



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

September 17, 2019

MEMORANDUM FOR THE RECORD

SUBJECT: Minutes of the August 2, 2019, Meeting of the DoD Medicare-Eligible Retiree Health Care Board of Actuaries

These are the minutes of the August 2, 2019, 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).

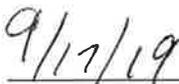
List of Attachments:

- 1 – Meeting agenda
- 2 – List of attendees
- 3 – Defense Finance and Accounting Service handout
- 4 – DoD Office of the Actuary handout
- 5 – Meeting transcript

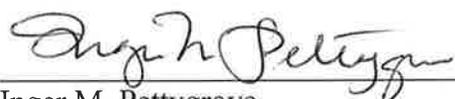
We have reviewed and agree with the meeting minutes. Responsibility for the accuracy of each attachment resides with the organization creating it.



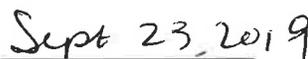
Lynette L. Trygstad, Chairperson
DoD Medicare-Eligible Retiree
Health Care Board of Actuaries



Date



Inger M. Pettygrove
Designated Federal Officer



Date

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

**August 2, 2019
10:00 a.m.
4800 Mark Center Drive
Conference Room 13, Level B1
Alexandria, VA 22350**

HIGHLIGHTS/KEY BOARD DECISIONS

Introduction Transcript Page 4: Board Chairperson Lynette Trygstad announced that Pete Zouras is the new DoD Chief Actuary.

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.
- 2) Transcript Pages 11-12: Rationale for investing in floating rate note was discussed and DFAS offered to provide historical information on the Investment Advisory Committee decision.

Agenda Item 3 September 30, 2017, Actuarial Valuation Results

- 1) Transcript Pages 12-14: The DoD Office of the Actuary (OACT) presented MERHCF's valuation history and gains/losses to the Fund.

Agenda Item 4 September 30, 2018, Actuarial Valuation Proposals

- 1) Transcript Pages 14-15: Active employee and retired beneficiary counts for FYs 16-18 were presented as shown on pp. 3-4 of OACT's handout (Attachment 4). The total count of Medicare-eligible retiree-related beneficiaries increased 1.3% from FY17 to FY18.
- 2) Transcript Page 15: Medical cost/trend experience was discussed as shown on page 5 of OACT's handout (Attachment 4). MERHCF total incurred outlays increased by 1.6% from FY17 to FY18. Per capita outlays had a slight decrease of 0.5%.
- 3) Transcript Pages 15-16: OACT proposed a 25 basis point decrease in both the discount rate and ultimate trend assumptions to 5.00%. The proposed rates reflect consideration of assumptions from Blue Chip and the DoD Board of Actuaries as well as MERHCF's historical experience.
- 4) Transcript Pages 16-17: 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.
- 5) Transcript Pages 17-18: OACT proposed assumptions related to administrative cost loads, decrement rates, and retail pharmacy rebates as shown on page 8 of

OACT's handout (Attachment 4). Except for IP & OP, proposed admin loads were slightly increased from the prior year. IP & OP admin load decreased from 2.25% to 2.15%. Changes were proposed to mortality, and spouse-per-sponsor assumptions. The same methodology was proposed to develop the pharmacy rebate assumption.

- 6) Transcript Page 18-19: OACT proposed plan participation rate assumptions as shown on page 9 of OACT's handout (Attachment 4). This is the last year this assumption will be needed because MERHCF participation is now consistent with industry experience.
- 7) Transcript Pages 19-24: OACT proposed medical cost assumptions are described and highlighted on page 10 of OACT's handout (Attachment 4). Average claims level was updated for FY18 experience, and no changes were proposed for the valuation claims costs age grading.

Agenda Item 5 Decisions

- 1) Transcript Pages 24-25: The MERHCF Board approved OACT's proposed methods and assumptions for calculating the FY 2021 per capita normal costs, the September 30, 2018, unfunded liability (UFL), and the October 1, 2019, Treasury UFL amortization and normal cost payments.

FOR ADDITIONAL DETAILS, REFER TO TRANSCRIPT (ATTACHMENT 5) AND OTHER ATTACHMENTS.

ATTACHMENT 1

MEDICARE-ELIGIBLE RETIREE HEALTH CARE BOARD OF ACTUARIES MEETING AGENDA

August 2, 2019

10:00 a.m.

4800 Mark Center Drive
Conference Room 13, Level B1
Alexandria, VA 22350

1. Meeting objective (Board)

Review actuarial assumptions and methods needed for calculating:

- a. FY 2021 per capita full-time and part-time normal costs
- b. September 30, 2018 unfunded liability (UFL)
- c. October 1, 2019 Treasury UFL amortization and normal cost payments

2. Trust Fund Update

(Coralita Jones, DFAS, by call-in)

3. September 30, 2017 Actuarial Valuation Results

(Chelsea Chu, DoD Office of the Actuary)

4. September 30, 2018 Actuarial Valuation Proposals

(Chelsea Chu)

5. Decisions (Board)

Actuarial assumptions and methods needed for calculating:

- a. FY 2021 per-capita full-time and part-time normal costs
- b. September 30, 2018 UFL
- c. October 1, 2019 Treasury UFL amortization and normal cost payments

ATTACHMENT 2

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

August 2, 2019

	NAME	POSITION OR OFFICE
1	Lynette Trygstad	Acting Chairperson
2	Dave Osterndorf	Board Member
3	Stuart Alden	Board Member
4	Pete Zouras	DoD OACT (Chief)
5	Chelsea Chu	DoD OACT
6	Pete Rossi	DoD OACT (Deputy Chief)
7	Brad Ryder	DoD OACT
8	Inger Pettygrove	DoD OACT
9	Nick Garcia (by phone)	DoD OACT
10	Joel Sitrin	DOD HA
11	Bob Moss	DHA / B&RM
12	Kevin Lannon	OSD-C
13	Paul Bley	DHA (Attorney)
14	Edith Smith (by phone)	Gold Star Wives of America
15	Richard Virgile	DHS – Coast Guard
16	Chris Borcik (by phone)	CCRC Actuaries
17	Coralita Jones (by phone)	DFAS-IN
18	Lori Haines (by phone)	DFAS-IN
19	Virginia Fortune (by phone)	DFAS-IN

ATTACHMENT 3

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

August 2, 2019



Medicare-Eligible Retiree Health Care Fund Board of Actuaries Meeting

Defense Finance and Accounting Service

Coralita Jones
Trust Funds Accounting and Reporting Division
Defense Finance and Accounting Service
August 2, 2019



AGENDA



- Overview
- Financial Data
- Fund Status



OVERVIEW



- Short Term Liquidity
 - Invested approx \$16.5B in October (\$7.5B Svcs, \$5.7B Treas contrib)
 - Purchased 8 securities
 - 4 TIPS (Maturing '45 -'48 respectively)
 - 3 Bonds (Maturing '21, '30, & '31)
 - 1 FRN (Maturing '20)
 - No early sales
 - FY 2019 overnights/cash through June \$6.5B
- 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 2018	FY 2017	% Change
Service Contributions	\$8.4	\$7.1	18%
Unfunded Liability Contributions	\$6.6	\$5.7	16%
Interest Income	\$10.7	\$7.9	35%
Total Revenue	<u>\$25.7</u>	<u>\$20.7</u>	24%
Purchased Care	\$7.9	\$7.8	1%
Operations & Maintenance	\$1.7	\$1.6	6%
Military Personnel	\$0.6	\$0.5	20%
Total Expense	<u>\$10.2</u>	<u>\$9.9</u>	3%





Interest Analysis

Year Ended September 30

(In Billions)

Interest Income

	FY 2018	FY 2017	\$ Change
Interest Revenue--Par	\$7.2	\$6.6	\$0.6
Interest Revenue--Inflation	\$5.4	\$3.2	\$2.2
Interest Revenue--Discount	\$0.1	\$0.1	0
Interest Revenue--Premium	<u>(\$2.0)</u>	<u>(\$2.0)</u>	<u>0</u>
	<u>\$10.7</u>	<u>\$7.9</u>	<u>\$2.8</u>



FINANCIAL DATA



DoD Medicare-Eligible Retiree Health Care Fund
For the Year Ending September 30, 2018
(in billions)

Assets

Fund Balance with Treasury	\$0.1
Investments	
Overnight	\$6.1
Long term	
Par	\$186.9
Inflation purchased	\$17.0
Inflation earned	\$30.2
Premium outstanding	\$24.9
Discount outstanding	-\$1.2
Interest receivable	\$2.4
Total Long Term Investments	<u>\$260.3</u>
Total Investments	\$266.4
Accounts Receivable, Net	<u>0.2</u>
Total Assets	<u>\$266.6</u>

Liabilities

Accounts Payable	
Government	\$0.2
Public	<u>\$0.1</u>
Total Accounts Payable	\$0.3
Military Retirement and Other Federal Employment Benefits	
Incurred but Not Reported	\$0.0
Actuarial Liability	<u>\$535.9</u>
Total Military and Other Federal Employment Benefits	<u>\$535.9</u>
Total Liabilities	\$536.2

Net Position

Cumulative Results of Operations	<u>-\$269.6</u>
Total Liabilities and Net Position	<u>\$266.6</u>



FINANCIAL DATA



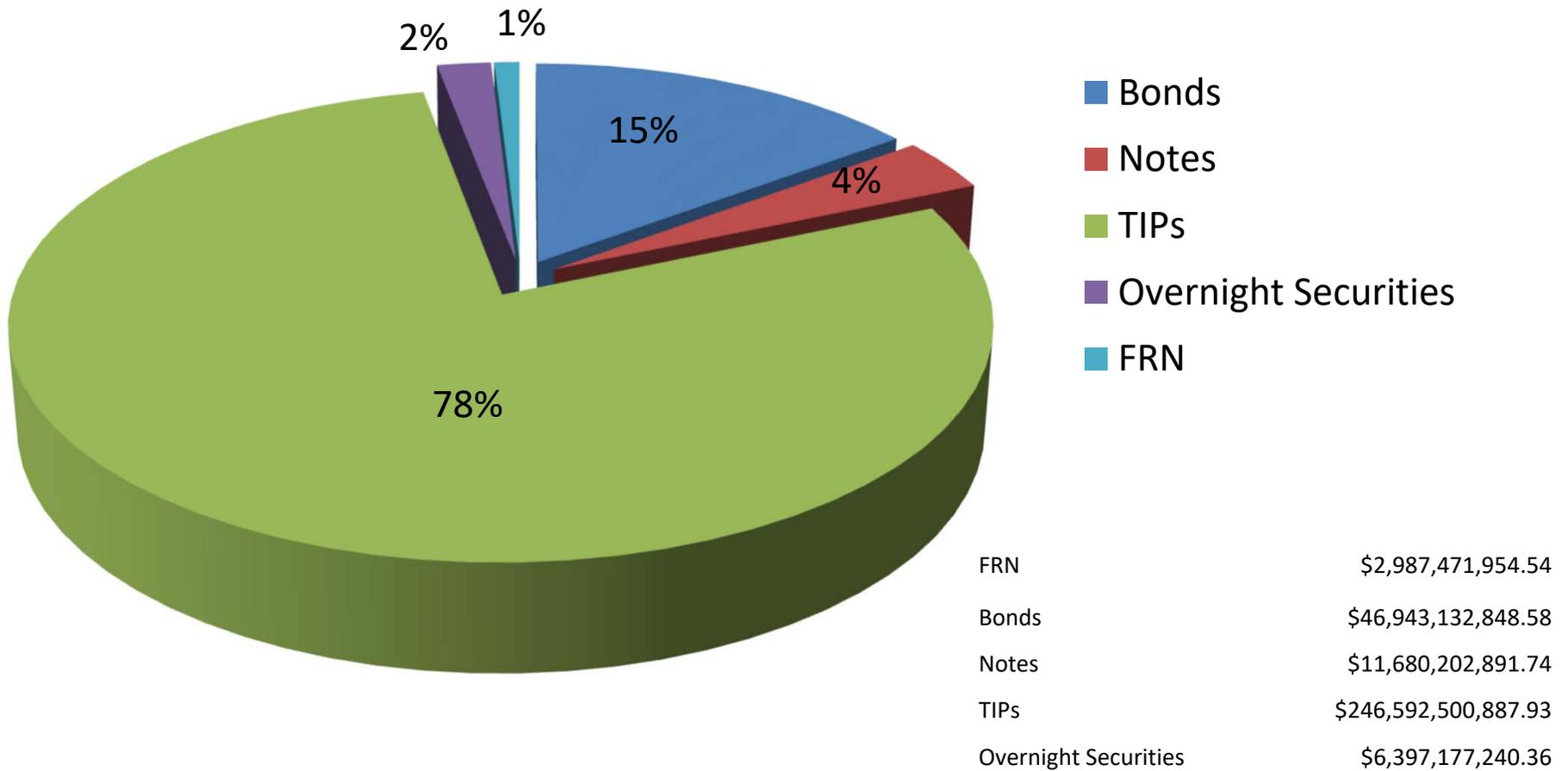
Effective Fund Yields

FY	Yield
2009	0.77%
2010	3.22%
2011	5.01%
2012	3.11%
2013	3.37%
2014	3.46%
2015	2.02%
2016	2.55%
2017	3.21%
2018	4.11%





Medicare-Eligible Retiree Health Care Portfolio As Of 6/30/2019



FUND STATUS



Security Description	Shares Par	Book Value	Market Value	Security Description	Shares Par	Book Value	Market Value
MK BOND 3.500% 02/15/2039	\$ 1,018,685,121.11	\$ 1,012,319,155.52	\$ 1,210,325,259.52	MK FRN +0.000% 01/31/20	\$ 2,989,298,625.25	\$ 3,001,142,514.26	\$ 2,987,471,954.54
MK BOND 3.625% 02/15/2044	\$ 3,290,122,600.05	\$ 3,842,494,817.14	\$ 3,976,935,692.81	FRN Total	\$ 2,989,298,625.25	\$ 3,001,142,514.26	\$ 2,987,471,954.54
MK BOND 4.375% 02/15/2038	\$ 881,814,669.15	\$ 990,819,563.38	\$ 1,166,199,899.95				
MK BOND 4.375% 02/15/2038	\$ 3,057,050,909.70	\$ 3,699,497,270.37	\$ 4,042,949,828.08	MK NOTE 1.125% 06/30/2021	\$ 3,497,493,304.73	\$ 3,494,219,004.57	\$ 3,454,867,605.08
MK BOND 4.500% 02/15/2036	\$ 864,072,882.67	\$ 984,936,169.11	\$ 1,140,576,205.12	MK NOTE 1.375% 05/31/2020	\$ 1,000,810,937.14	\$ 1,000,030,428.97	\$ 995,181,375.62
MK BOND 4.500% 02/15/2036	\$ 2,781,089,396.37	\$ 3,399,962,989.62	\$ 3,671,038,003.21	MK NOTE 2.000% 02/15/2023	\$ 4,037,222,058.97	\$ 4,155,503,329.35	\$ 4,075,071,015.77
MK BOND 4.500% 08/15/2039	\$ 1,446,478,569.89	\$ 1,789,885,165.48	\$ 1,954,554,167.56	MK NOTE 2.750% 02/15/2024	\$ 3,021,929,142.43	\$ 3,223,813,160.95	\$ 3,155,082,895.27
MK BOND 4.750% 02/15/2037	\$ 835,419,043.24	\$ 981,685,175.38	\$ 1,144,263,020.79	Note Total	\$ 11,557,455,443.27	\$ 11,873,565,923.84	\$ 11,680,202,891.74
MK BOND 4.750% 02/15/2037	\$ 2,191,161,799.88	\$ 2,766,507,911.88	\$ 3,001,206,927.77				
MK BOND 5.250% 11/15/2028	\$ 650,000,000.00	\$ 720,190,086.82	\$ 830,984,375.00	ONE DAY 2.190% 07/01/2019	\$ 6,397,177,240.36		\$ 6,397,177,240.36
MK BOND 5.375% 02/15/2031	\$ 781,160,862.35	\$ 952,579,051.68	\$ 1,048,952,570.47				
MK BOND 5.375% 02/15/2031	\$ 3,712,783,881.68	\$ 4,905,595,346.02	\$ 4,985,572,606.12				
MK BOND 5.375% 02/15/2031	\$ 805,240,628.55	\$ 1,001,089,860.32	\$ 1,081,287,181.53				
MK BOND 5.500% 08/15/2028	\$ 650,000,000.00	\$ 740,339,875.31	\$ 840,937,500.00				
MK BOND 6.000% 02/15/2026	\$ 650,000,000.00	\$ 744,330,224.26	\$ 816,765,625.00				
MK BOND 6.250% 05/15/2030	\$ 709,370,241.15	\$ 910,020,277.96	\$ 1,000,655,396.42				
MK BOND 6.250% 05/15/2030	\$ 4,156,665,631.27	\$ 5,722,025,811.15	\$ 5,863,496,456.11				
MK BOND 6.250% 05/15/2030	\$ 750,461,391.00	\$ 975,535,688.51	\$ 1,058,619,599.68				
MK BOND 6.625% 02/15/2027	\$ 650,000,000.00	\$ 781,496,669.07	\$ 866,531,250.00				
MK BOND 6.875% 08/15/2025	\$ 1,600,000,000.00	\$ 1,978,864,094.22	\$ 2,063,500,000.00				
MK BOND 7.500% 11/15/2024	\$ 672,318,035.66	\$ 839,172,048.06	\$ 867,290,266.00				
MK BOND 7.625% 02/15/2025	\$ 884,923,831.62	\$ 1,060,603,704.97	\$ 1,157,867,525.94				
MK BOND 7.625% 02/15/2025	\$ 365,000,000.00	\$ 437,763,864.41	\$ 477,579,687.50				
MK BOND 8.125% 08/15/2021	\$ 1,500,000,000.00	\$ 1,758,532,414.52	\$ 1,695,937,500.00				
MK BOND 8.125% 08/15/2021	\$ 865,986,780.76	\$ 985,668,545.70	\$ 979,106,304.00				
Bond Total	\$ 35,769,806,276.10	\$ 43,981,915,780.86	\$ 46,943,132,848.58				



FUND STATUS



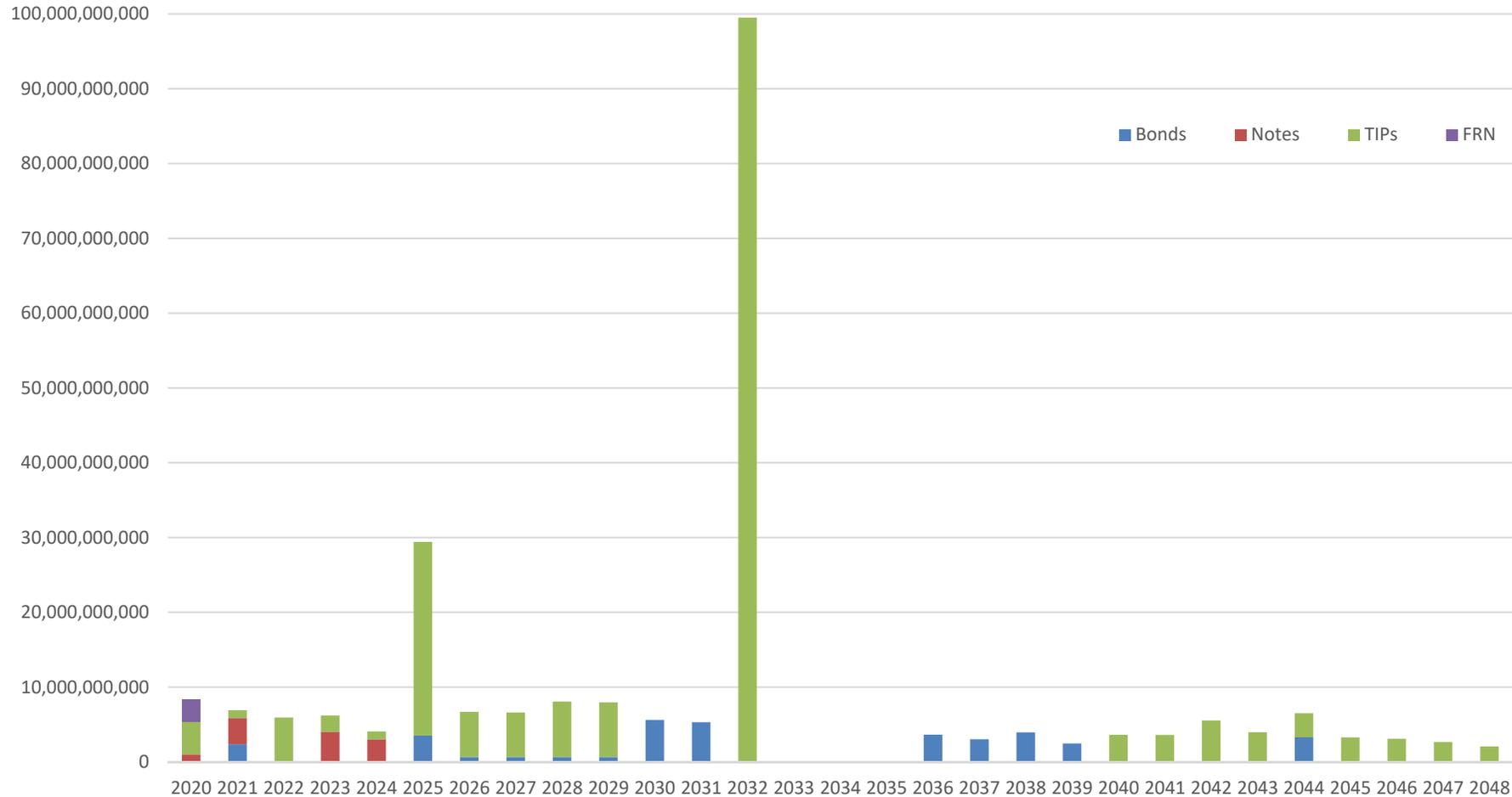
Security Description	Shares Par	Book Value	Market Value	Security Description	Shares Par	Book Value	Market Value
MK TIPS 0.125% 01/15/2022	\$ 1,500,000,000.00	\$ 1,731,516,326.68	\$ 1,682,721,843.75	MK TIPS 2.375% 01/15/2027	\$ 2,700,000,000.00	\$ 3,429,188,559.72	\$ 3,953,183,956.88
MK TIPS 0.125% 01/15/2023	\$ 1,016,250,000.00	\$ 1,114,465,698.28	\$ 1,118,589,950.93	MK TIPS 2.375% 01/15/2027	\$ 2,000,000,000.00	\$ 2,622,067,039.38	\$ 2,928,284,412.50
MK TIPS 0.125% 01/15/2023	\$ 945,563,680.00	\$ 1,045,171,051.05	\$ 1,040,785,269.78	MK TIPS 3.375% 04/15/2032	\$ 13,500,000,000.00	\$ 22,081,854,620.60	\$ 26,652,991,148.44
MK TIPS 0.125% 04/15/2021	\$ 965,005,000.00	\$ 1,041,924,778.38	\$ 1,030,561,046.54	MK TIPS 3.375% 04/15/2032	\$ 650,000,000.00	\$ 1,086,136,955.90	\$ 1,283,292,166.41
MK TIPS 0.125% 04/15/2022	\$ 993,447,000.00	\$ 1,043,611,369.26	\$ 1,035,571,248.35	MK TIPS 3.375% 04/15/2032	\$ 400,000,000.00	\$ 661,708,435.87	\$ 789,718,256.25
MK TIPS 0.125% 07/15/2022	\$ 1,500,000,000.00	\$ 1,709,744,527.71	\$ 1,661,902,715.63	MK TIPS 3.375% 04/15/2032	\$ 400,000,000.00	\$ 650,515,209.67	\$ 789,718,256.25
MK TIPS 0.125% 07/15/2022	\$ 1,372,000,000.00	\$ 1,563,203,186.47	\$ 1,520,087,017.23	MK TIPS 3.375% 04/15/2032	\$ 13,421,000,000.00	\$ 21,736,560,858.76	\$ 26,497,021,792.83
MK TIPS 0.125% 07/15/2024	\$ 979,763,500.00	\$ 1,047,124,138.44	\$ 1,052,956,671.03	MK TIPS 3.375% 04/15/2032	\$ 4,455,395,000.00	\$ 7,005,526,674.13	\$ 8,796,266,925.76
MK TIPS 0.625% 02/15/2043	\$ 3,573,900,000.00	\$ 3,451,682,549.60	\$ 3,856,282,963.61	MK TIPS 3.375% 04/15/2032	\$ 18,300,000,000.00	\$ 29,431,487,765.81	\$ 36,129,610,223.44
MK TIPS 0.750% 02/15/2042	\$ 1,500,000,000.00	\$ 1,806,840,701.30	\$ 1,705,120,584.38	MK TIPS 3.375% 04/15/2032	\$ 18,000,000,000.00	\$ 28,848,012,045.20	\$ 35,537,321,531.25
MK TIPS 0.750% 02/15/2042	\$ 3,392,690,000.00	\$ 3,424,103,092.28	\$ 3,856,630,370.27	MK TIPS 3.625% 04/15/2028	\$ 1,500,000,000.00	\$ 2,556,446,345.35	\$ 3,044,169,806.25
MK TIPS 0.750% 02/15/2045	\$ 3,019,300,060.71	\$ 3,056,665,560.79	\$ 3,245,288,442.95	MK TIPS 3.625% 04/15/2028	\$ 3,200,000,000.00	\$ 5,628,757,056.30	\$ 6,494,228,920.00
MK TIPS 0.875% 02/15/2047	\$ 2,509,534,799.06	\$ 2,544,883,945.11	\$ 2,711,027,198.86	MK TIPS 3.875% 04/15/2029	\$ 1,500,000,000.00	\$ 2,574,917,423.33	\$ 3,123,982,200.00
MK TIPS 1.000% 02/15/2046	\$ 2,862,202,413.79	\$ 3,050,974,247.80	\$ 3,239,724,121.52	MK TIPS 3.875% 04/15/2029	\$ 3,200,000,000.00	\$ 5,686,089,845.17	\$ 6,664,495,360.00
MK TIPS 1.000% 02/15/2048	\$ 1,985,865,198.38	\$ 2,033,938,811.73	\$ 2,168,190,361.75	TIP Total	\$ 147,928,493,724.94	\$ 213,579,878,480.80	\$ 246,592,500,887.96
MK TIPS 1.375% 01/15/2020	\$ 3,700,000,000.00	\$ 4,430,255,473.80	\$ 4,362,134,910.63				
MK TIPS 1.375% 02/15/2044	\$ 2,942,097,073.00	\$ 3,327,981,978.70	\$ 3,665,892,579.33				
MK TIPS 2.000% 01/15/2026	\$ 2,700,000,000.00	\$ 3,410,393,018.25	\$ 3,870,045,978.75				
MK TIPS 2.000% 01/15/2026	\$ 2,000,000,000.00	\$ 2,603,621,760.40	\$ 2,866,700,725.00				
MK TIPS 2.125% 02/15/2040	\$ 1,500,000,000.00	\$ 2,346,796,813.77	\$ 2,272,440,993.75				
MK TIPS 2.125% 02/15/2040	\$ 1,563,380,000.00	\$ 2,110,133,028.01	\$ 2,368,459,200.54				
MK TIPS 2.125% 02/15/2041	\$ 1,500,000,000.00	\$ 2,335,757,761.64	\$ 2,257,622,550.00				
MK TIPS 2.125% 02/15/2041	\$ 1,581,100,000.00	\$ 2,111,940,537.58	\$ 2,379,684,675.87				
MK TIPS 2.375% 01/15/2025	\$ 2,700,000,000.00	\$ 3,674,867,863.95	\$ 4,090,965,716.25				
MK TIPS 2.375% 01/15/2025	\$ 2,000,000,000.00	\$ 2,791,919,278.22	\$ 3,030,344,975.00				
MK TIPS 2.375% 01/15/2025	\$ 14,400,000,000.00	\$ 20,771,092,146.41	\$ 21,818,483,820.00				



FUND STATUS



MERHCF Maturities
As of June 30, 2019



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	45	46	47	48	TOTAL
8.4	6.9	6.0	6.2	4.1	29.4	6.7	6.6	8.1	8.0	5.6	5.3	99.5	0	0	0	3.6	3.0	3.9	2.5	3.6	3.6	5.5	4.0	6.5	3.3	3.1	2.7	4.1	248.2



ATTACHMENT 4

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

August 2, 2019

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

<u>Board Meeting</u>	<u>Per-Capita Normal Costs</u>			<u>Liability (\$B)</u>				<u>UFL Payment (\$B)</u>	
	<u>for</u>	<u>Full-time</u>	<u>Part-time</u>	<u>as of</u>	<u>AL</u>	<u>Fund</u>	<u>UFL</u>	<u>on</u>	<u>amount</u>
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	\$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	?	?	9/30/18	?	?	?	10/1/19	?

Valuation (Gains)/Losses (\$B)

<u>Val Date</u>	<u>Experience</u>			<u>Assumptions</u>				<u>Benefits</u>	<u>TOTAL</u>
	<u>asset*</u>	<u>other</u>	<u>total</u>	<u>trend</u>	<u>admin</u>	<u>other</u>	<u>total</u>		
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	(\$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								

* Includes yield as well as budget lead time effect.

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

Fiscal Year	Fund Balance, Beginning of Year	Contributions Received				Benefit Payments			Fund Balance End of Year	Effective Annual Yield
		From Uniformed Services, for Normal Costs	From Treasury, for Unfunded Accrued Liability	One-Time Adjustment	Investment Income	DC	PC	Total		
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%
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%

NOTE: Benefit payments are on a paid (not incurred) basis.

Active Employees

	<u>9/30/16</u>	<u>9/30/17</u>	<u>9/30/18</u>	<u>% Change from End of FY16 to FY17</u>	<u>% Change from End of FY17 to FY18</u>
<u>DoD</u>					
Active duty	1,363,939	1,369,314	1,382,518	0.4%	1.0%
Reserve	735,062	732,150	716,997	-0.4%	-2.1%
<u>Coast Guard</u>					
Active duty	39,841	40,484	40,990	1.6%	1.2%
Reserve	6,325	6,332	6,038	0.1%	-4.6%
PHS Active duty	6,617	6,488	6,343	-1.9%	-2.2%
NOAA Active duty	320	324	322	1.3%	-0.6%
<u>TOTAL</u>					
Active duty	1,410,717	1,416,610	1,430,173	0.4%	1.0%
Reserve	741,387	738,482	723,035	-0.4%	-2.1%

Note: These are end of FY counts

Retired Beneficiaries

(all uniformed services)

	<u>9/30/16</u>	<u>9/30/17</u>	<u>9/30/18</u>	<u>% Change from End of FY16 to FY17</u>	<u>% Change from End of FY17 to FY18</u>
Retirees					
Sponsors					
Non-Medicare-eligible	1,046,947	1,043,711	1,041,669	-0.3%	-0.2%
Medicare-eligible	<u>1,145,863</u>	<u>1,162,480</u>	<u>1,176,601</u>	<u>1.5%</u>	<u>1.2%</u>
Total	2,192,810	2,206,191	2,218,270	0.6%	0.5%
Spouses					
Non-Medicare-eligible	941,140	935,680	940,117	-0.6%	0.5%
Medicare-eligible	<u>701,890</u>	<u>709,039</u>	<u>721,004</u>	<u>1.0%</u>	<u>1.7%</u>
Total	1,643,030	1,644,719	1,661,122	0.1%	1.0%
Others					
Non-Medicare-eligible	832,096	844,186	862,174	1.5%	2.1%
Medicare-eligible	<u>13,634</u>	<u>13,690</u>	<u>13,790</u>	<u>0.4%</u>	<u>0.7%</u>
Total	845,730	857,876	875,964	1.4%	2.1%
Survivors					
Spouses					
Non-Medicare-eligible	81,510	79,942	79,738	-1.9%	-0.3%
Medicare-eligible	<u>507,183</u>	<u>504,129</u>	<u>509,127</u>	<u>-0.6%</u>	<u>1.0%</u>
Total	588,693	584,071	588,864	-0.8%	0.8%
Others					
Non-Medicare-eligible	31,621	31,225	31,124	-1.3%	-0.3%
Medicare-eligible	<u>7,547</u>	<u>7,701</u>	<u>7,926</u>	<u>2.0%</u>	<u>2.9%</u>
Total	39,168	38,926	39,050	-0.6%	0.3%
Retirees and Survivors					
Non-Medicare-eligible	2,933,314	2,934,744	2,954,822	0.0%	0.7%
Medicare-eligible	<u>2,376,117</u>	<u>2,397,039</u>	<u>2,428,448</u>	<u>0.9%</u>	<u>1.3%</u>
Total	5,309,431	5,331,783	5,383,270	0.4%	1.0%

Note: Non-Medicare-eligible includes DoD only.

MERHCF Incurred Outlays

<u>Aggregate (\$ in millions)</u>	<u>FY 2016</u>	<u>FY 2017</u>	<u>FY 2018</u>	<u>% Change from FY16 to FY17</u>	<u>% Change from FY17 to FY18</u>
Purchased Care					
IP	\$914	\$907	\$885	-0.7%	-2.5%
OP	\$2,557	\$2,674	\$2,831	4.6%	5.9%
Rx	\$3,268	\$3,315	\$3,263	1.4%	-1.6%
<u>Other</u>	<u>\$142</u>	<u>\$147</u>	<u>\$132</u>	<u>3.8%</u>	<u>-10.4%</u>
TOTAL	\$6,881	\$7,044	\$7,111	2.4%	1.0%
Direct Care					
IP	\$591	\$616	\$627	4.2%	1.8%
OP	\$695	\$720	\$760	3.6%	5.5%
Rx	\$773	\$801	\$841	3.7%	5.0%
TOTAL	\$2,059	\$2,137	\$2,228	3.8%	4.2%
US Family Health Plan					
Capitation Rates	\$705	\$705	\$704	0.0%	-0.2%
<u>Other</u>	<u>\$3</u>	<u>\$3</u>	<u>\$3</u>	<u>-2.7%</u>	<u>2.6%</u>
TOTAL	\$707	\$707	\$706	0.0%	-0.1%
Grand Total	\$9,647	\$9,889	\$10,045	2.5%	1.6%
Per Capita					
Purchased Care	\$2,947	\$3,047	\$2,998	3.4%	-1.6%
<u>Direct Care</u>	<u>\$883</u>	<u>\$912</u>	<u>\$940</u>	<u>3.3%</u>	<u>3.0%</u>
TOTAL	\$3,831	\$3,959	\$3,938	3.3%	-0.5%
US Family Health Plan	\$14,565	\$14,598	\$14,636	0.2%	0.3%

Notes:

1. PC Retail Rx incurred amounts are net of incurred Rx rebates.
Incurred Rx rebates in FY 2017 / FY 2018 were \$436m / \$462m.
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 enrollment (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

	<u>September 30, 2017 Val</u>	<u>September 30, 2018 Val (Proposed)</u>
 FUNDING VALUATION		
Discount Rate	5.25%	5.00%
Ultimate Medical Trend	5.25%	5.00%
 FINANCIAL STATEMENT BASIS		
Discount Rate	3.60%	TBD
Ultimate Medical Trend	4.00%	TBD

MERHCF Valuation Key Economic Assumptions - Medical Trends

September 30, 2017 Val

From FY:	To FY:	DC			PC			USFHP
		IP	OP	Rx	IP	OP	Rx	
2017	2018	2.50%	4.00%	3.80%	1.00%	3.00%	3.12%	2.52%
2018	2019	2.50%	4.00%	5.75%	1.15%	3.00%	5.75%	2.94%
2019	2020	2.83%	5.04%	4.00%	2.15%	5.04%	3.63%	4.01%
2020	2021	3.75%	5.36%	4.00%	2.86%	5.36%	3.69%	4.52%
2021	2022	4.22%	5.46%	4.06%	3.22%	5.46%	3.76%	4.37%
2022	2023	4.45%	5.55%	4.11%	3.39%	5.55%	3.83%	4.50%
2023	2024	4.39%	5.55%	4.17%	3.34%	5.55%	3.90%	4.50%
2024	2025	4.46%	6.20%	4.23%	3.39%	6.20%	3.97%	4.86%
2025	2026	4.50%	5.76%	4.28%	3.43%	5.76%	4.04%	4.68%
2026	2027	4.64%	5.45%	4.34%	3.53%	5.45%	4.12%	4.58%
2027	2028	4.68%	5.44%	4.40%	3.64%	5.44%	4.19%	4.63%
2028	2029	4.71%	5.43%	4.45%	3.75%	5.43%	4.26%	4.68%
2029	2030	4.75%	5.42%	4.51%	3.86%	5.42%	4.33%	4.73%
2030	2031	4.79%	5.40%	4.57%	3.96%	5.40%	4.40%	4.77%
2031	2032	4.83%	5.39%	4.63%	4.07%	5.39%	4.47%	4.81%
2032	2033	4.87%	5.38%	4.68%	4.18%	5.38%	4.54%	4.86%
2033	2034	4.91%	5.36%	4.74%	4.28%	5.36%	4.61%	4.89%
2034	2035	4.94%	5.35%	4.80%	4.39%	5.35%	4.68%	4.94%
2035	2036	4.98%	5.34%	4.85%	4.50%	5.34%	4.75%	4.98%
2036	2037	5.02%	5.33%	4.91%	4.61%	5.33%	4.82%	5.02%
2037	2038	5.06%	5.31%	4.97%	4.71%	5.31%	4.90%	5.06%
2038	2039	5.10%	5.30%	5.02%	4.82%	5.30%	4.97%	5.10%
2039	2040	5.14%	5.29%	5.08%	4.93%	5.29%	5.04%	5.14%
2040	2041	5.17%	5.28%	5.14%	5.04%	5.28%	5.11%	5.18%
2041	2042	5.21%	5.26%	5.19%	5.14%	5.26%	5.18%	5.21%
Ultimate		5.25%	5.25%	5.25%	5.25%	5.25%	5.25%	5.25%

September 30, 2018 Val (Proposed)

From FY:	To FY:	DC			PC			USFHP
		IP	OP	Rx	IP	OP	Rx	
2018	2019	2.50%	4.00%	5.68%	1.00%	4.00%	5.67%	3.34%
2019	2020	3.00%	4.50%	4.00%	1.94%	4.00%	3.87%	3.48%
2020	2021	3.74%	5.50%	3.98%	2.79%	5.50%	3.87%	4.62%
2021	2022	4.08%	5.63%	4.02%	3.05%	5.63%	3.92%	4.49%
2022	2023	4.24%	5.60%	4.07%	3.16%	5.60%	3.97%	4.50%
2023	2024	4.30%	5.62%	4.11%	3.21%	5.62%	4.02%	4.55%
2024	2025	4.20%	6.11%	4.15%	3.14%	6.11%	4.07%	4.79%
2025	2026	4.16%	5.81%	4.20%	3.11%	5.81%	4.12%	4.65%
2026	2027	4.48%	5.70%	4.24%	3.35%	5.70%	4.17%	4.69%
2027	2028	4.40%	6.49%	4.29%	3.29%	6.49%	4.22%	5.12%
2028	2029	4.44%	5.80%	4.33%	3.40%	5.80%	4.26%	4.80%
2029	2030	4.48%	5.75%	4.38%	3.50%	5.75%	4.31%	4.83%
2030	2031	4.51%	5.70%	4.42%	3.61%	5.70%	4.36%	4.85%
2031	2032	4.55%	5.64%	4.47%	3.72%	5.64%	4.41%	4.87%
2032	2033	4.59%	5.59%	4.51%	3.82%	5.59%	4.46%	4.88%
2033	2034	4.63%	5.54%	4.55%	3.93%	5.54%	4.51%	4.90%
2034	2035	4.66%	5.48%	4.60%	4.04%	5.48%	4.56%	4.92%
2035	2036	4.70%	5.43%	4.64%	4.14%	5.43%	4.61%	4.93%
2036	2037	4.74%	5.38%	4.69%	4.25%	5.38%	4.66%	4.94%
2037	2038	4.78%	5.32%	4.73%	4.36%	5.32%	4.71%	4.95%
2038	2039	4.81%	5.27%	4.78%	4.47%	5.27%	4.75%	4.96%
2039	2040	4.85%	5.21%	4.82%	4.57%	5.21%	4.80%	4.97%
2040	2041	4.89%	5.16%	4.87%	4.68%	5.16%	4.85%	4.98%
2041	2042	4.93%	5.11%	4.91%	4.79%	5.11%	4.90%	4.99%
2042	2043	4.96%	5.05%	4.96%	4.89%	5.05%	4.95%	4.99%
Ultimate		5.00%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%

MERHCF Valuation Assumptions - Other

September 30, 2017 Val

September 30, 2018 Val (Proposed)

Admin Load	<u>September 30, 2017 Val</u>	<u>September 30, 2018 Val (Proposed)</u>
IP & OP	2.25%	2.15%
Rx	1.61%	1.63%
USFHP	0.35%	0.36%

Decrements	<u>September 30, 2017 Val</u>	<u>September 30, 2018 Val (Proposed)</u>
Decrements	Consistent w/prior year's Val, except: (1) one more year of mortality improvement (MI), (2) update MI Scale (based on military mortality improvement (MIL MI)), (3) update permanent disability mortality rates, (4) update survivor mortality (re-smooth at younger ages)	Consistent w/prior year's Val, except: (1) one more year of mortality improvement (MI), (2) update spouses per sponsor rates

Retail Rx Rebates	<u>September 30, 2017 Val</u>	<u>September 30, 2018 Val (Proposed)</u>
Retail Rx Rebates	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, and specialty meds.	Same methodology as prior year.

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

September 30, 2017 Val

September 30, 2018 Val (Proposed)

	DC			PC			DC			PC		
	IP	OP	Rx									
FY2017	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%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
FY2019	100.9%	100.9%	100.6%	99.4%	99.4%	99.3%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
FY2020	100.3%	100.3%	100.3%	99.6%	99.7%	99.6%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
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 - Average Claim Costs Development

	September 30, 2017 Val	September 30, 2018 Val (Proposed)
Average Claims Level	FY 2017 experience	FY 2018 experience
Valuation Claims Costs 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 5

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

August 2, 2019

UNITED STATES DEPARTMENT OF DEFENSE

DEFENSE HUMAN RESOURCE ACTIVITY

BOARD OF ACTUARIES MEETING

MEDICARE-ELIGIBLE RETIREE HEALTH CARE BOARD

Alexandria, Virginia

Friday, August 2, 2019

1 PARTICIPANTS:

2 LYNETTE TRYGSTAD
Chairman

3
4 DAVE OSTERNDORF
Board Member

5 STU ALDEN
Board Member

6
7 LORI HAINES
DFAS

8 CORALITA JONES
DFAS

9
10 KEVIN LANNON
Advisor

11 ROBERT MOSS
Advisor

12
13 PAUL BLEY
Advisor

14 CHELSEA CHU
Actuary

15
16 VIRGINIA FORTUNE
DFAS

17 JOEL SITRIN
Actuary

18
19 EDITH SMITH
Military Survivor

20 RICHARD VIRGILE
Chief Actuary, U.S. Coast Guard

21

22

1 PARTICIPANTS (CONT'D):

2 CHRIS BORCIK
Actuary

3
4 PETE ZOURAS
DoD Chief Actuary and Executive Secretary

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

2 (10:01 a.m.)

3 MS. TRYGSTAD: This is Lynette Trygstad.
4 For the people on the phone, we're going to wait
5 just a minute. I think there's one more person
6 that's supposed to show up.

7 MS. SMITH: Edith Smith.

8 MS. TRYGSTAD: Hello?

9 MS. SMITH: Hello.

10 MS. FORTUNE: It's Virginia Fortune.

11 MS. TRYGSTAD: This is Lynette Trygstad
12 again and I'm the Chairman for the MERHCF. And
13 we're going to go ahead and get started.

14 My other two board members are Dave
15 Osterndorf and Stu Alden. And then I also wanted
16 to announce the Pete Zouras is now the new Chief
17 Actuary for the DoD Office of the Actuary and he's
18 joining us in that role this time. And I also
19 understand that some of the positions within the
20 OAC office are not yet filled, and I hope they get
21 filled in a quick and timely manner so that we can
22 continue to do the kind of support that we're

1 doing for this valuation.

2 So the objective of today's meeting is
3 stated in item one, to do the full-time and
4 part-time normal costs for fiscal year '21, the
5 September 30 '18 unfunded liability, and the
6 October 1 '19 Treasury UFL amortization and normal
7 cost payments.

8 And so I guess we can start with the
9 trust fund update. Coralita, are you on the
10 phone?

11 MS. JONES: Good morning. Happy Friday.
12 Yes, I am here.

13 MS. TRYGSTAD: Okay. Well, why don't
14 you go ahead and get started. Thank you.

15 MS. JONES: Okay. Right. So we're
16 going start with slide 2 where we cover basically
17 our agenda, and we're going to go over the
18 overview, financial data, and the fund status.

19 As we move over to slide 3, which is
20 basically our overview -- can everybody hear me?

21 MS. TRYGSTAD: Yes, we can hear you.

22 MS. JONES: Okay, great. From 2018 we

1 invested in 4 TIPS maturing '35 through '48
2 respectively with a cost of about \$10.4 billion,
3 and also 3 bonds maturing in '21, '30, and '31,
4 with a cost of approximately \$2.4 billion. The
5 Treasury and service contributions were
6 approximately \$13.2 billion. There were no early
7 security sales during fiscal year 2018.

8 Our positive cash flows are projected to
9 continue the new investing for 2020, and roughly
10 were estimated at approximately \$17 billion.

11 The projections are speculative and
12 conservative, and they assume the new investments
13 with a 20 year life cycle, and our actual results
14 are based on the market conditions, our cash flow
15 requirements, program use, contribution models,
16 and actual interest and inflation return.

17 As we move on to slide 4, they show the
18 representation of our financial date on the year
19 ended September 30, 2018. And our contributions
20 are slightly increasing between the two years
21 where our expenses remain relatively stable
22 between the two, with the exception of the

1 interest. And of course that percentage change is
2 34 percent, however, that is expected that the
3 interest increases as our portfolio continues to
4 grow.

5 We're going to move onto slide 5, and
6 this is where we detailed our interest analysis.
7 So this slide provides a more detailed examination
8 of our interest income. And the line that's
9 labeled "par", that describes the change in
10 interest income due to maturities and inflation
11 adjustments from prior years. And on the line
12 labeled "inflation" shows the year to date change
13 in the inflated par related to the TIPS shown in
14 the portfolio. And, last but not least, the
15 change in discount premium is the year to date,
16 and that's the amount amortized.

17 Moving onto slide 6, which is the
18 representation of our financial data basically
19 looking -- this is our balance sheet for September
20 30, and this is the picture of the fund at a
21 particular point in time. So our total assets,
22 which includes cash, (inaudible) of Treasury if

1 you will, in the interest receivable and accounts
2 receivable. And this balance sheet investment
3 valuation method is our book value, which is
4 comprised of our overnights and other investments
5 at par value plus inflation purchased plus
6 inflation earned plus premium outstanding earned
7 amortized premium plus discount outstanding, which
8 is our unamortized discount. And, again, this is
9 at a point in time, so this was at September 30,
10 2018, at fiscal year end and it reflects assets,
11 liabilities, and then our net position and
12 ultimately our cumulative results of operation.

13 As we move onto slide 7, this is the
14 effective fund yield for each of the fiscal years
15 shown, with (inaudible) timeframe. And this
16 information is actually provided by the Office of
17 the Actuaries.

18 Moving onto slide 8, this is a picture
19 of our end of month June 2019. So this would be
20 the increase to cash if the entire portfolio was
21 liquidated. Now, what I would like to highlight
22 or draw your attention back to is slide 6. It

1 will not reconcile to slide 6 because it's 2
2 different time periods. So this is current year,
3 2019, what you saw on slide 6 is our balance
4 sheet, and that was at the end of the fiscal year,
5 so where we were standing at end of year 2018. So
6 they will not be in comparison because of the two
7 different timeframes and the different valuation
8 method that's also used. But it just gives you a
9 glance at we're standing at currently as of
10 6/30/2019.

11 Are there any questions thus far? Okay.
12 I'll take silence as a no and I'll keep it moving.

13 Moving onto slide 9, this is our fund
14 status, and it basically is our portfolio holdings
15 as of June 30. Since (inaudible) holds a large
16 money of securities, I've divided the slide into
17 two columns to make it easier to read. The
18 interest rates shown are the coupon rates on each
19 individual security. And we also included the
20 book value so that you see the book value and the
21 market value. And this slide displays the bonds,
22 our notes, and then our one day securities,

1 coupled with the FRN as well.

2 And then I'll move onto slide 10. As I
3 stated, our portfolio continues to grow, so it is
4 getting harder to put it onto one slide that is
5 readable. But the data useful to this is the
6 summary of each type. It's more useful to see.
7 So this is just all of our TIPS. And, again, I
8 split it up into two columns so that you're able
9 to read it a little bit. You may have to get a
10 magnifying glass, but at least you're able to see
11 it. And essentially, looking at slides 9 and 10,
12 that's our detail of slide 8, which is the
13 summary. We are looking at that pie graph.

14 Moving right along to slide 11. This
15 shows the maturity profile of our MERHCF as of
16 June 30. And so this slide is valued at par plus
17 inflation and is grouped by maturity to illustrate
18 the timing of the maturities and the gaps that
19 will be potential targets for new investment
20 purchases. So as you can look on the slide really
21 and '33, '34, and '35 is really where we have the
22 gaps -- and '31. And so then that would be our

1 opportunity to invest in the event that we could
2 in those potential gaps.

3 So that is all that I have for my
4 presentation. Are there any questions?

5 MR. OSTERNDORF: Coralita, it's Dave
6 Osterndorf on the Board. Just want to -- maybe
7 it's a curiosity point -- what was the rationale
8 behind buying the floating rate note as one of the
9 investments with last year's money?

10 MS. JONES: Lori, are you on the line?
11 Do you recall?

12 MS. HAINES: I am on the line, but I
13 wasn't -- the investment advisory committee
14 probably would have to answer that. They
15 recommended it. If I had to make an educated
16 guess it would be just the availability time.

17 MS. JONES: Okay. So what we can do --

18 MS. HAINES: There are a limited number
19 of securities we can purchase, so that might have
20 been one that like to keep the -- I want to
21 maintain -- to say, you know how when things -- to
22 keep the maturities to be when they needed the

1 funds. They really probably have to answer that.

2 MS. JONES: So we'll be meeting with the
3 investment advisory committee on August 18. And
4 actually I can send out an email before that
5 timeframe to request that information and get the
6 historical information and send it back to you.

7 MR. OSTERNDORF: Okay. Thank you.

8 MS. JONES: Okay. No problem.

9 MS. TRYGSTAD: Any other questions? All
10 right. We'll move onto item 3 on the agenda,
11 which is Chelsea Chu from the DoD OAC office. And
12 she's done a lot of work this year because, again,
13 lower staff, and we appreciate that a lot. And
14 she's going to review the assumptions for the
15 valuation.

16 MS. CHU: Hi, good morning, I'm Chelsea
17 Chu. If you move to the second handout, the first
18 page handout is Medicare-Eligible Retiree Health
19 Care Fund valuation history. So for this page we
20 are showing valuation result at the top of the
21 page. And if you move to the middle of the page
22 you will see two lines for summer 2018. The first

1 one is where we stated FY 2019, no more cost due
2 to drug co- pay increase from NDA 2018. And the
3 second line is the result from last year's
4 valuation as of September 30, 2017. We will have
5 no more cost for FY 2020 and the liability as of
6 September 20, 2018 and the fund liability payment
7 at October 1, 2019 after the Board approve the
8 assumption, which I'm going to propose later.

9 The bottom part of this --

10 MR. BORCIK: I'm sorry, this is Chris
11 Borcik from CCA on the line. If someone is
12 talking, we can't hear anything at all right now.

13 MS. CHU: Hi, Chris, can you hear me
14 now? Hi, Chris, can you hear me now?

15 MR. BORCIK: Yes. Yes, I can.

16 SPEAKER: Much better.

17 MS. CHU: Okay. Thank you.

18 MR. BORCIK: Thank you.

19 MS. CHU: So we were talking about
20 valuation results and on the first page of the
21 second handout in the -- on this page you will --
22 at the bottom of this page we also show the

1 variation gain loss result for five years. As of
2 September 30, 2017 we have a benefit gain about
3 \$14.1 billion and then the total gain is \$16.9
4 billion.

5 If you move to page 2, we are showing
6 five years MERHCF case activity. As of September
7 30, 2017 we have no more cost contribution, about
8 \$8.4 billion and the Treasury unfunded a payment
9 \$6.6 billion. Investment income is about \$10.7
10 billion. And the benefit payment, total benefit
11 payment is \$10.1 billion. And the effective
12 annual yield was about 4.1 percent.

13 MS. TRYGSTAD: Okay. So we're going to
14 move into the assumptions for the 2018 actuarial
15 evaluation.

16 MS. CHU: Yes. If you go to page 3,
17 here is the summary of total number of active duty
18 and reserve members by DoD, Coast Guard, PHS, and
19 the NOAA. Active duty members continue to grow,
20 the reserve members decrease about 2.1 percent
21 from FY '17 to FY '18.

22 Page 4. Here we have a retiree

1 population count in three years, and the two years
2 of (inaudible) change at the right. For
3 Medicare-Eligible population, they are all
4 uniformed service. The non Medicare-eligible
5 population is DoD only.

6 I would like to point out that others
7 include dependent children and the parents. As
8 you can see at the bottom right, both non
9 Medicare-eligible and the Medicare- eligible
10 retiree population continued to grow from FY '16
11 to FY '18.

12 Okay. Page 5. Again, we have -- we are
13 showing you three years of aggregate incurred
14 outlays in millions of dollars and the overall per
15 capita cost. Two years of (inaudible) change are
16 at the right of this page. The grand total cost
17 increased about 1.6 percent from FY '17 to FY '18
18 and the per capital total cost didn't change much.

19 Any questions? Let's move to page 6.
20 Here we have two economic assumptions, discount
21 rate and ultimate medical trend. For the discount
22 rate we look at the fund investment portfolio, the

1 latest blue chip forecast, and the other
2 retirement benefit report. We are proposing lower
3 the real interest rate from 2.5 percent to 2.25
4 percent and to keep the CPI at the 2.75 percent.
5 So the discount is 5 percent. We are proposing.

6 For the ultimate medical trend, we look
7 at the fund experience CMS trustee report and the
8 blue chip forecast. We propose to lower the real
9 GDP by 25 base points and to keep the (inaudible)
10 at the 2.75 percent, as well as the excess medical
11 cost grow at the .75 percent. So the ultimate
12 change is 5 percent too.

13 Any questions about this page? If not,
14 let's move to page 7. Here we are showing two
15 years of medical trends. At the right -- left is
16 last year's and the right is this year's medical
17 trend we are going to propose. There are a lot of
18 numbers here, so I will just talk about a few of
19 the key points.

20 For inpatient-outpatient trend, we look
21 at our (inaudible) experience in the Medicare Part
22 A and the Part B, fee for service projection. For

1 drug (inaudible) we look at our (inaudible)
2 utilization and the unit cost is (inaudible).
3 Also, we keep the federal drug pricing in mind.
4 So based on this study I just mentioned, we think
5 developed a trend and reach the ultimate medical
6 trend at the 5 percent, which we just proposed, in
7 25 years.

8 For USFHP, we took -- weighted the blend
9 of purchase care trend to produce the rate.

10 I would like to point out, we are
11 starting high drug trend about 5.7 percent for
12 both direct care and the purchased care in 2019,
13 which is reflecting a drug price which (inaudible)
14 adjustment in the federal pricing cycle. Any
15 questions? If not, let's move to slide 8. We are
16 showing you three miscellaneous assumptions here.
17 The first one is admin load. They are a small
18 percentage add on for administrative and other
19 costs that are not in the claims. We propose
20 small change from last year's assumption based on
21 the trust fund report we have seen.

22 And then the second one is the decrement

1 rate. We proposed to use same methodology as last
2 year, except adding one more year of mortality
3 improvement and updating spouse per sponsors rate.

4 The third one is retail drug rebate. We
5 propose to keep the same methodology as prior
6 year.

7 Any questions?

8 MR. VIRGILE: One on the mortality
9 improvement. You are only projecting improvements
10 to the valuation date but not projecting future
11 improvements after the valuation date, which is
12 different from how the pension works. I just
13 wanted to make sure that that's what you're doing.

14 MS. CHU: Yes. Mm-hmm.

15 MR. VIRGILE: Okay. Thank you.

16 MS. CHU: Okay. Moving onto page 9,
17 participation rate.

18 I think this is the last time you will
19 see this page because our experience trend are
20 showing more consistent with industry experience,
21 so therefore we propose eliminate this
22 participation assumption which we used the past to

1 reflect the trend utilization shift when tracking
2 for life was new and without enrollment
3 requirement.

4 So we don't expect significant impact of
5 this change on our valuation result.

6 Any questions about this page? So page
7 10, the average claim costs development. We look
8 at the recent experience data (inaudible) only
9 minor, if any, change in age grading given the
10 size of our population. Therefore we propose to
11 update an aggregate (inaudible) level from 2017 to
12 2018 and to keep the age grading the same as last
13 year.

14 Any questions about this page? Okay,
15 there is something I want to propose.

16 MS. TRYGSTAD: Thank you, thank you.
17 Does anybody have any other questions? Stu or
18 Dave?

19 MR. VIRGILE: Just two quick ones.

20 MS. CHU: Okay.

21 MR. VIRGILE: On the first page,
22 sometimes there are projections ahead a year and

1 sometimes there aren't. And I'm not asking for
2 the projections, but is there any reason you have
3 to expect next year's rates will be about the same
4 as this year's rates, other than, you know,
5 medical trend going up every year? Do you expect
6 them to be about the same? Because they do jump
7 up and down from year to year sometimes.

8 MS. CHU: Less, because we have an all
9 assumption will, you know, in our valuation will
10 kind of impact the result. So --

11 MR. VIRGILE: Right. Yeah, so I guess
12 I'm looking for are there any legal or other
13 administrative change that you have in the
14 pipeline that might cause the rate to go up or
15 down in 2021 compared to say 2020?

16 MS. CHU: So far we don't expect any
17 change.

18 MR. SITRIN: The 2021 compared to '20,
19 or you mean after 2021?

20 MS. CHU: Yeah.

21 MR. VIRGILE: No, just 2021 compared to
22 '20.

1 MR. SITRIN: So that's still -- that
2 work is not finalized yet --

3 MS. CHU: Yeah.

4 MR. SITRIN: -- because we don't have
5 approved assumptions, but I'm not -- as far as
6 statutory changes --

7 MR. VIRGILE: Yeah, I'm really not
8 looking for --

9 MR. SITRIN: -- others can speak to that
10 better than I.

11 MR. VIRGILE: -- a firm number, just a
12 general feeling of there's nothing you're aware of
13 that would cause this to go up by a lot or down by
14 a lot really.

15 MS. CHU: Mm-hmm, mm-hmm.

16 MR. VIRGILE: Okay.

17 MS. CHU: Other questions?

18 MR. VIRGILE: Something more technical.
19 I don't know if this is a good place to discuss it
20 or not, but --

21 MS. CHU: We can talk about it later.

22 MR. VIRGILE: -- we sometimes instead of

1 just projecting one year we'll do like a smoothing
2 technique and do a three year history to come up
3 with the rates. I didn't know if that was
4 something that you have or might consider to come
5 up with your future rates. Instead of just doing
6 the one year projection, doing like that three
7 year weighted average or something like that.

8 MS. CHU: For normal cost or?

9 MR. VIRGILE: Yeah.

10 MR. ZOURAS: It just goes up with
11 ultimate medical inflation.

12 MR. SITRIN: Yeah, it's expected to.

13 MS. CHU: Yes.

14 MR. SITRIN: If nothing else changes
15 it's expected to go up with ultimate medical
16 trend, but there is a lot of potential for
17 volatility in a per capita rate like this.

18 MR. VIRGILE: Yeah, we hate that.

19 (Laughing)

20 MR. SITRIN: That's just expressed as a
21 dollar amount rather than a percent of something.
22 Yeah, there is -- that's the current methodology.

1 I don't know if --

2 MS. CHU: Yeah.

3 MR. VIRGILE: No, that's fine.

4 MR. SITRIN: That's just a function of
5 the statutorily required method.

6 MR. ALDEN: What assumptions
7 specifically were you thinking of where you say we
8 take a three year average?

9 MR. VIRGILE: Well, Coast Guard is a
10 little different, and we don't have a MERHCF
11 valuation, we have, you know, the MHS valuation,
12 which is for pre 65. But what we've changed to
13 last year was to base the rate on 50 percent of
14 2019 claims and 30 percent of 2018 claims and 20
15 percent of 2017 claims to get rid of some of that
16 fluctuation.

17 MR. ALDEN: Yeah. I guess you tend to
18 see that more often with a smaller group because
19 you have more volatility. I think when we get to
20 groups the size we're dealing with here, it's felt
21 that using less experience is better because when
22 you use more experience like that, you then get

1 into a little bit more arbitrary decisions about
2 what trend to use to bring that older experience
3 forward.

4 So it's kind of a tradeoff. How much --
5 if you use multiple years, you might get a
6 smoothness, but then you need to get into hard
7 decisions about how to trend the old experience
8 forward. Here, we have less to worry about there
9 and a byproduct may be more volatility, but I
10 wouldn't think, not necessarily, with a bigger
11 group.

12 MR. VIRGILE: Okay. Thank you.

13 MS. TRYGSTAD: All right. And we assume
14 no other questions -- I don't see any hands raised
15 or people speaking up. So that moves us to the
16 whole purpose of the meeting and the decisions in
17 item 5. So we are now to opine on the methods and
18 assumptions presented today to be used for
19 purposes of computing the amounts in agenda item
20 1. And I would like to propose that we approve
21 these methods and assumptions.

22 Dave? Stu?

1 MR. OSTERNDORF: Yes.

2 MR. ALDEN: I agree.

3 MS. TRYGSTAD: All right. So, with
4 that, I think we have completed our meeting and we
5 have approved the assumptions as presented.

6 MS. CHU: Thank you.

7 SPEAKER: Chelsea, thank you for your
8 hard work.

9 MS. CHU: Thanks.

10 MS. TRYGSTAD: One other thing, I want
11 to thank Joel. Joel joined us finally. I want to
12 thank him for his years in working with us.
13 Thanks.

14 MR. SITRIN: Thank you.

15 (Whereupon, at 10:29 a.m., the
16 PROCEEDINGS were adjourned.)

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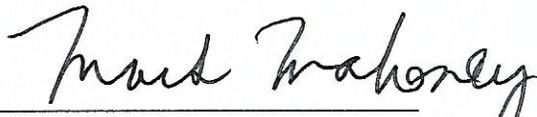
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