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Correspondence Memorandum

Date: May 28, 2024

To: Employee Trust Funds Board

From: Marie Ruetten, Deputy Administrator
Division of Trust Finance

Subject: Duty Disability Insurance Program Actuarial Valuation–December 31, 2023

The Department of Employee Trusts Funds (ETF) requests the Employee Trust Funds Board (Board) approve the Duty Disability (DD) Insurance Program Actuarial Valuation as of December 31, 2023, and increase 2025 contribution rates by 0.1% of covered payroll.

	2022	2023
Actuarial Liability	$556,763,814	$594,142,994
Reserve Balance	$754,059,930	$778,057,202
Surplus / (Deficit)	$197,296,116	$183,914,208
Funded Ratio	135%	131%

The Duty Disability Insurance Program has experienced a relatively strong financial position in recent years with the funded ratio staying within the Board adopted target range of 125-135%. Since 2019, rates have been reduced or held steady. The funded ratio as of December 31, 2023, was above the middle of the target range at 131%, continuing to indicate a healthy financial position. Following the trend of the last five years, the actuarial liability increased as of December 31, 2023, by approximately 7% from the prior year. The average monthly benefit amount increased by approximately 12%, primarily due to benefit increases applied in January 2023. Incurred But Not Reported (IBNR) claims were also a factor in the increased liabilities as the experience study performed by Milliman in 2023 demonstrated the need for a five-year lookback period rather than a three-year lookback period for estimating IBNR claims. This change increased the liability for IBNR claims. The reserve balance increased by approximately 3% in 2023 due to investment income, offset by increased expenses.

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.

CKlimke

Reviewed and approved by Cindy Klimke-Armatoski, Chief Trust Financial Officer
Electronically Signed 06/05/2024

Board	Mtg Date	Item #
ETF	06.20.24	4D

The actuarial valuation report includes a baseline scenario and three additional scenarios with projected contribution rates and fund ratios. The baseline scenario assumes current contribution rates are held level in future years. This results in a projection that the funds' surplus as a percentage of the actuarial liability decreases slightly over time and reduces to slightly below the low end of the target funded range by December 31, 2028. With contributions and investment income remaining fairly steady, an expected increase in claims would result in the projection of the funded ratio reaching 116% at the end of 2032.

Scenario 1 assumes investment income of 3.2% in 2024 and 6.8% in future years without changing contribution rates. This results in the projected fund balance being below the target range by 2025 and continuing to decrease. Scenario 2 assumes an increase in the contribution rate to 0.549% of covered payroll in 2025 and then being held level, resulting in a return to the middle of the target range by 2026. Scenario 3 assumes an increase in contribution rates by 0.1% of payroll in 2025 through 2029, resulting in a relatively steady funded ratio, continually staying above the low end of the target range, and moving toward the midpoint.

Based on the actuarial valuation and projections, ETF recommends increasing rates by 0.1% of payroll in 2025, as illustrated in Scenario 3 of the valuation report. If the Board approves this increase in rates (targeting 2025 contributions of approximately $3.3 million), the 2025 rates would be:

Tier	Base Contribution Rate	Actuarial Adjustment Rate	2025 Contribution Rate	# of Employers	2024 Contribution Rate
1	0.25%	-0.19%	0.06%	423	0.02%
2	0.50%	-0.38%	0.12%	42	0.04%
3	1.00%	-0.76%	0.24%	28	0.09%
4	1.75%	-1.33%	0.42%	8	0.15%
5	2.75%	-2.08%	0.67%	7	0.24%
6	4.00%	-3.03%	0.97%	5	0.35%
7	5.50%	-4.17%	1.33%	1	0.48%
8	6.60%	-5.00%	1.60%	1	0.57%

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.

Staff will be at the Board meeting to answer any questions.

Attachment A: Actuarial Valuation of The Duty Disability Insurance Program as of December 31, 2023