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May 6, 2021

Mr. Porter Wilson
Executive Director
Employees Retirement System
of Texas
Post Office Box 13207
Austin, Texas 78711-3207

Re: Recommended Member Contribution Rates for the
Texas Income Protection Plan under the Texas
Employees Group Benefits Program for Fiscal
Year 2022

Dear Mr. Wilson:

The purpose of this correspondence is to present recommendations for member contribution rates for the Texas Income Protection Plan (TIPP) under the Texas Employees Group Benefits Program (GBP) for Fiscal Year 2022 (FY22).

Background

The TIPP provides Short Term Disability (STD) and Long Term Disability (LTD) coverages under a self-funded arrangement administered by a third party administrator. Participation in the TIPP is voluntary. The TIPP is funded exclusively by member contributions; i.e., employers do not contribute toward the cost of the plans.

At its meeting on May 17, 2017, the Board of Trustees accepted the proposal submitted by Reed Group Management LLC (Reed) to provide administrative services for the TIPP in return for an administrative fee under a contract which covers an initial four-year term from January 1, 2018 to December 31, 2021. The administrative fee is guaranteed throughout the term of the contract. The staff is currently in the process of negotiating a contract extension through December 31, 2022.

FY22 Rate Analysis

Since the TIPP is funded exclusively by member contributions, those contributions must be adequate to provide for all costs under the plans.

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In order to develop recommended member contribution rates for the TIPP, we and the staff have projected the expected cost of coverage for FY22 based on (a) reasonable expectations of future claims determined through a review of plan experience, (b) anticipated claim payment patterns, (c) investment income expected to be earned on funds held by ERS in support of the plans and (d) administrative fees included in the Reed contract.

Based on this analysis we reached the following conclusions:

- The member contribution rate currently in effect for the STD plan will be adequate to support the expected cost of coverage in FY22. Accordingly, the STD rate can be maintained at its current level.
- The member contribution rate currently in effect for the LTD plan will not be adequate to support the expected cost of coverage in FY22. We have determined that a 7.9% increase in the current rate is needed to provide for anticipated claims and administrative expenses in FY22.

Recommendation

Based on the analysis described above and in consultation with the staff, we recommend the following:

- Maintain the member contribution rate for the STD plan at \$0.26 per \$100 of monthly covered salary.
- Increase the member contribution rate for the LTD plan 7.9% from \$0.63 to \$0.68 per \$100 of monthly covered salary.

It is our opinion that the member contribution rates recommended above will provide revenues sufficient to meet the expected obligations under the TIPP. The recommended rates are presented in the attachment.

Please let us know if you have questions or if you need additional information.

Sincerely,



Philip S. Dial

PSD:nlg

Enclosure

GROUP BENEFITS PROGRAM

Disability Plans

Recommended Monthly Member Contribution Rates for FY 2022

<u>Plan</u>	<u>FY 2021</u>	<u>Recommended FY 2022</u>
Short Term Disability	\$ 0.26	\$ 0.26
Long Term Disability	0.63	0.68

Rates are per \$100 of monthly covered salary.