



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

September 27, 2022

MEMORANDUM FOR THE RECORD

SUBJECT: Minutes of the July 29, 2022, Meeting of the DoD Medicare-Eligible Retiree Health Care Board of Actuaries

These are the minutes of the July 29, 2022, 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.

A handwritten signature in black ink, reading "David A. Osterndorf", is positioned above a horizontal line.

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

A handwritten signature in black ink, reading "Inger M. Pettygrove", is positioned above a horizontal line.

Inger M. Pettygrove
Designated Federal Officer

**MEDICARE-ELIGIBLE RETIREE HEALTH CARE
BOARD OF ACTUARIES
MEETING MINUTES**

**July 29, 2022
10:00 a.m.
*Virtual Meeting***

HIGHLIGHTS/KEY BOARD DECISIONS

Introduction:

- Transcript Pages 2-5: Chairperson David Osterndorf expressed the Board's hope that the Meeting will be in person next year, as well as several house-keeping items related to the virtual format. Mr. Osterndorf welcomed the two other Board Members and provided an introduction to the newest member, Jian Yu. Mr. Osterndorf also outlined the objectives for the Board Meeting.

Agenda Item 2: September 30, 2020 Actuarial Valuation Results

- Transcript Pages 5-7: 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 6: MERHCF per capita normal costs for FY 2023 are \$5,795 and \$2,279 for active duty and reserve, respectively. These per capita normal costs are restated from the meeting handout. The actuarial liability as of September 30, 2020, was \$472.4 billion and the unfunded liability was \$182.7 billion. The Treasury payment for October 1, 2021, was \$7.5 billion.
- Transcript Pages 6-7: There was an experience gain of \$15.9 billion and an assumption loss of \$22.3 billion, leading to a total valuation loss of \$6.4 billion.

Agenda Item 3: September 30, 2021, Actuarial Valuation Proposals

- Transcript Pages 8-9: Fiscal Year 2021 Fund Balance and Yield was discussed, with a beginning balance of \$290.3 billion and ending balance of \$312.1 billion. The annual effective yield was 5.8%. Mr. Osterndorf asked for confirmation that the high investment return was a function of high inflation as the majority of the Fund is invested in TIPs, and it was confirmed.

- Transcript Pages 10-12: Active employee and retired beneficiary counts for FYs 20-21 were presented showing an increase in the number of Medicare-eligible beneficiaries, albeit a smaller increase than previous years' populations. This is partly due to an increased number of deaths in excess of expected. It was noted that the military is facing recruiting and retention challenges.
- Transcript Pages 12-13: Medical cost/trend experience was discussed as shown on page 5 of OACT's handout. MERHCF total incurred outlays increased by 3.5% from FY20 to FY21. Per capita costs had a decrease of 0.9%. USFHP premiums had an increase of 5.4%. Mr. Osterndorf commented that it was the Board's understanding that the pandemic was one of the drivers moving medical care from the direct care to the purchased care, with which OACT staff agreed.
- Transcript Pages 14-16: OACT proposed no change to the discount rate assumption of 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 16-18: 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 in regards to recovering to pre-pandemic levels. For prescription drug trends, OACT analyzed MERHCF's experience, industry reports, and the effects of federal pricing rules.
- Transcript Pages 18-22: OACT proposed assumptions related to administrative cost loads and decrement rates. The IP and OP admin load was unchanged at 2.00%, and the Retail Pharmacy admin load increased from 1.60% to 1.70%. Modifications were proposed to mortality improvement, retiree mortality rates, and reserve new entrant rates/factors, based on more recent experience of the population covered by the MERHCF.
- Transcript Pages 22-23: OACT proposed medical cost assumptions, the average claims level was updated for FY2021 experience, and no changes were proposed for the valuation claims costs age grading.
- Transcript Page 25-26: The Board approved OACT's proposed methods and assumptions for calculating the FY 2024 per capita normal costs, the September 30, 2021, unfunded liability (UFL), and the October 1, 2022, Treasury UFL amortization and normal cost payments.

ATTACHMENT 1

MEDICARE-ELIGIBLE RETIREE HEALTH CARE BOARD OF ACTUARIES MEETING AGENDA

July 29, 2022
10:00 AM – 1:00 PM
Virtual Meeting (MS Teams)

MS Teams Link:

https://dod.teams.microsoft.us/l/meetup-join/19%3adod%3ameeting_5a125a930446434588afe2209fabaa01%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: 696 511 399#

- ** 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.**

1. Meeting Objective (Board)

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

- a. FY 2024 per capita full-time and part-time normal costs
- b. September 30, 2021 unfunded liability (UFL)
- c. October 1, 2022 Treasury UFL amortization and normal cost payments

2. September 30, 2020 Actuarial Valuation Results

(Chelsea Chu, DoD Office of the Actuary)

3. September 30, 2021 Actuarial Valuation Proposals

(Drew May, Phil Davis, Chelsea Chu, DoD Office of the Actuary)

*Board approval required

ATTACHMENT 2

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

July 29, 2022

	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	Rich Allen	DoD OACT
10	Qian Magee	DoD OACT
11	Paul Bley	General Counsel
12	Chris Borcik	CCRC Actuaries
13	Matt Schmidt	CBO
14	Edith Smith	Capitol Crusader
15	James Fasano	OSD OUSD C
16	Daniel Lee	OSD OUSD C
17	Todd Rose	OSD OUSD (C)
18	Patricia Lewis	USFHP
19	Tim Wilder	Milliman
20	Coralita Jones	DFAS
21	Debra Wade	USFHP
22	Jeff Goldstein	OMB
23	LaNita Cousin	USPHS
24	Karen Ruedisueli	MOAA
25	Kaleigh Ganske	Guest

ATTACHMENT 3

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

July 29, 2022

Medicare-Eligible Retiree Health Care Fund Board of Actuaries Meeting



**Department of Defense
Office of the Actuary
July 29, 2022**

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

Board Meeting	Per-Capita Normal Costs			Liability (\$B)				UFL Payment (\$B)	
	for	Full-time	Part-time	as of	AL	Fund	UFL	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	\$5,506	\$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	?	?	9/30/21	?	?	?	10/1/22	?

Valuation (Gains)/Losses (\$B)

Val Date	Experience			Assumptions				Benefits	TOTAL
	asset*	other	total	trend	admin	other	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	(\$22.4)	(\$15.9)	\$2.6	(\$0.3)	\$20.0	\$22.3	\$0.0	\$6.4
9/30/21	(\$3.1)								

* Includes yield as well as budget lead time effect.

Effective Yield During the Fiscal Year
Medicare-Eligible Retiree Health Care Fund
(\$ in billions)

Fiscal Year	Fund Balance Beginning of Year	Contributions Received			Benefit Payments			Fund Balance End of Year	Effective Annual Yield
		From Uniformed Services, for Normal Costs	From Treasury, for Unfunded Accrued Liability	Investment Income	DC	PC	Total		
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%
2021	\$290.3	\$8.6	\$7.0	\$17.4	\$2.6	\$8.6	\$11.2	\$312.1	5.8%

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

Active Service Members

	<u>9/30/20</u>	<u>9/30/21</u>	<u>% Change from End of FY20 to FY21</u>
<u>DoD</u>			
Active duty	1,419,816	1,425,014	0.4%
Reserve	708,007	702,629	-0.8%
<u>Coast Guard</u>			
Active duty	40,782	40,449	-0.8%
Reserve	5,883	5,882	0.0%
PHS Active duty	5,970	6,013	0.7%
NOAA Active duty	324	329	1.4%
<u>TOTAL</u>			
Active duty	1,466,892	1,471,805	0.3%
Reserve	713,890	708,511	-0.8%

Note: These are end of FY counts.

Retired Beneficiaries and Dependents (all Uniformed Services)

	<u>9/30/20</u>	<u>9/30/21</u>	<u>% Change from End of FY20 to FY21</u>
Retirees			
<hr/>			
Sponsors			
Non-Medicare-eligible	1,033,091	1,026,216	-0.7%
Medicare-eligible	<u>1,200,734</u>	<u>1,204,853</u>	<u>0.3%</u>
Total	2,233,825	2,231,069	-0.1%
Spouses			
Non-Medicare-eligible	922,026	909,647	-1.3%
Medicare-eligible	<u>737,389</u>	<u>736,374</u>	<u>-0.1%</u>
Total	1,659,415	1,646,021	-0.8%
Others			
Non-Medicare-eligible	863,109	861,167	-0.2%
Medicare-eligible	<u>13,540</u>	<u>13,482</u>	<u>-0.4%</u>
Total	876,649	874,649	-0.2%
Survivors			
<hr/>			
Spouses			
Non-Medicare-eligible	76,956	76,713	-0.3%
Medicare-eligible	<u>519,068</u>	<u>522,312</u>	<u>0.6%</u>
Total	596,024	599,025	0.5%
Others			
Non-Medicare-eligible	30,650	30,909	0.8%
Medicare-eligible	<u>8,201</u>	<u>8,322</u>	<u>1.5%</u>
Total	38,851	39,231	1.0%
Retirees and Survivors			
<hr/>			
Non-Medicare-eligible	2,925,832	2,904,652	-0.7%
Medicare-eligible	<u>2,478,932</u>	<u>2,485,343</u>	<u>0.3%</u>
Total	5,404,764	5,389,995	-0.3%

MERHCF Incurred Outlays

<u>Aggregate (\$ in millions)</u>	<u>FY 2020</u>	<u>FY 2021</u>	<u>% Change from FY20 to FY21</u>
Purchased Care			
IP	\$793	\$787	-0.9%
OP	\$2,868	\$3,065	6.8%
Rx	\$3,435	\$3,556	3.5%
<u>Other</u>	<u>\$125</u>	<u>\$125</u>	<u>0.3%</u>
TOTAL	\$7,222	\$7,533	4.3%
Direct Care			
IP	\$617	\$637	3.3%
OP	\$758	\$771	1.8%
<u>Rx</u>	<u>\$871</u>	<u>\$862</u>	<u>-1.0%</u>
TOTAL	\$2,245	\$2,271	1.1%
US Family Health Plan			
Capitation Rates	\$783	\$810	3.4%
<u>Other</u>	<u>\$3</u>	<u>\$3</u>	<u>1.0%</u>
TOTAL	\$787	\$814	3.4%
Grand Total	\$10,254	\$10,617	3.5%
Per Capita	<u>FY 2020</u>	<u>FY 2021</u>	<u>% Change from FY20 to FY21</u>
Purchased Care	\$2,981	\$2,951	-1.0%
<u>Direct Care</u>	<u>\$925</u>	<u>\$920</u>	<u>-0.5%</u>
TOTAL	\$3,907	\$3,871	-0.9%
US Family Health Plan	\$16,748	\$17,654	5.4%

Notes:

1. PC Retail Rx incurred amounts are net of incurred Rx rebates.
Incurred Rx rebates in FY 2020 / FY 2021 were \$506m / \$550m.
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, 2020 Val	September 30, 2021 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%
<u>Margin or excess medical cost growth</u>	<u>0.50%</u>	<u>0.50%</u>
Total	4.75%	4.75%
MERHCF Discount Rate		
Real yield/Real interest	1.75%	1.75%
<u>CPI</u>	<u>2.75%</u>	<u>2.75%</u>
Total	4.50%	4.50%

MERHCF Valuation Assumptions Decrements and Administrative Load

September 30, 2020 Val

September 30, 2021 Val (Proposed)

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

MERHCF Valuation Assumptions Claim Costs Development

	September 30, 2020 Val	September 30, 2021 Val (Proposed)
Average Claims Level	FY 2020 experience	FY 2021 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

ATTACHMENT 4

**MEDICARE-ELIGIBLE RETIREE HEALTH CARE
BOARD OF ACTUARIES
MEETING TRANSCRIPT**

July 29, 2022

MEDICARE-ELIGIBLE RETIREE HEALTH CARE
BOARD OF ACTUARIES

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MEETING

+ + + + +

FRIDAY
JULY 29, 2022

+ + + + +

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

PRESENT

DAVE OSTERNDORF, Chair
STUART ALDEN, Member
JIAN YU, Member

ALSO PRESENT

CHELSEA CHU, Health Actuary
PHILIP DAVIS, Staff
DREW MAY, Staff
PETER ZOURAS, Chief Actuary

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

2 (10:01 a.m.)

3 MR. ZOURAS: Good morning and welcome.

4 You are attending the Medicare Eligible Retiree
5 Healthcare Board of Actuaries meeting, and with
6 that I will hand it over to the Chairperson, Dave
7 Osterndorf.

8 CHAIR OSTERNDORF: Thanks, Pete, and
9 before I officially start the meeting, just some
10 quick housekeeping. I see this is a virtual
11 meeting again this year. We are hoping to get
12 back to in-person meetings next year, which would
13 simplify things a bit, but while we are still on
14 virtual basis please remember the meeting is
15 being recorded just like in-person meeting, so we
16 ask all attendees to mute their phones and
17 microphones unless you are speaking.

18 I will be stopping for questions at
19 various points during the presentation material,
20 so I ask you to hold your questions until those
21 points. Please leave your cameras off to try to
22 keep the bandwidth down and to make sure that we

1 are not distracted by background, so unless you
2 are speaking please leave your camera off.

3 If you are calling into the meeting,
4 please make sure that you email Inger Pettygrove
5 the information there on screen with your name
6 and organization so we have a record of your
7 participation, and as you hear from the
8 presentations today we are joined by Pete Zouras,
9 the chief actuary of the Office of the Actuary
10 within the DoD, as well as a number of his staff
11 members, and folks from DFAS as well to comment
12 around the status of the findings in case there
13 are any questions that come up from that
14 perspective, so that's the background. With that
15 I am going to officially open the meeting of the
16 Medicare-Eligible Retiree Healthcare Fund Board
17 of Actuaries for this year.

18 Joining me today from the Board is Stu
19 Alden who has been on the Board for a number of
20 years, and our newest Board member Jian Yu. Jian
21 is a Associate Chief Actuary at the Kaiser
22 Permanente Health Plan after having served in

1 similar roles at other health plans, and also
2 working in the consulting world around employer
3 health plans, so Jian brings a wealth of
4 experience to the Board. I have had the good
5 fortune of working with Jian in a past life, and
6 so know of her capabilities and her insights, and
7 very pleased to have her on the Board. Little
8 surprised she was willing to work with me again,
9 but Jian appreciate you joining the Board and
10 welcome.

11 MEMBER YU: Thank you for those kind
12 words. Very excited to join this prestigious
13 Board on this important topic.

14 CHAIR OSTERNDORF: Okay. So with that
15 the --- reminder of the objective of the meeting
16 today is, as stated in the agenda, we are here to
17 review and approve the Office of the Actuaries
18 proposed methods and intentions to calculate the
19 fiscal year 2024 (audio interference) -- and I
20 think we're getting a little background noise,
21 thank you. As well as the September 30, 2021
22 unfunded liability, and the October 1, 2022

1 treasury unfunded liability amortization, and
2 normal cost payments. So that is the objective
3 of the meeting. As we review material I am going
4 to start with Chelsea Chu from the DoD Office of
5 the Actuary to review last year's valuation
6 results. Chelsea.

7 MS. CHU: Good morning. This is
8 Chelsea, and for people on the phone there are
9 two PDF files we sent out yesterday, so please go
10 to the file named MERHCF, MERHCF handout 07-29-
11 2022, final.pdf file. We are also sharing the
12 handout on screen, so can people see the screen
13 well?

14 MR. ZOURAS: Looks good, Chelsea,
15 thanks.

16 MS. CHU: Okay, so let's go to page
17 one.

18 (Pause.)

19 MS. CHU: So page one shows history of
20 MERHCF variation result. We have three boxes
21 here. From left to right we have a per capita
22 normal costs for full-time and part-time, and the

1 actuarial liability from amount unfunded
2 liability in billions in the middle box. The
3 right box shows treasury unfunded liability
4 payment in billions too. So if you go to the
5 Board meeting in the summer 2021 it shows last
6 year's valuation result, so we have FY23 normal
7 cost \$57.95 for full-time, \$22.79 for part-time.
8 So for September '20 we have a actuarial
9 liability around \$472 billion under amount \$290
10 billion in unfunded liability, so about \$183
11 billion. On October 1, 2021 the treasury
12 unfunded liability was about \$7.5 billion. We
13 will take FY23 per capita normal costs liability.
14 So for September 30, 2021 and the unfunded
15 liability payment on October 1, 2022. Actuary
16 Board approved the assumptions for September 30,
17 2021 which we are going to propose later in this
18 meeting. Okay, moving to the bottom of the page
19 we show the variation gains. Losses in billions
20 by expected, assumptions, and the benefits. You
21 go to above date, so for September 30, '20 we
22 have a serious gain of \$50.9 billion. This

1 mainly came from total incurred claims lower than
2 expected. We assumed high short-term medical
3 trend rate to catch up with delayed medical
4 service due to COVID, however, returning back to
5 the pre-pandemic of medical service, however, is
6 lower than expected. For assumption loss we have
7 a loss of about \$22.3 billion which is mainly due
8 to new discount rate. The Board approved to
9 lower the discount rate of 4-3/4 percent to 4.5
10 percent last year, because we expected the long-
11 term real return rate to be lower. There is no
12 benefit change last year. The total loss is \$6.4
13 billion, and so for September 30, '20 so far we
14 have asset gained \$3.1 billion. This is due to
15 higher yield than expected. So any questions on
16 this page?

17 CHAIR OSTERNDORF: Any questions from
18 the Board on this page?

19 (Pause.)

20 CHAIR OSTERNDORF: Any questions from
21 the participants on the call?

22 (Pause.)

1 CHAIR OSTERNDORF: All right. Then why
2 don't we move to the next item in the agenda,
3 which is the September 30, 2021 actuary valuation
4 proposals. Information will be provided by Drew
5 May, Phil Davis, and Chelsea from the DoD Office
6 of the Actuary. Drew.

7 MR. MAY: Thank you. Can everyone see
8 page 2?

9 CHAIR OSTERNDORF: Looks good, yes.

10 MS. CHU: Yes.

11 MR. MAY: Okay. On this page values
12 are in billions. We have historical data on the
13 fund, amount of information from 2021. From left
14 to right there is beginning of your balance,
15 contributions, investment income, and benefits
16 paid, which result in the end of year fund
17 balance and the effective annual yield. Note
18 that the fund balances are book values, and
19 benefit payments are on a paid basis which may
20 result in slight discrepancies later in the
21 presentation when we look at Incurred Outlays.
22 Effective yield jumped due to current economic

1 conditions, as the fund is hedged against
2 inflation. Book value does not further reflect
3 these conditions as market value would. For
4 those who are interested the DFAS handout goes
5 into further details on the fund. Are there any
6 questions or comments for this page?

7 CHAIR OSTERNDORF: Kind of just to make
8 sure that I am tracking the high investment
9 return here really is a function of the
10 significant rise in the inflation rate, because
11 the majority of the fund is invested in TIPS. Is
12 that correct?

13 MR. MAY: Yes, that is correct.

14 CHAIR OSTERNDORF: Thank you. Are
15 there any questions from Board, or from members
16 of the audience?

17 (Pause.)

18 CHAIR OSTERNDORF: Okay.

19 (Pause.)

20 CHAIR OSTERNDORF: All right. Go
21 ahead, Drew.

22 MR. MAY: Here we have end of fiscal

1 year counts for DoD, Coast Guard, Public Health
2 Service, and National Oceanic and Atmospheric
3 Administration. I will note that Public Health
4 Service has added a reserve quote in Spring 2021.
5 While not shown this year, we are working with
6 them to track this component. We have a
7 projection for next year anticipate to include
8 the reserves then. The increase in actives here
9 is mostly due to retention being better than
10 expected with withdrawals being 76.9 percent of
11 expected for enlisted, and 80.1 percent per
12 officer in fiscal year 2021. In 2021 recruiting
13 was down, and we saw a 16.5 percent higher death
14 rate, but again, because of the withdrawals being
15 lower than expected the combined result is an
16 increase in actives and a slight loss due to
17 inclusion of the new census info and the
18 valuation. We will continue to monitor these
19 differences from expectation, which were the
20 result of unusual times and challenges with
21 services are facing and recruiting and retention.
22 Are there any questions or comments on this page?

1 (Pause.)

2 CHAIR OSTERNDORF: All right. It
3 sounds like we can keep going.

4 MR. MAY: On this page we have account
5 of the retired beneficiaries and dependents from
6 all uniform services. In total we are seeing an
7 increase in the number of Medicare eligible
8 retirees and survivors, but this year is a
9 smaller increase than normal, combined with a
10 decrease in non-Medicare retirees' independence,
11 we are seeing a decrease in total. This is
12 unusual and likely the result of the 16.5 percent
13 excess death in 2021. Are there any questions or
14 comments for this page?

15 CHAIR OSTERNDORF: Can you count at all
16 on the excess death rate in this group versus
17 sort of the general population relative to the
18 pandemic?

19 MR. MAY: Overall the 16.5 percent is
20 similar to what we are seeing nationwide, and I
21 believe, someone can verify me on this, but we
22 are seeing a slightly higher than expected in the

1 under 65s and slightly lower in the over 65s.

2 CHAIR OSTERNDORF: Okay. Thank you.

3 (Pause.)

4 MR. MAY: Here we have the MERHCF
5 Incurred Outlays. In general the costs are
6 rebounding from COVID, but they are not quite
7 where they were pre-COVID, which we will be
8 seeing again in the trend assumption later.
9 Other here includes admin costs, claim
10 adjustments, and payments on the claim. It is
11 also worth noting that purchase care or retail
12 drugs, incurred amounts are net of incurred drug
13 rebates. U.S. Family Health Plan costs are
14 similar, having bounced back to being .7, above
15 what they were in fiscal year 2019. This is an
16 HMO plan not subsidized by MERHCF, and was not as
17 impacted by COVID. There are other fees that are
18 not included in the computation. Lastly, per
19 capita is an experience study, which is
20 essentially an incomplete claim, as it does not
21 use the computation factor we use for the
22 Incurred Outlays. As such, if you take the

1 Outlay divided by the population the result will
2 differ slightly from the per capita. You can
3 also see that the per capita was a negative
4 change from last year. The result of the unusual
5 changes we are seeing this year in both the
6 outlays and population. Are there any questions
7 or comments on this page?

8 CHAIR OSTERNDORF: Drew, it appears
9 that we are seeing just from a dollar amount some
10 movement from direct care back to purchase care.
11 I know there was some sense that the pandemic was
12 one of the drivers of moving people away from
13 getting care at the MPFs and moving towards care
14 out in the community. Is that consistent with
15 the --- with what you are seeing in this data?

16 MR. MAY: Yes, and from what we have
17 heard from advisors, that is likely to continue
18 to be the case.

19 CHAIR OSTERNDORF: Thank you. Any
20 questions from the Board on this information, or
21 from the meeting attendees.

22 (Pause.)

1 MR. MAY: Okay. Hearing none, I will
2 hand off to Phil Davis to go over Economic
3 Assumptions.

4 MR. DAVIS: Okay. Thank you, Drew. So
5 can everyone see my screen all right?

6 CHAIR OSTERNDORF: Yes, looks good.

7 MR. DAVIS: Okay, so I am on page 7
8 titled MERHCF Valuation Key Economic Assumptions,
9 namely the discount rate and the ultimate medical
10 trend. So looking at this page in the middle
11 column, we can see the rates set by the Board
12 last year of a 4.5 percent discount rate, and 4-
13 3/4 percent ultimate medical trend. We can break
14 down that ultimate medical trend into 1-1/2
15 percent real per capita, GDP, 2-3/4 percent
16 inflation, and a .5 percent margin or excess
17 medical cost group, and we can break down the
18 real interest rate into 1-3/4 percent --- or we
19 can break down the discount rate into 1-3/4
20 percent real interest, and 2-3/4 percent ZPI.
21 And so despite the short term volatility, given
22 that the Board lowered the real interest rate

1 last year, as well as the unknown economic
2 situation ahead of us, ORC's note compelling
3 reason to propose changes to the long term
4 economic assumptions, so similarly to other
5 Boards like the Social Security Administration,
6 OPM, CMS, as well as the MRF Boards, we are
7 proposing to keep our economic long term
8 assumptions the same. Are there any questions or
9 comments for this page?

10 CHAIR OSTERNDORF: Maybe just a
11 comment. From my side obviously, we are in a
12 period of pretty substantial volatility around
13 the capital markets, and the challenge to set
14 assumptions that have impact for essentially a
15 100 year valuation period, so appreciate the
16 thought around where we should be looking to set
17 assumptions the --- I think your comment is
18 probably fair that it is hard to find a better
19 assumption set than we have currently, which
20 means leaving it at the same place seems
21 reasonable, but obviously we will look to both
22 you and to our outside advisor to continue to

1 provide additional information on where the best
2 thinking on economic assumptions goes.

3 Questions from Board Members?

4 (Pause.)

5 CHAIR OSTERNDORF: Any from meeting
6 attendees?

7 (Pause.)

8 CHAIR OSTERNDORF: Okay.

9 MR. DAVIS: Okay. So going to the next
10 page, the MERHCF Valuation Medical Trend
11 Assumptions as far as reading this page goes, we
12 have the trend assumptions set by the Board at
13 last year's meeting here on the left box as well
14 as our proposal on the right, and you can see
15 that each row corresponds to a fiscal year. So
16 this first row in the left hand box is from
17 fiscal year 2020 to fiscal year 2021, and we have
18 the direct care in-patient, direct care out-
19 patient, direct care drug, purchase care in-
20 patient, purchase care out-patient, and purchase
21 care drug, as well as the USFHP medical trend
22 assumptions. And so the only difference for the

1 right hand box is now everything is a year ahead,
2 so now it is from 2021 through 2046. So now
3 looking at the actual numbers, last year the
4 Board assumed the trends would be bouncing back
5 to pre-COVID levels, and you've seen that they
6 have to some extent, but not all the way yet to
7 pre-COVID levels, and now it's looking
8 specifically at drug trends. We took into
9 consideration the cost of the specialty drugs, as
10 well as an increase in regular drug costs from
11 this catching up to pre-COVID levels, and
12 specifically want to kind of right this drop in
13 purchase care drugs from 8.18 percent to 4.12
14 percent in 2024, and that is because 2024 is a
15 pricing group cost. Are there any questions or
16 comments for this page?

17 CHAIR OSTERNDORF: Can you provide us a
18 little additional information on what it means to
19 be a pricing year?

20 MR. DAVIS: Yes, I think Chelsea might
21 be able to go into more details since I have not
22 been around for one yet, but I believe that is

1 when we can --- the year that we renegotiate drug
2 prices. If I am incorrect, Chelsea, please say
3 something.

4 MS. CHU: Yes, Phil, you have got it,
5 yes. So almost every five years we have a chance
6 to catch up -- for the drug to catch up with the
7 market price, so that's the time we can
8 renegotiate the drug price.

9 CHAIR OSTERNDORF: Okay. Thank you.

10 MR. DAVIS: Anything else for this
11 page?

12 (Pause.)

13 CHAIR OSTERNDORF: Any other questions
14 on this page?

15 (Pause.)

16 CHAIR OSTERNDORF: All right. Let's
17 keep going.

18 MR. DAVIS: So now I am turning it back
19 over to Drew May.

20 MR. MAY: Can everyone see page eight?

21 CHAIR OSTERNDORF: Yes, Thank you.

22 MR. MAY: On this page we have

1 decrements and administrative load. Every year
2 we update our census data as spoken to in
3 demographics. The new census data resulted in a
4 small loss. In addition to the updated census,
5 we are proposing the following updates to the
6 2021 valuation. First, applying an additional
7 year of mortality improvement. Another year of
8 improvement leads to a small loss.

9 Second, updating the mortality
10 improvement scales. The big change here is a new
11 long-term adjustment using data from military
12 retirees. We were able to create our own long-
13 term rate to replace the Society of Actuaries,
14 and the main difference is that we see greater
15 improvement for the retirees and the younger ages
16 going from society's 1.35 percent to 4 percent
17 for officers, and 3.5 percent for enlisted. As a
18 result from this test we saw a small loss.

19 Third, we updated retiree mortality
20 rates, specifically the rates updated for both
21 enlisted and officer, or active non-disabled,
22 reserve non-disabled, temporarily disabled, and

1 permanently disabled death rates, as well as
2 other loss rates for active non-disabled, reserve
3 non-disabled, and permanently disabled. The
4 update included a new experience period from 2017
5 to 2020, a simplification of the process
6 combining non-disabled death rates from active
7 and reserve, and using permanently disabled death
8 rates to model temporarily disabled.

9 Speaking back to a combination of non-
10 disabled death rates, reserves had a slightly
11 better mortality than actives, as a result for
12 this step we saw a slight change in opposite
13 directions for the normal cost, and overall a
14 very small loss for this step in the valuation.

15 Lastly we updated the reserve new
16 interim assumption to match the recent
17 experience. The results are a small gain, and a
18 1.5 percent increase in reserve normal cost.
19 There is little change in the admin load, small
20 increase in drug -- again, admin load is an
21 adjustment for costs that are not included in the
22 claims triangles. Are there any questions or

1 comments for this page?

2 CHAIR OSTERNDORF: Just to make sure I
3 am clear on the --- on your decrement
4 assumptions. Number one, that the mortality
5 improvement is the general population, society of
6 actuaries mortality improvement, and two, three
7 and four are military specific assumptions. Is
8 that fair?

9 MR. DAVIS: The actives use society and
10 retirees use data, step one is applying an
11 additional year, and then step two is applying
12 the updated scales from both society of actuaries
13 for the actives, and using our military data for
14 retirees.

15 CHAIR OSTERNDORF: Yes. Thank you.

16 MEMBER ALDEN: Hey, Drew, this is Stu.
17 Just to --- I noted that their last year include
18 Coast Guard experience in rate, so before that we
19 had not been including Coast Guard. We started
20 to include and we still do include in any of
21 these --- the adjustments for this year.

22 MR. MAY: Yes, the reason for that is

1 that these rates are developed for both the
2 MERHCF and Military Retirement Fund, and they ---
3 the Coast Guard was included with the Military
4 Retirement Fund.

5 MEMBER ALDEN: Very good. Thanks.

6 CHAIR OSTERNDORF: Are there any other
7 questions on this information?

8 (Pause.)

9 MR. MAY: Okay. Lastly we have Claim
10 Cost Development. As a reminder our costs are on
11 a family basis, not individual. The average
12 claims level uses the fiscal year 2021
13 experience. For claims age grading we are
14 continuing to use a blend of fiscal year 2015 to
15 2017 experience. We looked at a blend of fiscal
16 year 2019 to 2021, but after taking the claims to
17 the raw state we saw little impact on the normal
18 cost and improved liability, and decided not to
19 update this year. Are there any questions or
20 comments on this page?

21 CHAIR OSTERNDORF: Just from the
22 perspective of the five claim amount we believe

1 that given the size of the membership included in
2 the fund that a one-year claims period is
3 adequate to be a robust claim base for this
4 valuation. Is that fair?

5 MR. MAY: Yes.

6 CHAIR OSTERNDORF: Okay. Thank you.

7 (Pause.)

8 (Simultaneous speaking.)

9 MR. MAY: Sorry, go ahead.

10 CHAIR OSTERNDORF: Thank you, Drew.

11 Are there any questions on any of the material
12 that has been presented. Let me start with the
13 Board. Do any of the Board members have
14 additional questions on material that has been
15 presented? Stu?

16 MEMBER ALDEN: No, I am all set. Thank
17 you.

18 CHAIR OSTERNDORF: And Jian?

19 MEMBER YU: No questions. Thank you.

20 CHAIR OSTERNDORF: From the meeting
21 attendees, are there any questions on any of the
22 material that has been presented?

1 MR. FASANO: Hi, this is James Fasano
2 from OSD Comptroller. What drove the --- I have
3 one question, what drove the admin pharmacy load
4 up from, I think, 1.6 to 1.7 percent? Thank you.

5 (Pause.)

6 MS. CHU: This is Chelsea Chu.
7 Basically we receive a report of our CRM every
8 month, and then we look at what the items are
9 included in the triangle, and what items are not
10 included in the triangle. So that is how we
11 calculate the admin load, because most admin
12 loads are not included in the triangle which we
13 use to develop the incurred claims, so basically
14 that is the report we use to generate the admin
15 load. There are new items not included in the
16 triangle, so that is why we see the 1.6 go up to
17 the 1.7 percent.

18 MR. FASANO: Okay. Thanks, Chelsea.

19 MS. CHU: No problem.

20 MR. FASANO: I will get with you and
21 ask more questions, but thank you.

22 MS. CHU: Okay.

1 (Pause.)

2 CHAIR OSTERNDORF: Are there any other
3 questions?

4 (Pause.)

5 CHAIR OSTERNDORF: All right. Well
6 then, hearing none, it is the Board's role to
7 determine whether we think these are the
8 appropriate assumptions to bring into the
9 valuation. So our task is now to opine on the
10 methods and assumptions that have been proposed
11 for purposes of computing amounts stated in
12 agenda item number one, and so I will look to the
13 Board to make a motion to approve these methods
14 and assumptions.

15 MEMBER ALDEN: I will do so, Dave. I
16 make a motion that we adopt the proposed methods
17 and assumptions.

18 MEMBER YU: And I will second.

19 CHAIR OSTERNDORF: All right, and as a
20 Board let's vote on the proposal. Stu first.

21 MEMBER ALDEN: Aye.

22 CHAIR OSTERNDORF: Jian.

1 MEMBER YU: Aye.

2 CHAIR OSTERNDORF: And I also vote
3 aye, so it is unanimously approved. These will
4 be the methods and assumptions used for the
5 valuation.

6 I'd like to express my appreciation to
7 all the members of the Office of the Actuary for
8 the hard work that goes into this. We appreciate
9 the complete development of material that comes
10 through, and the robust nature of your
11 assessment. We know it is challenging,
12 especially in the current world we live in,
13 trying to be able to get all this information
14 together, and so appreciate the effort and work
15 that is done there, and appreciate you and your
16 staff keeping us well informed. With that I
17 believe this meeting has taken care of its
18 intended objective, and I will close the meeting.
19 Thank you for attendance today, and we look
20 forward to talking to you all next year.

21 (Whereupon, the above-entitled matter
22 went off the record at 10:33 a.m.)

A

a.m 1:8 2:2 26:22
able 17:21 19:12 26:13
above-entitled 26:21
account 11:4
active 19:21 20:2,6
actives 10:8,16 20:11
 21:9,13
actual 17:3
actuarial 6:1,8
actuaries 1:1 2:5 3:17
 4:17 19:13 21:6,12
actuary 1:16,19 3:9,9
 3:21 5:5 6:15 8:3,6
 26:7
added 10:4
addition 19:4
additional 16:1 17:18
 19:6 21:11 23:14
adequate 23:3
adjustment 19:11 20:21
adjustments 12:10
 21:21
admin 12:9 20:19,20
 24:3,11,11,14
Administration 10:3
 15:5
administrative 19:1
adopt 25:16
advisor 15:22
advisors 13:17
age 22:13
agenda 4:16 8:2 25:12
ages 19:15
ahead 9:21 15:2 17:1
 23:9
Alden 1:11 3:19 21:16
 22:5 23:16 25:15,21
amortization 5:1
amount 6:1,9 8:13 13:9
 22:22
amounts 12:12 25:11
annual 8:17
anticipate 10:7
appears 13:8
applying 19:6 21:10,11
appreciate 4:9 15:15
 26:8,14,15
appreciation 26:6
appropriate 25:8
approve 4:17 25:13
approved 6:16 7:8 26:3
assessment 26:11
asset 7:14
Associate 3:21
assumed 7:2 17:4
assumption 7:6 12:8
 15:19 20:16

assumptions 6:16,20
 14:3,8 15:4,8,14,17
 16:2,11,12,22 21:4,7
 25:8,10,14,17 26:4
Atmospheric 10:2
attendance 26:19
attendees 2:16 13:21
 16:6 23:21
attending 2:4
audience 9:16
audio 4:19
average 22:11
aye 25:21 26:1,3

B

back 2:12 7:4 12:14
 13:10 17:4 18:18 20:9
background 3:1,14
 4:20
balance 8:14,17
balances 8:18
bandwidth 2:22
base 23:3
basically 24:7,13
basis 2:14 8:19 22:11
beginning 8:14
believe 11:21 17:22
 22:22 26:17
beneficiaries 11:5
benefit 7:12 8:19
benefits 6:20 8:15
best 16:1
better 10:9 15:18 20:11
big 19:10
billion 6:9,10,11,12,22
 7:7,13,14
billions 6:2,4,19 8:12
bit 2:13
blend 22:14,15
Board 1:1,8 2:5 3:16,18
 3:19,20 4:4,7,9,13 6:5
 6:16 7:8,18 9:15
 13:20 14:11,22 16:3
 16:12 17:4 23:13,13
 25:13,20
Board's 25:6
Boards 15:5,6
book 8:18 9:2
bottom 6:18
bounced 12:14
bouncing 17:4
box 6:2,3 16:13,16 17:1
boxes 5:20
break 14:13,17,19
bring 25:8
brings 4:3

C

calculate 4:18 24:11
call 7:21
calling 3:3
camera 3:2
cameras 2:21
capabilities 4:6
capita 5:21 6:13 12:19
 13:2,3 14:15
capital 15:13
care 1:1 12:11 13:10,10
 13:13,13 16:18,18,19
 16:19,20,21 17:13
 26:17
case 3:12 13:18
catch 7:3 18:6,6
catching 17:11
census 10:17 19:2,3,4
Chair 1:8,11 2:8 4:14
 7:17,20 8:1,9 9:7,14
 9:18,20 11:2,15 12:2
 13:8,19 14:6 15:10
 16:5,8 17:17 18:9,13
 18:16,21 21:2,15 22:6
 22:21 23:6,10,18,20
 25:2,5,19,22 26:2
Chairperson 2:6
challenge 15:13
challenges 10:20
challenging 26:11
chance 18:5
change 7:12 13:4 19:10
 20:12,19
changes 13:5 15:3
Chelsea 1:16 5:4,6,8,14
 8:5 17:20 18:2 24:6
 24:18
chief 1:19 3:9,21
Chu 1:16 5:4,7,16,19
 8:10 18:4 24:6,6,19
 24:22
claim 12:9,10,20 22:9
 22:22 23:3
claims 7:1 20:22 22:12
 22:13,16 23:2 24:13
clear 21:3
close 26:18
CMS 15:6
Coast 10:1 21:18,19
 22:3
column 14:11
combination 20:9
combined 10:15 11:9
combining 20:6
come 3:13
comes 26:9
comment 3:11 15:11,17
comments 9:6 10:22
 11:14 13:7 15:9 17:16

21:1 22:20
community 13:14
compelling 15:2
complete 26:9
component 10:6
Comptroller 24:2
computation 12:18,21
computing 25:11
conditions 9:1,3
consideration 17:9
consistent 13:14
consulting 4:2
continue 10:18 13:17
 15:22
continuing 22:14
contributions 8:15
correct 9:12,13
corresponds 16:15
cost 5:2 6:7 14:17 17:9
 17:15 20:13,18 22:10
 22:18
costs 5:22 6:13 12:5,9
 12:13 17:10 20:21
 22:10
count 11:15
counts 10:1
COVID 7:4 12:6,17
create 19:12
CRM 24:7
current 8:22 26:12
currently 15:19

D

data 8:12 13:15 19:2,3
 19:11 21:10,13
date 6:21
Dave 1:8,11 2:6 25:15
Davis 1:17 8:5 14:2,4,7
 16:9 17:20 18:10,18
 21:9
death 10:13 11:13,16
 20:1,6,7,10
decided 22:18
decrease 11:10,11
decrement 21:3
decrements 19:1
delayed 7:3
demographics 19:3
dependents 11:5
despite 14:21
details 9:5 17:21
determine 25:7
develop 24:13
developed 22:1
development 22:10
 26:9
DFAS 3:11 9:4
differ 13:2

difference 16:22 19:14
differences 10:19
direct 13:10 16:18,18
 16:19
directions 20:13
disabled 19:22 20:1,3,7
 20:8,10
discount 7:8,9 14:9,12
 14:19
discrepancies 8:20
distracted 3:1
divided 13:1
DoD 3:10 5:4 8:5 10:1
dollar 13:9
Drew 1:18 8:4,6 9:21
 13:8 14:4 18:19 21:16
 23:10
drivers 13:12
drop 17:12
drove 24:2,3
drug 12:12 16:19,21
 17:8,10 18:1,6,8
 20:20
drugs 12:12 17:9,13
due 7:4,7,14 8:22 10:9
 10:16

E

economic 8:22 14:2,8
 15:1,4,7 16:2
EDT 1:8
effective 8:17,22
effort 26:14
eight 18:20
eligible 2:4 11:7
email 3:4
employer 4:2
enlisted 10:11 19:17,21
especially 26:12
essentially 12:20 15:14
excess 11:13,16 14:16
excited 4:12
expectation 10:19
expected 6:20 7:2,6,10
 7:15 10:10,11,15
 11:22
experience 4:4 12:19
 20:4,17 21:18 22:13
 22:15
express 26:6
extent 17:6

F

facing 10:21
factor 12:21
fair 15:18 21:8 23:4
family 12:13 22:11
far 7:13 16:11

Fasano 24:1,1,18,20
fees 12:17
file 5:10,11
files 5:9
final.pdf 5:11
find 15:18
findings 3:12
first 16:16 19:6 25:20
fiscal 4:19 9:22 10:12
 12:15 16:15,17,17
 22:12,14,15
five 18:5 22:22
folks 3:11
following 19:5
fortune 4:5
forward 26:20
four 21:7
FRIDAY 1:5
full-time 5:22 6:7
function 9:9
fund 3:16 8:13,16,18
 9:1,5,11 22:2,4 23:2
further 9:2,5
FY23 6:6,13

G

gain 6:22 20:17
gained 7:14
gains 6:19
GDP 14:15
general 11:17 12:5 21:5
generate 24:14
getting 4:20 13:13
given 14:21 23:1
grading 22:13
greater 19:14
group 11:16 14:17
 17:15
Guard 10:1 21:18,19
 22:3

H

hand 2:6 14:2 16:16
 17:1
handout 5:10,12 9:4
hard 15:18 26:8
health 1:1,16 3:22 4:1,3
 10:1,3 12:13
Healthcare 2:5 3:16
hear 3:7
heard 13:17
hearing 14:1 25:6
hedged 9:1
Hey 21:16
Hi 24:1
high 7:2 9:8
higher 7:15 10:13 11:22
historical 8:12

history 5:19
HMO 12:16
hold 2:20
hoping 2:11
housekeeping 2:10

I

impact 15:14 22:17
impacted 12:17
important 4:13
improved 22:18
improvement 19:7,8,10
 19:15 21:5,6
in- 16:19
in-patient 16:18
in-person 2:12,15
include 10:7 21:17,20
 21:20
included 12:18 20:4,21
 22:3 23:1 24:9,10,12
 24:15
includes 12:9
including 21:19
inclusion 10:17
income 8:15
incomplete 12:20
incorrect 18:2
increase 10:8,16 11:7,9
 17:10 20:18,20
incurred 7:1 8:21 12:5
 12:12,12,22 24:13
independence 11:10
individual 22:11
inflation 9:2,10 14:16
info 10:17
information 3:5 8:4,13
 13:20 16:1 17:18 22:7
 26:13
informed 26:16
Inger 3:4
insights 4:6
intended 26:18
intentions 4:18
interest 14:18,20,22
interested 9:4
interference 4:19
interim 20:16
invested 9:11
investment 8:15 9:8
item 8:2 25:12
items 24:8,9,15

J

James 24:1
Jian 1:12 3:20,20 4:3,5
 4:9 23:18 25:22
join 4:12
joined 3:8

joining 3:18 4:9
JULY 1:6
jumped 8:22

K

Kaiser 3:21
keep 2:22 11:3 15:7
 18:17
keeping 26:16
Key 14:8

L

Lastly 12:18 20:15 22:9
leads 19:8
leave 2:21 3:2
leaving 15:20
left 5:21 8:13 16:13,16
let's 5:16 18:16 25:20
level 22:12
levels 17:5,7,11
liability 4:22 5:1 6:1,2,3
 6:9,10,12,13,15 22:18
life 4:5
little 4:7,20 17:18 20:19
 22:17
live 26:12
load 19:1 20:19,20 24:3
 24:11,15
loads 24:12
long 15:3,7
long- 7:10 19:12
long-term 19:11
look 8:21 15:21 24:8
 25:12 26:19
looked 22:15
looking 14:10 15:16
 17:3,7
looks 5:14 8:9 14:6
loss 7:6,7,12 10:16 19:4
 19:8,18 20:2,14
Losses 6:19
lower 7:1,6,9,11 10:15
 12:1
lowered 14:22

M

main 19:14
majority 9:11
margin 14:16
market 9:3 18:7
markets 15:13
match 20:16
material 2:19 5:3 23:11
 23:14,22 26:9
matter 26:21
means 15:20 17:18
medical 7:2,3,5 14:9,13
 14:14,17 16:10,21

Medicare 2:4 11:7
Medicare-Eligible 1:1
 3:16
meeting 1:3 2:5,9,11,14
 2:15 3:3,15 4:15 5:3
 6:5,18 13:21 16:5,13
 23:20 26:17,18
meetings 2:12
member 1:11,12 3:20
 4:11 21:16 22:5 23:16
 23:19 25:15,18,21
 26:1
members 3:11 9:15
 16:3 23:13 26:7
membership 23:1
MERHCF 5:10,10,20
 12:4,16 14:8 16:10
 22:2
met 1:8
methods 4:18 25:10,13
 25:16 26:4
microphones 2:17
middle 6:2 14:10
military 19:11 21:7,13
 22:2,3
model 20:8
monitor 10:18
month 24:8
morning 2:3 5:7
mortality 19:7,9,19
 20:11 21:4,6
motion 25:13,16
move 8:2
movement 13:10
moving 6:18 13:12,13
MPFs 13:13
MRF 15:6
mute 2:16

N

name 3:5
named 5:10
National 10:2
nationwide 11:20
nature 26:10
negative 13:3
net 12:12
new 7:8 10:17 19:3,10
 20:4,15 24:15
newest 3:20
noise 4:20
non- 20:9
non-disabled 19:21,22
 20:2,3,6
non-Medicare 11:10
normal 5:2,22 6:6,13
 11:9 20:13,18 22:17
note 8:17 10:3 15:2

noted 21:17
noting 12:11
number 3:10,19 11:7
 21:4 25:12
numbers 17:3

O

objective 4:15 5:2
 26:18
obviously 15:11,21
Oceanic 10:2
October 4:22 6:11,15
Office 3:9 4:17 5:4 8:5
 26:7
officer 10:12 19:21
officers 19:17
officially 2:9 3:15
one-year 23:2
open 3:15
opine 25:9
OPM 15:6
opposite 20:12
ORC's 15:2
organization 3:6
OSD 24:2
Osterndorf 1:8,11 2:7,8
 4:14 7:17,20 8:1,9 9:7
 9:14,18,20 11:2,15
 12:2 13:8,19 14:6
 15:10 16:5,8 17:17
 18:9,13,16,21 21:2,15
 22:6,21 23:6,10,18,20
 25:2,5,19,22 26:2
out- 16:18
out-patient 16:20
Outlay 13:1
outlays 8:21 12:5,22
 13:6
outside 15:22
overall 11:19 20:13

P

P-R-O-C-E-E-D-I-N-G-S
 2:1
page 5:16,19 6:18 7:16
 7:18 8:8,11 9:6 10:22
 11:4,14 13:7 14:7,10
 15:9 16:10,11 17:16
 18:11,14,20,22 21:1
 22:20
paid 8:16,19
pandemic 11:18 13:11
part-time 5:22 6:7
participants 7:21
participation 3:7
patient 16:19,20
Pause 5:18 7:19,22
 9:17,19 11:1 12:3

13:22 16:4,7 18:12,15
 22:8 23:7 24:5 25:1,4
payment 6:4,15
payments 5:2 8:19
 12:10
PDF 5:9
people 5:8,12 13:12
percent 7:9,10 10:10,11
 10:13 11:12,19 14:12
 14:13,15,15,16,18,20
 14:20 17:13,14 19:16
 19:16,17 20:18 24:4
 24:17
period 15:12,15 20:4
 23:2
Permanente 3:22
permanently 20:1,3,7
perspective 3:14 22:22
Pete 2:8 3:8
PETER 1:19
Pettygrove 3:4
pharmacy 24:3
Phil 8:5 14:2 18:4
PHILIP 1:17
phone 5:8
phones 2:16
place 15:20
plan 3:22 12:13,16
plans 4:1,3
please 2:14,21 3:2,4 5:9
 18:2
pleased 4:7
points 2:19,21
population 11:17 13:1
 13:6 21:5
pre-COVID 12:7 17:5,7
 17:11
pre-pandemic 7:5
PRESENT 1:10,15
presentation 2:19 8:21
presentations 3:8
presented 23:12,15,22
presiding 1:9
prestigious 4:12
pretty 15:12
price 18:7,8
prices 18:2
pricing 17:15,19
probably 15:18
problem 24:19
process 20:5
projection 10:7
proposal 16:14 25:20
proposals 8:4
propose 6:17 15:3
proposed 4:18 25:10
 25:16
proposing 15:7 19:5

provide 16:1 17:17
provided 8:4
Public 10:1,3
purchase 12:11 13:10
 16:19,20,20 17:13
purposes 25:11

Q

question 24:3
questions 2:18,20 3:13
 7:15,17,20 9:6,15
 10:22 11:13 13:6,20
 15:8 16:3 17:15 18:13
 20:22 22:7,19 23:11
 23:14,19,21 24:21
 25:3
quick 2:10
quite 12:6
quote 10:4

R

rate 7:3,8,9,11 9:10
 10:14 11:16 14:9,12
 14:18,19,22 19:13
 21:18
rates 14:11 19:20,20
 20:1,2,6,8,10 22:1
raw 22:17
reading 16:11
real 7:11 14:15,18,20
 14:22
reason 15:3 21:22
reasonable 15:21
rebates 12:13
rebounding 12:6
receive 24:7
record 3:6 26:22
recorded 2:15
recruiting 10:12,21
reflect 9:2
regular 17:10
relative 11:17
remember 2:14
reminder 4:15 22:10
renegotiate 18:1,8
replace 19:13
report 24:7,14
reserve 10:4 19:22 20:2
 20:7,15,18
reserves 10:8 20:10
result 5:20 6:6 8:16,20
 10:15,20 11:12 13:1,4
 19:18 20:11
resulted 19:3
results 5:6 20:17
retail 12:11
retention 10:9,21
retired 11:5

retirees 21:10
retiree 1:1 2:4 3:16
 19:19
retirees 11:8 19:12,15
 21:14
retirees' 11:10
Retirement 22:2,4
return 7:11 9:9
returning 7:4
review 4:17 5:3,5
rise 9:10
robust 23:3 26:10
role 25:6
roles 4:1
row 16:15,16

S

saw 10:13 19:18 20:12
 22:17
scales 19:10 21:12
screen 3:5 5:12,12 14:5
second 19:9 25:18
Security 15:5
seeing 11:6,11,20,22
 12:8 13:5,9,15
seen 17:5
sense 13:11
sent 5:9
September 4:21 6:8,14
 6:16,21 7:13 8:3
serious 6:22
served 3:22
service 7:4,5 10:2,4
services 10:21 11:6
set 14:11 15:13,16,19
 16:12 23:16
sharing 5:11
short 14:21
short-term 7:2
show 6:19
shown 10:5
shows 5:19 6:3,5
side 15:11
significant 9:10
similar 4:1 11:20 12:14
similarly 15:4
simplification 20:5
simplify 2:13
Simultaneous 23:8
situation 15:2
size 23:1
slight 8:20 10:16 20:12
slightly 11:22 12:1 13:2
 20:10
small 19:4,8,18 20:14
 20:17,19
smaller 11:9
Social 15:5

society 19:13 21:5,9,12
society's 19:16
Sorry 23:9
sort 11:17
sounds 11:3
speaking 2:17 3:2 20:9
 23:8
specialty 17:9
specific 21:7
specifically 17:8,12
 19:20
spoken 19:2
Spring 10:4
staff 1:17,18 3:10 26:16
start 2:9 5:4 23:12
started 21:19
state 22:17
stated 4:16 25:11
status 3:12
step 20:12,14 21:10,11
stopping 2:18
Stu 3:18 21:16 23:15
 25:20
STUART 1:11
study 12:19
subsidized 12:16
substantial 15:12
summer 6:5
surprised 4:8
survivors 11:8

T

taken 26:17
talking 26:20
task 25:9
temporarily 19:22 20:8
term 7:11 14:21 15:3,7
 19:13
test 19:18
thank 4:11,21 8:7 9:14
 12:2 13:19 14:4 18:9
 18:21 21:15 23:6,10
 23:16,19 24:4,21
 26:19
thanks 2:8 5:15 22:5
 24:18
things 2:13
Third 19:19
thought 15:16
three 5:20 21:6
times 10:20
TIPS 9:11
titled 14:8
today 3:8,18 4:16 26:19
topic 4:13
total 7:1,12 11:6,11
track 10:6
tracking 9:8

treasury 5:1 6:3,11
trend 7:3 12:8 14:10,13
 14:14 16:10,12,21
trends 17:4,8
triangle 24:9,10,12,16
triangles 20:22
try 2:21
trying 26:13
turning 18:18
two 5:9 21:6,11

U

U.S 12:13
ultimate 14:9,13,14
unanimously 26:3
unfunded 4:22 5:1 6:1
 6:3,10,12,14
uniform 11:6
unknown 15:1
unusual 10:20 11:12
 13:4
update 19:2 20:4 22:19
updated 19:4,19,20
 20:15 21:12
updates 19:5
updating 19:9
use 12:21,21 21:9,10
 22:14 24:13,14
uses 22:12
USFHP 16:21

V

valuation 5:5 6:6 8:3
 10:18 14:8 15:15
 16:10 19:6 20:14 23:4
 25:9 26:5
value 9:2,3
values 8:11,18
variation 5:20 6:19
various 2:19
verify 11:21
versus 11:16
Videoconference 1:8
virtual 2:10,14
volatility 14:21 15:12
vote 25:20 26:2

W

way 17:6
wealth 4:3
welcome 2:3 4:10
went 26:22
willing 4:8
withdrawals 10:10,14
words 4:12
work 4:8 26:8,14
working 4:2,5 10:5
world 4:2 26:12

worth 12:11

X

Y

year 2:11,12 3:17 4:19
 7:10,12 8:16 10:1,5,7
 10:12 11:8 12:15 13:4
 13:5 14:12 15:1,15
 16:15,17,17 17:1,3,19
 18:1 19:1,7,7 21:11
 21:17,21 22:12,14,16
 22:19 26:20
year's 5:5 6:6 16:13
years 3:20 18:5
yesterday 5:9
yield 7:15 8:17,22
younger 19:15
Yu 1:12 3:20 4:11 23:19
 25:18 26:1

Z

Zouras 1:19 2:3 3:8
 5:14
ZPI 14:20

0

07-29- 5:10

1

1-1/2 14:14
1-3/4 14:18,19
1.35 19:16
1.5 20:18
1.6 24:4,16
1.7 24:4,17
10:00 1:8
10:01 2:2
10:33 26:22
100 15:15
16.5 10:13 11:12,19
183 6:10

2

2 8:8
2-3/4 14:15,20
20 6:8,21 7:13
2015 22:14
2017 20:4 22:15
2019 12:15 22:16
2020 16:17 20:5
2021 4:21 6:5,11,14,17
 8:3,13 10:4,12,12
 11:13 16:17 17:2 19:6
 22:12,16
2022 1:6 4:22 5:11 6:15
2024 4:19 17:14,14
2046 17:2

22.3 7:7
22.79 6:7
29 1:6
290 6:9

3

3.1 7:14
3.5 19:17
3/4 14:13
30 4:21 6:14,16,21 7:13
8:3

4

4 19:16
4- 14:12
4-3/4 7:9
4.12 17:13
4.5 7:9 14:12
472 6:9

5

5 14:16
50.9 6:22
57.95 6:7

6

6.4 7:12
65s 12:1,1

7

7 12:14 14:7
7.5 6:12
76.9 10:10

8

8.18 17:13
80.1 10:11

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This is to certify that the foregoing transcript

In the matter of: Board Meeting

Before: MERHCF

Date: 07-29-22

Place: teleconference

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Court Reporter

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