**Post Employment Benefit Commission Minutes**

**June 4, 2010**

**Room 1B, State Legislative Office Building**

**Attendance:** Michael Cicchetti, Christine Shaw, Tom Woodruff, Sal Luciano, Julie McNeal, Paul Mansour, Jamie Young , Greg Stump (by phone)

**Others Present:** Robert Dakers, Dan Colter, Cristina Hungerford

Chairman Cicchetti called the meeting to order at 1:05 p.m.

In regard to the May 14, 2010 and May 21, 2010 minutes, a decision was made to act on those at the next meeting since they were just sent to the members in the morning.

Tom indicated that Bill Thompson of Milliman was present to present preliminary information related to updating the 2008 OPEB valuation to reflect the 2009 SEBAC changes and sensitivity analysis related to selected assumptions. Tom emphasized that these are draft numbers subject to change.

The baseline for the accrued liabilities increased from the 2008 valuation based, in part, from a change to a somewhat higher rate of health care inflation than previously assumed.

Tom noted that the projections do not reflect the 3% contribution from newer employees in the SEBAC agreement (estimated at $17 million per year) because of actuarial questions about including this information in the valuation. The Rule of 75 change in the SEBAC agreement had limited impact since Milliman already assumed that non-hazardous duty employees all retire at 65. Bob raised questions regarding this assumption.

Bill reviewed the various scenarios presented in the projections. For each scenario, there was a 4.50% discount rate, assuming that the state would contribute no funds to the trust above the pay-as-you-go amount (currently about $500 million); 6.08% discount rate related to a proposal by the Comptroller to contribute a certain amount of state surpluses to the trust fund; and 8.25% discount rate (down from 8.5% in 2008 valuation) related to the scenario that the state fully funds the ARC and the funds go into a trust fund. The accrued liabilities associated with each of these discount rates are: $26.6 billion (4.5%); $19.8 billion (6.08%); and $14.0 billion (8.25%).

Mike raised questions regarding the 4.50% discount rate based on the fact that there are essentially no funds in the trust fund to earn the 4.5% on. There was significant discussion among members if this rate should be lowered or remain with the actuarial assumption in terms of getting a truer picture of the liability.

Bill reviewed the scenarios reflecting the sensitivity to changes in the underlying assumptions used in the valuation. The sensitivity of the liability amount to increases or decreases of 1 and 2% in the assumed health care cost trend was high as can be seen in the schedule. The SEBAC Rx/preventive co-pay changes and assuming a one year increase in the assumed age of retirement had an impact, but not as significant. As described, the 3% or Rule of 75 impacts were either not reflected or of minimal impact based on actuarial issues.

There was discussion about the state’s medical inflation, with members noting that this is an important factor in lowering the OPEB liability going forward. Tom indicated the rate will be nine percent for the coming year, which reflects a near zero percent increase in prescription drugs based on the SEBAC changes. The state had a zero percent increase a few years ago. Paul asked Bill if, with State health insurance expenditures (active and retired) currently being $1 billion per year, a $100 million annual increase in these costs on a pay-as-you-go basis can be anticipated. Bill thought that was a reasonable approximation. Tom and Sal noted the importance of making structural changes in regard to health care delivery going forward.

There was some discussion regarding the applicability of the Rule of 75, including for current employees and for terminated vested employees.

Bob noted that the SERS actuarial projections are still on track for June 18th. Bob also noted that Mike will be working with the Governor’s Office regarding the commission’s reporting date. Jamie will talk to Mike regarding the next meeting date.

The meeting adjourned at 2:35 pm.