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Correspondence Memorandum

Date: May 19, 2021

To: Employee Trust Funds Board

From: Cindy Klimke-Armatoski, Chief Trust Finance Officer
Division of Trust Finance

Subject: December 31, 2020 Duty Disability Insurance Program Actuarial Valuation

ETF requests the Employee Trust Funds Board (Board) approve the Duty Disability Insurance Program Actuarial Valuation as of December 31, 2020 and reduce 2022 contribution rates by 50% of current rates.

Milliman has completed the December 31, 2020 actuarial valuation of the Duty Disability Insurance Program. The results of the valuation are as follows:

	2019	**2020**
Actuarial Liability	$466,322,061	$467,720,173
Reserve Balance	$659,050,876	$693,226,275
Surplus / (Deficit)	$192,728,815	$225,506,102
Funded Ratio	141%	148%

The program continues to be in a healthy financial position with the funding level above the 125% to 135% target range, per the Board's policy. The actuarial liability slightly increased from the prior year. The reserve balance increased by approximately 5%, due to investment income.

Duty Disability contribution rates are based on an experience-rated tier schedule. While the base contribution rate tier structure remains constant, the actual contribution rates for each tier are adjusted to meet the plan's current funding needs.

The actuarial valuation report includes a baseline scenario and four other scenarios. The baseline scenario assumes current contribution rates are held level in future years, and as a result, projects the funds' surplus as a percentage of the actuarial liability to grow farther away from the Board's target.

Reviewed and approved by Shirley Eckes, Deputy Secretary

Electronically Signed 5/26/21

Board	Mtg Date	Item #
ETF	6.17.21	4C

Scenario 1 assumes contribution rates are reduced by 50% in 2022 and then remain level throughout the projection period. Scenario 2 assumes no contributions in 2022 and future years. For both of these scenarios, the fund's surplus as a percentage of the actuarial liability is also expected to grow, but at a slightly slower pace than the baseline scenario. These projections show contributions have a small impact on the funding of the program.

Scenario 3 and 4 are provided to demonstrate the significance of investment income. A negative 10% investment return in 2021 is projected to reduce the funding status to the lower range of the Board's policy. A 0% investment return projects the funding status to remain above the Board's target range.

Based on the actuarial valuation, ETF recommends a reduction of rates for 2022. If the Board approves a 50% reduction in contributions (targeting 2022 contributions of approximately $2 million), the 2022 rates would be:

Tier	Base Contribution Rate	Actuarial Adjustment Rate	2022 Contribution Rate	# of Employers	2021 Contribution Rate
1	0.25%	-0.21%	0.04%	419	0.09%
2	0.50%	-0.42%	0.08%	42	0.17%
3	1.00%	-0.83%	0.17%	26	0.34%
4	1.75%	-1.45%	0.30%	10	0.60%
5	2.75%	-2.28%	0.47%	5	0.94%
6	4.00%	-3.32%	0.68%	2	1.36%
7	5.50%	-4.57%	0.93%	3	1.87%
8	6.60%	-5.48%	1.12%	2	2.24%

Alternatively, the Board could approve a premium holiday. However, as noted in the actuarial valuation report, a premium holiday is not recommended at this time due to economic and health uncertainty, and the possibility of a prolonged period of uncertainly around disability and life claims.

These projections are based on several assumptions. It is nearly certain that actual experience will vary from these assumptions and the resulting funded ratio will be different than what has been projected.

Actuaries from Milliman and ETF staff will be at the meeting to discuss this report and answer questions.

Attachment: Actuarial Valuation of The Duty Disability Insurance Program as of December 31, 2020