



November 18, 2021

To: Board of Trustees

From: Leslee S. Hardy, Director of Actuarial Services *Leslee S Hardy*

Re: Agenda Item 11: Consider and Act on Supplemental Death Benefits Fund Assumptions and 2023 Rates

GRS will be performing an Experience Study in 2023 that determines 2025 contribution rates which will include a review of the current mortality assumptions. TMRS' last experience study occurred in 2019. Changes in assumptions are not typically made in between experience studies, which are conducted every four years, but GRS is recommending that TMRS increase the 2023 SDB rates calculated in the December 31, 2021 actuarial valuation because of the pandemic-related elevated mortality rates.

During the first nine months of 2021, active death benefit claims increased by 166% as compared to the same period in 2020, and retiree death benefit claims increased 13%. Due to the increases, the Supplemental Death Benefits (SDB) Fund decreased by \$6.7M (from \$12.6M to \$5.9M). The SDB for active Members is equal to their annual salary, and the retiree death benefit is \$7,500.

GRS is recommending an assumption change and changes to the calculated contribution rates for the December 31, 2021 valuation (2023 rates). Specifically, they are recommending that the assumption which grants a small credit on the active rate be removed, that active rates be doubled and that retiree rates be increased by 10% (multiplied by 1.10).

Systemwide, this would increase the average SDB rate by an estimated 0.11% (from 0.21% to 0.32%) of payroll and bring in an additional \$5.7M in contributions. The actual rate change for individual participating cities is estimated to vary from 0.03% to 1.21% of payroll or from \$30 to \$214,000.

RECOMMENDATION:

GRS recommends that the Board increase the 2023 SDB contribution rates as determined in the December 31, 2021 actuarial valuation by (i) removing the assumption that grants a small credit to active rates, (ii) adding a load of 100% to the active rates, and (iii) adding a load of 10% to the retiree rates.

ATTACHMENTS:

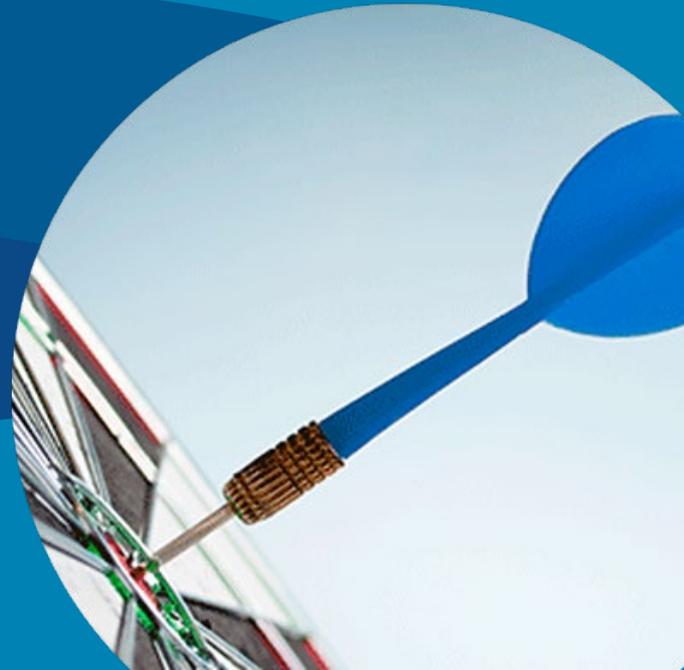
- 1 GRS Presentation



Consider and Act on Supplemental Death Benefits Fund Assumptions and 2023 Rates

Joe Newton

December 2, 2021



Supplemental Death Benefits Fund

- Participation is elective by City
- Benefit at death:
 - Retiree: \$7,500
 - Active: 1x Salary
- Financed by City contributions, set during the annual valuation, to cover the expected benefit payments
 - One year term costs only, no advance-funding
 - There is currently a small credit against the active rates based on the beginning of year balance
 - Cost-sharing plan- Assets are pooled and benefits paid from the Fund, not tied to individual employers

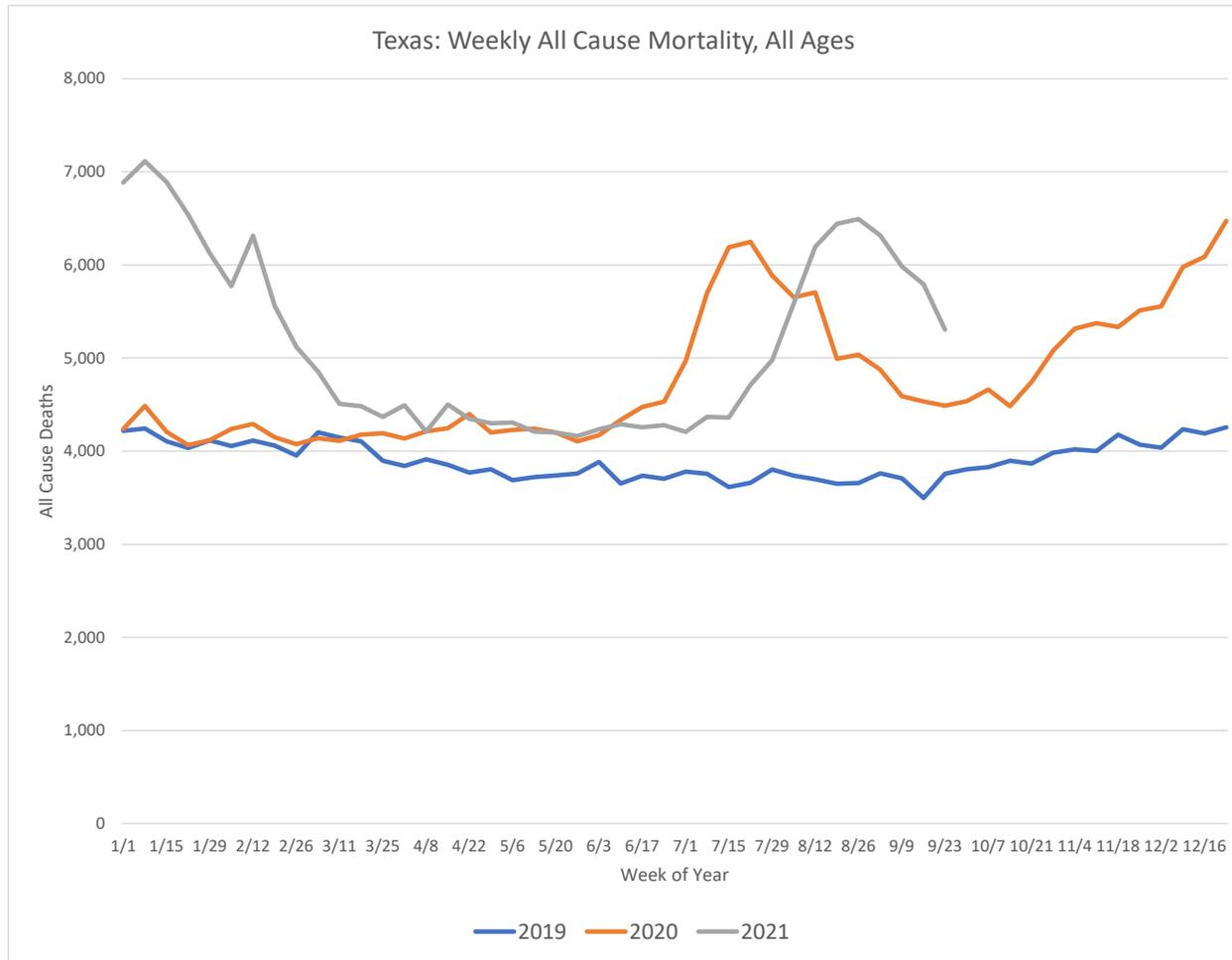
SDB Cash Flows and Fund Balances

For the Nine Months Ending September 30, 2021, 2020 and 2019

	2021	2020	2019
Supplemental Death Benefits Fund Year-to-Date Activity:			
Beginning Balance	\$ 12,591,377	\$ 14,073,111	\$ 17,306,500
City Contributions - SDB	7,699,428	6,523,310	6,144,619
Benefits Paid - Active Members	(9,494,109)	(3,563,819)	(4,993,877)
Benefits Paid - Retired Members	(4,934,375)	(4,355,000)	(4,145,769)
Ending Balance	\$ 5,862,321	\$ 12,677,602	\$ 14,311,473

- There has been a 166% increase year over year for active benefits, 13% for retirees

Very recent statewide data unfortunately increases probability of higher rates of mortality continuing longer than hoped



Source: CDC Database

Change in 2023 Contribution Rates

- Based on 2021 cashflows, the city contribution rates would have needed to be much higher to have produced even cash flow (revenues cover the benefit payments)
 - 0.26% of payroll for active benefits (compared to 0.10% actual)
 - 0.14% of payroll for retiree benefits (compared to 0.11% actual)
 - So a total of 0.40% of payroll
- Difficult to know what the long-term pattern will be, but with recent experience it is possible claims over the short to intermediate term will be closer to 2021 than to historical norms
- For 2021 valuation (2023 rates), recommend doubling contribution rates for actives, and increasing contribution rates for retirees by 10%
 - This includes removing the current small credit to active rates
 - For actives, would increase the average City rate from 0.10% to 0.20%
 - For retirees, would increase the average City rate from 0.11% to 0.12%
 - Would produce a total contribution rate of 0.32%, compared to the current 0.21%
 - Estimated \$5.7million increase in City contributions
 - Note: It is estimated that the average City will see a decrease of about 0.08% in their retirement rate from investment performance in this valuation

GRS' SDB Funding Recommendation

For setting the 2023 SDB contribution rates, GRS recommends:

- removing the current small credit applied to the active rates
- adding a load of 100% of the term costs for active benefits
- adding a load of 10% of the term costs for retiree benefits