

Committee on Actuarial Valuation of Retired Employees' Health Benefits
May 31, 2023

Meeting Minutes

Committee members attending: State Budget Director Kristin Walker (Chair), State Controller Nels Roseland, and State Health Plan Executive Director Sam Watts.

Others attending: Jim Dolan, Mary Ellen Burns, Troy Scroggins, Laura Klem, and Elizabeth John (State Controller);-Joan Fontes (State Treasurer); Patrick Kinlaw, and Charles Sceiford (State Health Plan);-Ben Agsten, Jeanine Liu, Jessica Robinson, Kristin Walker, and Lanier McRee (OSBM);-and Danny Rhodes, Peter Wang, Kenneth Vieira, and Stuart Wohl (Segal).

The Committee met by conference call and convened at 10:00 a.m. Director Walker welcomed those in attendance.

Director Walker read the Ethics Awareness and Conflict of Interest Reminder statement. No member indicated a conflict. Director Walker invited Committee members to share any opening remarks. No opening remarks were made.

Mr. Rhodes began his presentation on the Segal valuation, noting that it has been updated based on working group feedback and that today's discussion will review the highlights of the assumption recommendations. He noted that certain assumptions are tied to pension plan assumptions, some are set by Segal as the health actuary, and some are required by GASB.

Mr. Rhodes noted that the Committee has no say over GASB standards. The Committee can, however, make decisions on funding assumptions and methods for the ADEC. The current process is pay-as-you-go. Occasional ad hoc payments have been made since FY 2020. Mr. Rhodes noted that demographic and economic assumptions will not be updated until 2025.

Mr. Rhodes noted that the Medicare Advantage assumption is still under review as they are analyzing the potential impact of Inflation Reduction Act (IRA) on MA-PD rates, especially the impact on prescription drugs. Key health actuary trends include increase in healthcare cost, increase in tobacco attestation, and migrations from 80/20 to 70/30 for non-Medicare plans. For retirees, increased migration from 70/30 to MA Health plans is expected. He also noted that the valuation will reflect recent increases in inflation.

Mr. Rhodes noted that the biggest change from last year's valuation is the discount rate used. Plan has been funded on pay-as-you go, which means it must be tied to the bond index rate. Mr. Rhodes noted that this structure makes the plan more difficult to manage. Segal is waiting to see what the rate is at end of fiscal year before making a final decision on what discount rate to use in their assumptions.

Mr. Rhodes noted that one way to manage the discount rate issue would be to prefund the plan. The plan received a \$400 million appropriation in FY20 and \$200 million in FY21 and FY22. This meant more money was coming in than needed to pay claims, causing Segal to look at what would be needed for it to be considered fully funded. On call a few weeks ago, SHP thought there was not enough funding to pre-fund, expecting less money to be appropriated in future years there has been in last few years. Mr. Rhodes noted that he had been asked by the State Health Plan to put in a plan for pre-funding in the appendix of the report. Segal is going to put in a plan for funding over 20 years. This would set the discount rate at 6.5% for the full period, instead of being set by the bond market.

Director Walker asked the Committee if there were any further questions or comments.

Director Watts thanks Mr. Rhodes for looking into the prefunding option in an appendix. He urged the committee to support this work, saying it will help in a policy conversation with the General Assembly. He is not sure there is a policy will but thinks it will be helpful to have that proposal.

Director Walker asked for a motion to approve the assumptions and timing. Controller Roseland made the motion, and Director Watts seconded the motion. The motion passed with all members voting aye.

Director Watts motioned to adjourn the meeting; Controller Roseland seconded the motion. The motion passed unanimously.

The Committee adjourned at 10:51 a.m.

Ben Agsten

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