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Correspondence Memorandum

Date: June 4, 2025

To: Employee Trust Funds Board

From: Marie Ruetten, Deputy Administrator
Division of Trust Finance

Subject: Duty Disability Insurance Program Actuarial Valuation–December 31, 2024

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, 2024, and increase 2026 contribution rates by 0.1% of covered payroll.

The Duty Disability Insurance Program remains in a good financial position at the end of 2024, with the funded ratio staying within the Board-adopted target range of 125% to 135%. The actuarial liability as of December 31, 2024, increased 3.7% from the prior year, primarily due to automatic benefit increases based on the national wage index. The reserve balance increased by 1.6% in 2024 primarily due to investment income.

	2023	2024
Actuarial Liability	$594,142,994	$615,858,336
Reserve Balance	$778,057,202	$790,394,267
Surplus / (Deficit)	$183,914,208	$174,535,931
Funded Ratio	131%	128%

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 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 below the low end of the target funded range in 2028.

CKlimke

Reviewed and approved by Cindy Klimke, Chief Trust Finance Officer, Division of Trust Finance
Electronically Signed 05/29/2025

Board	Mtg Date	Item #
ETF	06.19.25	5C

- Scenario 1 assumes investment income of negative 15% in 2025 and 6.8% in future years without changing contribution rates. This results in the projected fund balance below the target range by December 31, 2025, and continuing to decrease.
- Scenario 2 presents a gradual rate increase of 0.1% of covered payroll each year between 2026 and 2029 and then being held level. Under this scenario, the fund ratio remains within the target range and begins to trend upward in 2028.
- Scenario 3 assumes an increase in the contribution rate to 0.506% of covered payroll in 2026 and then being held level, resulting in the fund ratio reaching the mid-point of the target range by 2032.
- Scenario 4 illustrates the effect of reducing claim termination rates by 10%, thereby increasing liabilities and resulting in a projection of a continual decline in the fund ratio beginning in 2025.

Based on the actuarial valuation and projections, ETF recommends increasing rates by 0.1% of covered payroll in 2026, as illustrated in Scenario 2. If the Board approves this increase in rates (targeting 2026 contributions of approximately $5.8 million), the 2026 rates would be as follows:

Tier	Base Contribution Rate	Actuarial Adjustment Rate	2026 Contribution Rate	# of Employers	2025 Contribution Rate
1	0.25%	-0.15%	0.10%	425	0.06%
2	0.50%	-0.30%	0.20%	46	0.12%
3	1.00%	-0.59%	0.41%	24	0.24%
4	1.75%	-1.04%	0.71%	8	0.42%
5	2.75%	-1.63%	1.12%	6	0.67%
6	4.00%	-2.37%	1.63%	5	0.97%
7	5.50%	-3.26%	2.24%	0	1.33%
8	6.60%	-3.91%	2.69%	1	1.60%

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, 2024