



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

October 24, 2024

**MEMORANDUM FOR THE RECORD**

**SUBJECT:** Minutes of the August 2, 2024, Meeting of the DoD Medicare-Eligible Retiree Health Care Board of Actuaries

These are the minutes of the August 2, 2024, meeting of the DoD Medicare-Eligible Retiree Health Care Board of Actuaries (Board). The Board advises on the actuarial valuation of the Medicare-Eligible Retiree Health Care Fund (MERHCF or Fund).

List of Attachments:

- 1 – Meeting agenda
- 2 – List of attendees
- 3 – Meeting handouts
- 4 – Meeting transcript

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

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

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

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

Inger M. Pettygrove  
Designated Federal Officer

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

**August 2, 2024  
10:00 a.m.  
*Virtual Meeting***

***HIGHLIGHTS/KEY BOARD DECISIONS***

**Introduction:**

- Transcript Page 5: Chairperson David Osterndorf opened the 2024 Board Meeting. Mr. Osterndorf outlined several agenda items and the objectives for the meeting.

**Agenda Item 2: September 30, 2022, Actuarial Valuation Results**

- Transcript Pages 5-6: OACT presented the MERHCF valuation history and gains/losses to the Fund. MERHCF per capita normal costs for FY 2025 are \$6,951 and \$2,523 for active duty and reserve, respectively. The actuarial liability as of September 30, 2022, was \$540.3 billion and the unfunded liability was \$195.7 billion. The Treasury payment for October 1, 2023, was \$9.6 billion.
- Transcript Page 7: In FY 2022, there was an experience gain of \$32.9 billion and an assumption loss of \$19.7 billion, leading to a total valuation gain of \$13.2 billion. The fund is expected to be fully funded before 2040. In FY 2023, there was an asset loss of \$0.4 billion.

**Agenda Item 3: September 30, 2023, Actuarial Valuation Proposals**

- Transcript Pages 9-10: Effective fund yield and balance for each fiscal year from 2018 to 2023 were presented. In FY 2023, there was a beginning balance of \$345.1 billion and an ending balance of \$369.6 billion. The annual effective yield was 4.5%.
- Transcript Pages 10-11: Active service member counts for FY 2022 and FY 2023 were presented, showing a decrease across the board compared to last year, mainly due to the services facing recruiting challenges. The decrease was somewhat offset by increased retention.
- Transcript Pages 11-13: Counts of retirees and survivors were presented for FY 2022 and FY 2023. Across the categories, there was a slight increase in the number of Medicare-eligible beneficiaries. OACT is expecting the force downsizing in the 1990s to result in a decrease in the non-Medicare-eligible population, but not in the near future.

- Transcript Pages 14-16: OACT presented the incurred outlays for FY 2022 and FY 2023. It was noted that there is a continuation of the prior trend post-COVID of spending moving from direct care (DC) to purchased care (PC). There was discussion of how the decreases in direct care inpatient costs could be attributable to the closing of inpatient services at a few MTFs. It was noted that FY 2023 DC results are using MHS Genesis data and include differences in workload calculation between the Composite Health Care System and MHS Genesis.
- Transcript Pages 16-20: OACT proposed no change to the discount rate assumption of 4.50%, and no change in the ultimate medical trend rate of 4.75%. Like other boards such as Social Security, OPM, and CMS, OACT proposed to keep the assumptions the same for the next valuation. DFAS added that the current composition of assets is 60-70% in TIPS and 30-40% in longer term conventional bonds. They expressed concern with the impact that inflation will have on TIPS holdings.
- Transcript Pages 21-23: OACT presented the medical trend assumptions for DC, PC, and USFHP. Proposed trends reflect the most recent experience and show levels similar to pre-pandemic levels. OACT observed a higher demand for blockbuster drugs on the PC drug trends compared to the previous trend. It was noted that the GLP-1 inhibitor drugs are costly brand-name drugs. In general brand-name drugs contribute to a larger portion of the cost compared to generic despite representing a lower proportion of scripts.

As a result of emerging studies, adjustments may be made to medical trends to reflect better health as a result emerging of blockbuster drugs. This would be a reduction to inpatient and outpatient trends in future years.

- Transcript Pages 24-25: The first proposal is to use an additional year of mortality improvement. The second proposal is to include FY 2023 in the development of mortality rates, including an increase to the expected percentage of female retirees in the long term from 15% to 20%. The third proposal is an update to survivor death rates using a more recent experience period and incorporating Coast Guard experience. The fourth proposal is an update to active and reserve new entrant distributions by updating the experience period from FY 2015-FY 2019 to FY 2021-FY 2023. This update would reflect changes in the age distribution in new recruits. The fifth proposal is an update to include future mortality improvement past the valuation date and include related morbidity improvements to claims reflecting the fact that increased longevity is associated with improved health status of retirees.

OACT discussed assumptions related to administrative cost loads and decrement rates. The IP and OP admin load decreased from 1.5% to 1.4%, and the Retail Pharmacy and USFHP admin loads were unchanged.

- Transcript Pages 26-29: The average claims level was updated for FY 2023 experience, and no changes were proposed for valuation claims cost age grading. Morbidity adjustments included adjusting aging factors for all populations and adding age setback factors for the new entrant population.
- Transcript Pages 29-30: The Board approved OACT's proposed methods and assumptions for calculating the FY 2026 per capita normal costs, the September 30, 2023, unfunded liability (UFL), and the October 1, 2024, Treasury UFL amortization and normal cost payments.

## ATTACHMENT 1

# MEDICARE-ELIGIBLE RETIREE HEALTH CARE BOARD OF ACTUARIES MEETING AGENDA

Friday August 2<sup>nd</sup>, 2024  
10:00 AM – 1:00 PM EST  
Back-up Dial-in: (410) 874-6749  
Conference ID: 313 896 114#

### 1. Meeting Objective (Board)

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

- a. FY 2026 per capita full-time and part-time normal costs
- b. September 30, 2023 unfunded liability (UFL)
- c. October 1, 2024 Treasury UFL amortization and normal cost payments

### 2. September 30, 2022 Actuarial Valuation Results

(Chelsea Chu, DoD Office of the Actuary)

### 3. September 30, 2023 Actuarial Valuation Proposals

(Drew May, Phil Davis, Jonathan Wong, DoD Office of the Actuary)

\*Board approval required

## ATTACHMENT 2

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

August 2, 2024

|    | NAME                 | POSITION or OFFICE |
|----|----------------------|--------------------|
| 1  | Dave Osterndorf      | Chairperson        |
| 2  | Stuart Alden         | Board Member       |
| 3  | Jian Yu              | Board Member       |
| 4  | Pete Zouras          | DoD Chief Actuary  |
| 5  | Inger Pettygrove     | DoD OACT           |
| 6  | Chelsea Chu          | DoD OACT           |
| 7  | Phil Davis           | DoD OACT           |
| 8  | Drew May             | DoD OACT           |
| 9  | Qian Magee           | DoD OACT           |
| 10 | Jonathan Wong        | DoD OACT           |
| 11 | Ethan Field          | DoD OACT           |
| 12 | Austin Keib          | DoD OACT           |
| 13 | Paul Bley            | General Counsel    |
| 14 | Chris Borcik         | CCA                |
| 15 | Matt Schmidt         | CBO                |
| 16 | LaNita Cousin        | USPHS              |
| 17 | Alicia Litts         | OUSD (C)           |
| 18 | Edward Norton        | DHA                |
| 19 | Jonathan Poe         | DFAS               |
| 20 | Joel Sitrin          | OSD OUSD P-R       |
| 21 | Carolyn Carnakie     | DHA                |
| 22 | Daniel Lee           | OUSD (C)           |
| 23 | Mary Webb            | DFAS               |
| 24 | Tom Liuzzo           | OSD OUSD P-R       |
| 25 | Nancy Carpenter      | DFAS               |
| 26 | Jeff Goldstein       | OMB                |
| 27 | Joann Butler         | NOAA               |
| 28 | Chad Mouw            | USCG               |
| 29 | Danilo Mendoza       | USCG               |
| 30 | Lt Col Joshua Miller | OUSD (C)           |
| 31 | Renea Whitmore       | OUSD (C)           |
| 32 | Grady Johnson        | USCG               |

|    |                 |          |
|----|-----------------|----------|
| 33 | Angelique Banks | USARMY   |
| 34 | Debra Wada      | USFHP    |
| 35 | Scott Porter    | Milliman |

**ATTACHMENT 3**

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

**AND**

**DEFENSE FINANCE AND ACCOUNTING  
SERVICE HANDOUT**

**August 2, 2024**



# **Medicare-Eligible Retiree Health Care Board of Actuaries Meeting**



**Department of Defense  
Office of the Actuary  
August 2, 2024**

## 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 2016          | FY18                           | \$4,890          | \$1,955          | 9/30/15                | \$427.3   | \$232.8     | \$194.4    | 10/1/16                  | \$5.7         |
| Summer 2017          | FY19                           | \$4,632          | \$1,844          | 9/30/16                | \$409.4   | \$239.3     | \$170.1    | 10/1/17                  | \$6.6         |
| Summer 2018          | FY19R                          | \$4,471          | \$1,760          |                        |           |             |            |                          |               |
| Summer 2018          | FY20                           | \$4,621          | \$1,847          | 9/30/17                | \$406.4   | \$250.2     | \$156.2    | 10/1/18                  | \$5.7         |
| Summer 2019          | FY21                           | \$4,911          | \$1,952          | 9/30/18                | \$436.3   | \$265.7     | \$170.6    | 10/1/19                  | \$6.6         |
| Summer 2020          | FY22                           | \$5,506          | \$2,138          | 9/30/19                | \$452.8   | \$277.8     | \$175.0    | 10/1/20                  | \$7.0         |
| Summer 2021          | FY23                           | \$5,795          | \$2,279          | 9/30/20                | \$472.4   | \$289.7     | \$182.7    | 10/1/21                  | \$7.5         |
| Summer 2022          | FY24                           | \$6,405          | \$2,553          | 9/30/21                | \$519.2   | \$311.8     | \$207.4    | 10/1/22                  | \$10.0        |
| Summer 2023          | FY25                           | \$6,951          | \$2,523          | 9/30/22                | \$540.3   | \$344.6     | \$195.7    | 10/1/23                  | \$9.6         |
| <b>Summer 2024</b>   | <b>FY26</b>                    | <b>?</b>         | <b>?</b>         | <b>9/30/23</b>         | <b>?</b>  | <b>?</b>    | <b>?</b>   | <b>10/1/24</b>           | <b>?</b>      |

### 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> |                 |              |
| 9/30/17         | \$4.7             | (\$6.8)      | (\$2.2)      | \$0.9              | (\$0.5)      | (\$1.0)      | (\$0.6)      | (\$14.1)        | (\$16.9)     |
| 9/30/18         | \$1.4             | (\$5.9)      | (\$4.4)      | (\$4.5)            | (\$0.2)      | \$22.3       | \$17.6       | \$0.0           | \$13.2       |
| 9/30/19         | \$4.4             | (\$6.1)      | (\$1.7)      | (\$21.8)           | \$0.3        | \$25.0       | \$3.5        | \$0.0           | \$1.8        |
| 9/30/20         | \$6.5             | (\$22.4)     | (\$15.9)     | \$2.6              | (\$0.3)      | \$20.0       | \$22.3       | \$0.0           | \$6.4        |
| 9/30/21         | (\$3.1)           | (\$9.9)      | (\$13.1)     | \$33.6             | \$0.2        | \$3.1        | \$36.8       | \$0.0           | \$23.8       |
| 9/30/22         | (\$12.1)          | (\$20.8)     | (\$32.9)     | \$33.1             | (\$1.1)      | (\$12.4)     | \$19.7       | \$0.0           | (\$13.2)     |
| 9/30/23         | \$0.4             |              |              |                    |              |              |              |                 |              |

\* 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 | Investment Income | DC               | PC    | Total  |                          |                        |
| 2018        | \$250.8                        | \$8.4                                     | \$6.6   | \$10.7            | \$2.2            | \$7.9 | \$10.1 | \$266.4                  | <b>4.1%</b>            |
| 2019        | \$266.4                        | \$7.8                                     | \$5.7   | \$9.1             | \$2.3            | \$8.1 | \$10.5 | \$278.5                  | <b>3.3%</b>            |
| 2020        | \$278.5                        | \$8.1                                     | \$6.6   | \$7.7             | \$2.4            | \$8.2 | \$10.6 | \$290.3                  | <b>2.7%</b>            |
| 2021        | \$290.3                        | \$8.6                                     | \$7.0   | \$17.4            | \$2.6            | \$8.6 | \$11.2 | \$312.1                  | <b>5.8%</b>            |
| 2022        | \$312.1                        | \$9.6                                     | \$7.5   | \$27.1            | \$2.4            | \$8.8 | \$11.2 | \$345.1                  | <b>8.4%</b>            |
| 2023        | \$345.1                        | \$10.0                                    | \$10.0  | \$16.0            | \$2.5            | \$9.1 | \$11.6 | \$369.6                  | <b>4.5%</b>            |

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

## Active Duty and Reservists

|                    | <u>9/30/22</u> | <u>9/30/23</u> | <u>% Change<br/>from End of<br/>FY22 to FY23</u> |
|--------------------|----------------|----------------|--|
| <u>DoD</u>         |                |                |  |
| Active Duty        | 1,393,696      | 1,363,540      | -2.2%  |
| Reserve            | 675,807        | 669,174        | -1.0%  |
| <u>Coast Guard</u> |                |                |  |
| Active Duty        | 39,471         | 38,820         | -1.6%  |
| Reserve            | 6,164          | 6,178          | 0.2%   |
| <u>PHS</u>         |                |                |  |
| Active Duty        | 5,814          | 5,513          | -5.2%  |
| Reserve            | 64             | 96             | 50.0%  |
| <u>NOAA</u>        |                |                |  |
| Active Duty        | 334            | 334            | 0.0%   |
| Reserve            | 0              | 0              |  |
| <u>TOTAL</u>       |                |                |  |
| Active Duty        | 1,439,315      | 1,408,207      | -2.2%  |
| Reserve            | 681,971        | 675,352        | -1.0%  |

Note: These are end of FY counts.

## Retirees and Survivors (all Uniformed Services)

|                                   | <u>9/30/22</u>   | <u>9/30/23</u>   | % Change<br>from End of<br><u>FY22 to FY23</u> |
|-----------------------------------|------------------|------------------|--|
| <b>Retirees</b>                   |                  |                  |  |
| <hr/>                             |                  |                  |  |
| Sponsors                          |                  |                  |  |
| Non-Medicare-eligible             | 1,031,402        | 1,038,354        | 0.7%   |
| Medicare-eligible                 | <u>1,211,196</u> | <u>1,221,849</u> | <u>0.9%</u>                                    |
| Total                             | 2,242,598        | 2,260,203        | 0.8%   |
| <br>Spouses                       |                  |                  |  |
| Non-Medicare-eligible             | 909,228          | 912,667          | 0.4%   |
| Medicare-eligible                 | <u>735,249</u>   | <u>740,483</u>   | <u>0.7%</u>                                    |
| Total                             | 1,644,477        | 1,653,150        | 0.5%   |
| <br>Others                        |                  |                  |  |
| Non-Medicare-eligible             | 878,359          | 896,432          | 2.1%   |
| Medicare-eligible                 | <u>13,339</u>    | <u>13,331</u>    | <u>-0.1%</u>                                   |
| Total                             | 891,698          | 909,763          | 2.0%   |
| <br><b>Survivors</b>              |                  |                  |  |
| <hr/>                             |                  |                  |  |
| Spouses                           |                  |                  |  |
| Non-Medicare-eligible             | 76,235           | 75,314           | -1.2%  |
| Medicare-eligible                 | <u>522,773</u>   | <u>529,325</u>   | <u>1.3%</u>                                    |
| Total                             | 599,008          | 604,639          | 0.9%   |
| <br>Others                        |                  |                  |  |
| Non-Medicare-eligible             | 31,093           | 30,653           | -1.4%  |
| Medicare-eligible                 | <u>8,406</u>     | <u>8,620</u>     | <u>2.5%</u>                                    |
| Total                             | 39,499           | 39,273           | -0.6%  |
| <br><b>Retirees and Survivors</b> |                  |                  |  |
| <hr/>                             |                  |                  |  |
| Non-Medicare-eligible             | 2,926,317        | 2,953,420        | 0.9%   |
| Medicare-eligible                 | <u>2,490,963</u> | <u>2,513,608</u> | <u>0.9%</u>                                    |
| Total                             | 5,417,280        | 5,467,028        | 0.9%   |

## MERHCF Incurred Outlays

| <u>Aggregate (\$ in millions)</u> | <u>FY 2022</u> | <u>FY 2023</u> | <u>% Change from<br/>FY22 to FY23</u> |
|-----------------------------------|----------------|----------------|---------------------------------------|
| <b>Purchased Care</b>             |                |                |                                       |
| IP                                | \$818          | \$851          | 4.0%                                  |
| OP                                | \$3,210        | \$3,375        | 5.1%                                  |
| Rx                                | \$3,696        | \$3,813        | 3.2%                                  |
| <u>Other</u>                      | <u>\$135</u>   | <u>\$132</u>   | <u>-1.8%</u>                          |
| TOTAL                             | \$7,859        | \$8,171        | 4.0%                                  |
| <b>Direct Care</b>                |                |                |                                       |
| IP                                | \$599          | \$375          | -37.4%                                |
| OP                                | \$785          | \$876          | 11.6%                                 |
| Rx                                | \$850          | \$894          | 5.2%                                  |
| TOTAL                             | \$2,234        | \$2,145        | -4.0%                                 |
| <b>US Family Health Plan</b>      |                |                |                                       |
| Capitation Rates                  | \$833          | \$830          | -0.3%                                 |
| <u>Other</u>                      | <u>\$3.7</u>   | <u>\$3.3</u>   | <u>-9.4%</u>                          |
| TOTAL                             | \$837          | \$834          | -0.3%                                 |
| <b>Grand Total</b>                | \$10,930       | \$11,150       | 2.0%                                  |
| <br>                              |                |                |                                       |
| <u>Per Capita</u>                 | <u>FY 2022</u> | <u>FY 2023</u> | <u>% Change from<br/>FY22 to FY23</u> |
| Purchased Care                    | \$3,211        | \$3,316        | 3.2%                                  |
| <u>Direct Care</u>                | <u>\$915</u>   | <u>\$873</u>   | <u>-4.6%</u>                          |
| TOTAL                             | \$4,126        | \$4,188        | 1.5%                                  |
| US Family Health Plan             | \$18,622       | \$19,028       | 2.2%                                  |

Notes:

1. PC Retail Rx incurred amounts are net of incurred Rx rebates.  
Incurred Rx rebates in FY 2022 / FY 2023 were \$610m / \$747m.
2. Medicare is primary payer in most cases with PC IP and PC OP.
3. TRICARE is primary payer in most cases with PC mail order Rx, DC (IP, OP, Rx) and USFHP.
4. Purchased care "other" includes: admin costs and certain claim adjustments or payments not already included in claims; some admin costs are included in the claims line.
5. Average USFHP capitation rate is influenced by various factors, including changes in plan (among six plans), demographic mix (age / gender), and utilization experience.  
In addition, Rx rebates are applied to experience period on a paid (not incurred) basis in the development of the USFHP rates.
6. Effective FY 2016, PC mail order Rx ingredient cost is the amount Defense Health Agency (DHA) pays to replenish inventory at the mail order warehouse.

## MERHCF Valuation Key Economic Assumptions Ultimate Medical Trend and Discount Rate

|   | September 30, 2022 Val | September 30, 2023 Val<br>(Proposed) |
|---|------------------------|--------------------------------------|
| Ultimate Medical Trend                      | 4.75%                  | 4.75%                                |
| Discount Rate                               | 4.50%                  | 4.50%                                |
|   |                        |                                      |
| <b>MERHCF</b> Ultimate Medical Trend        |                        |                                      |
| Real per capita gdp                         | 1.50%                  | 1.50%                                |
| Inflation                                   | 2.75%                  | 2.75%                                |
| <u>Margin or excess medical cost growth</u> | <u>0.50%</u>           | <u>0.50%</u>                         |
| Total                                       | 4.75%                  | 4.75%                                |
|   |                        |                                      |
| <b>MERHCF</b> Discount Rate                 |                        |                                      |
| Real yield/Real interest                    | 1.75%                  | 1.75%                                |
| <u>CPI</u>                                  | <u>2.75%</u>           | <u>2.75%</u>                         |
| Total                                       | 4.50%                  | 4.50%                                |

## MERHCF Valuation Medical Trend Assumptions

September 30, 2022 Val

| From FY: To FY: |      | DC    |       |       | PC    |       |       | USFHP |
|-----------------|------|-------|-------|-------|-------|-------|-------|-------|
|                 |      | IP    | OP    | Rx    | IP    | OP    | Rx    |       |
| 2022            | 2023 | 6.08% | 5.05% | 9.42% | 9.44% | 8.32% | 9.01% | 8.84% |
| 2023            | 2024 | 4.52% | 4.02% | 8.75% | 8.41% | 7.96% | 8.51% | 8.20% |
| 2024            | 2025 | 5.29% | 4.52% | 4.84% | 5.57% | 7.06% | 4.42% | 6.19% |
| 2025            | 2026 | 5.55% | 4.52% | 4.83% | 5.05% | 6.26% | 4.43% | 5.60% |
| 2026            | 2027 | 4.33% | 5.89% | 4.83% | 4.33% | 5.90% | 4.45% | 5.15% |
| 2027            | 2028 | 4.50% | 5.11% | 4.83% | 4.50% | 5.12% | 4.46% | 4.82% |
| 2028            | 2029 | 4.79% | 5.44% | 4.82% | 4.79% | 5.44% | 4.47% | 5.10% |
| 2029            | 2030 | 4.46% | 5.15% | 4.82% | 4.46% | 5.16% | 4.49% | 4.83% |
| 2030            | 2031 | 4.73% | 5.18% | 4.81% | 4.73% | 5.18% | 4.50% | 4.94% |
| 2031            | 2032 | 4.72% | 5.33% | 4.81% | 4.72% | 5.33% | 4.52% | 5.02% |
| 2032            | 2033 | 4.72% | 5.29% | 4.81% | 4.72% | 5.29% | 4.53% | 5.00% |
| 2033            | 2034 | 4.72% | 5.26% | 4.80% | 4.72% | 5.26% | 4.55% | 4.99% |
| 2034            | 2035 | 4.72% | 5.22% | 4.80% | 4.72% | 5.22% | 4.56% | 4.97% |
| 2035            | 2036 | 4.73% | 5.18% | 4.79% | 4.73% | 5.19% | 4.58% | 4.95% |
| 2036            | 2037 | 4.73% | 5.15% | 4.79% | 4.73% | 5.15% | 4.59% | 4.94% |
| 2037            | 2038 | 4.73% | 5.11% | 4.79% | 4.73% | 5.11% | 4.60% | 4.92% |
| 2038            | 2039 | 4.73% | 5.08% | 4.78% | 4.73% | 5.08% | 4.62% | 4.90% |
| 2039            | 2040 | 4.73% | 5.04% | 4.78% | 4.73% | 5.04% | 4.63% | 4.89% |
| 2040            | 2041 | 4.74% | 5.00% | 4.78% | 4.74% | 5.00% | 4.65% | 4.87% |
| 2041            | 2042 | 4.74% | 4.97% | 4.77% | 4.74% | 4.97% | 4.66% | 4.85% |
| 2042            | 2043 | 4.74% | 4.93% | 4.77% | 4.74% | 4.93% | 4.68% | 4.84% |
| 2043            | 2044 | 4.74% | 4.89% | 4.77% | 4.74% | 4.90% | 4.69% | 4.82% |
| 2044            | 2045 | 4.74% | 4.86% | 4.76% | 4.74% | 4.86% | 4.71% | 4.80% |
| 2045            | 2046 | 4.75% | 4.82% | 4.76% | 4.75% | 4.82% | 4.72% | 4.78% |
| 2046            | 2047 | 4.75% | 4.79% | 4.75% | 4.75% | 4.79% | 4.74% | 4.77% |
| 2047            | 2048 | 4.75% | 4.75% | 4.75% | 4.75% | 4.75% | 4.75% | 4.75% |
| Ultimate        |      | 4.75% | 4.75% | 4.75% | 4.75% | 4.75% | 4.75% | 4.75% |

September 30, 2023 Val (Proposed)\*

| From FY: To FY: |      | DC    |       |       | PC    |       |       | USFHP |
|-----------------|------|-------|-------|-------|-------|-------|-------|-------|
|                 |      | IP    | OP    | Rx    | IP    | OP    | Rx    |       |
| 2023            | 2024 | 6.60% | 6.08% | 7.35% | 6.60% | 5.57% | 9.81% | 6.40% |
| 2024            | 2025 | 4.03% | 6.07% | 5.42% | 4.03% | 6.07% | 7.44% | 5.45% |
| 2025            | 2026 | 4.02% | 6.05% | 4.19% | 4.02% | 6.30% | 5.62% | 5.37% |
| 2026            | 2027 | 4.00% | 6.56% | 4.22% | 3.50% | 6.56% | 5.59% | 5.33% |
| 2027            | 2028 | 4.43% | 4.00% | 4.24% | 4.43% | 4.00% | 5.55% | 4.31% |
| 2028            | 2029 | 4.68% | 4.87% | 4.27% | 4.68% | 4.87% | 5.51% | 4.86% |
| 2029            | 2030 | 4.26% | 5.01% | 4.29% | 4.26% | 5.01% | 5.47% | 4.78% |
| 2030            | 2031 | 4.48% | 5.02% | 4.32% | 4.48% | 5.03% | 5.43% | 4.86% |
| 2031            | 2032 | 4.60% | 5.11% | 4.34% | 4.60% | 5.11% | 5.40% | 4.95% |
| 2032            | 2033 | 4.41% | 5.68% | 4.36% | 4.41% | 5.69% | 5.36% | 5.18% |
| 2033            | 2034 | 4.44% | 5.63% | 4.39% | 4.44% | 5.63% | 5.32% | 5.16% |
| 2034            | 2035 | 4.46% | 5.57% | 4.41% | 4.46% | 5.57% | 5.28% | 5.14% |
| 2035            | 2036 | 4.48% | 5.51% | 4.44% | 4.48% | 5.51% | 5.24% | 5.11% |
| 2036            | 2037 | 4.50% | 5.45% | 4.46% | 4.50% | 5.45% | 5.21% | 5.08% |
| 2037            | 2038 | 4.52% | 5.39% | 4.48% | 4.52% | 5.39% | 5.17% | 5.06% |
| 2038            | 2039 | 4.54% | 5.33% | 4.51% | 4.54% | 5.34% | 5.13% | 5.03% |
| 2039            | 2040 | 4.56% | 5.28% | 4.53% | 4.56% | 5.28% | 5.09% | 5.00% |
| 2040            | 2041 | 4.58% | 5.22% | 4.56% | 4.58% | 5.22% | 5.05% | 4.98% |
| 2041            | 2042 | 4.60% | 5.16% | 4.58% | 4.60% | 5.16% | 5.02% | 4.95% |
| 2042            | 2043 | 4.62% | 5.10% | 4.60% | 4.62% | 5.10% | 4.98% | 4.92% |
| 2043            | 2044 | 4.65% | 5.04% | 4.63% | 4.65% | 5.04% | 4.94% | 4.89% |
| 2044            | 2045 | 4.67% | 4.98% | 4.65% | 4.67% | 4.98% | 4.90% | 4.86% |
| 2045            | 2046 | 4.69% | 4.93% | 4.68% | 4.69% | 4.93% | 4.86% | 4.84% |
| 2046            | 2047 | 4.71% | 4.87% | 4.70% | 4.71% | 4.87% | 4.83% | 4.81% |
| 2047            | 2048 | 4.73% | 4.81% | 4.73% | 4.73% | 4.81% | 4.79% | 4.78% |
| Ultimate        |      | 4.75% | 4.75% | 4.75% | 4.75% | 4.75% | 4.75% | 4.75% |

\*Above future medical trends may be adjusted to reflect better health due to emerging Rx



# MERHCF Valuation Assumptions Decrements and Administrative Load

September 30, 2022 Val

September 30, 2023 Val (Proposed)

**Decrements**

Consistent w/Sept-21 Val, except:

Consistent w/Sept-22 Val, except:

- (1) One more year of MI
- (2) Update MI Scale (based on MIL MI)
- (3) Updated Former Spouse Survivor Allocation and Spouse per Sponser Rates
- (4) Updated Reserve Rates
- (5) PACT Act

- (1) One more year of MI
- (2) Update MI Scale (based on MIL MI)
- (3) Updated Survivor Death Rates
- (4) Updated New Entrant Distribution
- (5) Future Mortality and Morbidity Improvement

**Admin Load**

|         |       |       |
|---------|-------|-------|
| IP & OP | 1.50% | 1.40% |
| Rx      | 1.70% | 1.70% |
| USFHP   | 0.30% | 0.30% |

## MERHCF Valuation Assumptions Claim Costs Development

|                             | September 30, 2022 Val                           | September 30, 2023 Val (Proposed)  |
|-----------------------------|--|--|
| <b>Average Claims Level</b> | FY 2022 experience                               | FY 2023 experience   |
| <b>Claims Age Grading</b>   |  |  |
| 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  |
| <b>Morbidity Adjustment</b> | None   | <p>Remove aging factors from claims for all populations (use minimum of current assumption and average claim from age 66 to 80; use the average claims from 81 to 94)</p> <p>Add 3-year age setback factors for the new entrant population (e.g., age 70 new entrant is treated as have the health status of a current age 67)</p> |



# Medicare-Eligible Retiree Health Care Fund Board of Actuaries Meeting

*Defense Finance and Accounting Service*

Jonathan Poe  
Enterprise Solutions and Standards (ESS)  
Financial Reporting  
August 2, 2024



# Agenda



- ▶ Overview
- ▶ Financial Data
- ▶ Fund Status





## Short Term Liquidity

- ✓ Invested approximately \$27B in October and \$3B in June (\$10.8B Services, \$9.6B Treasury contribution)
- ✓ Average to Maturity for the FY 24 investments is 25.3 years
- ✓ FY 2024 overnights/cash through May \$6B

## Long Term Liquidity

- ✓ Updated investment mix and average to maturity
  - 60-70% TIPS, 30-40% nominal
  - 15 years or greater average to maturity





## Summary Financial Analysis

### Year Ended September 30

(In Billions)

|                                  | FY 2023       | FY 2022       | % Change |
|----------------------------------|---------------|---------------|----------|
| Service Contributions            | \$10.0        | \$9.6         | 4%       |
| Unfunded Liability Contributions | \$10.0        | \$7.5         | 33%      |
| Interest Income                  | <u>\$16.0</u> | <u>\$27.1</u> | (41%)    |
| Total Revenue                    | <u>\$36.0</u> | <u>\$44.2</u> | (19%)    |
| Purchased Care                   | \$9.4         | \$9.0         | 4%       |
| Operations & Maintenance         | \$1.9         | \$1.8         | 6%       |
| Military Personnel               | <u>\$0.6</u>  | <u>\$0.6</u>  | 0%       |
| Total Expense                    | <u>\$11.9</u> | <u>\$11.4</u> | 4%       |





## Interest Analysis

### Year Ended September 30

(In Billions)

#### Interest Income

|                             | FY 2023        | FY 2022        | \$ Change       |
|-----------------------------|----------------|----------------|-----------------|
| Interest Revenue--Par       | \$8.7          | \$8.0          | \$0.7           |
| Interest Revenue--Inflation | \$8.8          | \$21.0         | (\$12.2)        |
| Interest Revenue--Discount  | \$0.7          | \$0.3          | \$0.4           |
| Interest Revenue--Premium   | <u>(\$2.2)</u> | <u>(\$2.2)</u> | <u>\$0.0</u>    |
| Total Interest              | <u>\$16.0</u>  | <u>\$27.1</u>  | <u>(\$11.1)</u> |



# Financial Data



## DoD Medicare-Eligible Retiree Health Care Fund

For the Year Ending September 30, 2023

(in billions)

### **Assets**

|                             |                       |
|-----------------------------|-----------------------|
| Fund Balance with Treasury  | \$0.2                 |
| Investments                 |                       |
| Overnight                   | \$9.8                 |
| Long term                   |                       |
| Par                         | \$250.3               |
| Inflation purchased         | \$19.9                |
| Inflation earned            | \$74.2                |
| Premium outstanding         | \$22.1                |
| Discount outstanding        | -\$9.9                |
| Interest receivable         | <u>\$2.9</u>          |
| Total Long Term Investments | <u>\$359.5</u>        |
| Total Investments           | \$369.3               |
| Other Assets                | 0.0                   |
| Accounts Receivable, Net    | <u>0.4</u>            |
| <b>Total Assets</b>         | <b><u>\$369.9</u></b> |

### **Liabilities**

|   |                |
|---|----------------|
| Accounts Payable                                    |                |
| Government  | \$0.0          |
| Public  | <u>\$0.2</u>   |
| Total Accounts Payable                              | \$0.2          |
| Federal Employee and Veteran                        |                |
| Benefits Payable                                    |                |
| Incurred but Not Reported                           | \$0.7          |
| Actuarial Liability                                 | <u>\$806.8</u> |
| Total Federal Employee and Veteran Benefits Payable | <u>\$807.5</u> |
| Total Liabilities                                   | \$807.7        |

### **Net Position**

|   |                       |
|---|-----------------------|
| Cumulative Results of Operations          | <u>-\$437.8</u>       |
| <b>Total Liabilities and Net Position</b> | <b><u>\$369.9</u></b> |







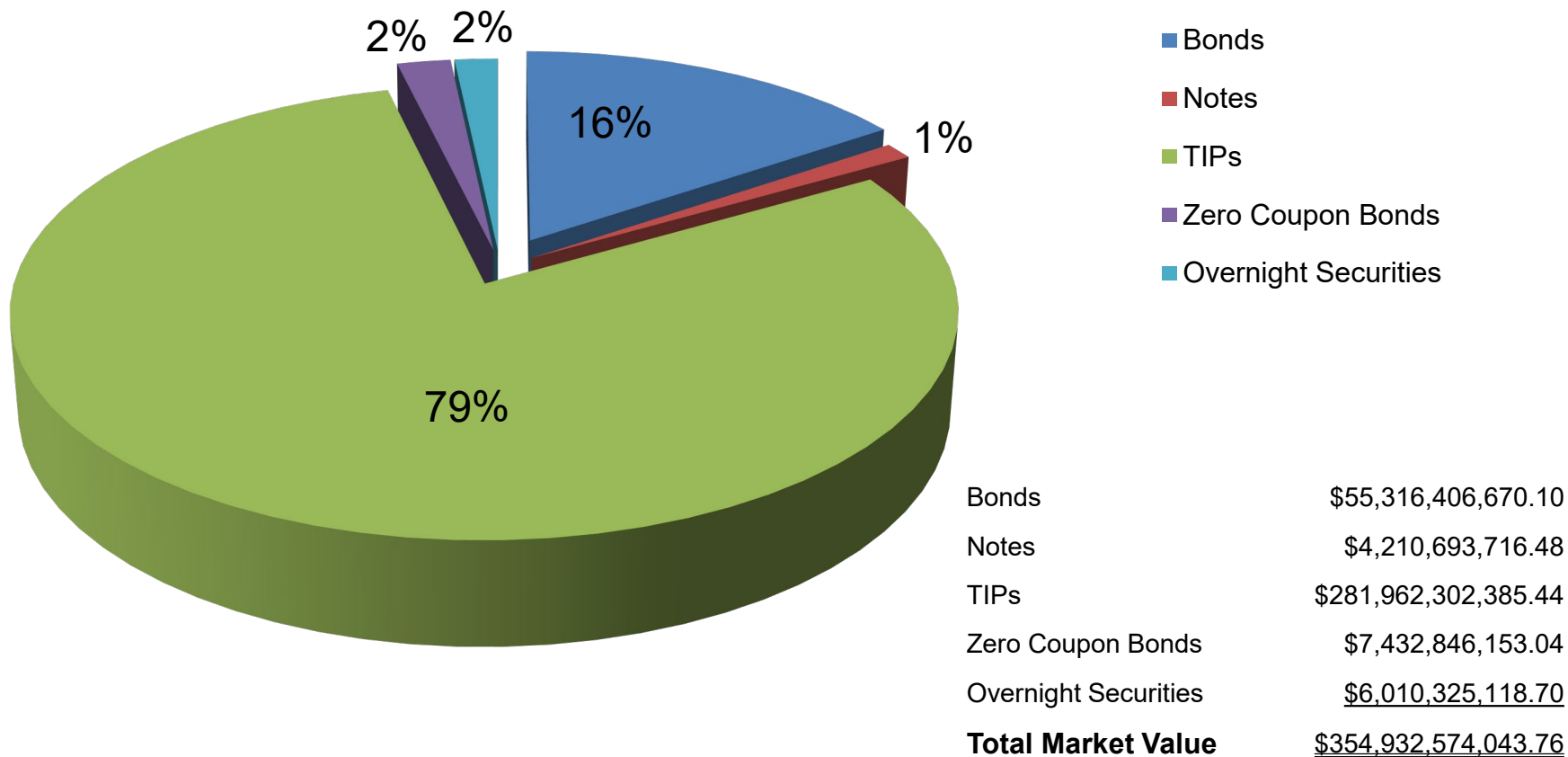
## Effective Fund Yields

| <b>FY</b> | <b>Yield</b> |
|-----------|--------------|
| 2014      | 3.46%        |
| 2015      | 2.02%        |
| 2016      | 2.55%        |
| 2017      | 3.21%        |
| 2018      | 4.11%        |
| 2019      | 3.33%        |
| 2020      | 2.67%        |
| 2021      | 5.79%        |
| 2022      | 8.37%        |
| 2023      | 4.46%        |





## Medicare-Eligible Retiree Health Care Portfolio As of May 31, 2024



# Fund Status



| Security Description      | Shares Par               | Inflation Compensation | Book Value               | Market Value             |
|---------------------------|--------------------------|------------------------|--------------------------|--------------------------|
| INTEREST ZCB 08/15/33     | 3,884,000,000.00         | 0.00                   | 3,271,748,011.92         | 2,538,349,670.72         |
| INTEREST ZCB 08/15/34     | 3,980,000,000.00         | 0.00                   | 3,277,773,047.82         | 2,477,508,130.40         |
| INTEREST ZCB 08/15/35     | 4,078,000,000.00         | 0.00                   | 3,283,161,192.84         | 2,416,988,351.92         |
| <b>ZCB Total</b>          | <b>11,942,000,000.00</b> | <b>0.00</b>            | <b>9,832,682,252.58</b>  | <b>7,432,846,153.04</b>  |
| MK BOND 7.500% 11/15/2024 | 672,318,035.66           | 0.00                   | 688,983,010.96           | 678,410,917.86           |
| MK BOND 7.625% 02/15/2025 | 1,249,923,831.62         | 0.00                   | 1,307,210,243.68         | 1,270,625,695.08         |
| MK BOND 6.875% 08/15/2025 | 1,600,000,000.00         | 0.00                   | 1,703,634,479.77         | 1,635,500,000.00         |
| MK BOND 6.000% 02/15/2026 | 650,000,000.00           | 0.00                   | 683,885,597.02           | 660,562,500.00           |
| MK BOND 6.625% 02/15/2027 | 650,000,000.00           | 0.00                   | 707,460,980.54           | 681,890,625.00           |
| MK BOND 5.500% 08/15/2028 | 650,000,000.00           | 0.00                   | 699,323,123.30           | 673,968,750.00           |
| MK BOND 5.250% 11/15/2028 | 650,000,000.00           | 0.00                   | 685,822,127.00           | 667,265,625.00           |
| MK BOND 6.250% 05/15/2030 | 5,616,497,263.42         | 0.00                   | 6,763,933,529.77         | 6,107,940,773.97         |
| MK BOND 5.375% 02/15/2031 | 5,299,185,372.58         | 0.00                   | 6,273,078,545.87         | 5,574,080,613.78         |
| MK BOND 4.500% 02/15/2036 | 3,645,162,279.04         | 0.00                   | 4,204,617,436.79         | 3,666,805,430.07         |
| MK BOND 4.750% 02/15/2037 | 3,026,580,843.12         | 0.00                   | 3,584,536,997.58         | 3,105,082,783.74         |
| MK BOND 4.375% 02/15/2038 | 3,938,865,578.85         | 0.00                   | 4,530,955,526.34         | 3,881,013,490.66         |
| MK BOND 3.500% 02/15/2039 | 1,018,685,121.11         | 0.00                   | 1,013,112,792.27         | 903,764,705.88           |
| MK BOND 4.500% 08/15/2039 | 1,446,478,569.89         | 0.00                   | 1,723,383,436.65         | 1,431,561,759.64         |
| MK BOND 2.750% 11/15/2042 | 5,977,470,782.68         | 0.00                   | 5,002,189,314.71         | 4,509,254,521.68         |
| MK BOND 3.625% 08/15/2043 | 7,220,405,493.79         | 0.00                   | 6,067,092,303.62         | 6,186,984,957.49         |
| MK BOND 3.625% 02/15/2044 | 3,290,122,600.05         | 0.00                   | 3,756,685,485.95         | 2,812,026,659.73         |
| MK BOND 1.875% 02/15/2051 | 1,228,281,395.04         | 0.00                   | 1,113,855,204.84         | 702,807,260.72           |
| MK BOND 3.625% 02/15/2053 | 12,171,324,623.78        | 0.00                   | 10,094,502,549.06        | 10,166,859,599.80        |
| <b>Bond Total</b>         | <b>60,001,301,790.63</b> | <b>0.00</b>            | <b>60,604,262,685.72</b> | <b>55,316,406,670.10</b> |
| MK NOTE 0.375% 08/15/2024 | 1,044,534,642.79         | 0.00                   | 1,034,808,038.78         | 1,034,089,296.36         |
| MK NOTE 0.375% 09/15/2024 | 3,221,912,565.57         | 0.00                   | 3,190,459,260.98         | 3,176,604,420.12         |
| <b>Note Total</b>         | <b>4,266,447,208.36</b>  | <b>0.00</b>            | <b>4,225,267,299.76</b>  | <b>4,210,693,716.48</b>  |



# Fund Status

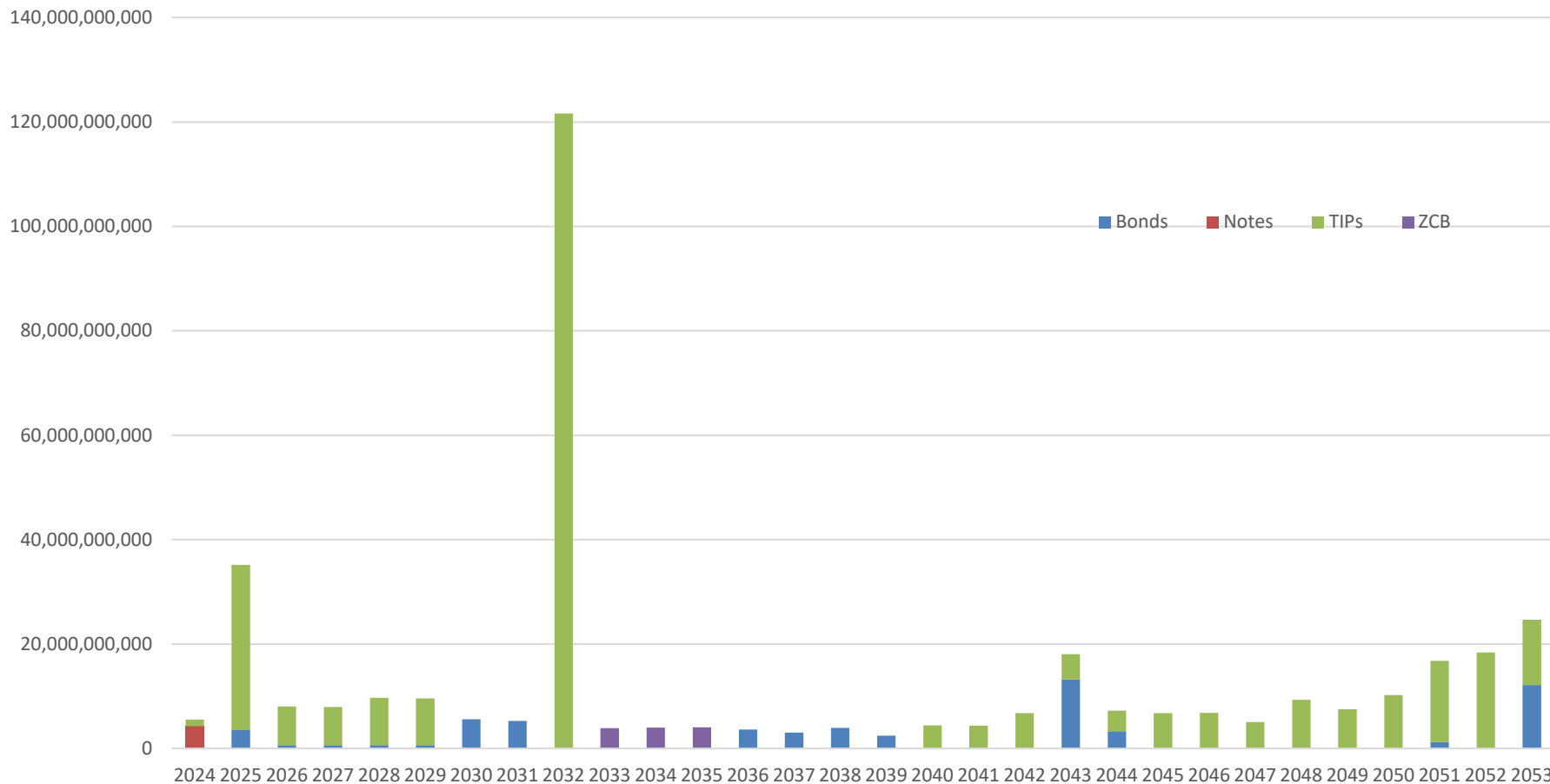


| Security Description      | Shares Par                | Inflation Compensation    | Book Value                | Market Value              |
|---------------------------|---------------------------|---------------------------|---------------------------|---------------------------|
| MK TIPS 0.125% 07/15/2024 | 979,763,500.00            | 308,733,276.49            | 1,288,915,636.62          | 1,286,483,500.27          |
| MK TIPS 2.375% 01/15/2025 | 19,100,000,000.00         | 12,541,442,000.00         | 32,046,866,481.32         | 31,423,907,086.25         |
| MK TIPS 2.000% 01/15/2026 | 4,700,000,000.00          | 2,694,557,000.00          | 7,425,953,811.13          | 7,306,746,635.63          |
| MK TIPS 2.375% 01/15/2027 | 4,700,000,000.00          | 2,577,715,000.00          | 7,354,150,809.04          | 7,266,343,570.31          |
| MK TIPS 3.625% 04/15/2028 | 4,700,000,000.00          | 4,374,149,000.00          | 9,439,034,087.06          | 9,516,513,763.75          |
| MK TIPS 3.875% 04/15/2029 | 4,700,000,000.00          | 4,227,697,000.00          | 9,436,395,199.74          | 9,614,013,706.88          |
| MK TIPS 3.375% 04/15/2032 | 69,126,395,000.00         | 52,484,215,403.75         | 129,403,758,855.73        | 132,099,525,551.07        |
| MK TIPS 2.125% 02/15/2040 | 3,063,380,000.00          | 1,362,438,255.00          | 5,076,133,088.74          | 4,353,898,708.36          |
| MK TIPS 2.125% 02/15/2041 | 3,081,100,000.00          | 1,312,363,734.00          | 5,066,762,214.66          | 4,322,069,948.32          |
| MK TIPS 0.750% 02/15/2042 | 4,892,690,000.00          | 1,868,762,945.50          | 6,518,112,756.28          | 5,244,351,940.85          |
| MK TIPS 0.625% 02/15/2043 | 3,573,900,000.00          | 1,280,206,719.00          | 4,430,329,936.19          | 3,620,860,230.70          |
| MK TIPS 1.375% 02/15/2044 | 2,942,097,073.00          | 999,901,111.23            | 4,028,644,494.37          | 3,358,089,703.19          |
| MK TIPS 0.750% 02/15/2045 | 5,111,111,859.92          | 1,666,631,355.29          | 7,107,826,385.20          | 5,036,710,426.80          |
| MK TIPS 1.000% 02/15/2046 | 5,181,854,401.25          | 1,647,259,695.61          | 7,539,734,855.77          | 5,281,892,934.29          |
| MK TIPS 0.875% 02/15/2047 | 3,909,670,585.94          | 1,147,918,380.74          | 5,392,750,840.47          | 3,760,001,297.41          |
| MK TIPS 1.000% 02/15/2048 | 7,359,590,628.19          | 1,959,932,580.19          | 10,907,472,996.96         | 7,059,538,830.35          |
| MK TIPS 1.000% 02/15/2049 | 6,074,562,718.96          | 1,463,665,887.13          | 8,239,696,301.31          | 5,672,517,026.09          |
| MK TIPS 0.250% 02/15/2050 | 8,407,824,449.38          | 1,804,319,126.84          | 11,544,919,846.89         | 6,159,199,094.41          |
| MK TIPS 0.125% 02/15/2051 | 12,965,759,830.92         | 2,585,502,167.88          | 16,827,757,735.59         | 8,873,938,878.07          |
| MK TIPS 0.125% 02/15/2052 | 16,392,500,281.42         | 1,995,786,909.26          | 13,291,709,955.90         | 10,291,694,487.04         |
| MK TIPS 1.500% 02/15/2053 | 11,907,849,895.65         | 601,465,498.23            | 10,328,062,061.24         | 10,414,005,065.40         |
| <b>TIPS Total</b>         | <b>202,870,050,224.63</b> | <b>100,904,663,046.14</b> | <b>312,694,988,350.21</b> | <b>281,962,302,385.44</b> |
| ONE DAY 5.380% 06/03/2024 | 6,010,325,118.70          | 0.00                      | 6,010,325,118.70          | 6,010,325,118.70          |
| <b>One Day Total</b>      | <b>6,010,325,118.70</b>   | <b>0.00</b>               | <b>6,010,325,118.70</b>   | <b>6,010,325,118.70</b>   |
| <b>Total Portfolio</b>    | <b>285,090,124,342.32</b> | <b>100,904,663,046.14</b> | <b>393,367,525,706.97</b> | <b>354,932,574,043.76</b> |





## MERHCF Maturities As of May 31, 2024



| 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  | 49  | 50   | 51   | 52   | 53   | TOTAL |
|-----|------|-----|-----|-----|-----|-----|-----|-------|-----|-----|-----|-----|-----|-----|-----|-----|-----|-----|------|-----|-----|-----|-----|-----|-----|------|------|------|------|-------|
| 5.6 | 35.2 | 8.0 | 7.9 | 9.7 | 9.6 | 5.6 | 5.3 | 121.6 | 3.9 | 4.0 | 4.1 | 3.6 | 3.0 | 3.9 | 2.5 | 4.4 | 4.4 | 6.8 | 18.1 | 7.2 | 6.8 | 6.8 | 5.1 | 9.3 | 7.5 | 10.2 | 16.8 | 18.4 | 24.7 | 380.0 |





# Questions



**ATTACHMENT 4**

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

**August 2, 2024**

UNITED STATES DEPARTMENT OF DEFENSE  
DEFENSE HUMAN RESOURCE ACTIVITY  
BOARD OF ACTUARIES

VIRTUAL MEETING (MS TEAMS)  
MEDICARE-ELIGIBLE RETIREE HEALTH CARE

Washington, D.C.

Friday, August 2, 2024



1 PARTICIPANTS:

2 DAVE OSTERNDORF  
Chairman

3  
4 STUART ALDEN  
Board Member

5 JIAN YU  
Board Member

6  
7 CHELSEA CHU  
Actuary

8 PETE ZOURAS  
Chief Actuary

9  
10 PHIL DAVIS  
Actuary

11 DREW MAY  
Actuary

12  
13 JONATHAN LAU WONG  
Actuary

14 INGER PETTYGROVE  
DODHRA OACT

15  
16 JONATHAN POE  
Actuary, DFAS  
17 MATTHEW SCHMIT  
Congressional Budget Office

18 JOEL SITRIN  
Health Affairs

19

20 \* \* \* \* \*

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C O N T E N T S

| AGENDA ITEM:  | PAGE |
|---|------|
| Review and Approve Actuarial Assumptions<br>and Methods Needed for Calculating<br>Amortization and Normal Cost Payments |      |
| September 30, 2022 Actuarial Valuation Results  |      |
| September 30, 2023 Actuarial Valuation Proposals  |      |
| Adjournment   |      |

\* \* \* \* \*

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

2 (10:00 a.m.)

3 MR. OSTERNDORF: Just a reminder, this  
4 meeting is being recorded just like it's an in-  
5 person meeting, so please make sure that you mute  
6 your phones and your laptops unless you're  
7 speaking. I'm going to ask you to hold your  
8 questions to the end of each page. If you do ask  
9 a question, please identify yourself including  
10 your name and office or firm before you ask the  
11 question. Leave your camera off until -- unless  
12 you are speaking, if you would, please? And if  
13 you are one of the people calling into the  
14 meeting, please e-mail Inger Pettygrove, whose  
15 e-mail address was included in the e-mail sent  
16 last month, with your name and organization so we  
17 have a record of your participation in the call.

18 One other note, the DFAS presentation on  
19 end of fund investments, it will be included in  
20 the minutes for this meeting and DFAS will be on  
21 the line to answer any questions that may come up  
22 about the fund itself.

1           So with that, I will formally open the  
2 meeting of the Medical-Eligible Retiree Military  
3 Health Care Fund Board of Actuaries for 2024. I  
4 am joined by my fellow committee members, Stu  
5 Alden and Jian Yu, and as we go through you can  
6 see the purpose of the meeting is as stated in  
7 Item 1 of the agenda. We're here to approve the  
8 Office of the Actuary's proposed methods and  
9 assumptions used to calculate the fiscal year 2026  
10 per capita normal cost for both full-time and  
11 part-time personnel; the September 30th, 2023  
12 unfunded liability; and the October 1, 2024  
13 Treasury unfunded liability amortization and  
14 normal cost payments.

15           So with that, I will turn it over to  
16 Chelsea Chu from the DoD Office of the Actuary to  
17 review the September 2022 actual valuation  
18 results. Chelsea?

19           MS. CHU: Thank you, Dave. Yeah, we are  
20 at the agenda Item No. 2. If you are calling in  
21 and cannot see the screen, please go to the e-mail  
22 we sent yesterday. There are two files attached.

1 Please open the PDF file named August 2, 2024  
2 MERHCF Board Meeting Package Final. Yeah, we will  
3 go through this file in today's meeting. Okay.  
4 So everybody can see screen well?

5 Yeah, okay. Let's start at the third  
6 page in this package, okay? This page shows the  
7 history of the valuation result. The left box  
8 includes per capita normal cost for full-time and  
9 part-time for each member. The center box is  
10 actuarial liabilities as of September 3rd -- 30th  
11 each year. And then the right box is unfunded  
12 liability payments as of October 1st each year.  
13 If you move to the line summer 2023, these are the  
14 results OACT promulgate based on the assumptions  
15 and the methodology that the Board approved last  
16 year.

17 I would like to point out the unfunded  
18 liability decreased about 12 billion, and we  
19 expect the fund to be fully funded before 2024.

20 There are question marks at the summer  
21 2024 line. We will input the assumptions and the  
22 methodology and then calculate the result after

1 the Board's approval in today's meeting. Okay,  
2 any question?

3 MR. OSTERNDORF: I just have one  
4 question. You said the fund is projected to be  
5 fully funded, and I think you said 2024, but that  
6 didn't sound right.

7 MS. CHU: Oh, sorry, 2040, I'm sorry.

8 MR. OSTERNDORF: 2040? Okay.

9 MS. CHU: Yes.

10 MR. OSTERNDORF: All right. That sounds  
11 much more likely.

12 MS. CHU: Yeah. Yeah, sorry about that.  
13 If not, let's move to the bottom of this page.  
14 Here shows the history of gains and the losses due  
15 to the change of the experience assumptions and  
16 the plan benefits. The result for September 2022,  
17 experience gain is about 30.9 (sic) billion;  
18 assumption loss is about 19.7 billion and there is  
19 no benefit change. The total we have a 12 point  
20 -- I mean, 13.2 billion gain. Any questions on  
21 this page on this part?

22 MR. OSTERNDORF: Chelsea, I just want to

1 make sure we understand a couple of the numbers  
2 here. Obviously, we're showing experience gains  
3 in the other column, which I assume is mostly  
4 claims experience, which I am expecting is really  
5 due to the pandemic and the reduction in care that  
6 went along with that. On the flip side, we have  
7 assumption losses relative to trend, which I  
8 assume is effectively the process of restoring the  
9 expected spending that was deferred during the  
10 pandemic. Are those fair assumptions of that? Is  
11 that what is happening here in that comparison of  
12 the experience versus the trend assumptions?

13 MS. CHU: Yes, that's correct. Yeah.  
14 This is the outcome that we -- the delayed the  
15 medical service were anticipated to catch up  
16 faster after pandemic. However, the catch-up  
17 speed or the trend rates were lower than  
18 projected, so that's the accounting.

19 MR. OSTERNDORF: Thank you.

20 MS. CHU: Okay. Any questions on this  
21 page?

22 MR. OSTERNDORF: Any questions from the

1 attendees? Anyone have anything that they want to  
2 note on this page; otherwise we're going to move  
3 to Item 3 in the agenda. All right.

4 Well, hearing none, agenda Item 3, the  
5 September 30th, 2023 actuarial valuation proposal  
6 will be provided by Drew May, Jon Wong Lau, Phil  
7 Davis, and Chelsea from the DoD Office of the  
8 Actuary. So I will turn it over to the team and  
9 have you go ahead and go through the numbers.

10 MR. DAVIS: Thank you. So here we show  
11 the effective fund yield during the most recent  
12 fiscal year 2023. As you can in the bottom half  
13 --

14 MR. OSTERNDORF: Do you want to  
15 introduce yourself there, Phil?

16 MR. DAVIS: Oh, all right. Hi. I'm  
17 Phil Davis from Office of the Actuary, as the  
18 chairperson said.

19 So we show the numbers for 2023 at the  
20 bottom, as well as several of the preceding fiscal  
21 years, so you can see for 2023 we had a beginning  
22 of the year fund balance of \$345.1 billion. We



1 had \$20 billion in total contributions received,  
2 with 10 coming from the services and 10 from  
3 Treasury. We had \$16 billion in total investment  
4 income, as well as \$11.6 billion in benefit, total  
5 benefit payments, giving us an end of year fund  
6 balance of \$369.6 billion and an effective fund  
7 yield of 4.5 percent. Also like to point out that  
8 these fund balance numbers are book values, if  
9 anyone is curious.

10 Are there any questions or comments for  
11 this page? Hearing none, I will then be turning  
12 it over to Jon.

13 MR. WONG: Thanks, Phil. This is  
14 Jonathan Wong from the Office to the Actuary. I  
15 will be covering the next two slides and there  
16 will be a -- I mean, they're typically a summary  
17 of the MERHCF population. So on this current page  
18 of the handout we have a summary of the active  
19 service members as of the end of the fiscal year  
20 2022 and 2023. These include the counts for DoD,  
21 Coast Guard, Public Health Service, and National  
22 Oceanic and Atmospheric Administration. The DoD

1 and Coast Guard numbers are active and reserve  
2 population are the same for (inaudible) in a  
3 health valuation.

4 MS. PETTYGROVE: Excuse me?

5 MR. WONG: I think we have a hot mic  
6 right now. Thank you. So you can see that in the  
7 first top four rows of the page that the general  
8 direction of the population seems to be decreasing  
9 from compared to 2022 and 2023, especially for  
10 active duty and Coast Guard. And this could be  
11 attributable to the services facing recruiting  
12 struggles, yet at the same time this decrease was  
13 somewhat offset by the increased retention. We  
14 looked into the average age for active duty and  
15 reserve and they have slightly increased over the  
16 time. Is there any question or comments on this  
17 page?

18 Hearing none, then we can move on to the  
19 next page. Okay. On this page we have the  
20 retirees and survivors from our uniformed services  
21 as of 2022 and 2023. In total, we are seeing an  
22 increase in the number of Medicare-eligible

1     retirees and survivors and this could be  
2     attributable to the better than expected  
3     mortality. And as we get away from the years with  
4     excellent (phonetic sp.) mortality, especially  
5     with the pandemic, we should expect a more steady  
6     state. Any questions or comments on this one?

7             Then we can move on to the next -- oh,  
8     we have a hand on the phone. Matt?

9             MR. SCHMIT: Yeah and I have a question  
10     on the non-Medicare-eligible retirees. I mean, it  
11     seems we've, kind of, been expecting them to start  
12     coming down at some point. I mean, do you see  
13     that in the next 10 years because they're going to  
14     -- as they migrate to the Medicare eligibles  
15     because, you know, the population should be  
16     shrinking. I'm looking at the bottom, the third  
17     line from the bottom where it goes from 29 --  
18     2.926 million to 2.953 million?

19             MS. PETTYGROVE: Hey, Matt, could you  
20     identify your -- or whoever? I thought it was  
21     Matt. Who was asking the question?

22             MR. SCHMIT: Oh, I'm sorry. This is

1 Matt Schmit from Congressional Budget Office.

2 MR. ZOURAS: Yeah, that's correct, Matt.  
3 We're expecting the downsizing from the nineties  
4 to result in a decrease, but we're not seeing it  
5 yet in that non-Medicare population.

6 MR. SCHMIT: Okay. Well, thanks, Pete.

7 MR. OSTERNDORF: And then, Pete, just to  
8 follow up on that, wouldn't we expect to see about  
9 a 20-year lag in that relative to the -- I see  
10 downsizing in the nineties, you know, 20 to 30  
11 years to deal with the reduction in non-Medicare-  
12 eligibles. And I know our Medicare-eligible  
13 population is not getting steady state until  
14 another 10 or 15 years the last time I projected  
15 it, so I know there's always a lag in what happens  
16 relative to deployment versus the returning  
17 population. Is that fair?

18 MR. ZOURAS: Yeah, it is.

19 MR. OSTERNDORF: Any other questions  
20 before we go on? Okay, let's move ahead.

21 MR. WONG: Okay. Let's go to the next  
22 page. Can you zoom in a bit? Thank you. Okay.

1 On this page we have the incurred outlays. We  
2 have the aggregate costs broken into aggregate  
3 numbers for purchased care, direct care, and  
4 USFHP. A few things I want to note is that the  
5 purchased care are retail drugs and for those the  
6 incurred amounts are net of incurred drug rebates.  
7 And if you pay attention to the 3.2, I think  
8 that's in the third row for drug or purchased care  
9 drug, we think that there was some shifting as  
10 from of the claims from direct care to purchased  
11 care. We are seeing a continuation of a trend of  
12 cost related directly to purchased care and an  
13 increase in pharmacy spend, we believe. It seems  
14 to be lower than prevailing data for prior U.S.  
15 healthcare spending.

16 And some other notes, we are seeing  
17 decreases in inpatient costs and these could be  
18 attributable to the closing of inpatient services  
19 at a few MTFs, or military treatment facilities.  
20 And if we look at direct care, under the direct  
21 care line versus the purchased care line, we also  
22 see a move of direct care inpatient professional

1 to direct care outpatient. And what I'm referring  
2 to is the 11.6 percent that's -- it's under your  
3 courser, it's the 9.637.4 percent. And also for  
4 some context for our data, our FY23 results  
5 include an actual workload and expenses from MHS  
6 GENESIS, and this includes a change in the  
7 workload and, I guess, a shift or capturing the  
8 expenses for MTFs that have not transitioned to  
9 MHS GENESIS.

10 And if we put that up on the page for  
11 per capita, the thing I want to point out here is  
12 why you look at the aggregate for USFHP. Even  
13 though the cost went down, the per capita cost  
14 increased and this is primarily driven by the  
15 decreasing population. And for context, the USFHP  
16 program is a closed group and there's no new  
17 entrants in this plan.

18 MR. OSTERNDORF: Jon, just for context,  
19 I want to come back to the direct care inpatient  
20 piece. And then the facilities, MTFs that closed  
21 inpatient theaters were mostly the smaller MTFs,  
22 right? The larger MTFs still maintain all of

1 their standard inpatient services?

2 MR. WONG: Yes. I think that's correct.

3 MR. OSTERNDORF: Thank you.

4 MR. WONG: Okay. Any other additional  
5 questions or comments? All right. Hearing none,  
6 I'll hand it over to Phil for the economic  
7 assumptions.

8 MR. DAVIS: Okay. Thank you, Jon.  
9 Again, I'm Phil Davis from the Office of the  
10 Actuary. So, on this page we are covering the two  
11 key economic assumptions set by the Board, the  
12 ultimate medical trend and the discount rate. You  
13 can see in that first column we list the long-term  
14 economic assumptions set by the Board last year of  
15 4-3/4 percent ultimate medical trend, which is  
16 made up of 1-1/2 percent real per capita GDP,  
17 2-3/4 percent inflation, and a half percent from  
18 margin or excess medical cost growth.

19 Then you can see we also have the second  
20 key economic assumption, discount rate of 4-1/2  
21 percent set by the Board last year, and that is  
22 made up of 1-3/4 percent real yield or real

1 interest and 2-3/4 percent CPI. Again, I would  
2 just like to point out that these are long-term  
3 economic assumptions that are supposed to  
4 theoretically cover a 100-year valuation period.

5 And additionally, you can see that we  
6 have our proposed economic assumptions to the  
7 right. And we have looked at economic assumptions  
8 set by other Boards and other systems in the  
9 federal government, namely the military retirement  
10 fund, the OPM, and the CMS economic assumptions  
11 and those are all unchanged. And so while the  
12 current economic situation is very fluid, we see  
13 no reason at OACT to find any long-term changes in  
14 the greater macroeconomic situation, so we are  
15 proposing no changes in the economic assumptions.  
16 Are there any questions or comments for this page?

17 MR. ALDEN: Phil, this is Stu Alden. I  
18 believe the details are all in the DFAS slides  
19 that we received in our handout today. I don't  
20 think we're covering those in details, so I  
21 wondered if you could just touch on some of that  
22 at a high level here? The discount rate we're



1 using, this is a funding valuation so our discount  
2 rate is effectively our best estimate of a  
3 long-range rate of return on the assets that the  
4 fund is investing in. Could you just remind us  
5 about the composition and the duration of those  
6 assets?

7 MR. DAVIS: Yes. And I also see  
8 Jonathan Poe's hand is up as well, but so for the  
9 assets we're looking at it's about 60 percent to  
10 70 percent in TIPS as well as 30 percent to 40  
11 percent in longer term conventional bonds, and  
12 then whatever is leftover is in shorter term  
13 investments such as overnights. And to the extent  
14 that the assets allow, as well as the paying all  
15 of the shorter term liabilities, the focus is on  
16 reinvesting and investing in the longer term  
17 assets to match the long-term duration of the  
18 fund.

19 Jonathan Poe, do you have anything you  
20 would like to add?

21 MR. POE: Yes. This is Jonathan Poe  
22 from DFAS and I am the one that manages this trust

1 fund with the investment, and I completely support  
2 what you just mentioned. I do fully agree.

3 I'm not opposed to the discounted rate  
4 as well, but I just want to share some concerns.  
5 Just based on the economy, you know, it is very  
6 fluid like you said, but there are two things that  
7 I'd like to add. Obviously, our annual investment  
8 purchases happen on October 1st so that does mean  
9 a lot of things can happen between now and October  
10 1st just based on the minutes and what could  
11 possibly happen as far as September (inaudible).

12 So the second thing also is inflation.  
13 That is going to have a huge impact to our TIPS  
14 holdings. So just based on the trend we're  
15 seeing, we're expecting that it's going to slowly  
16 grow with TIPS holding, which is going to have an  
17 impact to the effective yield fund. So, that is  
18 just something I just wanted to mention here as  
19 well.

20 MR. DAVIS: Great, thank you. Are there  
21 any more questions or comments for this page?

22 MR. OSTERNDORF: So, I just want to make

1       sure that I heard it appropriately because I know  
2       there's some key factors here as OACT was putting  
3       together its recommendation for this valuation.  
4       The decision to maintain the same levels, I think,  
5       is relatively consistent with what I'm hearing  
6       other organizations and, sort of, some of the  
7       prevailing thought processes go, and, obviously,  
8       anybody looking at, you know, what's in, kind of,  
9       the private sector, you know, company financial  
10      statements is used to seeing a point estimate  
11      that's based on current economic conditions and,  
12      obviously, this is a longer term assumption on our  
13      part.

14                    But I wanted to make sure I heard that  
15      right, that essentially that there was nothing in  
16      the long-term macroeconomic environment that was  
17      leading you to recommend something different than  
18      what you had seen last year?

19                    MR. DAVIS:  Yes.  That's exactly  
20      correct.

21                    MR. OSTERNDORF:  Okay, thank you.

22                    MR. DAVIS:  If there are no more

1 questions or comments I am turning it over to my  
2 Drew May.

3 MR. MAY: Thank you, Phil. This is Drew  
4 May from DoD Office of the Actuary. The next page  
5 is the Medicare-Eligible Retiree Health Care Fund  
6 valuation medical trend assumptions. On the left  
7 we have the trend assumption set by the Board at  
8 last year's meeting and on the right we have the  
9 proposed trends. The trends are direct care  
10 inpatient; direct care outpatient; direct care  
11 drug; purchased care inpatient; purchased care  
12 outpatient and purchased care drug; and USFHP.  
13 And each row corresponds with the change from one  
14 fiscal year to the next. The ultimate medical  
15 trend is reached after 25 years.

16 The proposed trends are taking the most  
17 recent experience and information into  
18 consideration. First, the inpatient and  
19 outpatient trends have returned to levels that are  
20 similar to pre-COVID.

21 Second is the impact of blockbuster  
22 drugs on the purchased care Rx trends.

1 Previously, the trend reflected a relatively cold  
2 period for growth as previously high demand drugs  
3 became generic and readily available, while at the  
4 same time there were no new blockbuster drugs  
5 taking their place.

6           GLP-1 inhibitor weight loss drugs have  
7 ended that cold period. They are currently in  
8 high demand to the point of being in shortage. We  
9 anticipate the demand for these drugs and related  
10 products and possible and future blockbuster drugs  
11 in the pipeline, such as Alzheimer's treatments  
12 products, to keep the purchased care drug trend  
13 high. And as a result, the purchased care drug  
14 trend is higher across the 25-year projection.

15           Third, it's important note that the  
16 GLP-1 inhibitor drugs are very costly, and, in  
17 general, branded drugs are a small portion of  
18 scripts compared to generic, but they are a large  
19 portion of the cost so increases in their  
20 utilization can drag the trend rate up.

21           And these considerations reflect  
22 information on the impact of these drugs, which is

1 continuing to develop. The Office of the Actuary  
2 is in the process of working with the most recent  
3 information and may make an adjustment to the  
4 medical trends. The adjustment would be a  
5 reduction to the inpatient and outpatient trends  
6 in the future years to reflect better health as a  
7 result of the new blockbuster drugs. And again to  
8 clarify, that is not included in the trends  
9 presented here denoted by the footnote.

10 Are there any questions or comments on  
11 this page?

12 MR. OSTERNDORF: Drew, just following up  
13 on your last statement, I would expect that if  
14 there is an adjustment to future medical trends  
15 inpatient/outpatient because of things like the  
16 GLP- 1s we're expecting to see that with a bit of  
17 a lag. So, if I've got people in a substantial  
18 weight loss category now I would expect the  
19 beneficial impact on the medical spend being 5, 8,  
20 10 years out. Is that what the OACT expectation  
21 is?

22 MR. MAY: Yes. That is correct.

1 MR. OSTERNDORF: Thank you.

2 MR. MAY: If there aren't any more  
3 questions can we go to the next page, please? On  
4 this page we have proposed Decrements and Admin  
5 Load. The first proposal is an initial year of  
6 mortality improvement, and the second is an update  
7 to the mortality improvement rates. Updates this  
8 year we're including 2023 experience and  
9 increasing the expected percentage of female  
10 retirees in the long term from 15 percent to 20  
11 percent.

12 The third proposal is an update to the  
13 survivor death rates. The update changes the  
14 experience period from fiscal years 2014 and 2015  
15 to fiscal years 2020, 2022, and 2023; and it also  
16 incorporates Coast Guard experience.

17 The fourth proposal is an update to the  
18 active and reserve new entrant distribution. The  
19 proposal would update the experience period from  
20 fiscal years 2015 to 2019 to fiscal years 2021 to  
21 2023. Then it also makes an adjustment to the  
22 percentage of officers to match the comptroller's

1 current long-term projection. The more recent  
2 experience period would reflect changes in the age  
3 distribution of new recruits, possibly due to the  
4 recruiting difficulties the services are facing.

5 The fifth and final proposal is an  
6 update to include future mortality improvement.  
7 Currently, the model improves mortality rates to  
8 the valuation date. This update would continue  
9 improvement each year into the projection. This  
10 update would result in the same mortality rates  
11 being used for the Medicare-Eligible Retiree  
12 Health Care Fund valuation and the Military  
13 Retirement Fund valuation.

14 The update also includes a morbidity  
15 adjustment to the claims as to not reflect  
16 improvements in future health in both the claims  
17 and the mortality improvement. We will cover  
18 morbidity adjustment on the next page while  
19 discussing the claim costs development.

20 Lastly, the Admin Load is using data as  
21 of May 2024 and did not change much from the  
22 previous year. Are there any questions or



1 comments on this page?

2 Hearing none, next Jonathan will be  
3 covering claims cost development.

4 MR. WONG: Thanks, Drew. Lastly, we  
5 have the claim cost development. We are not -- we  
6 are proposing not changing the claim vectors at  
7 this time. The average claim levels uses the FY23  
8 experience and continue to use a blend of the 2015  
9 to 2017 for claims age grading for claim vectors.  
10 We looked at using a blend of 2021 to 2023, but  
11 after comparing the raw state of the claim  
12 experience we saw a relatively consistent shape  
13 and little impact on normal cost and accrued  
14 liability.

15 And on the topic of morbidity  
16 adjustment, the main idea here is that we're  
17 trying to capture the idea that if people live  
18 longer that helps that as well so it needed to be  
19 improved at each age. So the two main changes we  
20 have for morbidity adjustment is removing the  
21 aging factor from claim -- from all population.  
22 So, we can think of it as a piecewise from 66 to

1 80. We have a assumption to use the minimum  
2 between the current assumption and the average  
3 claim from 66 to 80. And from 81 to 94 we're just  
4 using the average claims there.

5 And we also have a 3-year age setback  
6 factors for new entrants and this would shift. It  
7 would shift the years by three. And so, an  
8 example would be an age 70 new entrant is treated  
9 as a -- it would be having the same health status  
10 as a current age 67.

11 MR. OSTERNDORF: So, Jonathan, and  
12 maybe, Drew, you mentioned it as well, I'm -- I  
13 think effectively what we're assuming is that the  
14 improved mortality is because people are living  
15 healthier not just, you know, getting more medical  
16 services, which I think that sounds more relative  
17 to what everybody from the side of actuaries to  
18 other, kind of, organizations have said. The  
19 ability to reflect that in a valuation with the  
20 3-year setback is, sort of, rough justice for  
21 that, right? I mean, we don't have a great way of  
22 being able to articulate exactly what improved

1 mortality means for a claims scenario. So, the  
2 ability to use the 3-year setback gives us a way  
3 to, sort of, indirectly reflect the improved  
4 morbidity. Is that what you're recommending?

5 MR. WONG: Yeah. That's it. You've got  
6 that right, Dave. This gives us more flexibility  
7 in capturing the idea -- or capturing the, I  
8 guess, the additional longevity as well as the  
9 improved health that we're seeing.

10 MR. OSTERNDORF: Okay. Thank you.

11 MR. WONG: Okay. I see Joel Sitrin's  
12 hand is up.

13 MR. SITRIN: Yes, hi. This is Joel  
14 Sitrin from Health Affairs. Just a quick  
15 question, Jonathan, so it's my understanding that  
16 that morbidity adjustment is just for the new  
17 entrant piece, not for the closed group, the  
18 closed group population?

19 MR. MAY: The first item is applied to  
20 all of the populations and then the second is  
21 applied only to the new entrant. The different  
22 populations experience different amounts of

1 mortality improvement due to their ages with the  
2 new entrants being usually in the twenties. So,  
3 that is why they received the 3-year age setback.

4 MR. SITRIN: Okay. Thank you.

5 MR. WONG: Okay. Handing it over back  
6 to Dave.

7 MR. OSTERNDORF: Okay. I want to check  
8 to see if there's any other questions on any of  
9 the material presented today? Obviously, a pretty  
10 meaty set of assumptions and assumption updates  
11 this year with the combination of both reflecting  
12 some of the trend impacts around the changes in  
13 the pharmacy consumption, as well as the mortality  
14 improvement. So, I think those are relatively big  
15 ticket items.

16 Before I look to move forward with the  
17 approval of this, is there any final questions,  
18 any additional information that needs to be  
19 presented or that anybody has a question about?  
20 Okay. Hearing none and not seeing any hands  
21 raised online, I will now note that our task is to  
22 opine on the methods and assumptions that have

1     been presented today to be used for the purpose of  
2     computing the amount stated in agenda Item No. 1.

3             I need a motion to approve these methods  
4     and assumptions from someone on the Board.

5             MS. YU:    So moved.

6             MR. OSTERNDORF:  Move by Jian.  I need a  
7     second?

8             MR. ALDEN:  Oh, let me -- oh, I'll  
9     second it.  Sorry about that.  I was on mute.

10            MR. OSTERNDORF:  Okay.  Did you have any  
11     other comments, Stu, or are you good?

12            MR. ALDEN:  I'm good.  I'm good, thank  
13     you.

14            MR. OSTERNDORF:  So, I have a motion  
15     that's been made and seconded.  All in favor,  
16     please indicate by saying aye, and I will say aye.

17            MS. YU:  Aye.

18            MR. ALDEN:  Aye.

19            MR. OSTERNDORF:  The motion is approved  
20     and the methods and assumptions that were  
21     presented today will be used in the valuation for  
22     the current fiscal year.

1                   At this point, I would just want to  
2                   express the Board's appreciation to the staff at  
3                   OACT for all of the hard work that goes into this.  
4                   This is obviously a very significant undertaking,  
5                   so, Pete and team, we appreciate all of your  
6                   efforts each year as you go through all this  
7                   information for us. And with that, I will adjourn  
8                   the meeting. Thank you for your attendance today  
9                   and let us know if there's any questions.

10   (Whereupon, at 10:34 a.m., the  
11   PROCEEDINGS were adjourned.)

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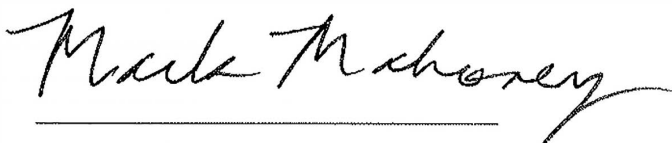
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CERTIFICATE OF NOTARY PUBLIC

COMMONWEALTH OF VIRGINIA

I, Mark Mahoney, 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.



**Notary Public, in and for the Commonwealth of  
Virginia**

**My Commission Expires: August 31, 2025**

**Notary Public Number 122985**

