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

February 4, 2026

MEMORANDUM FOR THE RECORD

SUBJECT: Minutes of the September 22, 2025, Meeting of the DoD Medicare-Eligible Retiree Health Care Board of Actuaries

These are the minutes of the September 22, 2025, 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.

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

Pete M. Zouras
Acting Designated Federal Officer

MEDICARE-ELIGIBLE RETIREE HEALTH CARE
BOARD OF ACTUARIES
MEETING MINUTES

September 22, 2025
11:00 a.m.
Virtual Meeting

HIGHLIGHTS/KEY BOARD DECISIONS

Introduction:

- Transcript Page 1-3: Chairperson Dave Osterndorf opened the 2025 Board Meeting by expressing appreciation to the Office of the Actuary for their preparation, especially in light of a 40% reduction in staff compared to last year. This year marks the final year of the Chairperson's 15-year appointment to the MERHCF Board of Actuaries. Several agenda items and meeting objectives were outlined.

Agenda Item 2: September 30, 2023, Actuarial Valuation Results

- Transcript Page 3: OACT presented the MERHCF valuation history and gains/losses to the Fund. Based on methods and assumptions the board approved at last year's meeting, MERHCF per capita normal costs for FY 2026 are $7,961 and $2,877 for active duty and reserve, respectively. The actuarial liability as of September 30, 2023, was $606.3 billion and the unfunded liability was $237.3 billion. The Treasury payment for October 1, 2024, was $14.6 billion.

- Transcript Page 3: In FY 2023, there was an experience gain of $0.3 billion and an assumption loss of $43.5 billion, leading to a total valuation loss of $43.2 billion. 22.6 billion loss from assumption is due to drug trend to reflect higher usage of GLP-1 for weight loss purposes. In FY 2024, there was an asset loss of $1.9 billion.

Agenda Item 3: September 30, 2024, Actuarial Valuation Proposals

- Transcript Page 11: Effective fund yield and balance for each fiscal year from 2019to 2024 were presented. In FY 2024, there was a beginning balance of $369.6 billion and an ending balance of $394.6 billion. The annual effective yield was 4.4%. It was noted that the Fund currently follows a 'buy and hold to maturity' strategy with the Treasury. There has also been ongoing dialogue between the Board and the DFAS trust fund manager regarding this approach.

- Transcript Page 12: Active service member counts for FY 2023 and FY 2024 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 as evidenced by a slight increase in the average age of active members.

- Transcript Pages 12: Counts of retirees and survivors were presented for FY 2023 and FY 2024. Across most categories, the number of Medicare-eligible beneficiaries saw a slight increase, partly due to a return to normal mortality rates following the excess deaths experienced during the COVID-19 pandemic.

- Transcript Pages 5: OACT presented the incurred outlays for FY 2023 and FY 2024. It was noted that there is a greater than 10% increase in both purchase care (PC) and direct care (DC) prescription drug (Rx) outlays from last year to this year. A large portion of the increase is attributed to costly new specialty drugs and GLP-1 inhibitors. About 2/3rds of the $470M increase in PC Rx outlays and 53% of the $97M increase in DC Rx were due to the increase in specialty drug and GLP-1 inhibitors. The large decrease in DC inpatient is due to a continuation of direct care inpatient professional services being reported under direct care outpatient. There is a small decrease going from last year to this year when the two are combined. It was noted that the Medicare-eligible portion of the US Family Health Plan (USFHP) is a closed group and, as such, the cost trends are expected to increase as the population ages. Finally, it was noted that per capita incurred outlays rose slightly less than total incurred outlays, reflecting the modest growth in the retiree population.

- Transcript Pages 5-6: 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 valuation. It was noted that the economic assumptions are long term assumptions intended for use in the 100-year projection of the Fund, and do not reflect short term uncertainty.

- Transcript Pages 7-9: OACT presented the medical trend assumptions for DC, PC, Rx, and USFHP. Proposed trends reflect recent military experience and expectations. This year's proposed inpatient and outpatient trends have been lowered due to an anticipated rebound to pre-COVID levels not occurring. It was noted that the inpatient and outpatient trends are lower than the private sector as the MERHCF trends are cost share trends, as TRICARE is a secondary payer to Medicare. The over 10% increase in Rx claims seen in incurred claims from 2023 to 2024 was largely driven by specialty drugs and GLP-1 inhibitors. The proposed trends account for some decrease in GLP-1 drug utilization due to the drugs no long being covered for weight loss. It was noted that use of GLP-1s for diabetes will continue to represent a significant portion of utilization for the Medicare population. It was noted that there is currently no mechanism in place to prevent off-label prescription for weight-loss, as doing so would require an audit of medical providers. Considerations, other than GLP-1 coverage, include use of specialty drug claims which is expected to remain high and blockbuster drugs for treatment of conditions such as Alzheimer's and eczema. Finally, it was noted that MERHCF

costs are heavily impacted by Rx trend due to TRICARE being the sole payer. It was pointed out that Rx trend for PC is higher than the DC trend. Also, the PC Rx trend reflects the shift of specialty medication to mail order. The head of pharmacy operations advisor from Defense Health Agency explained that most of the specialty medications are being shifted from Military Treatment Facilities (MTFs) or retail pharmacies to mail order delivery. As a result, the specialty medications are reflected in the PC cost regardless of if the medication was provided by a MTF. It was noted that the price is the same for mail order and MTF, and that this is only a shift in cost to a different service.

- Transcript Pages 10: OACT discussed proposed updates to non-economic and administrative cost assumptions. The first proposal is to use an additional year of mortality improvement. The second proposal is to include FY 2024 in the development of mortality improvement rates. The proposed administrative cost loads use more recent experience as of June 2025.

- Transcript Pages 13: The average claims level was updated for FY 2024 experience, and no changes were proposed for valuation claims cost age grading.

- Transcript Pages 16-19: The Board approved OACT's proposed methods and assumptions for calculating the FY 2027 per capita normal costs, the September 30, 2024, unfunded liability (UFL), and the October 1, 2025, Treasury UFL amortization and normal cost payments.

ATTACHMENT 1

MEDICARE-ELIGIBLE RETIREE HEALTH CARE BOARD OF ACTUARIES MEETING AGENDA

Monday September 22nd, 2025
11:00 AM – 2:00 PM EST
Back-up Dial-in: (410) 874-6749
Conference ID: 526 665 004#

1. **Meeting Objective** (Board)

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

   a. FY 2027 per capita full-time and part-time normal costs
   b. September 30, 2024 unfunded liability (UFL)
   c. October 1, 2025 Treasury UFL amortization and normal cost payments

2. **September 30, 2023 Actuarial Valuation Results**
   (Chelsea Chu, DoW Office of the Actuary)

3. **September 30, 2024 Actuarial Valuation Proposals**
   (Drew May and Jonathan Wong, DoW Office of the Actuary)

*Board approval required

ATTACHMENT 2

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

September 22, 2025

	NAME	POSITION or OFFICE
1	Dave Osterndorf	Chairperson
2	Stuart Alden	Board Member
3	Jian Yu	Board Member
4	Pete Zouras	DoD Chief Actuary, Executive Secretary and ADFO
5	Pete Rossi	OACT
6	Chelsea Chu	OACT
7	Drew May	OACT
8	Qian Magee	OACT
9	Jonathan Wong	OACT
10	Michael Sorrento	Deputy Director, DHRA
11	Ashlea Klahr	Acting Director, DHRA
12	Jonathan Poe	Advisor, DFAS
13	Alicia Litts	Advisor, OUSD (C)
14	Carolyn Carnakie	Advisor, DHA
15	Renea Whitmore	Advisor, OUSD(C)
16	Matt Schmit	CBO
17	Edward Norton	DHA
18	Thomas Oravec	DHA
19	Chris Borcik	CCA
20	Joel Sitrin	OSD OUSD P-R
21	Jason Merriweather	NOAA
22	Karen Noah	PHS
23	Capt. Leo Gumapas	PHS
24	Cdr. Joel Richardson	PHS
25	Stephenie McDermott	USCG
26	Montreville Holcombe	USCG
27	Emilie Kratchen	USCG
28	Karen Ruedisueli	MOAA
29	Jamie Irvin	DHRA
30	Mary Leavitt	General Counsel
31	Chris Music	OMB
32	Leo Robles	OMB
33	Edith Smith	Military Survivor
34	Scott Porter	Milliman

ATTACHMENT 3

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

September 22, 2025

Medicare-Eligible Retiree Health Care
Board of Actuaries Meeting

Department of War
Office of the Actuary
September 22, 2025

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

Board Meeting	Per-Capita Normal Costs for	Full-time	Part-time	Liability ($B) as of	AL	Fund	UFL	UFL Payment ($B) on	amount
Summer 2016	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**
Summer 2024	FY26	**$7,961**	**$2,877**	9/30/23	**$606.3**	**$369.0**	**$237.3**	10/1/24	**$14.6**
Fall 2025	**FY27**	**?**	**?**	**9/30/24**	**?**	**?**	**?**	**10/1/25**	**?**

Valuation (Gains)/Losses ($B)

Val Date	Experience asset*	other	total	Assumptions trend	admin	other	total	Benefits	TOTAL
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	($0.7)	($0.3)	$22.6	($0.3)	$21.2	$43.5	$0.0	$43.2
9/30/24	$1.9								

* 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: From Uniformed Services, for Normal Costs	Contributions Received: From Treasury, for Unfunded Accrued Liability	Investment Income	Benefit Payments: DC	Benefit Payments: PC	Benefit Payments: Total	Fund Balance End of Year	Effective Annual Yield
2019	$266.4	$7.8	$5.7	$9.1	$2.3	$8.1	$10.5	$278.5	**3.3%**
2020	$278.5	$8.1	$6.6	$7.7	$2.4	$8.2	$10.6	$290.3	**2.7%**
2021	$290.3	$8.6	$7.0	$17.4	$2.6	$8.6	$11.2	$312.1	**5.8%**
2022	$312.1	$9.6	$7.5	$27.1	$2.4	$8.8	$11.2	$345.1	**8.4%**
2023	$345.1	$10.0	$10.0	$16.0	$2.5	$9.1	$11.6	$369.6	**4.5%**
2024	$369.6	$10.8	$9.6	$16.9	$2.2	$10.0	$12.3	$394.6	**4.4%**

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

Active Duty and Reservists

	9/30/23	9/30/24	% Change from End of FY23 to FY24
DoD			
Active duty	1,363,540	1,358,354	-0.4%
Reserve	669,174	662,760	-1.0%
Coast Guard			
Active duty	38,820	39,888	2.8%
Reserve	6,178	6,336	2.6%
PHS Active duty	5,513	5,376	-2.5%
PHS Reserve	96	94	-2.1%
NOAA Active duty	334	342	2.4%
NOAA Reserve	0	0	
TOTAL			
Active duty	1,408,207	1,403,960	-0.3%
Reserve	675,352	669,096	-0.9%

Note: These are end of FY counts.

Retired Beneficiaries and Dependents

(all Uniformed Services)

	9/30/23	9/30/24	% Change from End of FY23 to FY24
Retirees			
Sponsors			
Non-Medicare-eligible	1,038,354	1,040,265	0.2%
Medicare-eligible	1,221,849	1,232,357	0.9%
Total	2,260,203	2,272,622	0.5%
Spouses			
Non-Medicare-eligible	912,667	910,030	-0.3%
Medicare-eligible	740,483	742,916	0.3%
Total	1,653,150	1,652,946	0.0%
Others			
Non-Medicare-eligible	896,432	927,077	3.4%
Medicare-eligible	13,331	13,282	-0.4%
Total	909,763	940,359	3.4%
Survivors			
Spouses			
Non-Medicare-eligible	75,314	73,920	-1.9%
Medicare-eligible	529,325	532,725	0.6%
Total	604,639	606,645	0.3%
Others			
Non-Medicare-eligible	30,653	30,825	0.6%
Medicare-eligible	8,620	8,788	1.9%
Total	39,273	39,613	0.9%
Retirees and Survivors			
Non-Medicare-eligible	2,953,420	2,982,117	1.0%
Medicare-eligible	2,513,608	2,530,068	0.7%
Total	5,467,028	5,512,185	0.8%

MERHCF Incurred Outlays

Aggregate ($ in millions)	FY 2023	FY 2024	% Change from FY23 to FY24
Purchased Care			
IP	$851	$837	-1.6%
OP	$3,375	$3,457	2.4%
Rx	$3,813	$4,283	12.3%
Other	$132	$136	2.6%
TOTAL	$8,171	$8,714	6.6%
Direct Care			
IP	$375	$346	-7.7%
OP	$876	$895	2.2%
Rx	$894	$991	10.9%
TOTAL	$2,145	$2,233	4.1%
US Family Health Plan			
Capitation Rates	$830	$841	1.3%
Other	$3.3	$4.0	21.6%
TOTAL	$834	$845	1.4%
Grand Total	$11,150	$11,791	5.8%

Per Capita	FY 2023	FY 2024	% Change from FY23 to FY24
Purchased Care	$3,316	$3,479	4.9%
Direct Care	$873	$894	2.4%
TOTAL	$4,188	$4,372	4.4%
US Family Health Plan	$19,028	$19,849	4.3%

Notes:

1. PC Retail Rx incurred amounts are net of incurred Rx rebates.
   Incurred Rx rebates in FY 2023 / FY 2024 were $747m / $803m.
2. Medicare is primary payer in most cases with PC IP and PC OP.
3. TRICARE is primary payer in most cases with PC mail order Rx, DC (IP, OP, Rx) and USFHP.
4. Purchased care "other" includes: admin costs and certain claim adjustments or payments not already included in claims; some admin costs are included in the claims line.
5. Average USFHP capitation rate is influenced by various factors, including changes in plan (among six plans), demographic mix (age / gender), and utilization experience.
   In addition, Rx rebates are applied to experience period on a paid (not incurred) basis in the development of the USFHP rates.
6. Effective FY 2016, PC mail order Rx ingredient cost is the amount Defense Health Agency (DHA) pays to replenish inventory at the mail order warehouse.

MERHCF Valuation Key Economic Assumptions
Discount Rate and Ultimate Medical Trend

	September 30, 2023 Val	September 30, 2024 Val (Proposed)
FUNDING VALUATION		
Ultimate Medical Trend	4.75%	4.75%
Discount Rate	4.50%	4.50%
MERHCF Ultimate Medical Trend		
Real per capita gdp	1.50%	1.50%
Inflation	2.75%	2.75%
Margin for excess medical cost growth	0.50%	0.50%
Total	4.75%	4.75%
MERHCF Discount Rate		
Real yield/Real interest	1.75%	1.75%
CPI	2.75%	2.75%
Total	4.50%	4.50%

MERHCF Valuation Medical Trend Assumptions

September 30, 2023 Val

		DC			PC			USFHP
From FY:	To FY:	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%

September 30, 2024 Val (Proposed)

		DC			PC			USFHP
From FY:	To FY:	IP	OP	Rx	IP	OP	Rx	
2024	2025	5.00%	6.00%	9.75%	4.50%	6.00%	11.00%	6.12%
2025	2026	4.50%	5.50%	6.00%	4.50%	6.00%	8.25%	5.77%
2026	2027	4.50%	5.00%	4.75%	4.50%	5.50%	6.25%	5.25%
2027	2028	4.50%	5.00%	4.73%	4.50%	5.50%	6.19%	5.25%
2028	2029	4.37%	5.39%	4.73%	4.37%	5.39%	6.13%	5.10%
2029	2030	3.90%	5.09%	4.73%	3.90%	5.09%	6.06%	4.78%
2030	2031	3.99%	5.17%	4.73%	3.99%	5.18%	5.99%	4.85%
2031	2032	4.07%	5.93%	4.73%	4.07%	5.94%	5.93%	5.28%
2032	2033	4.18%	5.50%	4.74%	4.18%	5.50%	5.86%	5.08%
2033	2034	4.07%	5.41%	4.74%	4.07%	5.41%	5.80%	4.99%
2034	2035	4.11%	5.37%	4.74%	4.11%	5.37%	5.73%	4.98%
2035	2036	4.16%	5.32%	4.74%	4.16%	5.33%	5.67%	4.97%
2036	2037	4.20%	5.28%	4.74%	4.20%	5.29%	5.60%	4.96%
2037	2038	4.24%	5.24%	4.74%	4.24%	5.24%	5.54%	4.94%
2038	2039	4.28%	5.20%	4.74%	4.28%	5.20%	5.47%	4.93%
2039	2040	4.33%	5.16%	4.74%	4.33%	5.16%	5.41%	4.91%
2040	2041	4.37%	5.12%	4.74%	4.37%	5.12%	5.34%	4.90%
2041	2042	4.41%	5.08%	4.74%	4.41%	5.08%	5.27%	4.88%
2042	2043	4.45%	5.04%	4.74%	4.45%	5.04%	5.21%	4.87%
2043	2044	4.50%	5.00%	4.75%	4.50%	5.00%	5.14%	4.85%
2044	2045	4.54%	4.96%	4.75%	4.54%	4.96%	5.08%	4.83%
2045	2046	4.58%	4.91%	4.75%	4.58%	4.92%	5.01%	4.82%
2046	2047	4.62%	4.87%	4.75%	4.62%	4.87%	4.95%	4.80%
2047	2048	4.67%	4.83%	4.75%	4.67%	4.83%	4.88%	4.78%
2048	2049	4.71%	4.79%	4.75%	4.71%	4.79%	4.82%	4.77%
Ultimate		4.75%	4.75%	4.75%	4.75%	4.75%	4.75%	4.75%

MERHCF Valuation Assumptions
Decrements and Administrative Load

	September 30, 2023 Val (Proposed)	September 30, 2024 Val (Proposed)
Decrements	Consistent w/Sept-22 Val, except: (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	Consistent w/Sept-23 Val, except: (1) One more year of MI (2) Update MI Scale (based on MIL MI)

Admin Load		
IP & OP	1.40%	1.30%
Rx	1.70%	1.40%
USFHP	0.30%	0.30%

MERHCF Valuation Assumptions
Claim Costs Development

	September 30, 2023 Val	September 30, 2024 Val (Proposed)
Average Claims Level	FY 2023 experience	FY 2024 experience
Claims Age Grading		
Direct Care	Blend of FY 2015 - 2017 experience	No Change
Purchased Care	Blend of FY 2015 - 2017 experience (2017 for Rx)	No Change
USFHP	Blend of FY 2015 - 2017 rates by gender	No Change
Morbidity Adjustment	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) 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)	No Change

ATTACHMENT 4

MEDICARE-ELIGIBLE RETIREE HEALTH CARE BOARD OF ACTUARIES MEETING TRANSCRIPT

September 22, 2025

DoD Medicare-Eligible Retiree Health Care Board of Actuaries Meeting-20250922_110130-Meeting Recording

September 22, 2025, 3:01PM

34m 37s

May, Drew T CIV DODHRA DPAC (USA) started transcription

Dave Osterndorf 0:09

I'm Dave Olson, chair of the board, and I'm joined by Stu Olinde, Jan Yu, who are the board members?

I'm just gonna make a couple quick comments up front and then we'll dive into the agenda.

Looks like there was a question. I don't know if is the audio coming through for everybody.

Jan's doing.

Are you hearing me OK?

Stuart Alden 0:30

I am Dave.

Dave Osterndorf 0:32

OK.

Very good.

Jian Yu 0:32

I can hear you fine.

Dave Osterndorf 0:34

So just just a couple quick comments.

First, I want to express our in the board's appreciation for the office of the Actuary. I know that that there's been a lot of effort that went into preparing the board and making sure that the board meeting is successfully organized, knowing that you're working with about 40% fewer staff compared to last year.

So I know that's been some significant challenges.
The board is optimistic about your plans to bring on two additional actuaries soon. Which will certainly give a helpful boost to making sure that you can perform well the functions that the O act is called upon to take care of.
I guess I also just on a personal note, this is the 15th of my 15 year appointment on the board.
It has been a honor to be able to serve on this board. Obviously this is a very important commitment that.
We've all made.
It's an apartment commitment that the military.
Is made to entire members of the services and others who are covered by the fund itself, something that that we take very seriously and believe is an important part of the the, you know, package to join into the services. And so we are, I think you know pretty.
Pretty serious about what we do here.
I've had the good fortune to work with a number of.
Very, very talented actuaries on this board and have appreciated their skills and and their company in good humor. As we've gone through this, I've appreciated getting to know folks in the office of the Actuary.
I know it's a.
You know, there's a lot of things that oak has to take care of.
So I've appreciated the ability to go back and forth with them and look forward to turning over the reins to Stu to take over as the next chair of the board.
With that as I.
Go into some of the.
The actual activity of today's meeting.
You can see the meeting agenda.
We're going to be looking at reviewing and approving the actual assumptions and methods that are used to calculate the fiscal year 2027 per capita full time and part time normal costs.
We'll also be looking at the assumptions that are necessary to calculate the September 30, 2024 unfunded liability and the October 1, 2025.
Payments for amortization of the unfunded liabilities and the normal cost payments that Treasury will make as a bad date.
So with that, I'm going to jump into item number two and turn it over to Chelsea Chu

from the Office of Actuary to talk about the valuation results from the prior year and the final numbers. I went into that.
Chelsea.

CC **Chu, Chia Chun (Chelsea) CIV DODHRA DPAC (USA)** 3:33
Thank you, Dave. Good morning.
This is Chelsea TRU from office of the Arch, and if you look at the summer 2024 line, it shows the variation result based on the assumptions and the methods which the board approve us of September 2023 last year.
And we can see.
We promulgate it FY20 6 normal cost four times almost $8000 and part time is.
Almost $2900.
And for the liability shows like unfund liability.
So for September 30, 2023, it's like a twenty $137.3 billion.
And the the unbound liability payment on October 1st, 2024 was 14.6 billion.
Dollars and that you can see 42025 like.
Dave just mentioned.
Which is today's meeting objectives. We will promote gate.
No more cost on found liability and the Treasury payment after the board approve.
Ox proposal as of September 24, 2024, this year. OK, moving to the evaluation again and the losses.
If you look at the September 30th 2023, that's the result shows we have a total lost.
43.2 billion.
There's a small gains from experience in the larger from assumptions.
And you can see we have a 22.6 billion loss is mainly due to the drug trend as we expect a high usage of the GLP one for weight loss purpose.
Here I want to mention that the weight loss drug is no longer covered for the mirth the fishery starting September 1st, 2025.
We will discuss the impact later.
And as you can see, we have a 21.2 billion loss is due to other assumption which includes updated and new mortality improvement rate and the implemented a whole life of mortality improvement.
Any questions on this page?
I hear now. So we'll hand over.
Let's move to the agenda #3.

Zhu and Zhang Zhumen and Zhang Wang will.
Talk about evaluation proposal.

Dave Osterndorf 6:43
Good afternoon. Jonathan, you're up.

Wong Lau, Jonathan CIV DODHRA DPAC (USA) 6:44
All right, this is John Wong with office of the Actuary.
I'll be covering defective yield during the fiscal year 2024.
So on the last slide, for 2024, we see the beginning of the year fund balance of 269.6 billion.
We had 20.4 billion in total contributions received with 10.8 billion from services and 9.6 billion from Treasury.
We had 16.9 billion in total investments income.

Zouras, Peter M (Pete) SL DODHRA DPAC (USA) 7:12
Can hear you.

Wong Lau, Jonathan CIV DODHRA DPAC (USA) 7:14
Sorry, wait.
Hello, can you hear me?
Oh, does one have hot mic?
Anyways, we had a 16.9 billion in total investment income and.
A 12.4 billion in benefits payments.
This gives us an end of the year fund balance of 294.6 billion and an effective fund yield of 4.4%.
And as you'll see later on in our presentation, we will have a.
Valuation assumption of 4.5 and the current yield that you see here at 4.4 is slightly below.
Our evaluation assumption.

Zouras, Peter M (Pete) SL DODHRA DPAC (USA) 7:59
You want to skip to a slide that Drew can present, and we can come back.

Dave Osterndorf 8:11

They're getting a lot of background noise on John on your line, so let's see if we can go over to some of Drew's pages and then we'll come back.

May, Drew T CIV DODHRA DPAC (USA) 8:23

OK. Can everyone hear me? Yeah, we can hear.

Great. I'm jermai from office of the actuary.

We will jump ahead.

To.

The merk of incurred outlays and per capita, which is page 5.

On this page we have the incurred outlays and per capita.

And before we begin, I'll note that the purchase care drug amounts shown on this page are net of rebates.

Beginning with the incurred outlays, you'll notice that there is a greater than 10% increase in both purchase care and Direct Care RX incurred outlets going from fiscal year 2023 to fiscal year 2024.

A large portion of the increase can be attributed to costly Tricare specialty drugs and GLP one inhibitors. I'll note that on this page, what I'm referring to GLP one inhibitors that is for all uses, not only weight loss.

Going from 2023 to 2024.

Purchase Care RX and care outlays increased 12.3% or about 470 million.

And of that 470 million increase, about 2/3 of that was due to the increase in specialty drug and GLP one inhibitors.

Similarly, the Directcare RX anchored outlays increased was 10.9%.

Or about 97 million and about 53% of that was due to late anchors and specialty drug and GLP one inhibitors.

Lastly, for the prescription drug insert claims, I'll note that they are about half of the total highlighting the significance of the service to the cost of the plan.

Moving on from prescription drug, we're seeing a large decrease in direct care inpatient and this is due to continuation of direct care inpatient professional services being reported under direct care outpatient.

If you combine them, you'll see that there is a small decrease going from 2023 to 2024.

Lastly, there was a small decrease in purchase care inpatient claims and a small increase in purchase care outpatient.

The Medicare eligible portion of the US Family Health Plan, or USF, HP is a closed

group.
As a result, the overall cost tends to increase as the population ages into higher rate brackets, which is what we are seeing gone from 2023 to 2024.
Lastly, on this page are per capita amounts, as we saw earlier, as John will present, sorry.
The retiree population has increased this year, so the percentage increase in the per capita is a bit smaller than the percentage increase in the incurred outlays.
Are there any questions or comments on this page?

Dave Osterndorf 11:42
There any questions for anybody on the line?
OK.
Let's keep going.

May, Drew T CIV DODHRA DPAC (USA) 11:57
On this page we have the discount rate and ultimate medical trend.
The ultimate medical trend assumption used in the 2023 evaluation was 4.75%, and that is comprised of 1.5% real per capita GDP, 2.75% inflation, and a 0.5% margin for excess medical cost growth.
A discount rate used in the 2023 evaluation.
Was 4.5%, which includes 2.75% inflation for a real interest rate of 1.75%.
And I will note that these are long term economic assumptions and are used over a 100 year projection for the valuation and as such they do not reflect any short term variation.
To the right, we have our proposed economic assumptions.
We reviewed market details from the DFS presentation, including the handouts as well as economic assumptions set by other boards and federal systems such as the Military Retirement Fund, OPM, and CMS. All the current short term economic assumption is developing and changing. At this time, we see no strong.
Reason for any change in the long term rates?
Are there any questions or comments on this page?

Dave Osterndorf 13:29
Through the lack of change in any kind of long term economic scenario is consistent

with the perspective that we're hearing from the other agencies and the other groups, isn't it? Yes.

May, Drew T CIV DODHRA DPAC (USA) 13:39
That is.

Dave Osterndorf 13:47
Are there any questions from the meeting attendees on this page?
All right, let's keep on.

May, Drew T CIV DODHRA DPAC (USA) 13:59
On this page, I will speak to the proposed market valuation medical trend assumptions.
The inpatient and outpatient trends use four years of DoD experience and then six years of trend arrived from the CMS Medicare trustees report. The proposed trends you see most recent 2025 report and those trends are adjusted for differences between the general Medicare population and the D.
Medicare eligible retiree population for differences such as age and morbidity.
The remaining years, the trend grades to the ultimate medical trend.
This year, the proposed inpatient outpatient trends have been lowered.
Previously, they anticipated to rebound to pre COVID levels, but that has not emerged in increasing experience.
Proposed trends now reflect the latest military experience and expectations.
They are also lower than the private sector.
This is reflecting lower cost due to these trends, modeling cost share and the nature of the plan as a secondary Medicare payer.
The prescription drug trend uses three years of DoD data and then gradually ultimate trend as we saw on the incurred claims page.
The RX claims increased over 10% going from 2023 to 2024, and that is most.
Driven by expensive drugs like Tricare, especially drug and GLP 1 weight loss inhibitors.
The proposed trends account for some decrease in GLP one utilization due to the drugs no longer being covered for weight loss.
However, diabetes is a significant portion of medical eligible GLP one usage and we expect to see this continue and are also seeing.

Impact in the data with things such as.
Substitution of the Tricare preferred Trulicity for the more expensive ozempic.
Lastly, we'll note that there is no mechanism in place to prevent off label prescription for weight loss, as doing so would require an audit of private sector providers.
Aside from GLP one coverage, most of the factors that contributed to last year's high trend remain unchanged.
Tricare Specialty drug claims are high and we still anticipate blockbuster drugs to treat conditions such as Alzheimer's and eczema to be released within the time covered by the trend.
Lastly, the high trend is also consistent with private sector experience and expectations.
And lastly, one more thing to cover on the prescription drug trend.
The impact last year was high and the expected impact of the RX trends this year is also high as we saw on the incurred claims page, prescription drug especially purchased care and prescription drug account for a large amount of the claims and prescription drug is about half of.
The market liability as a result of normal costs are sensitive to the prescription drug insurance.
The last proposed trend is for US family health plan, which is a blend of purchase care and patient purchase care, outpatient purchase care, prescription drug and direct care, prescription drug reflecting the nature of the plan providing healthcare through a system of six designated providers.
Are there any questions or comments on this page?

DO **Dave Osterndorf** 17:42
Maybe you can just comment quickly on the fact that obviously the purchase care drug trend is a bit higher than the the direct care drug trend.
I think that's due to having greater control.
On the MTF side for the purchasing of of the pharmaceutical piece, it may also be a bit of a mix of drugs, but is that, is that a fair assumption?

M **May, Drew T CIV DODHRA DPAC (USA)** 18:07
Yes.

N **Norton, Edward C Jr CIV DHA HLTH CARE OPS (USA)** 18:08

Yeah. This is Ed. Chief of pharmacy operations.
I was just going to chime in and say.
You know, most of the specialty medications get get shifted to mail order for for all beneficiaries, regardless if they are primed to the MTF or you know or.
Are you know are seeing civilian doctors? So that'd be why you'd see more of that cost increase in purchase care is going to be because the specialty medications are going to.
The mail that helps out.

DO **Dave Osterndorf** 18:42
Yeah. Thank you, Adam.

M **May, Drew T CIV DODHRA DPAC (USA)** 18:43
Thank you.

N **Norton, Edward C Jr CIV DHA HLTH CARE OPS (USA)** 18:43
All right. Thanks.
But I would add, I would say pricing wise, the price that we that the government pays is a is the same for the medications that mail and the MTF.
It's just that the the more complex and expensive medications are generally getting shifted to the mail order point of service. Thanks.

DO **Dave Osterndorf** 19:10
There any questions from the attendees on this one?
Jan Stu, any questions from from the two of you?

JY **Jian Yu** 19:20
No further questions from me.

SA **Stuart Alden** 19:20
No, Dave, I'm good.

JY **Jian Yu** 19:22
I think we've done a lot of review throughout the process.

May, Drew T CIV DODHRA DPAC (USA) 19:34

Hearing none, no questions. We'll continue.

On this page we have proposed non economic assumptions and administrative load.

This year we are only proposing routine updates.

We are moving the evaluation year from 2023 to 2024, which results in one more year of mortality improvement and we're updating the mortality improvement scales to include 2024 experience.

Similarly, the admin load experience is updated to use data as of June.

2025, we expect these changes to have little impact on the results.

Are there any questions or comments on this page?

Yes, Jan, you have your hand up.

Sorry, are you speaking?

If so, I cannot hear you.

Dave Osterndorf 20:53

Yeah, Jenny, I'm here.

With this chance connection.

Leonard. Leonard, keep going, drew.

And then if she can get up, Mia will come back in.

May, Drew T CIV DODHRA DPAC (USA) 21:18

There are no other questions.

That is the end of my pages, so we will go back to John on Page 2.

Wong Lau, Jonathan CIV DODHRA DPAC (USA) 21:34

Alright, thanks drew.

Whole thing is here we testing.

Dave Osterndorf 21:37

Yes, can hear you, Jen.

Wong Lau, Jonathan CIV DODHRA DPAC (USA) 21:40

That's good.

Thank you.

Just have a connection connection issues this morning.
OK, on this page we have the effective yield during the fiscal year.
I'll be going over to 2024 on the last line.
So we have the beginning of year fund balance of 369.6 billion.
And we have a 20.4 billion in total contributions received with 10.8 billion from services and 9.6 billion from Treasury. In total, we have 16.9 billion.
In total, investment income and total point 4 billion in benefit payments and this gives us an end of the year fund balance of 294.6 billion and an effective fund yield of 4.4%.
I think drew covered one of the pages earlier.
That goes over the merger of evaluation assumption of 4.5%.
So I would note that this yield that we see on this page is slightly below the evaluation assumption.
Some footnotes.
The fund balances are both values and the benefit payments are on a paid basis.

Dave Osterndorf 22:44
And John, we're still operating under the.
Guidance that this is a buy and hold to maturity strategy for the fund investments, right?

Wong Lau, Jonathan CIV DODHRA DPAC (USA) 22:56
Yes, that is correct.

Dave Osterndorf 22:58
And I know there's been some back and forth dialogue on on that, but to date there hasn't been any, any underlying changes as I understand it.

Wong Lau, Jonathan CIV DODHRA DPAC (USA) 23:07
Yes.
Moving on.
On this page we show the summary of active service population as the end of the fiscal year 2023 and 2024.
These include the counts for DoD, Coast Guard, PHS or the public's health service, and NOAA or the National Oceanic and Atmospheric Administration.

In general, we are seeing a decrease in counts compared to last year and this could be attributable to the services facing recruiting struggles.
As they've seen in last row, in terms of retention.
On the active duty side, we are seeing a slight increase in the average age of members, while reserve we are seeing a slight decrease.
Questions on this page.

Dave Osterndorf 24:19
There are questions from any of the meeting attendees.

Wong Lau, Jonathan CIV DODHRA DPAC (USA) 24:33
Do you?
Do in the text next page.
On this page we have the retired beneficiary's independence.
For showing a summary of the retirees and servers from all uniform services as of 2023 and 2024.
As you can see, in general across all population we are seeing a net positive increase or net net increase in accounts.
It's shown in the last row.
You are seeing an increase in the number of medical eligible retiree and survivors.
As for the reason we are.
Heading away further from a from the mortality or the excess mortality that we've seen in 2021 and as we get further away from.
The pandemic years.
We should expect a steady, more steady state in the increase in growth.
My connection cutting off.

Dave Osterndorf 25:42
No, you're good.

Wong Lau, Jonathan CIV DODHRA DPAC (USA) 25:50
Any comments or questions on this page?

Dave Osterndorf 26:05
Don't hear any. Let's keep going.

Wong Lau, Jonathan CIV DODHRA DPAC (USA) 26:09

Do you think you are going to the claims cost of a woman now?

It.

For the thin class of element, we are not proposing any changes to the claim vectors.

The average claim levels are used as a 2024 experience, and we'll continue to use a blend of the 2015 to 2017 for claim vectors.

We did look at the blend of the average or the blend of the fiscal years 2022 to 2024, but after comparing the raw state of the claim experience, we saw a relatively consistent shape and little impact on the normal cost and accru liability.

So overall, we think that there would be no additional incremental value in updating the factors because the current experience is consistent with previous vectors.

Dave Osterndorf 27:09

To make any you know if we actually change the vectors to pick up more recent experience, which sounds like it'd be a fairly small change, that's a relatively big undertaking, right?

Wong Lau, Jonathan CIV DODHRA DPAC (USA) 27:20

Right.

It's.

By the substantial effort to update the claim vectors.

And given.

The I would say relatively consistent shape that we saw this year compared to last year.

One it wouldn't be.

Too much of a change in impact to update the vectors, but it would also take.

A.

A lot more time to update.

Dave Osterndorf 28:06

Any questions from them?

Meeting attendees on this one.

Wong Lau, Jonathan CIV DODHRA DPAC (USA) 28:16
Yes, I have a hand up.

CAPT Gumapas (USPHS) 28:18
Yeah. So this is Captain Gamapis PHS, so I am just trying to follow this part because this is something that.
Our HHS office asked about I have to make a payment for this account for this MERHCF, and I'm just making sure it it go it. It gets to me a lot of the staff got ripped as what was mentioned beforehand, but I was.
Wondering for 2026?
When when do you send?

Zouras, Peter M (Pete) SL DODHRA DPAC (USA) 28:55
You type your question in the chat.

CAPT Gumapas (USPHS) 28:58
Oh I I can.
I can just type my question in the chat OK.
That's fine.
All right, I'll, I'll do that.

Dave Osterndorf 29:08
Oh, that's fine.
I think we can can answer it. You know the the transmittal letters would go out relatively soon after the public meeting and then once the electors had a chance to take the approved assumptions.
And then it would get disseminated to the various groups that are covered by the by the fund. And so it will be a relatively quick process this year because we were relatively delayed in starting.
And P I'll let you make sure that we've got the the logistics down.
And I know we were having a problem on Jan's line. Is, is.
I don't know if we have tech support available to make sure that 'cause I really do need to have the board members available to make final decisions so.
Pete, I don't know if you know.

Who's who's machine?
This is sort of resident on. If there's any way to make sure that Jan is in.

Wong Lau, Jonathan CIV DODHRA DPAC (USA) 30:32
Yeah, we're picking audio up from Chan. Are you here?

Zouras, Peter M (Pete) SL DODHRA DPAC (USA) 30:34
Are you able to speak Jen?

Jian Yu 30:37
Can you hear me?

Zouras, Peter M (Pete) SL DODHRA DPAC (USA) 30:38
OK, great.

Dave Osterndorf 30:38
Yes, outstanding.

Jian Yu 30:41
OK.
That's great.

Dave Osterndorf 30:42
You're back.
OK.

Jian Yu 30:44
But my video shows you can't see me right?

Dave Osterndorf 30:47
Can't can't see your face, but at least we can hear your voice. Which is what we absolutely need. So thank you.

Jian Yu 30:51
Great.

Dave Osterndorf 30:58
All right.
John, I think there was no.

Jian Yu 31:02
I think I trimmed it earlier to add a comment.
I'll just finish that comment.
It's really just highlighting how important it is to manage pharmacy cost effectively and as team is doing a great job trying to do that, but it it's such a big portion of the total liability and a small increase makes a big impact.
To that total liability we're looking at, that's my comment that I was earlier.

Dave Osterndorf 31:30
Mm-hmm.
Yes, well said.
Right, Jen and Drew have been getting through your pages. Or was there one more yet?

May, Drew T CIV DODHRA DPAC (USA) 31:50
That is all the material.

Dave Osterndorf 31:54
All right, then let me open it up for any questions or comments.
Let me start quickly with with Stu and Jan. Is there any general questions or comments that that you had based on what's been presented today?

Stuart Alden 32:11
No, Dave, I don't.
I don't have any questions.

Dave Osterndorf 32:20
Jan, you're good.

Jian Yu 32:21

I'm good.
Thank you.

Dave Osterndorf 32:24
For the meeting attendees and any comments, questions, anything that that you want to have on the public record.
Go ahead, Pete.

Rossi, Peter G (Pete) CIV DODHRA DPAC (USA) 32:40
Thank you.
Not not public record.
Just want to make sure we're tracking attendance.
So who is the attendee last 47294?
729411.

+12*****94** 32:59
Hey, that's Leo Robles at OMB.

Rossi, Peter G (Pete) CIV DODHRA DPAC (USA) 33:03
OK.

+12*****94** 33:04
Period.

Rossi, Peter G (Pete) CIV DODHRA DPAC (USA) 33:05
Thank you.
Thank you, Dave.

Dave Osterndorf 33:07
Thank you.
OK.
Well, then we are at the point where we as the board should apply on the proposed assumptions and method for.
The years that were were put into item one of the agenda.
Is there a motion to accept the proposed assumptions and methods?

Stuart Alden 33:35
Yes, Dave, this is Stu.
I I propose that we adopt the methods and assumptions that have just been outlined.

Dave Osterndorf 33:43
And is there a second?

Jian Yu 33:45
2nd.

Dave Osterndorf 33:48
All in favor? Please say aye. And I vote I.

Stuart Alden 33:51
I.

Jian Yu 33:51
Aye.

Dave Osterndorf 33:54
Any opposed?
And the assumptions and methods are approved and.
With that, there's no other comments.
Comments let me just.
A chance to see if anybody wanted to make any additional comments.
Otherwise, I will go ahead and close my final meeting and appreciate all the the good work from everybody involved here and all of the action that went into it.
So thanks to to all. Appreciate the attendance today and you all have a good rest of the day.

Jian Yu 34:32
Thank you.

SA **Stuart Alden** 34:33
Thank you.

May, Drew T CIV DODHRA DPAC (USA) stopped transcription