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

August 14, 2017

MEMORANDUM FOR THE RECORD

SUBJECT: Minutes of the July 28, 2017, Meeting of the DoD Medicare-Eligible Retiree Health Care Board of Actuaries

These are the minutes of the July 28, 2017, 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 Card Fund (MERHCF).

List of Attachments:
1 – Meeting agenda
2 – List of attendees
3 – Defense Finance and Accounting Service handout
4 – DoD Office of the Actuary handout
5 – DoD Office of the Actuary claims cost handout
6 – Meeting transcript

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

Lynette L. Trygstad, Acting Chairperson
DoD Medicare-Eligible Retiree
Health Care Board of Actuaries

8/14/17
Date

Inger M. Pettygrove
Designated Federal Officer

8/14/17
Date

MEDICARE-ELIGIBLE RETIREE HEALTH CARE BOARD OF ACTUARIES
MEETING MINUTES

July 28, 2017
10:00 a.m.
4800 Mark Center Drive
Conference Room 3, Level B1
Alexandria, VA 22350

HIGHLIGHTS / KEY BOARD DECISIONS

Introduction Transcript Page 6: Lynette Trygstad announced she is the new Board Chairman and introduced new Board member Stuart Alden.

Agenda Item 2 Trust Fund Update

1) Transcript Pages 7-11: DFAS presented updated information on MERHCF investments and financial data as shown in Attachment 3.

Agenda Item 3 September 30, 2015, Actuarial Valuation Results

1) Transcript Pages 11-13: The DoD Office of the Actuary (OACT) presented MERHCF valuation history, including final FY18 normal costs and gains/losses to the Fund.

Agenda Item 4 September 30, 2016, Actuarial Valuation Proposals

1) Transcript Pages 13-14: OACT described a modified approach for determining unfunded liability amortization payments that addresses the increasing balance for the initial unfunded liability under the prior approach and simplifies the procedure for amortizing gains and losses.
2) Transcript Pages 14-15: Active employee and retired beneficiary counts for FYs 14-16 were presented as shown on pp. 2-3 of OACT's handout (Attachment 4). The total count of Medicare-eligible retiree-related beneficiaries increased 1.5% from FY15 to FY16.
3) Transcript Pages 15-16: Medical cost/trend experience was discussed as shown on page 4 of OACT's handout (Attachment 4). The 11.2% decrease in aggregate purchased care drug costs is largely explained by excess compound drug costs in FY15, drug copay increases in FY16, and a change in the source OACT uses for mail order pharmacy ingredient costs.
4) Transcript Pages 17-20: OACT proposed lowering both the discount rate and ultimate trend assumptions by 25 basis points, to 5.25%. Other forecasters and Boards have also lowered interest assumptions, and the decrease in ultimate medical trend is impacted by a decrease in the assumed excess medical cost growth component of trend.
5) Transcript Pages 20-21: OACT proposed select medical trend assumptions as shown on page 7 of OACT's handout (Attachment 4). Inpatient and outpatient trends were proposed after considering information from CMS actuaries, including issues raised in their alternative scenario analysis, as well as

MERHCF's recent experience. For prescription drug trends, OACT analyzed DoD's experience, industry reports, and the effects of federal pricing rules.

6) Transcript Pages 21-23: OACT proposed assumptions related to administrative cost loads, decrement rates, retail pharmacy rebates, and USFHP as shown on page 8 of OACT's handout (Attachment 4). Proposed admin loads were decreased from the prior year, and various changes were proposed to mortality, spouse-per-sponsor, pharmacy rebate, and USFHP assumptions.
7) Transcript Page 23: OACT proposed plan participation rate assumptions as shown on page 9 of OACT's handout (Attachment 4)—no change from the prior assumptions, with ultimate participation reached in 2021.
8) Transcript Pages 24-26: OACT proposed medical cost assumptions are described and highlighted on page 10 of OACT's handout (Attachment 4) and in OACT's claim vector handout (Attachment 5). Topics discussed include differences between officer and enlisted costs in some categories and a difference in costs at older ages for inpatient compared to other care categories.
9) Transcript Pages 26-28: OACT discussed a statutory change that reduced the maximum duration of the temporary disability benefit from five to three years and noted that the impact on the MERHCF valuation, which will be reflected next year, will be immaterial.

Agenda Item 5. Decisions

1) Transcript Pages 28-29: The MERHCF Board approved OACT's proposed changes to determining unfunded liability amortization payments as well as OACT's proposed methods and assumptions for the September 30, 2016, valuation.

FOR ADDITIONAL DETAILS, REFER TO TRANSCRIPT (ATTACHMENT 6) AND OTHER ATTACHMENTS.

ATTACHMENT 1

MEDICARE-ELIGIBLE RETIREE HEALTH CARE BOARD OF ACTUARIES MEETING AGENDA

July 28, 2017
10:00 a.m.
4800 Mark Center Drive
Conference Room 3, Level B1
Alexandria, VA 22350

1. **Meeting objective** (Board)

   Review actuarial assumptions and methods needed for calculating:

   a. FY 2019 per capita full-time and part-time normal costs
   b. September 30, 2016 unfunded liability (UFL)
   c. October 1, 2017 Treasury UFL amortization and normal cost payments

2. **Trust Fund Update**
   (Terry Roberts, DFAS, by call-in)

3. **September 30, 2015 Actuarial Valuation Results**
   (Margot Kaplan, DoD Office of the Actuary)

4. **September 30, 2016 Actuarial Valuation and Funding Proposals**
   (Margot Kaplan and Chelsea Chu, DoD Office of the Actuary)

5. **Decisions** (Board)

   Actuarial assumptions and methods needed for calculating:

   a. FY 2019 per-capita full-time and part-time normal costs
   b. September 30, 2016 UFL
   c. October 1, 2017 Treasury UFL amortization and normal cost payments

ATTACHMENT 2

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

July 28, 2017

	NAME	POSITION OR OFFICE
1	Lynette Trygstad	Acting Chairman
2	Dave Osterndorf	Board Member
3	Stuart Alden	Board Member
4	Joel Sitrin	DoD OACT
5	Margot Kaplan	DoD OACT
6	Chelsea Chu	DoD OACT
7	Inger Pettygrove	DoD OACT
8	Pete Zouras	DoD OACT
9	Pete Rossi	DoD OACT
10	Nick Garcia	DoD OACT
11	Bob Moss	DHA / B&RM
12	Colleen Hartman	OSD-C
13	Paul Bley	DHA (Attorney)
14	Dennis Ratliff	OSD-HA
15	Ted Jaditz	ASD-HA / HRMAD
16	Edith Smith	Capitol Crusader
17	Richard Virgile	DHS – Coast Guard
18	Kenneth Hodgson	DHS – Coast Guard
19	Tom Liuzzo	OSD-P&R
20	Kathy Beasley	MOAA
21	Chris Borcik (by call-in)	CCRC Actuaries
22	Terry Roberts (by call-in)	DFAS
23	Emily Gentile (by call-in)	OMB, Health Division

ATTACHMENT 3

MEDICARE-ELIGIBLE RETIREE HEALTH CARE BOARD OF ACTUARIES
DEFENSE FINANCE AND ACCOUNTING SERVICE HANDOUT

July 28, 2017

Medicare-Eligible Retiree Health Care Fund
Board of Actuaries Meeting

Defense Finance and Accounting Service

Terry Roberts
Trust Funds Accounting and Reporting Division
Defense Finance and Accounting Service
July 28, 2017

AGENDA

- Overview
- Financial Data
- Fund Status

OVERVIEW

- Short Term Liquidity
  - Invested approx $11B in October ($7.1B Svcs, $5.7B Treas contrib)
  - Purchased 3 notes (maturing ‘21, ‘23, and ‘24)
  - No early sales
  - FY 2017 overnights/cash through June $3.9B

- Long Term Liquidity
  - Project new investing will continue
    - 20-year term
    - Speculative and conservative
    - Depends upon inflation returns, program use, contribution levels, interest

FINANCIAL DATA

Summary Financial Analysis

Year Ended September 30

(In Billions)

	FY 2016	FY 2015	% Change
Service Contributions	$6.8	$7.2	-6%
Unfunded Liability Contributions	3.3	4.0	-18%
Interest Income	6.1	4.7	30%
Total Revenue	$16.2	$15.9	2%
Purchased Care	$7.7	$7.5	3%
Operations & Maintenance	1.5	1.4	7%
Military Personnel	0.5	0.5	0%
Total Expense	$9.7	$9.4	3%

Interest Analysis

Year Ended September 30

(In Billions)

Interest Income

	FY 2016	FY 2015	Change
Interest Revenue--Par	$6.5	$6.3	$0.2
Interest Revenue--Inflation	1.5	0.3	1.2
Interest Revenue--Discount	0.1	0.1	0
Interest Revenue--Premium	-2.0	-2.0	0
	$6.1	$4.7	$1.4

FINANCIAL DATA

DoD Medicare-Eligible Retiree Health Care Fund
For the Year Ending September 30, 2016
(in billions)

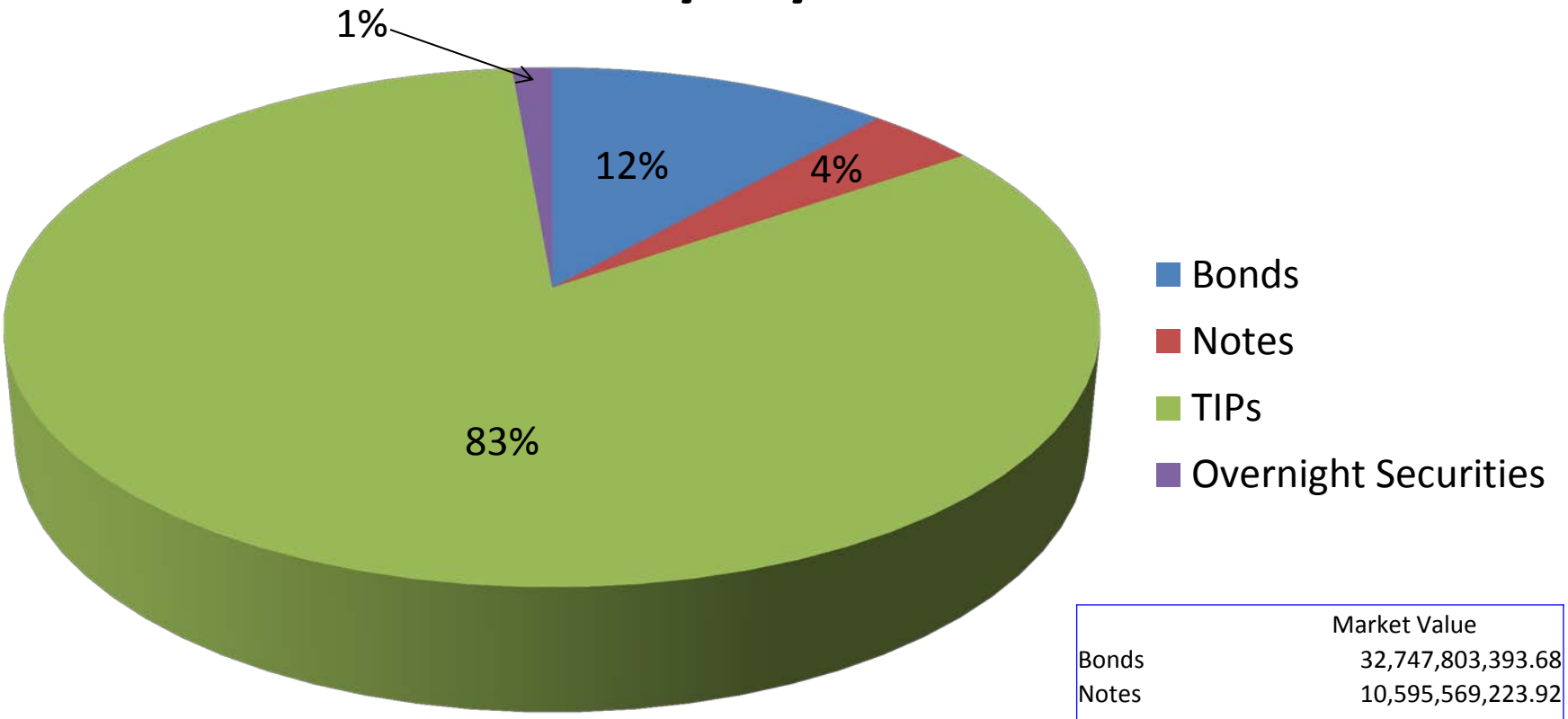
Assets	
Fund Balance with Treasury	$0.1
Investments	
Overnight	2.8
Long term	
Par	171.0
Inflation purchased	17.5
Inflation earned	22.2
Premium outstanding	25.5
Discount outstanding	-1.3
Interest receivable	2.2
Total Long Term Investments	237.1
Total Investments	239.9
Accounts Receivable, Net	0.3
Total Assets	$240.2
Liabilities	
Accounts Payable	
Government	$0.2
Public	0.1
Total Accounts Payable	0.3
Military Retirement and Other Federal Employment Benefits	
Incurred but Not Reported	0.6
Actuarial Liability	557.8
Total Military and Other Federal Employment Benefits	558.4
Total Liabilities	$558.7
Net Position	
Cumulative Results of Operations	-318.5
Total Liabilities and Net Position	$240.2

FINANCIAL DATA

Effective Fund Yields

FY	Yield
2007	4.03%
2008	6.33%
2009	0.77%
2010	3.22%
2011	5.01%
2012	3.11%
2013	3.37%
2014	3.46%
2015	2.02%
2016	2.55%

Market Value of Medicare-Eligible Retiree Health Care Portfolio As Of 6/30/2017



	Market Value
Bonds	32,747,803,393.68
Notes	10,595,569,223.92
TIPs	233,747,204,389.26
Overnight Securities	3,851,630,938.40

FUND STATUS

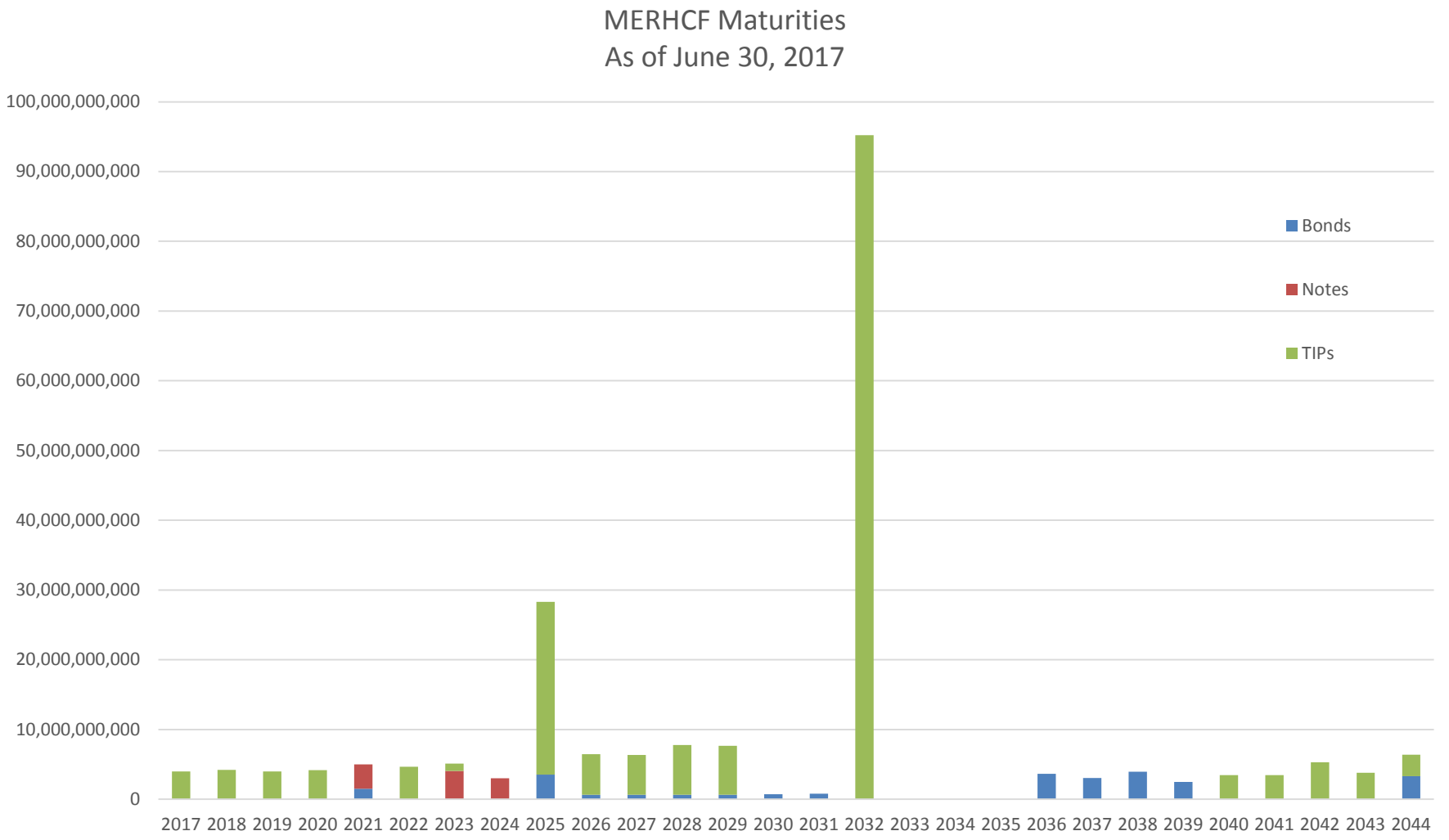
Security Description	Shares Par	Market Value	Inflation Compensation
MK BOND 3.500% 02/15/2039	1,018,685,121.11	1,151,114,186.85	0.00
MK BOND 3.625% 02/15/2044	3,290,122,600.05	3,789,809,969.93	0.00
MK BOND 4.375% 02/15/2038	3,938,865,578.85	5,019,591,822.05	0.00
MK BOND 4.500% 02/15/2036	3,645,162,279.04	4,706,815,792.81	0.00
MK BOND 4.500% 08/15/2039	1,446,478,569.89	1,874,093,797.11	0.00
MK BOND 4.750% 02/15/2037	3,026,580,843.12	4,033,864,779.97	0.00
MK BOND 5.250% 11/15/2028	650,000,000.00	836,671,875.00	0.00
MK BOND 5.375% 02/15/2031	781,160,862.35	1,049,929,021.55	0.00
MK BOND 5.500% 08/15/2028	650,000,000.00	849,875,000.00	0.00
MK BOND 6.000% 02/15/2026	650,000,000.00	842,156,250.00	0.00
MK BOND 6.250% 05/15/2030	709,370,241.15	1,011,074,271.84	0.00
MK BOND 6.625% 02/15/2027	650,000,000.00	893,750,000.00	0.00
MK BOND 6.875% 08/15/2025	1,600,000,000.00	2,160,500,000.00	0.00
MK BOND 7.500% 11/15/2024	672,318,035.66	918,974,714.99	0.00
MK BOND 7.625% 02/15/2025	1,249,923,831.62	1,732,706,911.58	0.00
MK BOND 8.125% 08/15/2021	1,500,000,000.00	1,876,875,000.00	0.00
	25,478,667,962.84	32,747,803,393.68	0.00

Security Description	Shares Par	Market Value	Inflation Compensation
MK NOTE 1.125% 06/30/2021	3,497,493,304.73	3,413,334,872.08	0.00
MK NOTE 2.000% 02/15/2023	4,037,222,058.97	4,038,483,690.86	0.00
MK NOTE 2.750% 02/15/2024	3,021,929,142.43	3,143,750,660.98	0.00
	10,556,644,506.13	10,595,569,223.92	0.00

Security Description	Shares Par	Market Value	Inflation Compensation
MK TIPS 0.125% 01/15/2022	1,500,000,000.00	1,616,845,396.88	120,390,000.00
MK TIPS 0.125% 01/15/2023	1,016,250,000.00	1,066,044,643.05	60,222,975.00
MK TIPS 0.125% 07/15/2022	2,872,000,000.00	3,049,722,196.10	181,539,120.00
MK TIPS 0.625% 02/15/2043	3,573,900,000.00	3,489,484,593.68	226,763,955.00
MK TIPS 0.750% 02/15/2042	4,892,690,000.00	5,027,774,036.52	401,445,214.50
MK TIPS 1.375% 01/15/2020	3,700,000,000.00	4,336,399,098.13	483,442,000.00
MK TIPS 1.375% 02/15/2044	2,942,097,073.00	3,352,737,366.64	144,427,545.31
MK TIPS 1.625% 01/15/2018	3,590,000,000.00	4,209,456,968.13	599,817,200.00
MK TIPS 2.000% 01/15/2026	4,700,000,000.00	6,484,616,320.00	1,089,836,000.00
MK TIPS 2.125% 01/15/2019	3,500,000,000.00	4,116,584,062.50	485,800,000.00
MK TIPS 2.125% 02/15/2040	3,063,380,000.00	4,303,501,837.77	401,946,089.80
MK TIPS 2.125% 02/15/2041	3,081,100,000.00	4,292,458,189.47	358,886,528.00
MK TIPS 2.375% 01/15/2025	19,100,000,000.00	28,204,345,071.88	5,674,610,000.00
MK TIPS 2.375% 01/15/2027	4,700,000,000.00	6,636,770,227.81	998,327,000.00
MK TIPS 2.625% 07/15/2017	3,380,000,000.00	3,992,370,232.50	607,386,000.00
MK TIPS 3.375% 04/15/2032	69,126,395,000.00	130,806,887,022.89	26,092,449,056.70
MK TIPS 3.625% 04/15/2028	4,700,000,000.00	9,274,109,560.00	2,404,896,000.00
MK TIPS 3.875% 04/15/2029	4,700,000,000.00	9,487,097,565.31	2,290,263,000.00
	144,137,812,073.00	233,747,204,389.26	42,622,447,684.31

Security Description	Shares Par	Market Value	Inflation Compensation
ONE DAY 0.870% 07/03/2017	3,851,630,938.40	3,851,630,938.40	0.00
Total	184,024,755,480.37	280,942,207,945.26	42,622,447,684.31

FUND STATUS



17	18	19	20	21	22	23	24	25	26	27	28	29	30	31	32	33	34	35	36	37	38	39	40	41	42	43	44	Total
4.0	4.2	4.0	4.2	5.0	4.7	5.1	3.0	28.3	6.4	6.3	7.8	7.6	0.7	0.8	95.2	0.0	0.0	0.0	3.6	3.0	3.9	2.5	3.5	3.4	5.3	3.8	6.4	222.8

ATTACHMENT 4

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

July 28, 2017

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

	Per-Capita Normal Costs			Liability ($B)				UFL Payment ($B)	
Board Meeting	for	Full-time	Part-time	as of	AL	Fund	UFL	on	amount
Summer 2013	FY15	**$4,111**	**$1,750**	9/30/12	**$376.5**	**$203.3**	**$173.1**	10/1/13	**$4.3**
Summer 2014	FY16	**$4,231**	**$1,748**	9/30/13	**$383.9**	**$216.2**	**$167.7**	10/1/14	**$4.0**
Summer 2015	FY16R	**$3,954**	**$1,608**						
Summer 2015	FY17	**$4,252**	**$1,723**	9/30/14	**$381.6**	**$226.5**	**$155.1**	10/1/15	**$3.3**
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**	**?**	**?**	**9/30/16**	**?**	**?**	**?**	**10/1/17**	**?**

Valuation (Gains)/Losses ($B)

Val Date	Experience			Assumptions				Benefits	TOTAL
	asset*	other	total	trend	admin	other	total		
9/30/12	$0.3	($7.3)	($7.1)	($10.5)	($0.0)	($2.1)	($12.6)	($33.0)	($52.6)
9/30/13	$3.0	($2.0)	$1.0	($14.4)	$0.0	$4.5	($9.9)	$0.0	($8.9)
9/30/14	$4.2	($12.6)	($8.4)	($36.2)	$0.4	$34.1	($1.7)	($7.6)	($17.7)
9/30/15	$7.4	$22.0	$29.4	$9.3	($2.5)	$2.7	$9.5	($3.9)	$35.0
9/30/16	$7.3								

* Includes yield as well as budget lead time effect.

Active Employees

	9/30/14	9/30/15	9/30/16	Increase from End of FY14 to FY15	Increase from End of FY15 to FY16
DoD					
Active duty	1,402,812	1,377,260	1,363,939	-1.8%	-1.0%
Reserve	746,252	741,687	735,062	-0.6%	-0.9%
Coast Guard					
Active duty	39,446	38,995	39,841	-1.1%	2.2%
Reserve	7,546	7,152	6,325	-5.2%	-11.6%
PHS Active duty	6,738	7,175	6,617	6.5%	-7.8%
NOAA Active duty	326	319	320	-2.1%	0.3%
TOTAL					
Active duty	1,449,322	1,423,749	1,410,717	-1.8%	-0.9%
Reserve	753,798	748,839	741,387	-0.7%	-1.0%

Retired Beneficiaries

(all uniformed services)

	9/30/14	9/30/15	9/30/16	Increase from End of FY14 to FY15	Increase from End of FY15 to FY16
Retirees					
Sponsors					
Non-Medicare-eligible	1,046,456	1,049,955	1,046,947	0.3%	-0.3%
Medicare-eligible	1,108,671	1,128,331	1,145,863	1.8%	1.6%
Total	2,155,127	2,178,286	2,192,810	1.1%	0.7%
Spouses					
Non-Medicare-eligible	967,247	962,351	941,140	-0.5%	-2.2%
Medicare-eligible	683,253	695,760	701,890	1.8%	0.9%
Total	1,650,500	1,658,111	1,643,030	0.5%	-0.9%
Others					
Non-Medicare-eligible	795,447	818,736	832,096	2.9%	1.6%
Medicare-eligible	13,256	13,443	13,634	1.4%	1.4%
Total	808,703	832,179	845,730	2.9%	1.6%
Survivors					
Spouses					
Non-Medicare-eligible	86,080	84,490	81,510	-1.8%	-3.5%
Medicare-eligible	489,172	496,016	507,183	1.4%	2.3%
Total	575,252	580,506	588,693	0.9%	1.4%
Others					
Non-Medicare-eligible	32,229	32,003	31,621	-0.7%	-1.2%
Medicare-eligible	7,150	7,341	7,547	2.7%	2.8%
Total	39,379	39,344	39,168	-0.1%	-0.4%
Retirees and Survivors					
Non-Medicare-eligible	2,927,459	2,947,535	2,933,314	0.7%	-0.5%
Medicare-eligible	2,301,502	2,340,891	2,376,117	1.7%	1.5%
Total	5,228,961	5,288,426	5,309,431	1.1%	0.4%

MERHCF Incurred Outlays

Aggregate ($ in millions)	FY 2014	FY 2015	FY 2016	Increase from FY14 to FY15	Increase from FY15 to FY16
Purchased Care					
IP	$837	$889	$909	6.2%	2.2%
OP	$2,341	$2,437	$2,554	4.1%	4.8%
Rx	$3,570	$3,806	$3,380	6.6%	-11.2%
Other	$259	$200	$142	-22.7%	-29.1%
TOTAL	$7,007	$7,332	$6,985	4.6%	-4.7%
Direct Care					
IP	$560	$593	$591	5.9%	-0.3%
OP	$626	$676	$695	8.0%	2.8%
Rx	$689	$739	$773	7.3%	4.6%
TOTAL	$1,875	$2,008	$2,059	7.1%	2.5%
US Family Health Plan					
Capitation Rates	$682	$698	$700	2.4%	0.3%
Other	$3	$3	$3	3.0%	-7.2%
TOTAL	$684	$701	$703	2.4%	0.3%
Grand Total	$9,566	$10,042	$9,747	5.0%	-2.9%

Per Capita	FY 2014	FY 2015	FY 2016	Increase FY14 to FY15	Increase FY15 to FY16
Purchased Care	$3,100	$3,112	$2,992	0.4%	-3.8%
Direct Care	$838	$882	$883	5.2%	0.2%
TOTAL	$3,938	$3,993	$3,875	1.4%	-3.0%
US Family Health Plan	$14,633	$14,667	$14,564	0.2%	-0.7%

Notes:

1. PC Retail Rx incurred amounts are net of incurred pharmacy rebates.
   Incurred rebates in FY 2015 / FY 2016 were $435m / $428m.
2. Medicare is primary payer in most cases with PC IP and PC OP.
3. TRICARE is primary payer in most cases with PC 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 enrollment (among six plans), demographic mix (age / gender), and utilization experience.
   In addition, rebates are applied to experience period on a paid (not incurred) basis in the development of the USFHP rates.
6. Per Capita PC Retail Rx rates in FY 2014 and FY 2015 were reduced by the estimate of excess compound drug expenditures.
   Effective FY 2016, PC mail order pharmacy ingredient cost is the amount DHA pays to replenish the mail order warehouse supplies (no longer based on ingredient cost on the claims records).

MERHCF Valuation Key Economic Assumptions
Discount Rate and Ultimate Medical Trend

	September 30, 2014 Val	September 30, 2015 Val	September 30, 2016 Val (Proposed)
FUNDING VALUATION			
Discount Rate	5.50%	5.50%	5.25%
Ultimate Trend	5.50%	5.50%	5.25%
FINANCIAL STATEMENT BASIS			
Discount Rate	4.10%	4.00%	TBD
Ultimate Trend	4.85%	4.45%	TBD

Effective Yield During the Fiscal Year

Medicare-Eligible Retiree Health Care Fund

($ in billions)

Fiscal Year	Fund Balance, Beginning of Year	Contributions Received: From Uniformed Services, for Normal Costs	Contributions Received: From Treasury, for Unfunded Accrued Liability	Contributions Received: One-Time Adjustment	Investment Income	Benefit Payments: DC	Benefit Payments: PC	Benefit Payments: TOT	Fund Balance End of Year	Effective Annual Yield
2012	$188.1	$11.1	$6.7		$6.3	$1.8	$6.9	$8.7	$203.5	**3.1%**
2013	$203.5	$8.5	$6.1	$0.1	$7.2	$1.8	$6.5	$8.3	$217.2	**3.4%**
2014	$217.2	$7.7	$4.3		$7.7	$1.9	$7.4	$9.3	$227.5	**3.4%**
2015	$227.5	$7.2	$4.0		$4.7	$1.9	$8.1	$10.0	$233.5	**2.0%**
2016	$233.5	$6.8	$3.3		$6.1	$2.0	$7.8	$9.8	$240.0	**2.5%**

NOTE: Numbers are on a cash basis.

MERHCF Valuation Key Economic Assumptions - Medical Trends

September 30, 2015 Val

		Non-USFHP						USFHP
		DC			PC			
From FY:	To FY:	IP	OP	RX	IP	OP	RX	
2015	2016	2.95%	5.00%	5.00%	1.00%	3.00%	4.67%	2.77%
2016	2017	3.54%	5.00%	5.00%	2.57%	3.34%	4.67%	3.41%
2017	2018	3.73%	5.00%	5.00%	2.72%	3.63%	4.67%	3.60%
2018	2019	3.34%	5.00%	5.02%	2.43%	4.67%	4.71%	3.98%
2019	2020	4.17%	5.50%	5.04%	3.03%	5.23%	4.75%	4.48%
2020	2021	4.42%	5.42%	5.07%	3.22%	5.15%	4.78%	4.55%
2021	2022	4.54%	5.44%	5.09%	3.30%	5.17%	4.82%	4.43%
2022	2023	4.46%	5.44%	5.11%	3.24%	5.17%	4.85%	4.42%
2023	2024	4.64%	5.46%	5.13%	3.37%	5.19%	4.89%	4.49%
2024	2025	4.65%	6.19%	5.15%	3.38%	5.88%	4.92%	4.83%
2025	2026	4.70%	6.15%	5.17%	3.51%	5.86%	4.96%	4.89%
2026	2027	4.75%	6.10%	5.20%	3.65%	5.83%	5.00%	4.94%
2027	2028	4.81%	6.06%	5.22%	3.78%	5.81%	5.03%	4.99%
2028	2029	4.86%	6.02%	5.24%	3.91%	5.79%	5.07%	5.03%
2029	2030	4.91%	5.97%	5.26%	4.04%	5.76%	5.10%	5.07%
2030	2031	4.97%	5.93%	5.28%	4.18%	5.74%	5.14%	5.12%
2031	2032	5.02%	5.89%	5.30%	4.31%	5.71%	5.18%	5.16%
2032	2033	5.07%	5.84%	5.33%	4.44%	5.69%	5.21%	5.20%
2033	2034	5.13%	5.80%	5.35%	4.57%	5.67%	5.25%	5.24%
2034	2035	5.18%	5.76%	5.37%	4.71%	5.64%	5.28%	5.28%
2035	2036	5.23%	5.72%	5.39%	4.84%	5.62%	5.32%	5.32%
2036	2037	5.29%	5.67%	5.41%	4.97%	5.60%	5.36%	5.36%
2037	2038	5.34%	5.63%	5.43%	5.10%	5.57%	5.39%	5.39%
2038	2039	5.39%	5.59%	5.46%	5.24%	5.55%	5.43%	5.43%
2039	2040	5.45%	5.54%	5.48%	5.37%	5.52%	5.46%	5.46%
Ultimate		5.50%	5.50%	5.50%	5.50%	5.50%	5.50%	5.50%

September 30, 2016 Val (Proposed)

		Non-USFHP						USFHP
		DC			PC			
From FY:	To FY:	IP	OP	RX	IP	OP	RX	
2016	2017	2.00%	4.00%	4.00%	1.00%	3.00%	3.42%	2.56%
2017	2018	1.95%	4.00%	4.00%	1.56%	3.00%	3.18%	2.76%
2018	2019	2.89%	3.99%	5.00%	2.31%	3.99%	5.18%	3.78%
2019	2020	3.79%	4.68%	4.00%	3.03%	4.68%	3.42%	4.16%
2020	2021	4.12%	4.83%	4.06%	3.30%	4.83%	3.50%	4.42%
2021	2022	4.32%	4.94%	4.11%	3.45%	4.94%	3.59%	4.19%
2022	2023	4.41%	4.89%	4.17%	3.53%	4.89%	3.67%	4.22%
2023	2024	4.26%	4.98%	4.23%	3.41%	4.98%	3.75%	4.23%
2024	2025	4.16%	5.52%	4.28%	3.33%	5.52%	3.83%	4.48%
2025	2026	4.25%	5.87%	4.34%	3.40%	5.87%	3.92%	4.70%
2026	2027	4.31%	5.83%	4.40%	3.52%	5.83%	4.00%	4.75%
2027	2028	4.38%	5.79%	4.45%	3.63%	5.79%	4.08%	4.79%
2028	2029	4.44%	5.76%	4.51%	3.75%	5.76%	4.17%	4.84%
2029	2030	4.50%	5.72%	4.57%	3.86%	5.72%	4.25%	4.87%
2030	2031	4.56%	5.68%	4.63%	3.98%	5.68%	4.33%	4.91%
2031	2032	4.63%	5.64%	4.68%	4.09%	5.64%	4.42%	4.95%
2032	2033	4.69%	5.60%	4.74%	4.21%	5.60%	4.50%	4.98%
2033	2034	4.75%	5.56%	4.80%	4.33%	5.56%	4.58%	5.02%
2034	2035	4.81%	5.52%	4.85%	4.44%	5.52%	4.67%	5.05%
2035	2036	4.88%	5.48%	4.91%	4.56%	5.48%	4.75%	5.08%
2036	2037	4.94%	5.44%	4.97%	4.67%	5.44%	4.83%	5.10%
2037	2038	5.00%	5.41%	5.02%	4.79%	5.41%	4.92%	5.14%
2038	2039	5.06%	5.37%	5.08%	4.90%	5.37%	5.00%	5.17%
2039	2040	5.13%	5.33%	5.14%	5.02%	5.33%	5.08%	5.20%
2040	2041	5.19%	5.29%	5.19%	5.13%	5.29%	5.17%	5.22%
Ultimate		5.25%	5.25%	5.25%	5.25%	5.25%	5.25%	5.25%

MERHCF Valuation Assumptions - Other

	September 30, 2015 Val	September 30, 2016 Val (Proposed)
Admin Load		
IP & OP	3.25%	2.30%
RX	2.50%	1.90%
USFHP	0.40%	0.35%
Decrements	Consistent w/Sept-14 Val, except: (1) one more year of MI, (2) update MI scale (SOA MP-2015), (3) update mortality rates of AD and RES (pre-retirement), (4) update spouses per sponsor rates.	Consistent w/Sept-15 Val, except: (1) one more year of MI, (2) update survivor mortality and survivor remarriage rates, (3) update spouses per sponsor rates.
Retail Rx Rebates	Based on recent accounting reports of rebate dollars received (amounts received are allocated by incurred fiscal quarter), amounts billed to drug manufacturers, and recent drug utilization data. Also, estimate future decline in brand drug rebates due to mandatory mail order and retail copay increases.	Based on recent accounting reports of rebate dollars received (amounts received are allocated by incurred fiscal quarter), amounts billed to / collected from drug manufacturers, and recent drug utilization data. Also consider impact of mandatory mail order, copay increases, specialty meds.
USFHP	Calibrated to FY15 aggregate capitation rate payments; adjust future years to allow only grandfathered members.	Calibrated to FY16 aggregate capitation rate payments; adjust future years to allow only grandfathered members.

MERHCF Valuation Assumptions - Plan Participation Rates
(Relative to Ultimate Plan Participation)

	September 30, 2015 Val						September 30, 2016 Val (Proposed)					
	DC			PC			DC			PC		
	IP	OP	RX	IP	OP	RX	IP	OP	RX	IP	OP	RX
FY2015	103.2%	103.2%	101.5%	98.2%	98.2%	98.1%						
FY2016	102.6%	102.6%	101.3%	98.5%	98.5%	98.4%	102.6%	102.6%	101.3%	98.5%	98.5%	98.4%
FY2017	102.0%	102.0%	101.0%	98.8%	98.8%	98.7%	102.0%	102.0%	101.0%	98.8%	98.8%	98.7%
FY2018	101.5%	101.5%	100.8%	99.1%	99.1%	99.0%	101.5%	101.5%	100.8%	99.1%	99.1%	99.0%
FY2019	100.9%	100.9%	100.6%	99.4%	99.4%	99.3%	100.9%	100.9%	100.6%	99.4%	99.4%	99.3%
FY2020	100.3%	100.3%	100.3%	99.6%	99.7%	99.6%	100.3%	100.3%	100.3%	99.6%	99.7%	99.6%
FY2021	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
FY2022	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

MERHCF Valuation Assumptions - Claim Costs

	September 30, 2015 Val	September 30, 2016 Val (Proposed)
Valuation Claims Costs		
Direct Care	Blend of FY 2013 - 2015 experience	Blend of FY 2014 - 2016 experience
Purchased Care	Blend of FY 2013 - 2015 experience (2015 for Rx)	Blend of FY 2014 - 2016 experience (2016 for Rx)
USFHP	Blend of FY 2013 - 2015 rates by gender	Blend of FY 2014 - 2016 rates by gender

MERHCF Valuation Assumptions - Plan Change(s)

Plan Change:	2017 NDAA (P.L. 114-328, Sec 525) reduced the maximum duration on TDRL from five years to three years (USC, Title 10, Sec. 1210). The impact on the MERHCF AL and normal cost is immaterial. A minor change to projected disability retirements will be incorporated into next year's valuation, and it is not expected to have a measurable impact.
Effective Date:	January 1, 2017, for all members of the Armed Forces who are placed on the TDRL on or after that date.
Grandfathered:	Anyone placed on the TDRL before January 1, 2017.

ATTACHMENT 5

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

July 28, 2017

MERHCF Valuation Assumptions

Sponsor/Survivor Based Claim Vectors

- **Estimates of per family medical costs at the starting year of projection**
  -- costs of retirees/survivors and their dependents
  -- with other assumptions (for example: trend, participation, and discount rate)
    → project medical costs for 100 years
    → calculate normal costs and actuarial liability
  -- two major matrixes: 12 × 6 × 101 Direct Care/Purchased Care (DC / PC) claims matrix and 12 × 1 × 101 USFHP matrix
    → 12 beneficiary categories
      retiree/survivor; disabled/non-disabled; active duty/reserve; officer/enlisted
    → benefit types
      ● DC / PC claims: inpatient, outpatient, and pharmacy
      ● USFHP: aggregate capitation rate costs
    → 101 sponsor or survivor ages; from age 18 to 118

- **Data**
  -- FY 2014 to 2016 experience
    → DC / PC claims
      ● re-pulled FY2015 data, more complete
      ● costs of survivor's dependent by survivor age
    → USFHP

MERHCF Valuation Assumptions

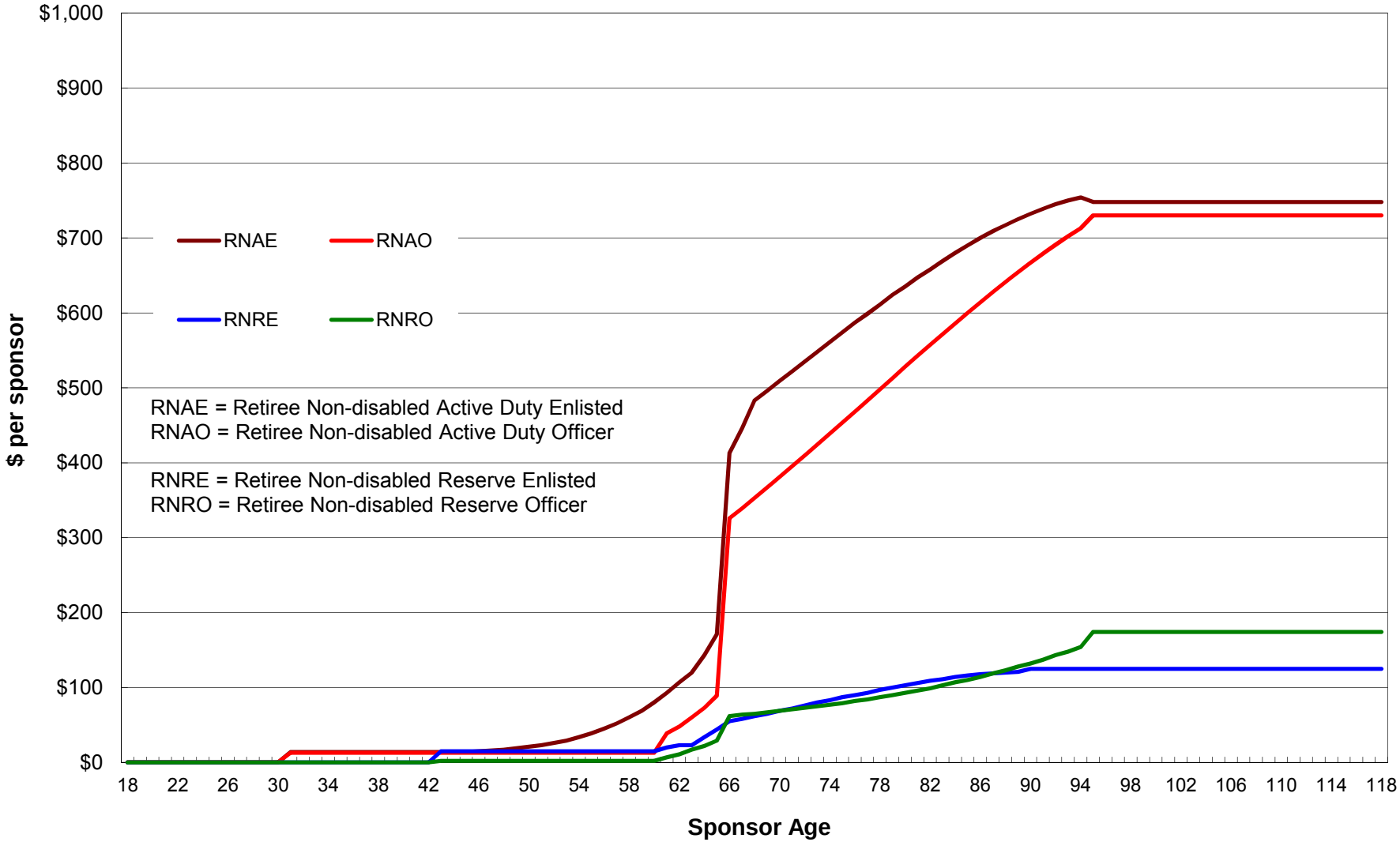
Sponsor/Survivor Based Claim Vectors

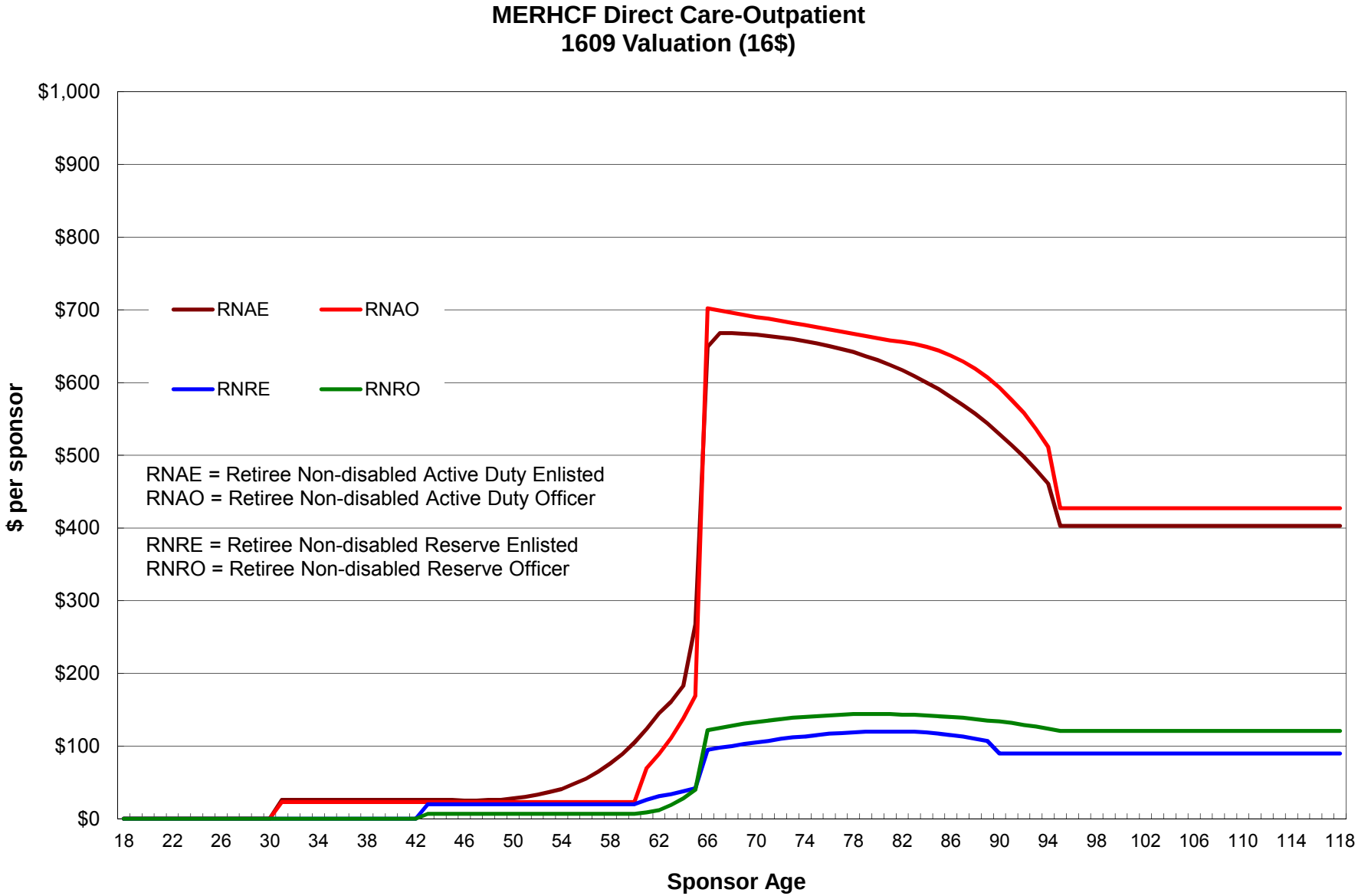
- **Smoothing technique**
  -- weighted least squares regression, linear regression, or weighted average
  → correlation between ages and medical costs
  → volatile or not credible data

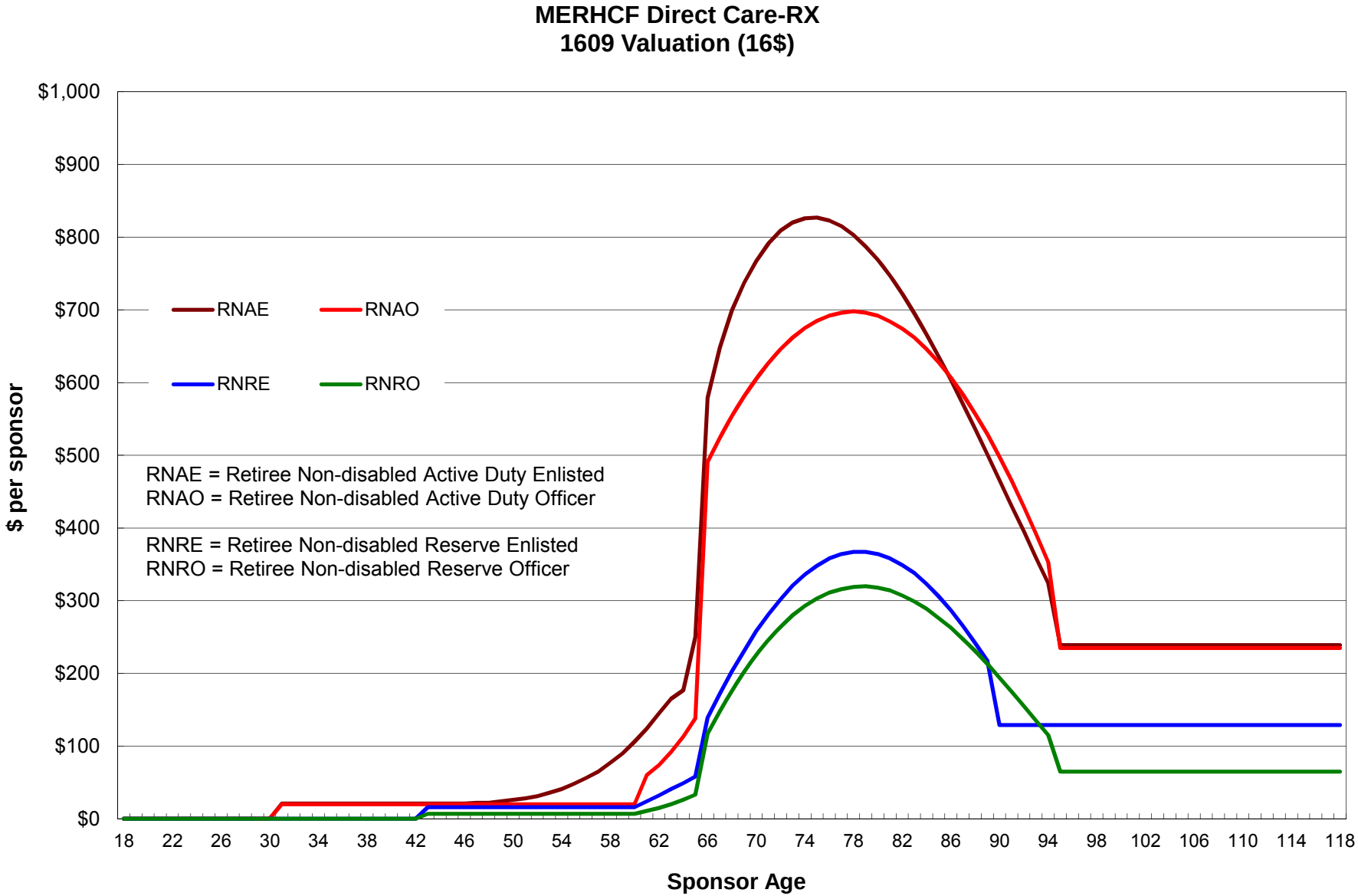
- **Charts 1 to 7**
  -- proposed family costs
  → DC / PC claims and USFHP
  -- 4 non-disabled retiree groups
  → active duty/reserve and enlisted/officer

- **Details of proposed claim vectors**
  -- 9/30/16 Report on the Valuation of the MERHCF

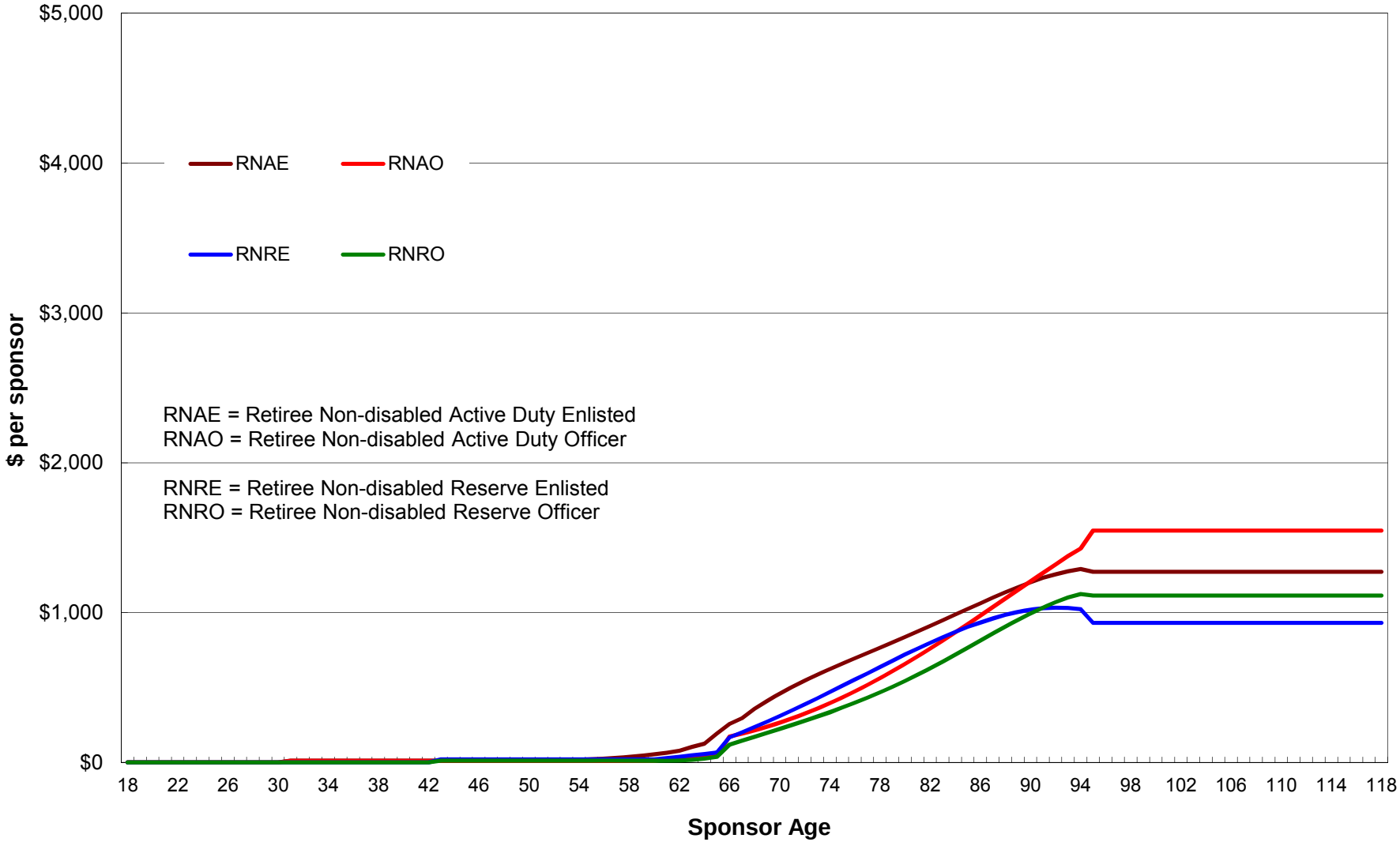
MERHCF Direct Care-Inpatient
1609 Valuation (16$)

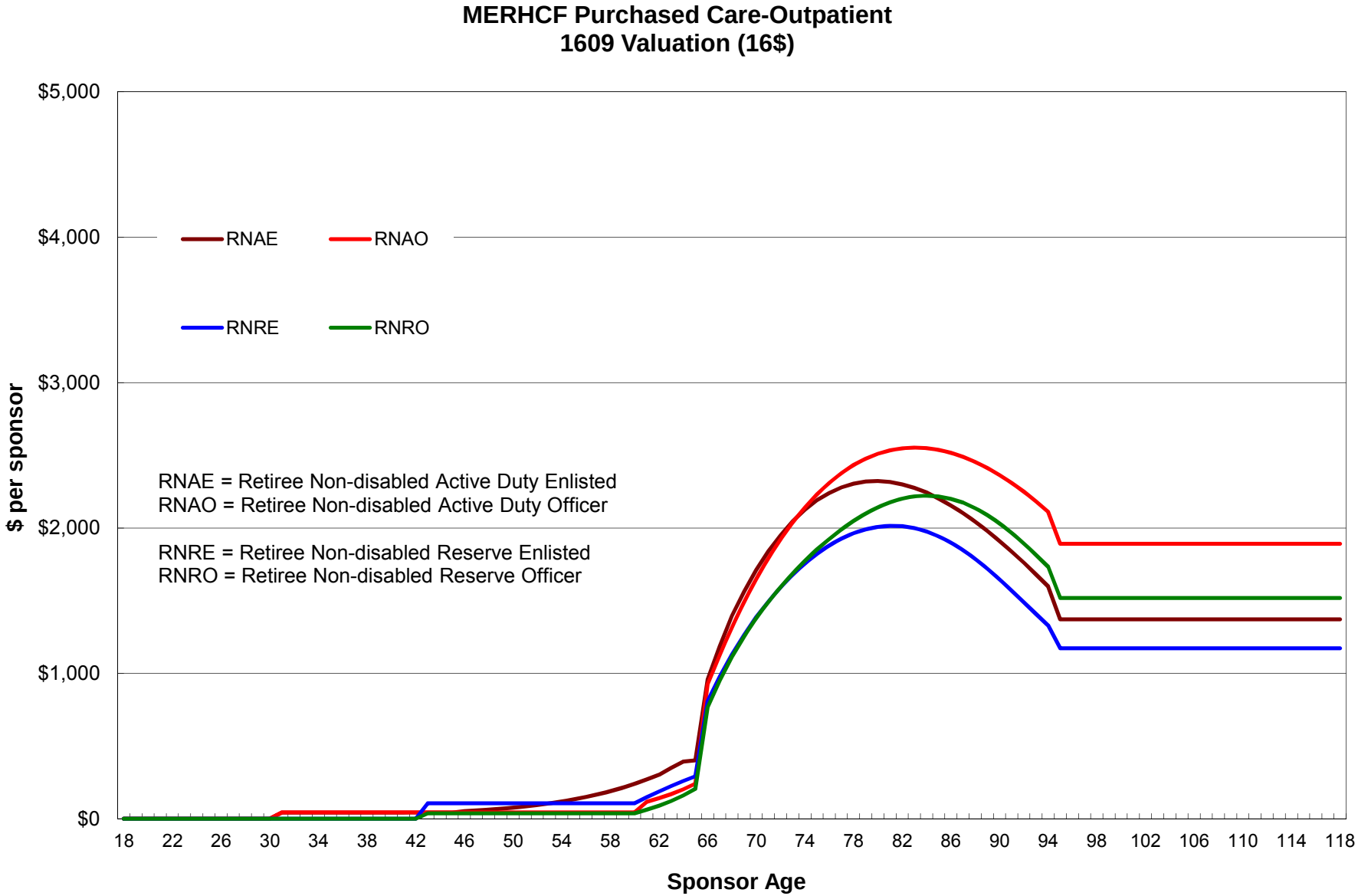



MERHCF Direct Care-Outpatient
1609 Valuation (16$)
$ per sponsor
$1,000
$900
$800
$700
$600
$500
$400
$300
$200
$100
$0
RNAE
RNAO
RNRE
RNRO
RNAE = Retiree Non-disabled Active Duty Enlisted
RNAO = Retiree Non-disabled Active Duty Officer
RNRE = Retiree Non-disabled Reserve Enlisted
RNRO = Retiree Non-disabled Reserve Officer
18 22 26 30 34 38 42 46 50 54 58 62 66 70 74 78 82 86 90 94 98 102 106 110 114 118
Sponsor Age

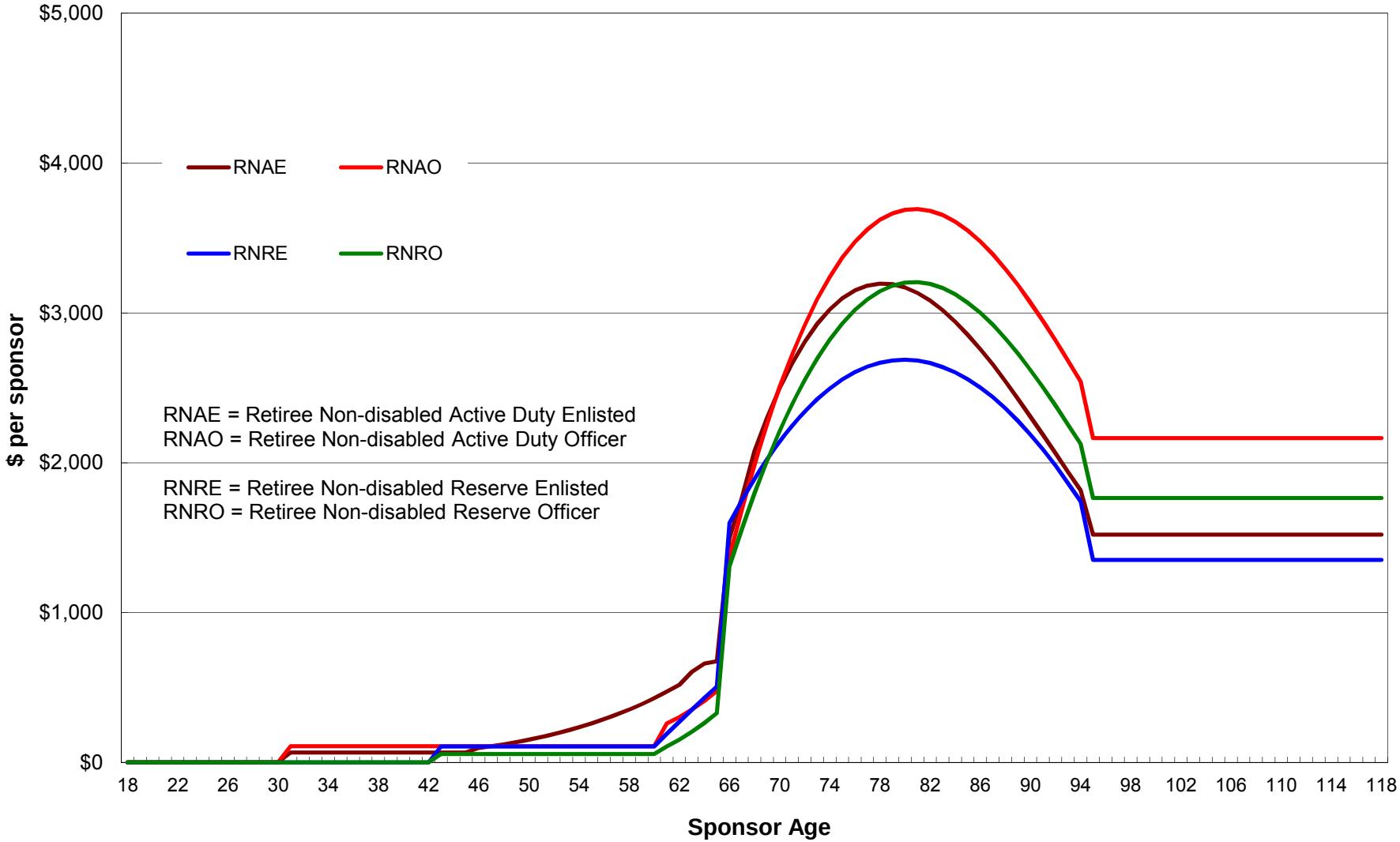

MERHCF Direct Care-RX
1609 Valuation (16$)
$1,000
$900
$800
$700
$600
$500
$400
$300
$200
$100
$0
$ per sponsor
RNAE
RNAO
RNRE
RNRO
RNAE = Retiree Non-disabled Active Duty Enlisted
RNAO = Retiree Non-disabled Active Duty Officer
RNRE = Retiree Non-disabled Reserve Enlisted
RNRO = Retiree Non-disabled Reserve Officer
18 22 26 30 34 38 42 46 50 54 58 62 66 70 74 78 82 86 90 94 98 102 106 110 114 118
Sponsor Age

MERHCF Purchased Care-Inpatient
1609 Valuation (16$)

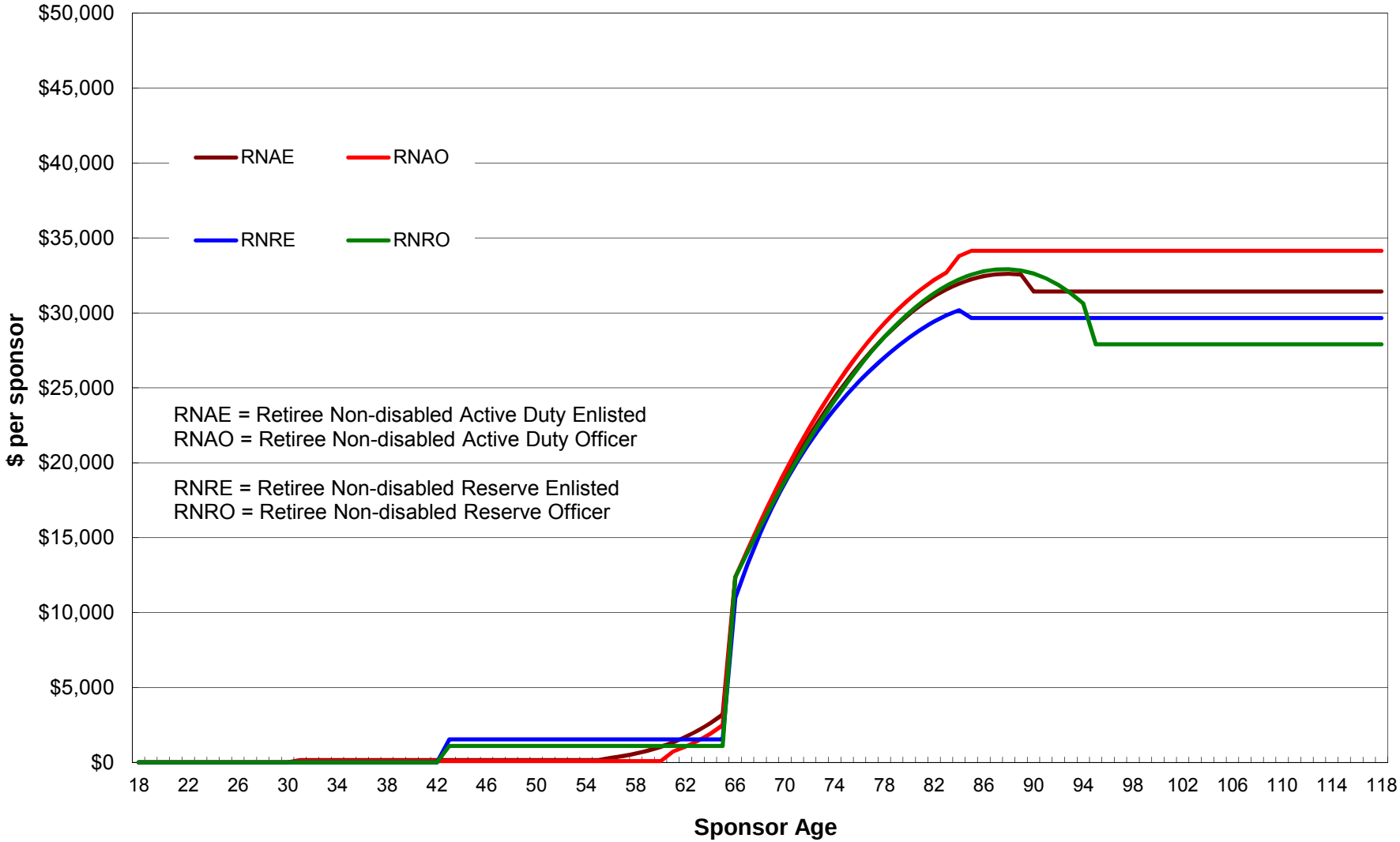



MERHCF Purchased Care-Outpatient
1609 Valuation (16$)
$5,000
$4,000
$3,000
$2,000
$1,000
$0
$ per sponsor
RNAE
RNAO
RNRE
RNRO
RNAE = Retiree Non-disabled Active Duty Enlisted
RNAO = Retiree Non-disabled Active Duty Officer
RNRE = Retiree Non-disabled Reserve Enlisted
RNRO = Retiree Non-disabled Reserve Officer
18 22 26 30 34 38 42 46 50 54 58 62 66 70 74 78 82 86 90 94 98 102 106 110 114 118
Sponsor Age

MERHCF Purchased Care-RX
1609 Valuation (16$)



MERHCF USFHP
1609 Valuation (16$)



ATTACHMENT 6

MEDICARE-ELIGIBLE RETIREE HEALTH CARE BOARD OF ACTUARIES MEETING TRANSCRIPT

July 28, 2017

UNITED STATES DEPARTMENT OF DEFENSE

DEFENSE HUMAN RESOURCE ACTIVITY

BOARD OF ACTUARIES MEETING

MEDICARE-ELIGIBLE RETIREE HEALTH CARE

Alexandria, Virginia

Friday, July 28, 2017

PARTICIPANTS:

LYNETTE TRYGSTAD
Acting Chairman

STUART ALDEN
Board Member

KATHY BEASLEY
MOAA

PAUL BLEY
DHA

CHRIS BORCIK
CCRC Actuaries

CHELSEA CHU
Actuary

NICK GARCIA
Actuary

EMILY GENTILE
OMB, Health Division

COLLEEN HARTMAN
OSD-C

KENNETH HODGSON
USCG

TED JADITZ
ASD HA/HRMAD

MARGOT KAPLAN
Actuary

THOMAS LIUZZO
OSD (P&R)

ROBERT MOSS
DHA/B&RM

PARTICIPANTS (CONT'D):

DAVID OSTERNDORF

Board Member

INGER PETTYGROVE
Actuary

DENNIS RATLIFF
OSD (HA)

TERRY ROBERTS
DFAS

PETE ROSSI
Actuary

JOEL SITRIN
Chief Actuary and Executive Secretary

EDITH SMITH
Capitol Crusader

RICHARD VIRGILE
DHS, Coast Guard

PETER ZOURAS
Actuary

* * * * *

P R O C E E D I N G S

(10:00 a.m.)

CHAIRMAN TRYGSTAD: Good morning. We're going to start the meeting now. I guess they were having some computer difficulty, so if you have a hard copy for the people on the phone and the people in the room do have hard copies, we'll see if we can get it working here in a minute.

My name is Lynette Trygstad. I'm the chair this year. To my right is Dave Osterndorf, who is the other chair board member, and our new board member is Stuart Alden.

Could I have a listing or introduce people who are on the phone, just let us know who is there?

Is anyone on the phone? Can anyone hear me on the phone?

MR. ALDEN: You might be on mute.

CHAIRMAN TRYGSTAD: It's green.

MR. SITRIN: Terry Roberts, are you there?

MR. ROBERTS: I'm here. Yes, this is Terry.

CHAIRMAN TRYGSTAD: Is there anyone else on the phone?

MR. BORCIK: This is Chris Borcik from

Continuing Care Actuaries and it's actually very hard to hear on the phone.

CHAIRMAN TRYGSTAD: Okay. I'll try to speak closer to it. Thank you for letting me know.

Is that all on the phone? All right. The objective of today's meeting is to -- it's in the agenda and we're here to review the Office of the Actuaries proposed methods and assumptions to calculate the Fiscal Year '19 normal costs, and the September 30th unfunded liability for 2016. And the October 1st unfunded liability amortization payments.

So item two of the agenda is Terry Roberts is going to present the trust fund update.

Terry, you can start now.

MR. SITRIN: Terry?

MR. ROBERTS: Okay, thank you, guys. As Chris mentioned, it's very hard to hear you guys. I'm cutting in now.

But good morning. I am Terry Roberts, Chief and Trust Funds Accounting and Reporting Division at DFAS. I will be briefing the slides. The slide deck is labeled 2017 MERHCF Board of Actuaries Final if you're reading at home on your

computers.

Slide number two shows the agenda for our discussion this morning and then the briefing will begin on slide number three. This briefing will be similar in content and format to the previous Board of Actuary Briefings that were held earlier this month.

So for MERHCF, in 2017, we invested in three notes that mature in 2021, 2023, and 2024, with a cost of approximately $11 billion. Treasury and service contribution were approximately $12.8 billion. There were no early sales during FY 2017, and the inflows exceeded the outflows by about $1 billion through June. The positive cash flows are projected to continue with reinvesting (inaudible) estimated at approximately $16 billion. The projections I used were prepared mainly for my benefit to measure cash flow and then also to assist OSD with projecting the interest income for the fund. They are speculative and conservative. They assume that new investments will have a 20-year lifecycle. The actual result of the fund based upon the market conditions, cash flow environments (inaudible) contribution levels and actual (inaudible) returns.

Moving to slide four, this slide illustrates the (inaudible) revenues and expenses through June. There was one 2017 bond maturity in November for $1.4 billion. The investment policy statement requires this fund to hold between 75 and 90 percent of the portfolio and tip securities, making it very sensitive to inflation and fluctuation. Currently, the fund holds 84 percent of the portfolio (inaudible).

On slide five, we provide a more detailed examination of the interest income. The line (inaudible) describes changes in interest income due to maturities and inflation adjustments from prior years and the (inaudible) shows the (inaudible) change (inaudible) portfolio. And then (inaudible). On slide six is the balance sheet for September 30, 2016. That's a picture for the fund at that particular point in time. Total assets (inaudible) cash or the fund balance with Treasury, the interest receivable and accounts receivable. The balance sheet investment valuation method is book value, which is comprised of the overnight and (inaudible) investments at par value plus the inflation purchase, plus the inflation, plus the

outstanding or unamortized premium, the (inaudible) discount.

On slide seven are the affected (inaudible) for each of the fiscal years shown. And this information was provided to me by the Office of the Actuary. On slide eight is a graphic representation with the market value of the portfolio at the end of the month of June 2017. This would be the increase to cash that the entire portfolio was liquidated on that date. This does not reconcile to the balance sheet on slide six because of the different time periods presented and the different valuation methods used.

Slide nine shows the portfolio holdings as of June 30th. Since MERHCF holds a large number of securities, for this briefing I divided the slide into two columns to make it a little easier to read.

Going forward, for the other briefings, I'm going to do the same thing. I think this is a little bit easier to follow.

Notable on this slide, the interest rates show coupon rates for each of the individual securities.

And then following on slide 10, I'm showing

the maturity profile of the MERHCF portfolio as of June 30th. This slide is valued as par plus inflation and it's grouped by maturity year to illustrate the timing of the maturities and the gaps that are potential targets for the new investment purchases.

At this time, if there are any questions, I'd be happy to entertain them.

CHAIRMAN TRYGSTAD: There do not appear to be any questions in the room, Terry.

MR. ROBERTS: Okay. Well, if there are no questions, I'd just like to say if something does come up later, please do feel free to contact me directly or through Mr. Sitrin's office.

CHAIRMAN TRYGSTAD: Okay. Thank you very much.

MR. ROBERTS: Thank you.

CHAIRMAN TRYGSTAD: We'll move on to item three on the agenda. And Margot Kaplan from the DOD Office of the Actuary is going to review this.

MS. KAPLAN: Okay. Can I do a sound check for the people on the phone? Can you hear me at this time?

MR. BORCIK: It sounded good at first,

then you faded out.

MS. KAPLAN: All right. How about now?

MR. BORCIK: It's still very (inaudible).

MS. KAPLAN: All right. I'm just going to do my best to talk clearly and loudly.

MR. BORCIK: That sounds great.

MS. KAPLAN: All right. I'm not moving. So if you could look at the handout that is stapled together and on the first page it says at the top, Medicare Eligible Retiree Healthcare Fund Valuation History.

On the first slide, we show the last five years of valuation results. And if you go down to where it says the board meeting at the summer of 2016, that was last year's results where we produced the per capital normal costs that are going to be used for the upcoming contribution to the MERHCF. We also show the liability from last year's results in the middle box, the amount of the fund in the unfunded lability. And then finally, the box to the right, the unfunded liability payment which was made last fall of 5.7 billion.

On the bottom part of the slide you can see the gains and losses that we experienced with the

valuation, so last year's valuation resulted in a $35 billion loss. And you can see how that was broken down by experience and assumptions and benefits. Okay?

CHAIRMAN TRYGSTAD: All right. Does anybody have any questions on that for Margot?

All right, Margot, do you want to move on to item four then?

MS. KAPLAN: Yeah. We're going to move to slide two, but before we talk about what's on the second slide, I want to recap some discussion that we've had with the board regarding some proposed changes to the amortization of the unfunded liability. And first, I want to remind everyone that the Treasury is responsible for making the unfunded liability amortization payments.

So we discussed the fact that the amortization payments of the unfunded liability have been too low. The payments are not resulting in a decreasing balance. In other words, the initial unfunded liability balance has been rising rather than falling.

We discussed making a couple of modifications to the amortization of the unfunded

liability. One that addresses the initial unfunded liability and another that simplifies the method of amortizing gains and losses on the unfunded.

Regarding the initial unfunded amortization period, we currently have 30 years remaining. If we reduce the remaining years to 23, we will eliminate future increases in the initial unfunded liability.

Regarding the method of amortizing gains and losses on the unfunded liability, we currently keep separate amortization schedules for each of the three categories of gains and losses -- experience, assumptions, and benefit changes. And each has a 30-year amortization period for new gains and losses.

We can simplify this procedure by setting the amortization of gains and losses on each remaining balance to 20 years and we can reduce the amortization period for future gains and losses from 30 to 20 years.

At this time, we are proposing that the board approves making these changes to the amortization of the unfunded liability.

Okay. So now we can move on to reviewing the proposed assumptions for this year's valuation.

So starting on slide two, here we have a summary of the active employees of the population, the active duty and reserves from DOD, Coast Guard, PHS and NOAA. Our sources for this data include the personnel master file and the reserve personnel file. Both are maintained by DMDC at the Naval Post Graduate School.

Okay. Next slide. Here we show the retirees for all uniformed services. At the bottom you can see a summary where for September 30, 2016, we have 5.3 million lives, roughly 2.4 million of which are eligible for Medicare.

Are there any questions? Okay. Next slide? Here we show the incurred outlays from the fund.

The top portion of the slide we show it in aggregate dollars in millions, and underneath that sum per capita values.

Regarding the aggregate, we break that down by purchase case, direct care, and U.S. family health plan, with further breakouts for inpatient, outpatient, pharmacy, and other. Other includes administrative-type costs that are not included in the claims, as well as certain claim corrections.

Please note that the purchase care retail drug incurred amounts are net of incurred pharmacy rebates, meaning that they have been removed. Okay? And the amount of the rebates in fiscal 2016 were 428 million. That compares to 435 million in fiscal year 2015. You can also see that from FY '15 to FY '16, there was a decrease in the purchase care pharmacy payments, and that can mostly be explained by three factors. One would be there was an excess compound drug problem that ended in Fiscal Year '15. Second, there were some drug copay increases in FY '16. And third, we changed our source for mail order ingredient costs. Rather than rely on the ingredient cost that's in the claims data, we are using the actual acquisition cost to replenish the drugs that are dispensed at the mail order warehouse.

Are there any questions about that? You probably, if you look at the notes, note number two, I just want to remind everyone that Medicare is the primary payer in most cases with purchase care inpatient and purchase care outpatient, whereas Tricare is the primary payer for purchase care pharmacy, as well as all direct care and U.S. family health plan.

Let's go to the next slide. Here we're going to talk about the discount rate the ultimate trend rate assumptions that are used in the valuation. These assumptions have a significant impact on valuation results. We looked at several historical benchmarks and forecasts and we considered the real interest and long- term trend assumptions used for other comparable fund valuations. Specifically, we looked at long-term treasury yields, per capita GDP growth, per capital NHE growth, CPI, blue chip forecasts, the 2017 Medicare Trustees Report, and other reports from CMS.

Some key observations. The most recent blue chip forecast is projecting real interest 30 to 40 basis points lower than last year. Also, the retirement board for the Military Retirement Fund lowered its real interest assumption. And OPM lowered their real interest assumption on their pension fund.

Our discount rate formula is inflation plus real interest or real yield, and we're generally comfortable with our long-term inflation assumption but we do see enough evidence that supports a reduction in the real yield assumption. So we are

proposing a 25 basis point decrease in the discount rate to 5.25 percent.

With regard to the ultimate medical trend, here are some key observations. Our building blocks for this rate are fairly standard in the industry. GDP plus one percent. Really, that means real per capital GDP growth plus inflation plus one percent. And the extra one percent recognizes that medical cost growth is expected to exceed general growth in the economy.

A recent report from CMS projects 1.2 percent for excess medical cost growth, but we recognize that this is based on accelerated spending assumptions on items that are not relevant to the MERHCF. Examples of this would be Medicaid, nursing homes, and a population that's aging from the Baby Boomers.

So we are now proposing a 25 basis point reduction to our excess medical cost growth component of trend, which leads to an ultimate trend rate of 5.25 percent.

Okay. If there are no questions, next slide? We have a question.

MR. MOSS: Are you going to get to what the

impact then is on the normal cost contribution?

MS. KAPLAN: We're not going to discuss the specifics of that because we haven't finalized anything yet, but I can tell you that these -- while these two are very big assumptions, they very much offset each other.

MR. MOSS: Okay.

MS. KAPLAN: So whereas a decrease in the discount rate results in an increase in the liability, a decrease in the ultimate trend rate results in a decrease in the liability. So it's an increase and a decrease and they largely offset each other.

MR. MOSS: All right. Thanks.

MR. OSTERNDORF: And Margot, just for purposes of documentation, the period form current date to the ultimate trend rate is how long?

MS. KAPLAN: Yes. On a later slide, we have a 25- year select period for trend rates and then we have the next years are at the ultimate trend rate. Yes, Richard?

MR. VIRGILE: Looking at the expense (inaudible) or are these actually the trend rates that are being used for funding purposes (inaudible).

MS. KAPLAN: Okay. So are you looking at for the funding valuation?

MR. VIRGILE: Yeah.

MS. KAPLAN: Yeah, for the funding valuation we do have the discount rate current equal to the ultimate trend rate. For financial statement purposes, we are required to set those differently. And so they are different from one another in the financial statement results.

Let's move to the next slide. Here we show the effective yield of the fund for the past several years. The bottom row indicates that we had an effective annual yield of about 2.5 percent. And please note that these numbers are on a cash basis.

Next slide? So here on slide seven we are showing our proposed trend rates for this September 30, 2016 valuation on the right-hand side. Last year's rates are on the left.

We determined medical trend assumptions for inpatient, outpatient, and prescription drugs for purchase care and direct care and also for USFHP. For each, as I mentioned earlier, we have a 25-year select period before we reach the ultimate rate for the next 75 years. Our analysis for inpatient and

outpatient trend assumptions is based on cost and utilization data from CMS actuaries projected 10 years out for their fee-for-service Medicare population. We adjust this for issues raised in their alternative scenario analysis, including assumptions for productivity improvement and assumptions for future physician payment increases.

We also consider our recent plan experience for the initial trend years.

With respect to prescription drug trend, we analyzed DOD's experience and we study the Express Scripts annual drug trend report for insight into expected utilization growth in the broad marketplace.

As DOD is subject to federal drug pricing, we are also mindful of the underlying pricing rules of federal pricing when we estimate unit cost growth in the initial trend years.

And finally, USFHP trends are a weighted blend of the purchase care benefit component trends.

So you can note at the bottom of this chart that we have the proposed ultimate trend rate of 5.25 percent.

Next slide? Here we're going to review

some other miscellaneous assumptions. The top box where it says admin load, this is for the administrative and other costs that are not in the claims. We're recommending decreases in the admin loads consistent with the experience that we've been seeing.

For the box that says decrements, we're recommending that we use consistent rates with last year's val except that we add one more year of mortality improvement, that we update survivor mortality and survivor remarriage rates, and that we update spouses per sponsor rates.

For the survivor mortality and survivor remarriage rates, we would like to revise them to incorporate some data refinements which provide more clarity on the date of death in the data.

In the box that says retail drug rebates, we review accounting reports that we receive from Defense Health Agency. We are able to determine on an incurred basis quarterly rebate dollars. And we also consider the impact of mandatory mail order, which switches drugs out of retail into mail order, as well as copay increases and specialty meds.

We need to pay particular attention to

specialty meds now in retail because they are a growing portion of retail spend, and they are producing a higher than expected rebate level.

In the U.S. Family Health Plan box, we, similar to previous years, we calibrate to the aggregate capitation rate payments but we need to adjust future years of cash flow to allow only grandfathered members to remain in the plan after age 65.

Next slide? This is the review of our plan participation rates.

We created plan participation rates about 10 years ago to phase retirees into ultimate plan participation over 15 years. Tricare for Life was a new plan at that time and there's no enrollment. So these rates have allowed us to separate traditional benefit costs and utilization growth from plan utilization growth that results when a new benefit plan is offered with no enrollment requirement.

As stated in prior board meetings, we propose keeping the plan participation rates on the same path so that ultimate participation is reached in 2021.

Next slide? The claim costs, which Chelsea Chu is going to review, is summarized on this slide. And Chelsea, are you going to refer to another handout?

MS. CHU: Yes.

MS. KAPLAN: Okay.

MS. CHU: Sorry. So please go to the other slides on the first page which is titled MERHCF Variation Assumption and the sponsor survivor basis survivor claim vectors.

Okay? So I'm going to talk about cost estimates on a family basis, which we call it a claim vector. There are two major vectors in our valuation model. One is for direct care and the purchase care claims. The other one is for USFHP claims.

Each vector is three dimension metrics. The three dimensions are beneficiary category, benefit type, and the age.

The data we used to develop claim vectors is Fiscal Year 2014 to 2016 experience and for the direct care and the purchase care claim we report 2015 data just for more complete claim which we can use in the claim vector development.

Next slide? After we process the raw data

using techniques such as (inaudible) or weighted average were used to smooth out the scatterers. And we put the proposed claim vectors in the following seven chart for four major retiree groups. The chart shows the benefit cost in the order of inpatient, outpatient, and the pharmacy for direct care and the purchase care, respectively.

The last slide is USFHP vectors. And data for the detailed claim vectors will be available in the September 30, 2016 valuation report.

So please go to chart one. We can see the burgundy and red lines show the proposed cost of our active duty, enlisted and officer retirees and their family members. The blue and the green lines are the reserve, enlisted, and officer cost.

So if you go through the first three charts -- chart one to chart three, we can see the active duty retirees and the family used direct care more than reserve or retiree families do.

In chart four to six shows officer family use purchased care more than enlisted and their families do.

Also, you probably noticed the inpatient costs at old age do not drop as the other benefits

do. The reason is we know now people live longer, but at the same time they spend the last year of their life in the hospital, so we want to refer to the experience in our valuation model.

So do you have any questions about our proposed rate?

Now, if there are no questions, Margot will keep talking about slide 11.

MS. KAPLAN: Okay. So if you can go back to the other handout, and we're on the last page where it says MERHCF evaluation assumptions plan change. There actually was a plan change, although it was immaterial. So let's talk about it.

In the 2017 Defense Authorization Act, there was a change to reduce the maximum duration of the temporary disability benefit from five years to three years, and the impact on our liability and normal cost is immaterial. The reason is we consider someone who is on temporary disability retirement the same as someone who is on permanent disability retirement from a benefit standpoint. They get the same benefit.

In addition, we've seen that the vast majority of those who are on temporary disability who

make it to three year temporary disability are very likely going to make it all the way to permanent. So in next year's valuation there will be a change to projected disability retirements to incorporate this change but again, we're not expecting it to have a measurable impact on the MERHCF. This was effective January 1, 2017, for all members of the Armed Forces who are placed on TDRL on or after that date and then anyone who was placed on TDRL before January 1, 2017, is grandfathered.

Any questions?

MR. VIRGILE: One more. Sorry. Future changes, NDAA has a lot of things that are not really number specific, more like, you know, DHA is going to take over administration of the MDF programs and the Tricare nonprime, people are going to have to start paying enrollment fees I think in 2021. I just wanted to see if any of that is reflected or that's going to happen once you get a little more detail on the changes that are happening.

MS. KAPLAN: The question has to do with proposed changes in the Defense Authorization Act for 2018, and what are our plans for incorporating that.

Well, there are no plans to incorporate any

of that in this year's valuation because that is not law yet. But, but many of the proposed changes in there, one of them you were talking about the future enrollment fees for nonprime. That is -- that would affect retiree medical that is currently not part of the MERHCF. So to the extent there are changes in the future that affect the benefits that are paid out of the MERHCF, we would -- we would value an estimate for that.

CHAIRMAN TRYGSTAD: Any other questions? Anyone on the phone?

All right. Thank you, Margot and Chelsea. I guess we're moving to the item five on the agenda.

And we are to make the decision about the proposals presented by the Office of the Actuary. And the first one we're going to consider is the change on the unfunded liabilities to move from 30 years to 20 years on the gain/loss portion and to 23 years on the initial.

Do I have a motion?

MR. OSTERNDORF: I so move.

CHAIRMAN TRYGSTAD: A second?

MR. ALDEN: I second.

CHAIRMAN TRYGSTAD: All right. How do

you vote?

MR. OSTERNDORF: Aye.

MR. ALDEN: Aye.

CHAIRMAN TRYGSTAD: I vote aye also. It passes.

Moving on to the second one and that's to approve the methods and assumptions presented by the Office of the Actuary for the normal costs for the September 30, 2016, valuation.

Do we have a motion?

MR. OSTERNDORF: I so move.

MR. ALDEN: I second.

CHAIRMAN TRYGSTAD: Thank you. And if we could take our vote. Do you have any questions, comments, discussion? No? Okay. Take a vote.

MR. OSTERNDORF: Aye.

MR. ALDEN: Aye.

CHAIRMAN TRYGSTAD: I vote aye also. So we have approved both sets of recommendations, and I think our meeting is adjourned. Thank you, everyone.

(WHEREUPON, at 10:44 a.m., the PROCEEDINGS were adjourned.)

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CERTIFICATE OF NOTARY PUBLIC

COMMONWEALTH OF VIRGINIA

I, Carleton J. Anderson, III, notary public in and for the Commonwealth of Virginia, do hereby certify that the forgoing PROCEEDING was duly recorded and thereafter reduced to print under my direction; that the witnesses were sworn to tell the truth under penalty of perjury; that said transcript is a true record of the testimony given by witnesses; that I am neither counsel for, related to, nor employed by any

of the parties to the action in which this proceeding was called; and, furthermore, that I am not a relative or employee of any attorney or counsel employed by the parties hereto, nor financially or otherwise interested in the outcome of this action.

(Signature and Seal on File)

Notary Public, in and for the Commonwealth of Virginia

My Commission Expires: November 30, 2020

Notary Public Number 351998