

Committee on Actuarial Valuation of Retired Employees' Health Benefits
October 30, 2019

Meeting Minutes

Committee members attending: State Budget Director Charles Perusse (Chair), State Treasurer Dale Folwell, State Controller Dr. Linda Combs, and State Health Plan Executive Administrator Dee Jones.

Others attending: Elizabeth Colcord, Jim Dolan, Anne Godwin, and Virginia Sisson (State Controller); Joan Fontes, and Fran Lawrence (State Treasurer); Matt Rish and Charles Sceiford (State Health Plan); Taylor Coburn and Lanier McRee (OSBM); and Amy Senogles (State Auditor)

The Committee met by conference call and convened at 1:30 p.m. Mr. Perusse welcomed those in attendance and asked for a roll call of members and meeting attendees. Mr. Perusse read the Ethics Awareness and Conflict of Interest Reminder statement. No member indicated a conflict.

Mr. Perusse asked for a motion to adopt Committee meeting minutes from August 30, 2019. Dee Jones made a motion to adopt the minutes and Dr. Combs seconded this motion. The motion passed with all members voting aye.

Mr. Perusse asked Ms. Jones to introduce the purpose for the meeting and provide background. Ms. Jones explained that Charles Sceiford, an actuary at Department of State Treasurer, requested samples of the methodologies used by Segal in their GASB 74 report. After discussions with Segal, there was agreement that a revised methodology should be used for the 2019 GASB 74 report and for future reports. The revised methodology would result in a \$300 million (1%) change in the total OPEB Liability (TOL), increasing the TOL from \$32.6 billion in Segal's original valuation report to an estimated \$32.9 billion; nearly two-thirds of this change (approximately \$203 million) coming from a single item.

Mr. Perusse opened the conversation to other attendees for further discussion on this development in the GASB 74 report. Anne Godwin, Office of the State Controller, inquired as to whether this error would also affect last year's valuation. Charles Sceiford replies that some of the changes would likely have an impact on last year's, but not all. He notes that the error that caused the greatest change in this year's valuation is likely relevant to last year's valuation, and he would consider this error to be immaterial. Treasurer Folwell thanks Charles Sceiford for his work on this matter and emphasizes the importance of having an in-house actuary at the Department of State Treasurer.

Mr. Perusse asked representatives from the Office of the State Controller their opinion of how the Committee should proceed with updating the report and how any changes would impact the CAFR. OSC representatives recommend that we request a corrected report from Segal and whether the correction would be deemed as material would need to be investigated further and depends on what items of the report require a change. Ms. Jones states that the change would affect the "Changes of Assumptions" line in Exhibit 5 on page 15 of the GASB 74 report; this number would increase \$300 million, from \$1.4 billion to \$1.7 billion.

Anne Godwin (OSC) notes that changes can't be made to last year's CAFR, but changes to the 2019 CAFR could be made based on a new report with changes made to the assumptions. Charles Sceiford comments that updating the 2019 CAFR to reflect these changes would be reasonable.

Treasurer Folwell inquires if Segal is aware that a change to report may be required of them. Ms. Jones states that they are aware of this potential change and updates to the report will incur no cost to the State. Representatives from the Office of the State Auditor note that these changes would need to be submitted no later than the end of next week (11/15) so that the auditor can use this new information in their audit of the CAFR.

Anne Godwin (OSC) asks what assumptions would be changing in a revised report. Charles Sceiford (DST) comments that there were several things that were discussed in the GASB 74 but were not reflected in the calculations for the Total OPEB Liability. The \$200 million error relates to a too high trend assumption for non-Medicare dependents. The calculation of administrative claims is incorrect, and Segal did not follow the retirement tables for State law enforcement officers. Additionally, a wellness surcharge was added into the calculation when it does not apply.

Ms. Jones comments that she had a conversation with the Segal Group regarding this error and others over the past few years, and she has requested a new actuarial team moving forward. Treasurer Folwell notes that there is a national concern regarding the number of actuaries there are and the lack of competition in actuarial services, which affects the quality and quantity of bidders for State contracts like this.

In terms of next steps, the Committee has outlined three actions they will take:

1. Dee Jones and her staff will alert Segal that the report needs to be updated by the end of next week (11/8) so that they are able to provide the revised report to the Office of the State Auditor. Charles Sceiford will share additional details with the Office of the State Auditor actuary.
2. Dee Jones will enact the OPEB working group to review Segal's revised report.
3. A final Committee meeting will be held to review and approve the revised GASB 74 report.

Treasurer Folwell made a motion to adjourn the meeting; Dr. Combs seconded this motion. The meeting adjourned at 1:53 p.m.

Taylor Coburn
October 30, 2019