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.

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 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#

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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 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 for	Full-time	Part-time	Liability ($B) as of	AL	Fund	UFL	UFL Payment ($B) on	amount
Summer 2016	FY17R	**$4,213**	**$1,704**						
Summer 2016	FY18	**$4,890**	**$1,955**	9/30/15	**$427.3**	**$232.8**	**$194.4**	10/1/16	**$5.7**
Summer 2017	FY19	**$4,632**	**$1,844**	9/30/16	**$409.4**	**$239.3**	**$170.1**	10/1/17	**$6.6**
Summer 2018	FY19R	**$4,471**	**$1,760**						
Summer 2018	FY20	**$4,621**	**$1,847**	9/30/17	**$406.4**	**$250.2**	**$156.2**	10/1/18	**$5.7**
Summer 2019	FY21	**$4,911**	**$1,952**	9/30/18	**$436.3**	**$265.7**	**$170.6**	10/1/19	**$6.6**
Summer 2020	FY22	**$5,506**	**$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 asset*	other	total	Assumptions trend	admin	other	total	Benefits	TOTAL
9/30/16	$7.3	($11.2)	($3.8)	($41.8)	($2.6)	$16.7	($27.7)	$0.0	($31.5)
9/30/17	$4.7	($6.8)	($2.2)	$0.9	($0.5)	($1.0)	($0.6)	($14.1)	($16.9)
9/30/18	$1.4	($5.9)	($4.4)	($4.5)	($0.2)	$22.3	$17.6	$0.0	$13.2
9/30/19	$4.4	($6.1)	($1.7)	($21.8)	$0.3	$25.0	$3.5	$0.0	$1.8
9/30/20	$6.5	($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)

		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	DC	PC	Total	Fund Balance End of Year	Effective Annual Yield
2016	$233.5	$6.8	$3.3	$6.1	$2.0	$7.8	$9.8	$240.0	**2.5%**
2017	$240.0	$7.2	$5.7	$7.9	$2.1	$7.8	$9.9	$250.8	**3.2%**
2018	$250.8	$8.4	$6.6	$10.7	$2.2	$7.9	$10.1	$266.4	**4.1%**
2019	$266.4	$7.8	$5.7	$9.1	$2.3	$8.1	$10.5	$278.5	**3.3%**
2020	$278.5	$8.1	$6.6	$7.7	$2.4	$8.2	$10.6	$290.3	**2.7%**
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

	9/30/20	9/30/21	% Change from End of FY20 to FY21
DoD			
Active duty	1,419,816	1,425,014	0.4%
Reserve	708,007	702,629	-0.8%
Coast Guard			
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%
TOTAL			
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)

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

MERHCF Incurred Outlays

Aggregate ($ in millions)	FY 2020	FY 2021	% Change from FY20 to FY21
Purchased Care			
IP	$793	$787	-0.9%
OP	$2,868	$3,065	6.8%
Rx	$3,435	$3,556	3.5%
Other	$125	$125	0.3%
TOTAL	$7,222	$7,533	4.3%
Direct Care			
IP	$617	$637	3.3%
OP	$758	$771	1.8%
Rx	$871	$862	-1.0%
TOTAL	$2,245	$2,271	1.1%
US Family Health Plan			
Capitation Rates	$783	$810	3.4%
Other	$3	$3	1.0%
TOTAL	$787	$814	3.4%
Grand Total	$10,254	$10,617	3.5%

Per Capita	FY 2020	FY 2021	% Change from FY20 to FY21
Purchased Care	$2,981	$2,951	-1.0%
Direct Care	$925	$920	-0.5%
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%
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, 2020 Val

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

September 30, 2021 Val (Proposed)

		DC			PC			USFHP
From FY:	To FY:	IP	OP	Rx	IP	OP	Rx	
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%

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

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

+ + + + +

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

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

(10:01 a.m.)

MR. ZOURAS: Good morning and welcome. You are attending the Medicare Eligible Retiree Healthcare Board of Actuaries meeting, and with that I will hand it over to the Chairperson, Dave Osterndorf.

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

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

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

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

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

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

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

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

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

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

MR. ZOURAS: Looks good, Chelsea, thanks.

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

(Pause.)

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

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

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

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

(Pause.)

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

(Pause.)

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

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

CHAIR OSTERNDORF: Looks good, yes.

MS. CHU: Yes.

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

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

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

MR. MAY: Yes, that is correct.

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

(Pause.)

CHAIR OSTERNDORF: Okay.

(Pause.)

CHAIR OSTERNDORF: All right. Go ahead, Drew.

MR. MAY: Here we have end of fiscal

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

(Pause.)

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

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

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

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

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

CHAIR OSTERNDORF: Okay. Thank you.

(Pause.)

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

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

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

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

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

(Pause.)

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

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

CHAIR OSTERNDORF: Yes, looks good.

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

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

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

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

Questions from Board Members?

(Pause.)

CHAIR OSTERNDORF: Any from meeting attendees?

(Pause.)

CHAIR OSTERNDORF: Okay.

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

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

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

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

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

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

CHAIR OSTERNDORF: Okay. Thank you.

MR. DAVIS: Anything else for this page?

(Pause.)

CHAIR OSTERNDORF: Any other questions on this page?

(Pause.)

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

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

MR. MAY: Can everyone see page eight?

CHAIR OSTERNDORF: Yes, Thank you.

MR. MAY: On this page we have

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

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

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

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

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

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

comments for this page?

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

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

CHAIR OSTERNDORF: Yes. Thank you.

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

MR. MAY: Yes, the reason for that is

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

MEMBER ALDEN: Very good. Thanks.

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

(Pause.)

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

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

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

MR. MAY: Yes.

CHAIR OSTERNDORF: Okay. Thank you.

(Pause.)

(Simultaneous speaking.)

MR. MAY: Sorry, go ahead.

CHAIR OSTERNDORF: Thank you, Drew. Are there any questions on any of the material that has been presented. Let me start with the Board. Do any of the Board members have additional questions on material that has been presented? Stu?

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

CHAIR OSTERNDORF: And Jian?

MEMBER YU: No questions. Thank you.

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

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

(Pause.)

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

MR. FASANO: Okay. Thanks, Chelsea.

MS. CHU: No problem.

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

MS. CHU: Okay.

(Pause.)

CHAIR OSTERNDORF: Are there any other questions?

(Pause.)

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

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

MEMBER YU: And I will second.

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

MEMBER ALDEN: Aye.

CHAIR OSTERNDORF: Jian.

MEMBER YU: Aye.

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

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

(Whereupon, the above-entitled matter went off the record at 10:33 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: MERHCF

Date: 07-29-22

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