Segal

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Board of Trustees
Public Employees' Retirement Association of Colorado
1301 Pennsylvania Street
Denver, CO 80203-8236

Re: Comments Related to Actuarial Review of Segal Work for COPERA

Dear Trustees:

Earlier in 2022, the Colorado Public Employees' Retirement Association (COPERA) Board of Trustees retained Buck Global, LLC (Buck) to perform an independent review of our December 31, 2021, actuarial valuation. As part of this process, Buck also reviewed projection results prepared in conjunction with the valuation, as well as the most recent experience study dated October 28, 2020.

Buck has completed their review and we have received a copy of their report dated October 14, 2022. The Executive Summary states: "We believe the December 31, 2021, actuarial valuations for Division Trust Funds and Health Care Trust Funds are reasonable, based on appropriate assumptions and methods, and the reports generally comply with the Actuarial Standards of Practice (ASOPs)." We are pleased that the auditor was able to validate our work. Buck has made a number of comments and suggestions related to their review. They are not indicative of any type of substantive error or omission in the work product, and we will consider those suggestions very carefully during the upcoming actuarial work cycle.

Following are the comments and suggestions raised by Buck in their report (paraphrased, where appropriate), as well as our responses.

Summary of Recommendations – Division Trust Funds

- **We recommend the assumed long-term rate of investment return assumption continue to be monitored given the current economic environment and our analysis indicating the current assumption of 7.25% is near the top of [what we would consider to be a reasonable range].** We will continue to monitor the investment return assumption as both a part of the next experience study and the next actuarial work cycle. Please note this assumption will also be reviewed during the upcoming Asset-Liability Study in 2023.
- **We recommend continued monitoring of the unfunded accrued liability of each Division Trust Fund, [and whether the unfunded accrued liability is expected to fully amortize] within a reasonable period and in accordance with policy objectives.** We will continue to monitor the projected amortization of the unfunded accrued liability and will continue to discuss the results in conjunction with the plan's objectives with the Board of Trustees.

- **We have the following recommendations with respect to our review of the census data used for the valuation:**
  - **We recommend all survivors in the valuations be tracked separately as beneficiaries.** The data are currently shown based on the preference of PERA staff. We will discuss your recommendation with staff during the next valuation cycle.
  - **We recommend that the valuation report include summaries of retirees, beneficiaries, and disabled census data and liability information separately rather than solely in the aggregate.** We will consider providing this level of detail in our next valuation report.
  - **We recommend that the valuation report provide a more detailed summary for terminated vested and non-vested members.** We will consider providing this level of detail in our next valuation report.
  - **We recommend Segal correctly [apply the Local Troopers actuarial assumptions] to the Local Troopers group.** We will reflect the appropriate assumptions for the Local Troopers in the next valuation.
- **We recommend adding a description for post-termination death benefits prior to retirement to the plan provisions section of the report.** We will review the plan provisions section of our valuation report and ensure that an appropriate description of post-termination death benefits is included.
- **We recommend a review of the valuation for post-termination death benefits for active and deferred vested members to ensure it is valued in accordance with plan provisions.** We will review during the next actuarial work cycle.
- **When recommending [termination rate assumptions], we recommend giving more weight to recent experience in future experience studies, especially for larger divisions with more credibility.** We will consider this recommendation when evaluating the termination experience when preparing the next experience study review.
- **We recommend careful review of [data] to ensure proper categorization of reduced or unreduced retirement during the next experience study.** We will consider this recommendation when evaluating the reduced and unreduced retirement experience when preparing the next experience study review.
- **We recommend that future experience studies review and describe the methodology of developing new entrant profiles for projections.** We will include a description of the methodology for developing the new entrant profile assumption when preparing the next experience study review.
- **We recommend future valuation reports provide demographic summaries of the new entrant profiles used in the open group projections.** We will consider providing summaries for the new entrant profiles used in the open group projections in our next valuation report.
- **We recommend an additional statement in the valuation report that the actuaries who have performed the valuations meet the Qualification Standards "to render the statements of actuarial opinion presented in the report."** We will add this statement to our next valuation report.

- **We recommend an additional statement that the actuaries are available to answer questions about the information contained in the report.** We will consider adding this statement to our next valuation report.
- **ASOP 51 […] requires a statement regarding the range of future actuarial measurements, which may differ from measurements presented in the report. We recommend that language be added to the Division Trust Fund report stating that the analysis of the potential range of future differences is beyond the scope of the valuation.** We will consider adding this language to our next valuation report.

Additional Recommendations – Division Trust Funds

Economic Assumptions

- **We recommend that Segal comment on the reasonability of the long-term rate of return assumption in future actuarial valuation reports.** We will consider including statements in successive valuation reports stating our opinion about the reasonableness of the investment return assumptions.
- **We recommend future experience studies clarify [that the assumed investment rate of return is net of investment expenses].** We will include this clarification in our next experience study review report.
- **[We recommend that] future experience studies […] address the post-retirement benefit increase assumption.** We will consider addressing the post-retirement benefit increase assumption in the next experience study review.

Summary of Recommendations – Health Care Trust Funds

- **During the data preparation process, investigate records listed in the source data but also as Defined Contribution participants. 75 were excluded as of the last valuation, but it may be appropriate to include these individuals as they may be eligible for benefits from prior employment.** We will review the exclusion of Defined Contribution participants reported with health coverage in our next valuation report.
- **Per the ASOP 6 Practice Note, remove aging from the valuation of MA-PD benefits, or provide justification why aging is still included.** Segal has generally taken the position of applying age adjustment within our retiree health valuation practice to Group Medicare Advantage and/or EGWP plans, and not utilizing the 3.7.7.(c) exception discussed in this Practice Note. We have reviewed the ASOP No. 6 Practice Note: Development of Age-Specific Retiree Health Cost Assumptions, Including Applications to Pooled and Non-Pooled Health Plans, published in March 2021 and we note the following:

    1. Segal utilizes valuation results for both funding and GASB purposes for COPERA. GASB Statement No. 75 requires compliance with ASOP No. 6, which does allow exceptions to age adjustment in “some very limited cases” for pooled health plans, per Section 3.7.7.(c). In addition, Segal understands the PERA Care Medicare Advantage plans are experience-rated vs. pooled plans.

2. The question of whether or not Group Medicare Advantage and/or EGWP plans fall under this 3.7.7.(c) limited exception is not settled among the actuarial community. In a recent letter in the Society of Actuaries Health Watch, an actuary advocates for not eliminating the valuation of morbidity by age for Medicare Advantage plans. (https://www.soa.org/sections/health/health-newsletter/2022/september/hw-2022-09-edwards/)

3. As stated in the Practice Note, the Note is "not a promulgation of the ASB, is not an actuarial standard of practice, is not binding upon any actuary, and is not a definitive statement as to what constitutes generally accepted practice in the area under discussion."

Segal is reviewing our practices and evaluating the impact of such an exception on our valuations. In the event this exception was deemed appropriate, Segal estimates such a change to have a very small (<1% reduction) impact to the liability.

- **Document the justification for valuing only the employer subsidy for pre-Medicare benefits.** Pre-Medicare retirees contribute the full premium for medical and pharmacy benefits less the service based premium subsidy. Premiums were provided by COPERA and are estimated to cover the full cost of benefits and administrative fees and are based upon group-specific pre-Medicare retiree experience; there is no blending with active nor Medicare members' experience. The average premiums for pre-Medicare members are well above the maximum fixed employer subsidy and any impacts for future health care cost trend or aging are the member's responsibility. Also see language in our valuation report on page 90 under "Premium Subsidy".
- **Adjust the application of the retirement decrement to middle-of-year, which is consistent with other decrements timing for the HCTF valuations as well as decrement timing for the pension valuation.** We will adjust the application of the retirement decrement to middle-of-year in the next valuation report.
- **Update coding to reflect the revised assumption regard the percentage of disabled participants hired before April 1, 1986, assumed to qualify for premium-free Medicare Part A.** We will update coding to reflect this revised assumption in the next valuation report.
- **Update the new entrant profiles used to be consistent with those used for the pension plans.** The OPEB valuation does not have a similar grouped "new entrant profile". Instead, HCTF "new entrants" are all actives hired in 2020. (Per past practice, the timing of the 40-year projections in the report necessitates using data from the preceding valuation. However, the Segal Pulse modeling tool uses the most recent census data available.) DPS "new entrants" are all actives hired in the preceding five years (2016-2020). Segal will research available methods to update new entrant profiles earlier for the valuation and annual report, but our priority will be meeting client timelines for financial reporting purposes.
- **Revisit participation assumptions for the MA-PD plans given the reduction in premiums under the new carrier.** We will review recent experience and revisit the "PERA Benefit Structure Health Care Plan Election Rates" assumption for our next valuation report.

Closing Comments

We are very pleased with the results of the audit, and, in particular, we are pleased that the auditor has successfully validated both our December 31, 2021, actuarial valuation including the projections and the 2020 experience study. We certainly appreciate the thorough work, professional demeanor, and helpful suggestions and recommendations that the auditors have made. We will continue to review them throughout the production of the December 31, 2022, actuarial valuation process and will implement those that seem to be in the best interest of COPERA.

Sincerely,

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Vice President & Consulting Actuary

Matthew Strom, FSA, MAAA, EA
Senior Vice President & Actuary

Melissa Krumholz, FSA, MAAA
Vice President & Actuary

cc: Koren Holden