health conditions.

- Transcript Pages 43-44: The Board approved OACT's proposed methods and assumptions for calculating the FY 2025 per capita normal costs, the September 30, 2022, unfunded liability (UFL), and the October 1, 2023, Treasury UFL amortization and normal cost payments.

- Transcript Pages 44-48: OACT gave a brief presentation on the transition to ADVANA, a new method of accessing and storing data from the Defense

Manpower Data Center (DMDC). OACT addressed concerns regarding the comparison of valuation results from both methods and data security concerns associated with the new system.

- Transcript 48-52: Mr. Osterndorf expressed the Board's appreciation for Bob Moss, a close friend and trusted advisor with comprehensive knowledge of healthcare within the military. Bob Moss will retire in the Fall 2023.

ATTACHMENT 1

MEDICARE-ELIGIBLE RETIREE HEALTH CARE
BOARD OF ACTUARIES
MEETING AGENDA

July 28, 2023
10:00 AM – 1:00 PM EDT
Virtual Meeting (MS Teams)

MS Teams Link:
https://dod.teams.microsoft.us/l/meetup-join/19%3adod%3ameeting_8c6365637e0a4f34920c827944587d1f%40thread.v2/0?context=%7b%22Tid%22%3a%22102d0191-eeae-4761-b1cb-1a83e86ef445%22%2c%22Oid%22%3a%22244081cb-d4dd-4158-8c6f-2048b5cf15bb%22%7d

Call-In (for audio only): Dial: 410-874-6749 Conference ID: 248 496 215#

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**** Please ensure your audio is muted when not speaking or actively participating.**
**** Please leave your camera off unless you are speaking.**
**** Please identify yourself before asking a question.**
**** If you are calling in to the meeting, please email Inger Pettygrove (Inger.M.Pettygrove.civ@mail.mil) with your name and organization as a record of your participation.**

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1. **Meeting Objective** (Board)

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

   a. FY 2025 per capita full-time and part-time normal costs
   b. September 30, 2022 unfunded liability (UFL)
   c. October 1, 2023 Treasury UFL amortization and normal cost payments

2. **September 30, 2021 Actuarial Valuation Results**
   (Chelsea Chu, DoD Office of the Actuary)

3. **September 30, 2022 Actuarial Valuation Proposals**
   (Drew May, Phil Davis, Jonathan Wong, DoD Office of the Actuary)

4. **Transition to ADVANA**
   (Phil Davis)

*Board approval required

ATTACHMENT 2

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

July 28, 2023

	NAME	POSITION or OFFICE
1	Dave Osterndorf	Chairperson
2	Stuart Alden	Board Member
3	Jian Yu	Board Member
4	Pete Zouras	DoD Chief Actuary
5	Inger Pettygrove	DoD OACT
6	Chelsea Chu	DoD OACT
7	Phil Davis	DoD OACT
8	Drew May	DoD OACT
9	Qian Magee	DoD OACT
10	Jonathan Wong	DoD OACT
11	Ethan Field	Guest
12	Austin Keib	Guest
13	Paul Bley	General Counsel
14	Chris Borcik	CCRC Actuaries
15	Matt Schmidt	CBO
16	Edith Smith	Capitol Crusader
17	James Fasano	OSD OUSD C
18	Daniel Lee	OSD OUSD C
19	Karen Ruedisueli	MOAA
20	Debra Wade	USFHP
21	Lt Col David Barker	OSD OUSD C
22	Brad Paulis	CCRC Actuaries
23	Bryan Nelms	Kearney
24	Molly Byrnes	OSD OUSD C
25	Chris Music	OMB
26	Lori Haines	DFAS
27	Jason Merriweather	NOAA CPC
28	Karen Noah	Guest
29	LaNita Cousin	USPHS
30	Alicia Litts	OUSD (C)
31	Tom Liuzzo	OSD OUSD P-R
32	Lt Col Steve Pagoaga	IAC

33	Lt Col Keough	IAC
34	Michael McCarthy	NOAA
35	Robert J. Moss	DHA
36	Tyler Zentz	Guest
37	Richard Virgile	USCG

ATTACHMENT 3

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

July 28, 2023

Medicare-Eligible Retiree Health Care Fund
Board of Actuaries Meeting

Department of Defense
Office of the Actuary
July 28, 2023

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	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	**$5,506**	**$2,138**	9/30/19	**$452.8**	**$277.8**	**$175.0**	10/1/20	**$7.0**
Summer 2021	FY23	**$5,795**	**$2,279**	9/30/20	**$472.4**	**$289.7**	**$182.7**	10/1/21	**$7.5**
Summer 2022	FY24	**$6,405**	**$2,553**	9/30/21	**$519.2**	**$311.8**	**$207.4**	10/1/22	**$10.0**
Summer 2023	**FY25**	**?**	**?**	**9/30/22**	**?**	**?**	**?**	**10/1/23**	**?**

Valuation (Gains)/Losses ($B)

Val Date	Experience			Assumptions				Plan Changes	TOTAL
	Asset*	Other	Total	Trend	Admin	Other	Total		
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	($22.4)	($15.9)	$2.6	($0.3)	$20.0	$22.3	$0.0	$6.4
9/30/21	($3.1)	($9.9)	($13.1)	$33.6	$0.2	$3.1	$36.8	$0.0	$23.8
9/30/22	($12.1)								

* Includes yield as well as budget lead time effect.

Effective Yield During the Fiscal Year

Medicare-Eligible Retiree Health Care Fund

($ in billions)

		Contributions Received			Benefit Payments				
Fiscal Year	Fund Balance Beginning of Year	From Uniformed Services, for Normal Costs	From Treasury, for Unfunded Accrued Liability	Investment Income	Direct Care	Purchased Care	Total	Fund Balance End of Year	Effective Annual Yield
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%**
2021	$290.3	$8.6	$7.0	$17.4	$2.6	$8.6	$11.2	$312.1	**5.8%**
2022	$312.1	$9.6	$7.5	$27.1	$2.4	$8.8	$11.2	$345.1	**8.4%**

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

Active Service Members

	9/30/21	9/30/22	% Change from End of FY21 to FY22
DoD			
Active duty	1,425,014	1,393,696	-2.2%
Reserve	702,629	675,807	-3.8%
Coast Guard			
Active duty	40,449	39,471	-2.4%
Reserve	5,882	6,164	4.8%
PHS Active duty	6,013	5,814	-3.3%
PHS Reserve		64	
NOAA Active duty	329	334	1.6%
NOAA Reserve		0	
TOTAL			
Active duty	1,471,805	1,439,315	-2.2%
Reserve	708,511	682,035	-3.7%

Note: These are end of FY counts.

Retired Beneficiaries and Dependents

(all Uniformed Services)

	9/30/21	9/30/22	% Change from End of FY21 to FY22
Retirees			
Sponsors			
Non-Medicare-eligible	1,026,216	1,031,402	0.5%
Medicare-eligible	1,204,853	1,211,196	0.5%
Total	2,231,069	2,242,598	0.5%
Spouses			
Non-Medicare-eligible	909,647	909,228	0.0%
Medicare-eligible	736,374	735,249	-0.2%
Total	1,646,021	1,644,477	-0.1%
Others			
Non-Medicare-eligible	861,167	878,359	2.0%
Medicare-eligible	13,482	13,339	-1.1%
Total	874,649	891,698	1.9%
Survivors			
Spouses			
Non-Medicare-eligible	76,713	76,235	-0.6%
Medicare-eligible	522,312	522,773	0.1%
Total	599,025	599,008	0.0%
Others			
Non-Medicare-eligible	30,909	31,093	0.6%
Medicare-eligible	8,322	8,406	1.0%
Total	39,231	39,499	0.7%
Retirees and Survivors			
Non-Medicare-eligible	2,904,652	2,926,317	0.7%
Medicare-eligible	2,485,343	2,490,963	0.2%
Total	5,389,995	5,417,280	0.5%

MERHCF Incurred Outlays

Aggregate ($ in millions)	FY 2021	FY 2022	% Change from FY21 to FY22
Purchased Care			
IP	$787	$818	4.0%
OP	$3,065	$3,210	4.7%
Rx	$3,556	$3,696	4.0%
Other	$125	$135	7.3%
TOTAL	$7,533	$7,859	4.3%
Direct Care			
IP	$637	$599	-6.0%
OP	$771	$785	1.8%
Rx	$862	$850	-1.4%
TOTAL	$2,271	$2,234	-1.6%
US Family Health Plan			
Capitation Rates	$810	$833	2.8%
Other	$3.3	$3.7	10.3%
TOTAL	$814	$837	2.8%
Grand Total	$10,617	$10,930	2.9%

Per Capita	FY 2021	FY 2022	% Change from FY21 to FY22
Purchased Care	$2,951	$3,211	8.8%
Direct Care	$920	$915	-0.6%
TOTAL	$3,871	$4,126	6.6%
US Family Health Plan	$17,654	$18,622	5.5%

Notes:

1. PC Retail Rx incurred amounts are net of incurred Rx rebates.
   Incurred Rx rebates in FY 2021 / FY 2022 were $550m / $610m.
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, 2021 Val	September 30, 2022 Val (Proposed)
Discount Rate	4.50%	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	1.75%	1.75%
CPI	2.75%	2.75%
Total	4.50%	4.50%

MERHCF Valuation Medical Trend Assumptions

September 30, 2021 Val

From FY:	To FY:	DC IP	DC OP	DC Rx	PC IP	PC OP	PC Rx	USFHP
2021	2022	9.18%	4.00%	0.68%	12.88%	8.26%	7.27%	9.78%
2022	2023	8.65%	3.48%	2.96%	9.20%	6.96%	5.87%	7.65%
2023	2024	4.54%	4.00%	4.41%	4.04%	6.27%	8.18%	5.55%
2024	2025	3.53%	4.00%	2.53%	3.02%	6.18%	4.12%	4.72%
2025	2026	4.52%	5.82%	2.63%	4.52%	5.82%	4.15%	5.12%
2026	2027	4.35%	5.68%	2.73%	4.35%	5.68%	4.18%	4.99%
2027	2028	4.06%	5.50%	2.83%	4.06%	5.50%	4.21%	4.80%
2028	2029	3.93%	5.48%	2.93%	3.93%	5.48%	4.24%	4.75%
2029	2030	3.97%	5.40%	3.03%	3.97%	5.40%	4.27%	4.73%
2030	2031	4.29%	5.50%	3.13%	4.29%	5.50%	4.29%	4.91%
2031	2032	4.32%	5.46%	3.24%	4.32%	5.46%	4.32%	4.91%
2032	2033	4.35%	5.41%	3.34%	4.35%	5.41%	4.35%	4.90%
2033	2034	4.38%	5.36%	3.44%	4.38%	5.36%	4.38%	4.89%
2034	2035	4.41%	5.32%	3.54%	4.41%	5.32%	4.41%	4.89%
2035	2036	4.44%	5.27%	3.64%	4.44%	5.27%	4.44%	4.88%
2036	2037	4.46%	5.22%	3.74%	4.46%	5.22%	4.46%	4.86%
2037	2038	4.49%	5.17%	3.84%	4.49%	5.17%	4.49%	4.85%
2038	2039	4.52%	5.13%	3.94%	4.52%	5.13%	4.52%	4.85%
2039	2040	4.55%	5.08%	4.04%	4.55%	5.08%	4.55%	4.83%
2040	2041	4.58%	5.03%	4.14%	4.58%	5.03%	4.58%	4.82%
2041	2042	4.61%	4.99%	4.25%	4.61%	4.99%	4.61%	4.81%
2042	2043	4.64%	4.94%	4.35%	4.64%	4.94%	4.64%	4.80%
2043	2044	4.66%	4.89%	4.45%	4.66%	4.89%	4.66%	4.78%
2044	2045	4.69%	4.84%	4.55%	4.69%	4.84%	4.69%	4.77%
2045	2046	4.72%	4.80%	4.65%	4.72%	4.80%	4.72%	4.76%
Ultimate		4.75%	4.75%	4.75%	4.75%	4.75%	4.75%	4.75%

September 30, 2022 Val (Proposed)

From FY:	To FY:	DC IP	DC OP	DC Rx	PC IP	PC OP	PC Rx	USFHP
2022	2023	6.08%	5.05%	9.42%	9.44%	8.32%	9.01%	8.84%
2023	2024	4.52%	4.02%	8.75%	8.41%	7.96%	8.51%	8.20%
2024	2025	5.29%	4.52%	4.84%	5.57%	7.06%	4.42%	6.19%
2025	2026	5.55%	4.52%	4.83%	5.05%	6.26%	4.43%	5.60%
2026	2027	4.33%	5.89%	4.83%	4.33%	5.90%	4.45%	5.15%
2027	2028	4.50%	5.11%	4.83%	4.50%	5.12%	4.46%	4.82%
2028	2029	4.79%	5.44%	4.82%	4.79%	5.44%	4.47%	5.10%
2029	2030	4.46%	5.15%	4.82%	4.46%	5.16%	4.49%	4.83%
2030	2031	4.73%	5.18%	4.81%	4.73%	5.18%	4.50%	4.94%
2031	2032	4.72%	5.33%	4.81%	4.72%	5.33%	4.52%	5.02%
2032	2033	4.72%	5.29%	4.81%	4.72%	5.29%	4.53%	5.00%
2033	2034	4.72%	5.26%	4.80%	4.72%	5.26%	4.55%	4.99%
2034	2035	4.72%	5.22%	4.80%	4.72%	5.22%	4.56%	4.97%
2035	2036	4.73%	5.18%	4.79%	4.73%	5.19%	4.58%	4.95%
2036	2037	4.73%	5.15%	4.79%	4.73%	5.15%	4.59%	4.94%
2037	2038	4.73%	5.11%	4.79%	4.73%	5.11%	4.60%	4.92%
2038	2039	4.73%	5.08%	4.78%	4.73%	5.08%	4.62%	4.90%
2039	2040	4.73%	5.04%	4.78%	4.73%	5.04%	4.63%	4.89%
2040	2041	4.74%	5.00%	4.78%	4.74%	5.00%	4.65%	4.87%
2041	2042	4.74%	4.97%	4.77%	4.74%	4.97%	4.66%	4.85%
2042	2043	4.74%	4.93%	4.77%	4.74%	4.93%	4.68%	4.84%
2043	2044	4.74%	4.89%	4.77%	4.74%	4.90%	4.69%	4.82%
2044	2045	4.74%	4.86%	4.76%	4.74%	4.86%	4.71%	4.80%
2045	2046	4.75%	4.82%	4.76%	4.75%	4.82%	4.72%	4.78%
2046	2047	4.75%	4.79%	4.75%	4.75%	4.79%	4.74%	4.77%
Ultimate		4.75%	4.75%	4.75%	4.75%	4.75%	4.75%	4.75%

MERHCF Valuation Assumptions
Decrements and Administrative Load

	September 30, 2021 Val	September 30, 2022 Val (Proposed)
Decrements	Consistent w/Sept-20 Val, except: (1) One more year of MI, (2) Update MI Scale (based on MIL MI), (3) Updated Retiree Mortality Rates, (4) Updated Reserve New Entrant Assumption	Consistent w/Sept-21 Val, except: (1) One more year of MI, (2) Update MI Scale (based on MIL MI), (3) Updated Former Spouse Survivor Allocation and Spouse per Sponser Rates, (4) Updated Reserve Rates, (5) PACT Act

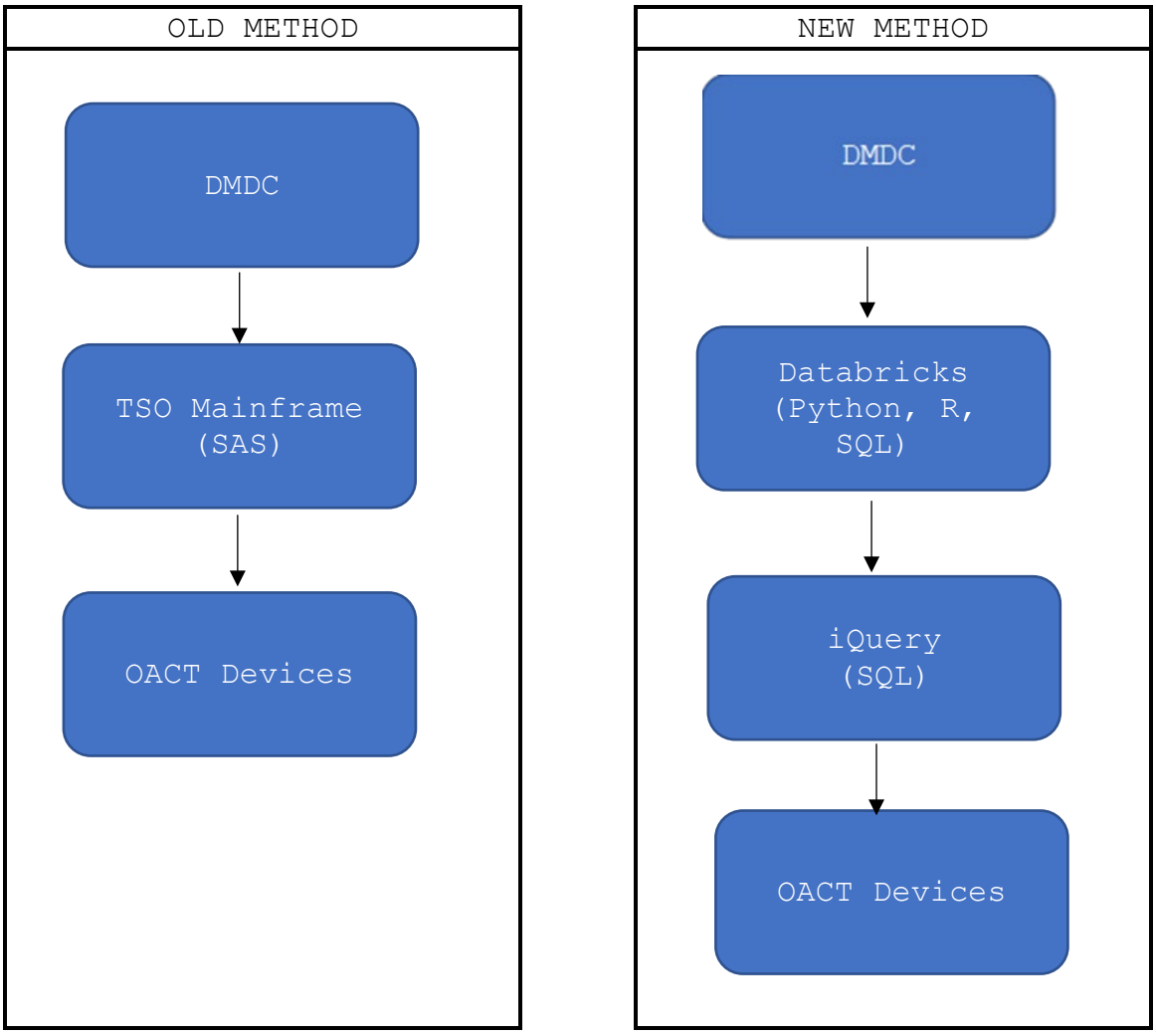
Admin Load		
IP & OP	2.00%	1.50%
Rx	1.70%	1.70%
USFHP	0.40%	0.40%

MERHCF Valuation Assumptions
Claim Costs Development

	September 30, 2021 Val	September 30, 2022 Val (Proposed)
Average Claims Level	FY 2021 experience	FY 2022 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

Converting to ADVANA for Data Extraction

The Census data used for valuation purposes is extracted from files maintained by the Defense Manpower Data Center (DMDC). In the past, OACT has accessed this data through the TSO Mainframe utilizing programs written in SAS. DoD has introduced a cloud computing system called ADVANA (a portmanteau of "Advancing" and "Analytics") where DoD is able to combine 1,200 systems into one central platform for data and analytics, simplifying more than 3,000 business systems and tracking everything from finance to infrastructure. This comes with the decommissioning of the TSO Mainframe in the coming months. The ADVANA platform is accessed through internet browsers allowing streamlined access, especially compared to the TSO Mainframe. ADVANA has several "Data Tools" available to users, two of which are being used by OACT. "Databricks" allows users to access the files maintained by DMDC and perform operations using three different programming languages: Python, R, and SQL. "iQuery" allows users to access and export the files maintained by DMDC as well as user-created files using SQL. OACT extracts and manipulates files in Databricks and then exports them using iQuery. Several OACT staff members plan to undertake the monumental task of converting all of the TSO Mainframe SAS programs to Databricks and iQuery and perform parallel runs for the 2021 and 2022 valuation.



ATTACHMENT 4

MEDICARE-ELIGIBLE RETIREE HEALTH CARE BOARD OF ACTUARIES MEETING TRANSCRIPT

July 28, 2023

UNITED STATES DEPARTMENT OF DEFENSE
OFFICE OF THE ACTUARY

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BOARD OF ACTUARIES MEETING

+ + + + +

FRIDAY
JULY 28, 2023

+ + + + +

The Department of Defense Board of Actuaries met via Videoconference, at 10:00 a.m. EDT, Dave Osterndorf, Chair, presiding.

PRESENT
DAVE OSTERNDORF, Chair
STU ALDEN, Board Member
JIAN YU, Board Member

P-R-O-C-E-E-D-I-N-G-S

10:01 a.m.

CHAIR OSTERNDORF: I am going to open up the 2023 Medicare-Eligible Retiree Healthcare Fund Board of Actuaries meeting.

We have the agenda on screen, everyone should be able to see it at this point. This meeting is intended to provide the ability for the Board to review and approve the actual assumptions methods needed for calculating the fiscal 25 per capita full-time and part-time normal cost, the September 30, 2022 unfunded liability of the fund, and the October 1, 2023 treasury unfunded liability amortization and normal cost payments from the services.

We'll go through a number of agenda items. We'll have the information led by the staff of the DoD Office of the Actuary. The OACT staff have been obviously working very hard on this process as we go through. And the Board would like to express its appreciation for the efforts that were made in doing that.

So that is the intended agenda for today. We'll touch on a couple things once we've gotten Board approval of the actual assumptions. But let's start out by reviewing previous year's evaluation results. I'm going to turn it over to Chelsea Chu from OACT to walk us through that. Chelsea.

MS. CHU: Thank you, Dave.

Good morning, I'm Chelsea Chu from DoD Office of the Actuary. I'm going to talk about agenda number two, MERHCF valuation result for September 30, 2021.

Here we are showing board handout on the screen. Is the size good for everybody?

CHAIR OSTERNDORF: Chelsea, could you increase it just a little bit, especially for us old folks with bad eyes? Thank you.

MS. CHU: Thank you. For people on the phone, please refer to the PDF file we sent out yesterday named MERHCF report handout 2023.

Okay, page one. Page one shows valuation result starting from summer 2016 Board

meeting. If you go to the summer 2022 line, they are valuation results based on assumption approved by the board members last year. First, per capita normal cost.

Per capita normal cost under amount that is attributed to the fund for each full-time or part-time member every year to pay for future MERHCF benefits. Last year the Board approve of FY 24 per capita normal cost of 6,405 for full-time and the 2,553 for part-time.

Let's move to the middle box. As of September 30, 21, the actuarial liability is 519.2 billion. The fund balance is about 312 billion. And the fund liability is 207.4 billion.

To the right box it shows unfunded liability payment of 10 billion was made by Treasury on October 1, 2022.

Any question before we move to the valuation gains and losses?

CHAIR OSTERNDORF: Any questions from the Board or from the audience?

MEMBER ALDEN: Not here, Dave.

MEMBER YU: Yeah, I have no questions.

MS. CHU: Okay, let's move to valuation gains and the losses. Here we are showing the valuation gains and the losses by experience, assumptions, and the claim changes. If you go to the valuation date of September 30, 2021, it shows total loss about 24 billion. This is mainly due to the trend of the catchup of delay. The medical service was not as fast as we expected.

If you move to the next slide, September 30, 22, the asset gain is about 12 billion. This gain is mainly due to high interaction, which increased the TIPS returned. Any questions?

CHAIR OSTERNDORF: Hearing none, let's keep going.

MS. CHU: Okay. Dave, we can move to agenda number three.

CHAIR OSTERNDORF: All right, so let's move to agenda item three, the actual valuation

assumption proposal from OACT. And I believe we're going to start with Drew, Drew May.

MR. DAVIS: It's actually me, Phil Davis.

CHAIR OSTERNDORF: Okay, thanks.

MR. DAVIS: So on this page we are showing the affected fund yield during each fiscal year from 2017 to 2022, the most recent year we had available. And looking at the 2022, we have a beginning of the year fund balance of 312.1 billion.

We received contributions of 9.6 billion from the services and 7.5 billion from Treasury. We had investment income of 27.1 billion. We paid out in benefit payments 2.4 billion in direct care and 8.8 in purchased care, for a total of 11.2 billion.

And that gives us an end of the year fund balance of 345.1 billion and an affected annual yield of 8.4%.

Just want to point out that these numbers are as of values as the investment

strategy is to purchase maturities and then -- or purchase assets and then hold them til maturity.

And additionally, the fund has benefitted fairly well from this high inflation environment we've been in. You can see, as Chelsea mentioned, this high investment income of 27.1 billion. It's much higher than any previous years. And this is because the majority of the fund is in TIPS.

Any questions or comments for this page?

CHAIR OSTERNDORF: Let's keep going.

MR. DAVIS: Okay. So now moving to the next page, page three, we list the counts of active service members for last year and this year. And some things to point out. This is the first year where we have PHS reserves, or public health services, at 64. So you can see there's no percentile comparison here as we didn't have those last year.

And generally you can see that there

are decreases in the counts compared to last year. And this is mainly due to the services facing recruiting struggles. And this has been offset somewhat by increased retention, however you can see the effect the recruiting struggles are having in the counts.

Are there any questions for this page?

CHAIR OSTERNDORF: Go ahead, Stu.

MEMBER ALDEN: Oh I'm sorry. Phil, this is Stu Alden. I was just curious about the NOAA reserve of zero. Is that -- that's like a placeholder so we will have NOAA reserve people in the future or we expect to but none right now?

MR. DAVIS: Yes, sir.

MEMBER ALDEN: Okay, thanks.

CHAIR OSTERNDORF: And given that we've got a -- some challenges on bringing in new recruits but are doing a better job of retaining existing service members, are we starting to see any change in the average age of the active population?

MR. DAVIS: Yes, sir, a slight

increase in the average age from 29.49 last year to 29.64 this year.

CHAIR OSTERNDORF: Good, thank you.

MR. DAVIS: Anything else regarding this page?

MR. VIRGILE: Sorry, this is Rick Virgile with the Coast Guard. Quick question on COVID, more of a general question. We were seeing, when it first came out, a drop in medical claims, which was a little surprising til we understood, well, people are not going to the doctor and that's -- not having elective surgeries.

But would you say that the current claims are pretty much that's done and we've caught up and can expect this to continue into the future?

CHAIR OSTERNDORF: Can we hold on that question for a bit? Because we're going to get into actually some of the claims costs, and I think that'll be better answered there. But it's a --

MR. VIRGILE: Oh, sure.

CHAIR OSTERNDORF: A good question. So I appreciate your asking it and I think we'll probably get some input from OACT on exactly that issue.

MR. DAVIS: Now moving on to the next page, we have the counts of the retired beneficiaries and dependents. We've broken that out by retirees for sponsors, their spouses, and other kind of dependents then survivors for spouses as well as other kinds of survivors. And then totals here.

And we've further broken out each category into non-Medicare-eligible and Medicare-eligible. And you can see across the board generally there is a slight increase in the number of people.

And just want to point out that in the past, we've had Medicare increasing slower than historically. And historically it's been increasing slower than non-Medicare, excuse me. And this hasn't happened in the past, but we are

seeing due to excess death as a factor that's appearing.

Any questions or comments for this page? Okay, hearing none, I will go now to the next. We are outlining the incurred outlays for last year and this year. And we've broken this up into aggregate numbers of purchase care, direct care, USFHP, and then a grand total here. And then we have the per capita numbers below that.

And at a high level, I just want to point out that we all have seen a continuation of a trend that we've seen post-COVID of spending moving from direct care to purchased care. And additionally, for USFHP, the rate is increasing, and this is primarily driven by an aging population. And for example the 65 plus population increase in age from 75.5 to 75.9.

And additionally I just want to point out looking at the per capita numbers for purchase care, you can't do a simple calculation of dividing this by the population numbers we

just looked at as these net of rebates.

CHAIR OSTERNDORF: Phil, just a quick question there. Reminded, in USFHP, that's a closed group, right. We're not getting new entrants into the USFHP plan?

MR. DAVIS: Yes, I believe that's correct.

Chelsea, correct me if I'm wrong.

MS. CHU: Correct. Yes, it is correct. The USPP for the Medicare-eligible people, we don't receive any new member any more. Thank you.

MR. DAVIS: Are there any other questions or things the Board would like me to address for this page? Hearing none, we'll move on to the next page, where we list the key economic assumptions for last year, as well as the proposed assumptions for this year.

So looking at the two economic assumptions, the first being the ultimate medical trend of 4-3/4%. That is broken down by 1-1/2% real per capita GDP, 2-3/4% inflation, and a 1/2%

in March in our excess medical cost growth.

And looking at the 4-1/2% discount rate, that is broken down by 1-3/4% real yield and 2-3/4% CPI. And going on to our proposals, despite the short-term volatility that we've been seeing in the economic environment in the last couple years, we don't yet see a compelling reason to change our assumptions.

And so similar to other boards like Social Security, OPM, and CMS, we are proposing to keep our assumptions the same.

Any questions for this page?

CHAIR OSTERNDORF: Phil, a question on the discount rate assumption. Is that essentially a proxy for return on the fund? And has there been any change in investment policy in management of the assets? I know we're in a sort of volatile time and the fund is obviously a, you know, very long tail fund, given that we're, you know, projecting payments off for essentially a 100 years.

What has happened in terms of any

investment policy or any investment adjustments?

MR. DAVIS: Yes, sir, so there has been a change in the investment policy of going down to a further or a smaller percentage of the fund being made up in TIPS now to I believe 60-70% from previously 75-85%.

And additionally, the target average duration has now been shifted down from 20 years to 15. And the way this has -- the justification we received from DFAS is their goal is in order to maximize yield of the fund.

CHAIR OSTERNDORF: So I guess I want to make sure that we get on record the Board's view around some of the investment policy decisions. And I think we understand that especially in a high-yield investment environment like we're in right now, there is a desire to grab the short-term earnings that are available with investing at the shorter durations.

There is an, and I think we have stated previously in other Board meetings, there is a very strong view from this board that the

investment policy should be very closely tied to a strong asset liability matching kind of approach, given that we really are financing, as in I noted earlier, very long tail liability.

And therefore our preference is to have longer rather than shorter durations, knowing that the duration of our liability is very long.

So given that I think we've now given this input in prior meetings and in prior venues, I think, you know, one of the things that the Board is going to ask of OACT and DFAS and work through the channels is to try to put together a relatively strong asset liability study to inform some of our decision-making as we go forward, especially around setting appropriate discount rates, given that we have the potential for an asset liability mismatch here.

And for purposes of preserving the integrity of the fund, rather than simply going to a more conservative discount rate to offset the potential mismatch there, I think we'd like

to have that much better informed with data.

So one of the follow-up steps from this meeting from our perspective on the Board will be to request something in the asset liability matching review to have that information able to inform our further decisions.

So appreciate your input, and Pete Zouras and others will circle back to you on trying to make that asset liability study happen.

MR. DAVIS: Yes, sir. There's nothing else for this --

MR. ZOURAS: I noticed members from the investments advisory committee are on the call. Did you want to respond?

MR. KEOUGH: Hello. We are, there's a couple of us of on, so we're more than happy to answer any question. The one thing that I'll start off with, with a word that was used just a second ago, which was target. We are not targeting anything. If anything, we are targeting duration over 20 years.

The changes to the investment policy

statement were put forward to simply give the investment advisory committee the ability to recommend different durations to take advantage of a situation similar to what we just had recently, which is an inverted yield curve, ridiculously high interest rates with very little risk on the short end.

And again, duration is a measure of risk, by the way. It's not just a way to match liabilities. The less duration you have in portfolio, technically the lest risk you. Now, I realize that doesn't match the long duration of the liabilities.

However, you can always roll those over as the yield curve normalizes in future years, which it will. I don't know where it'll normalize, but it will normalize. You can then roll those maturities that have just matured, the shorter end stuff, out.

And that's really what we're trying to do is give us the opportunity to take advantage of better yields down the road. And in the

meantime take advantage of the current yields. We are absolutely not targeting a lower duration fund. We are simply giving ourselves more opportunity to take advantage of shorter and shorter yielding instruments.

On the TIPS versus -- on the TIPS versus nominal side, TIPS have done very well for us lately. In fact, there's no doubt about it, and it's hard to argue with the return that we've received from TIPS. That may not always be the case.

TIPS are an instrument that, you know, the way -- when we look at and we analyze TIPS, there's a thing called the break-even rate of return, which is the proxy for the expected rate of inflation for each maturity level. So there's a break-even rate of return for, say, a five-year TIP, a ten-year TIP, a 20-year TIP, a 30-year TIP.

And that -- and if that, let's say that's 1.9%, which is kind of the general average right now. If the break-even rate of return is

1.9% for a 20-year TIP, if we, the investment advisory committee, and you all, the actuaries, if you believe that inflation will be higher than 1.9% for the next -- on average for the next 20 years, you would want to buy TIPS. If you believe that the average inflation rate will be lower than 1.9% for the next 20 years, you would buy nominals, right.

So what we've done a long time ago is we've said we want to overweight TIPS in the portfolio. And again, that's worked out very well for us. If conditions change, we really want to be able to recommend more nominals.

In other words, if the expected inflation rate on a break-even TIPS on the October 1 timeline that we make the investments, let's say 4%, we don't want to necessarily buy TIPS. Because we believe the long-term inflation rate will be closer to 3%, which is the historic rate of inflation.

And I know you all may even think it might be lower. Why? Because let's say it's a

target of 2%.

So the only reason we're making an adjustment to the investment policy statement is to get us more leverage to make a little bit broader decisions in investments to the investment committee. We are certainly not targeting lower duration for less TIPS.

And if we want to do a duration-matching liability study, I'd be happy to help. Because that's important, that's something that's important to us. And it's actually one of our absolute -- that is one of our priorities, to match liabilities. We always match, we always look at that in matched liabilities.

And if you were to actually look at our portfolio right now -- I don't have it up right now. But I think it's 2032-ish, I believe. Very few assets held in that area, that timeline. Why? Because there were no assets, Treasury didn't issue any assets that we could cover those with.

Which we're now within ten years of

that, we can now use ten-year treasuries to go out and tap into those things. So we're buying more of those to raise the assets to 2032.

We were very, very conscious of asset-matching liabilities policies. But we're also conscious of maximizing returns because at the end of the day that's what really, really matters on our side of the street.

So I'll be happy to -- and we've got a few folks on the call. I know Steve Pagoaga's on the call. Colonel is. I'd be happy to answer any questions, and he would, if you guys have any questions about why we've asked for that change in the investment policy statement.

CHAIR OSTERNDORF: That's helpful, appreciate it. Just for the sake of the record, could you identify yourself just so we have your name.

MR. KEOUGH: Oh, I'm sorry, you did say to do that. I apologize. This is Lieutenant Colonel Lee Keough, Rudy Keough. I'm on the IAC. I'm one of the senior members. I'm not the

ranking senior member, but I've been on the committee for now I guess 12 years or something like that.

And this is my last go-round, actually, I retire in October. So the August-September's meetings that we will have will be the last one for me.

CHAIR OSTERNDORF: Thank you for that input and congratulations on your retirement.

MR. PAGOAGA: This is Lieutenant Colonel Steve Pagoaga. The only additional comment I'd make is, one, emphasizing Rudy's point that, yes, we are primarily concerned with matching assets and liabilities. So we do pay attention to that first and foremost.

The second point would be on the duration matter, and it really has to do with the shape of the yield curve. When we get beyond ten years, the shape of the yield curve in treasuries right now is a little unusual. So building that flexibility to grab a year or two earlier in maturity is what we're looking for in the

modification to the investment policy statement.

But it's certainly not a intent or plan to bring maturity, average maturity or duration down deliberately. It's really an opportunistic move.

MR. KEOUGH: Matter of fact, if I can -- am I allowed to share a screen with you on my end here? I don't know if I have that capability from --

MS. PETTYGROVE: I think you should be able to. Give it a shot.

MR. KEOUGH: Okay, hang on I'm trying. It's not -- I don't know that it's letting me. Usually I see a button that pops up for me and I -- I can tell you, so there's a website, and you guys have access to this obviously. I'm not trying to insult your intelligence.

But there's a very good website you can look at called ustreasuryyieldcurve.com. All one word, ustreasuryyieldcurve.com. And it pops, immediately pops up to the yield curve. This is the treasury yield curve. And you can pin that

one, there's a pin up there.

Pin it, it changes colors, or it has a red -- and then you can change the date. Like I can go back and say okay, what was it a year ago. And you'll see the dramatic change in the yield curve.

And if you actually do this for September, that's when we had to make the decision on what recommendations to make. And this drove a lot of what -- of how we made those recommendations.

So one thing I will tell you about the inverted yield curve, though, and this is good for us to some extent, all of us, is that it did shift up. The whole thing shifted up, which is good. So going out and taking some long yields didn't hurt us, it just didn't help us as much as taking the short yield from a return standpoint.

What we expect is that over time the short end will come back down. And we're hoping the long end stays above 4%, that would be nice. Then it makes bond investing very simple and very

logical. We build in a ladder, we make sure the duration's over 20 years, and we meet everybody's requirements, including ours. But the inverted yield curves really, really mess things up, so.

I really apologize I can't share that with you. Oh, here we go -- no, that's open.

CHAIR OSTERNDORF: That's fine, I think your description was very useful. And I appreciate the input. So it is -- it helps us in kind of finalizing our decision as to our assumption setting here. So that's valuable, and I appreciate your -- there we go. Yeah, so.

MR. KEOUGH: If you back three years, you can kind of see what we're dealing with here. I mean, a few years -- if you look at the blue line on the bottom, which is interesting, I remember -- this is 2020, okay.

Not that long ago, but if you look at your return assumptions, the investment assumption from the actuarial point of view back in 2020, I still think we were assuming that we would be able to get a pretty high rate of return

from treasuries.

And what we were dealing was we were forced to only invest in like 1.25% at best way back then. Even though TIPS weren't paying us a lot, we felt like the break-even rate of return was so low, it was down to like 1.2 or something, there was just no reason not to buy TIPS at that point.

And you see it did work out for us. I can't say that I was a genius or we were a genius or anything like that. But through our discussions we came up with that conclusion on purchases way back in 2020. There's the yield curve movement since then, so.

Anyway, I don't want to take up too much of your time, but that is something I think is important to understand from where we're coming from. Stop sharing, there you go.

CHAIR OSTERNDORF: Good input, so appreciate that. And that will help us in our consideration. And appreciate the fact that, you know, you folks are all willing to be engaged in,

you know, a bit of a more complete study around this. I think there's a real opportunity to have greater information as we go forward. So appreciate your work on that.

Board, are there other questions on this page before we go on?

MEMBER YU: No more questions, appreciate the additional context. I think even at the minimum, acknowledging that there is focus on lining the duration between asset liability is important to know that the risk is being monitored and evaluated before a decision is made.

MEMBER ALDEN: No questions from me, Dave.

MR. DAVIS: So now I believe I'm turning it over to Drew May.

MR. MAY: Thank you. The next page is the MERHCF Valuation Medical Trend Assumptions. And can everyone see it okay?

MR. DAVIS: Can you make it a little larger, Drew? Thank you.

MR. MAY: Thank you, Phil.

On the left, we have the trend assumptions set by the Board at last year's meeting. And on the right we have the proposed trends. There are direct care inpatient, direct care outpatient, direct care drug, purchased care inpatient, purchased care outpatient, and purchased care drug. As well as USFHP.

Each row corresponds to a fiscal year, and we reach the ultimate medical trend after 25 years.

The proposed trends are taking the most recent experience and information into consideration, specifically, first we're considering a continued bounce-back to pre-COVID levels. Recent experience has shown this to be more gradual, with as mentioned earlier, the actual 2021 to 2022 trends being lower than last year's expected.

And this is reflected in the proposed trends, and they also anticipate a moderate level of returned deferred care.

Second, we are considering a continued shift to purchased care from direct care. Speaking to advisors, we've been told that direct care admissions have been decreasing since 2017, and for reasons such as convenience or generally little incentive to use direct care, retirees are not returning to the medical treatment facilities and are instead using purchased care.

Lastly, we are considering the impact of known emerging blockbuster drugs, such as Ozempic and Wegovy. And we will also be continuing to pay attention to other drug introductions that will impact the fund.

Are there any questions or comments on this page?

CHAIR OSTERNDORF: I want to circle back to the question that was asked earlier I believe from the gentleman at Coast Guard I think. What I'm hearing you say, Drew, is we were -- certainly our experience showed that there was a significant drop-off due to the pandemic in terms of services.

As we see that ability to address some of the deferred care areas, we are still a year or two away from having an expectation that we have fully returned to what was a pre-COVID steady state. Is that fair?

MR. MAY: Yes.

CHAIR OSTERNDORF: And to the earlier question, did that address the individual's question that was asked previously?

MR. VIRGILE: Sorry, I was muted. Yeah, pretty much. I, you know, our concern is more with the MHS benefits than the MERHCF benefits. But they're, you know, the same benefits pretty much. They just, one starts at 65 and the other stops at 65.

But you know, I don't expect you to address things specific to MHS here. You know, I think, you know, the same answer probably applies to both.

CHAIR OSTERNDORF: And I think we would agree with that. We're generally seeing care patterns both pre- and post-Medicare act

relatively consistently.

And you know, those of you who have seen past quadrennial reports and other areas of inputs from the Board, we have suggested that this board really over time should be looking at both the pre-Medicare and Medicare-eligible retirees. So from that standpoint we do keep an eye on it as well.

So we would agree with your basic statement.

MR. VIRGILE: Okay, thank you.

CHAIR OSTERNDORF: Any other questions about the trend assumptions? Jian, Stu?

MEMBER YU: No, I'm good, thank you.

MEMBER ALDEN: I'm good.

CHAIR OSTERNDORF: Okay, you can keep going.

MR. MAY: On this page we have the decrements and administrative load. To start with the proposed decrements, we have an additional year of mortality improvement and an update to the mortality improvement scales, which

Jonathan Wong will speak to.

MR. WONG LAU: Thank you, Drew.

On to our next decrement update and our time improvement --

MS. PETTYGROVE: Hey, Jon, it's Inger. We kind of forgot to prompt you that you're a relatively new hire for the OACT crew. Would you just give us a quick introduction?

MR. WONG LAU: Yeah, sure. So you guys haven't see me from last year, but this is my first year and being part of OACT. So I'll introduce myself. My name is Jonathan Wong. I graduated UCSB just like about a year ago. And UCSB is UC-Santa Barbara.

And yeah, so it's been about a year, and a milestone year. I hope to learn as much as possible and work closely with everyone here. Thank you.

CHAIR OSTERNDORF: Glad to have you.

MR. WONG LAU: Okay, so for mortality improvement, for step one, as Drew mentioned, mortality scales are updated each year to reflect

another year of mortality improvement. And a second step to -- or incorporation of the 2021 and 2022 mortality data into the experience period, with weights of 0% for 2021 and 25% for 2022.

And it's worth noting that this experience period is using actual experience of military retirees. And on another note, it's worth mentioning that the Society of Actuaries, also known as SOA, did not produce a new projection scale in 2022, as they believed that COVID-impacted data was certain -- uncertain to be predictive of future mortality.

As such, we are following CMI, or the continuous mortality investigations approach, for handling 2022.

And another note is that we're only projecting improvements to the valuation date but not projecting future improvement after the valuation date.

And secondly we also have a update to the survivor's long-term rate of improvement.

And this is using data from the military retiree to -- in replacement of the Society of Actuaries.

And third, we also have the spouse per sponsor rate update, and that is using the 2022 experience.

Is there any questions or comments on this topic?

CHAIR OSTERNDORF: So just to make sure I'm tracking the one-year of mortality improvement to the population statistic. The other two are specific to the military retirement fund experience. Is that correct?

MR. WONG LAU: That sounds right, yeah.

If there's any other questions, I'll be turning it over to Drew for the reserve rates update.

MR. MAY: Thank you, Jon.

The next proposal is an update to the reserve rates. The purpose of the reserve rate update is to adjust our projection of reserve retirees. Most reserve retirees come from the

gray area, which means that they have 20 good years of service and are inactive waiting for retirement eligibility, which usually occurs at age 60.

However, in our data there are about 2,700 gray area reserves at or over age 63 who are not retiring. And this is contrary to our current assumption that at our over either age 63 or 41 years of service, there is a 100% retirement rate.

To address this, we are proposing using a rate based on experience in fiscal years 2017 to 2019 for those ages and year of service.

There is one exception, which is age 59 and 41 years of service, where we believe it is reasonable to still assume that anyone turning 60 would then claim their benefits.

To verify that this proposal is appropriate, we reached out to advisors as to why these reservists are on --

MS. PETTYGROVE: Hey Drew, sorry to interrupt. Matt Schmit has a hand up. Matt.

MR. SCHMIT: Yeah, Matt Schmit from CBO. I think you're about to answer my question. My question is why, why are they not retiring.

MR. MAY: Yeah, to verify we reached out to advisors as to why they are on file, and we were told that they're inactive servicemembers. And beyond the initial queries for retirement application at age 59, there is not much management of the records.

Therefore, they may remain on file if there's no response from the reservist for several possible reasons, including they're deceased or otherwise physically unable to reply, they know that they're ineligible for reasons such as living overseas, or perhaps they're receiving a better benefit in place of reserve retirement, such as retirement through a different service or a benefit through Veterans Affairs or VA.

Does that answer your question?

MR. SCHMIT: Yes, thank you very much.

MR. VIRGILE: I just have a follow-up

based on some discussion we've had on this at the Retirement Board meeting. There's no -- and I don't know if --

MS. PETTYGROVE: Rick, Rick -- Rick, that's you, right, that's Rick Virgile?

MR. VIRGILE: Yes, it is.

MS. PETTYGROVE: Yeah, I just wanted to make sure that was identified for the court reporter.

MR. VIRGILE: Yeah, I'll make sure I mentioned my name if I have anything to say, and I usually do. There is, unlike the private sector, when somebody is eligible to retire and doesn't, there's no outreach on the pension side to contact them and say hey, we're trying to find you, do you want your benefits.

And I'd expect that same approach applies on the medical side, that if the member doesn't contact you, he never gets the benefits.

MR. MAY: From what we have heard from the advisors, there is a bit more nuance to the process. But in general, it would be apply for a

retirement benefits to become eligible for the health benefits.

CHAIR OSTERNDORF: And just logistically, Drew, I'm assuming that if someone doesn't apply for retirement benefits, they're literally not going to have, you know, the medical, you know, card that says when I go into a, you know, doctor's office, private sector, here's my card.

I'm not going to have that unless I actually apply for retirement, is that true?

MR. MAY: Yes, that is what we have been told.

CHAIR OSTERNDORF: Okay.

MR. MAY: Continuing, the last proposed decrement is a 10% increase of disability retirement rates to reflect anticipated changes due to the PACT Act, which passed on August 10, 2022. It increased criteria, which can lead to VA healthcare and benefits, and this 10% is a moderate reflection of the PACT Act as it is currently understood.

This means the proposal is not speculating on what services will or could do in the future. We will continue to monitor the impact of PACT Act and look for any resulting policy changes that would affect this valuation.

Are there any questions or comments before we move on? Still have one more item on that page.

Below the decrements we have administrative load. As you can see, there's a large change in medical admin load, going from 2% to 1.5%. Reaching out to the Defense Health Agency, we were told that this is due to a contract of current change in April 2022.

Any questions or comments here? Next page, please.

On this page we have the claims cost development. We are changing the average claims levels to use fiscal year 2022 experience and continuing to use fiscal 2015 to 2017 for claims age grading or claim vectors. And I'll also note that our population is large enough that one year

of experience is sufficient for a credible average claims level.

We looked at updating the claim vector experience and bringing it to a raw state. It did not produce much shape -- change in the shape, therefore, updating them did not have much impact.

And furthermore, with our current methodology, to update them would use fiscal years 2020 to 2022. And while it appears that there's minimal change, we are still wary of using entirely COVID-impacted years to model the future.

Are there any questions or comments on this page? Okay. I believe this concludes item three of the agenda.

CHAIR OSTERNDORF: So at this point I think the Board has received the full proposal from OACT in terms of the assumptions that are being proposed for this year's valuation. Let me make sure there aren't any other questions on the assumptions that have been proposed.

Stu, Jian, do you have any other questions?

MEMBER ALDEN: Not here, Dave.

MR. VIRGILE: Rick Virgile again. My last question, which I ask a lot, is I always compare what the MRS Board does to the MHS Board. And in general if an assumption has changed for one, it's changed for the other. You know, they tend to run in tandem.

The one big exception that I see is on mortality improvements in the future. Whereas the pension side assumes future improvements and the medical side doesn't, and I just at this point think maybe it's time to put that on the table.

It's not a big difference to me for my numbers, but I don't like the inconsistency between the two. And I know there's two separate boards making two separate sets of decisions. So it's more of a comment than a question.

CHAIR OSTERNDORF: So it's a fair comment. It is something that we have discussed

in the past. One of the interesting elements for us on the healthcare side is if we assume greater mortality improvement and therefore greater longevity, likely it would also come along with improvement in health status.

And so while people would be receiving benefits for longer, they would likely be receiving less benefits because they are generally healthier. That is of course speculative. But it is a likely outcome.

So we have a little bit of a self-correcting element within the MERHCF that is not that is not true on the retirement fund side, where if you live longer, then you simply receive benefits for longer and it's the same benefit.

Here obviously the benefit level itself is dependent on the health status of the members. And if longer life is attributable to improvements in the morbidity of the population, then those two will be somewhat offsetting.

So that has been part of our decision making around not reflecting all of these

improvements in future years. And will be something I think that we continue to look at. I think that's where our thinking has been to date. So it's a fair comment, it is something that we have discussed.

MR. VIRGILE: Great, thank you.

CHAIR OSTERNDORF: Are there any other questions or comments from the audience? Then at this point in time I'll look for a motion to adopt the proposals from OACT.

MEMBER ALDEN: Yes, Dave, Stu here. I move that the Board adopt the assumptions presented here by OACT for the 9/30/22 valuation.

MEMBER YU: And this is Jian, I second.

CHAIR OSTERNDORF: All right, then let's go ahead and vote on that. Stu, how do you vote?

MEMBER ALDEN: Aye.

CHAIR OSTERNDORF: Jian?

MEMBER YU: Aye.

CHAIR OSTERNDORF: And I also vote

aye. So we have approved these assumptions for the current valuation. And we look forward to seeing the results as the group from OACT puts together the final numbers.

At this point I know we have at least a couple other minor items that we want to touch on. I think they are more on the informative side. Phil Davis, I think you have a update for us on the data management side of some changes that are happening within the -- within the OACT area.

MR. DAVIS: Yes, sir. So I'll be covering a project that three OACTers have been working on for the last several months. And it essentially boils down to a change in the method in which we receive data from the Defense Manpower Data Center, or DMDC, that we use to construct our census that we use for valuation purposes.

So the method that we've been using and have used in the past is essentially outlined here in this crude graphic where DMDC produces

and maintains the data files. We use a platform that we call the Mainframe to access these files, perform whatever manipulations and calculations we need to, primarily through SAS programs.

And then we transfer these quote unquote new files to our devices. And this system has been somewhat cumbersome in the past, as for example several OACTers have to have complete separate laptops purely dedicated to accessing the Mainframe. And then we transfer those through a platform like DoD Safe Transfer to our day-to-day devices.

And the Mainframe is being decommissioned, and in the coming months. And with that comes the introduction of a new platform called ADVANA, which is a portmanteau of advancing and analytics. This platform's owned by the comptroller and it is a cloud computing platform.

And there are several data tools available in ADVANA, and OACT primarily has used two so far. And I'll outline this new method

that we will be using for next year's valuation, where DMDC still produces and maintains the data files.

We will access these data files and perform whatever calculations and manipulations we previously did in the Mainframe, and a data tool called Databricks, where we will perform these in a variety of Python, R, and SQL programs. And then we will upload these new files to our cluster, which is essentially our office's digital workspace.

And then we will download these files through another data tool called iQuery using SQL programs, and we can download those directly to our devices as ADVANA's accessed through the internet browser. So it's much more streamlined access, which is very convenient and nice for us.

And additionally there are built-in machine learning and predictive analytics capabilities with ADVANA. And we haven't had a full chance to explore those yet. However, we're very excited to be able to do so.

And we are planning on running parallel runs for the 2021 and 2022 valuation to make sure everything is going smoothly, and so far it is. And then we will be using ADVANA exclusively for the 2023 valuation.

Any questions or comments regarding this?

MEMBER ALDEN: Yes, Phil, Stu here. Can you give us a feel for what kinds of comparisons you've done between the old and new data gathering, just to ensure we've got consistency and we aren't opening up any new -- any new unforeseen problems?

MR. DAVIS: Yes, sir. So we have performed these parallel runs on the retirement side already, and while the censuses and the data won't exactly be the same, there are some similarities. And on the retirement side, for instance, the 2022 parallel run, there was a headcount difference of three people and a liability difference of .004%.

MEMBER ALDEN: Okay.

MR. DAVIS: So we're very good there, and hopefully that'll carry on to health. And we expect it to do so.

MEMBER ALDEN: Very good, thank you.

MR. DAVIS: Any other questions or comments?

CHAIR OSTERNDORF: Phil, I'm assuming the same level of data security, data integrity that was resident in the old system is in this process as well so that we're not opening up any kind of, you know, potential data challenges.

MR. DAVIS: Yes, sir. As several OACTers can speak to from personal experience, it's an extensive and thorough review process to get access to ADVANA. So it assures us everything is the same security as Mainframe.

CHAIR OSTERNDORF: Thank you. Appreciate the input. And then just one final topic for the meeting, I would be remiss if we didn't take the opportunity that this is the final valuation process where we are getting input from one of our favorite advisors, Bob

Moss.

Bob is someone who has been, after a 30-year career in the Air Force side, moved over into the private sector and now comes back as the Chief of Budget and Resource Management Division. Bob has been one of those individuals who has comprehensive knowledge of healthcare within the military.

He is one of those resources that we have relied on who is always there to provide insight and input in a way that is very digestible for all of those of us who only see this on a periodic basis. And has been, you know, both a trusted advisor and friend to many of us for a number of years.

Bob's work with all this, you know, predates my, beginning of my term 11 years ago on the OACT Board and is someone who has just, I think has provided, you know, a ton of value.

And we very much appreciate his counsel and input. We wish him the best on his retirement as he goes out and explores other

things in life after a very long career dedicated to military service.

So Bob, very much appreciate what you have done for us. I want to express both the Board's appreciation and my personal appreciation for the efforts and for the good counsel you've given us. So thank you for that, and best wishes on your retirement.

MR. MOSS: Thank you, sir, I appreciate those very kind words. And I wish all of you the very best. And I am sure the trust fund will continue to prosper and do very well under your guidance and the guidance of senior leadership both in DoD and the DHA. Appreciate it, thank you very much.

MEMBER ALDEN: Thanks, Bob.

MEMBER YU: Thank you.

CHAIR OSTERNDORF: Before I end the meeting, are there any other issues that should be raised from -- first, anything from Board members that we didn't touch on?

MEMBER YU: No.

MEMBER ALDEN: Not here, Dave, no.

CHAIR OSTERNDORF: Anything from the OACT side, Pete? Any of your group, anything else we needed to look at?

MR. ZOURAS: None here.

CHAIR OSTERNDORF: And anything from the attendees?

MR. VIRGILE: Rick Virgile, final question. And I missed the first few minutes, so you may have touched on this already. But the fiscal year 24 letters I assume will go out mid to late September, making the, you know, the numbers final so we can make our payments by October 1 into the fund.

CHAIR OSTERNDORF: Yeah, I believe we usually shoot for getting those numbers our during August, so that would be our expectation.

MR. VIRGILE: All right. And the 25 numbers are question marks. Does that mean they're still a work in progress? Just on the chart showing history of the contribution rates full-time and part-time?

CHAIR OSTERNDORF: Yeah, so those are the numbers that are dependent on the valuation that's being done now with the new assumptions.

MR. VIRGILE: Okay, that's it for me. Thank you.

CHAIR OSTERNDORF: Thank you, Rick. Any other questions or comments? All right, well, then hearing none, I will formally adjourn this meeting. Thank you all on the OACT staff for all of your hard work. Thank the attendees for your time today. And appreciate all parties involved in this.

So thank you, and all of you have a good rest of the day and a good weekend.

(Whereupon, the above-entitled matter went off the record at 10:57 a.m.)

C E R T I F I C A T E

This is to certify that the foregoing transcript

In the matter of: Board Meeting

Before: US DOD Office of the Actuary

Date: 07-28-23

Place: teleconference

was duly recorded and accurately transcribed under my direction; further, that said transcript is a true and accurate complete record of the proceedings.

Neal R. Gross

Court Reporter