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Correspondence Memorandum

Date: May 23, 2022

To: Employee Trust Funds Board

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

Subject: December 31, 2021 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, 2021 and reduce 2023 contribution rates by 50% of current rates.

Milliman has completed the December 31, 2021 actuarial valuation of the Duty Disability Insurance Program. The results of the valuation are as follows:

	2020	**2021**
Actuarial Liability	$467,720,173	$523,760,207
Reserve Balance	$693,226,275	$744,560,957
Surplus / (Deficit)	$225,506,102	$220,800,750
Funded Ratio	148%	142%

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 increased 12% from the prior year, primarily due to a change in adjusting the timing of cost-of-living benefits in the future benefits projection. The reserve balance increased by approximately 7%, 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 three other scenarios. The baseline scenario assumes current contribution rates are held level in future years,

Reviewed and approved by Shirley Eckes, Deputy Secretary
Electronically Signed 6/3/22

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and as a result, projects the funds' surplus as a percentage of the actuarial liability to grow farther away from the Board's target.

Scenario 1 assumes contribution rates are reduced by 50% in 2023 and then remain level throughout the projection period. Scenario 2 assumes no contributions in 2023 and future years. Scenario 3 assumes contributions are waived in 2023 and resume in 2024. The fund's surplus as a percentage of the actuarial liability is also expected to grow in these scenarios. These projections show contributions have a small impact on the funding of the program. Investment income is the biggest driver of changes in fund balance.

Based on the actuarial valuation, ETF recommends a reduction of rates for 2023. If the Board approves a 50% reduction in contributions (targeting 2023 contributions of approximately $1 million), the 2023 rates would be:

Tier	Base Contribution Rate	Actuarial Adjustment Rate	2023 Contribution Rate	# of Employers	2022 Contribution Rate
1	0.25%	-0.23%	0.02%	424	0.04%
2	0.50%	-0.46%	0.04%	41	0.08%
3	1.00%	-0.91%	0.09%	24	0.17%
4	1.75%	-1.60%	0.15%	12	0.30%
5	2.75%	-2.51%	0.24%	3	0.47%
6	4.00%	-3.65%	0.35%	4	0.68%
7	5.50%	-5.02%	0.48%	2	0.93%
8	6.60%	-6.03%	0.57%	1	1.12%

Alternatively, the Board could approve a premium holiday. However, a premium holiday is not recommended at this time due to continued economic and health uncertainty.

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, 2021