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April 19, 2022

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
Life and AD&D Plans under the Texas Employees
Group Benefits Program for Fiscal Year 2023

Dear Mr. Wilson:

The purpose of this correspondence is to present recommendations for member contribution rates for the Life and AD&D Plans under the Texas Employees Group Benefits Program (GBP) for Fiscal Year 2023 (FY23).

Background

On May 26, 2021, the Board of Trustees of the Employees Retirement System (ERS) approved a contract with Minnesota Life Insurance Company (Minnesota Life) to provide a fully insured minimum premium arrangement for the Life Plan and a fully insured AD&D Plan for an initial term from January 1, 2022 through August 31, 2026.

Under the terms of the minimum premium arrangement for the Life Plan, Minnesota Life provides administrative services in return for contractual administrative fees and fully insures the life insurance risk in return for claims premiums which are limited to the lesser of (a) the actual claims incurred under the Life Plan or (b) premiums based on actual participation and the maximum claims rates included in the contract.

The AD&D Plan is fully insured under a traditional insurance contract under which Minnesota Life accepts full risk in return for payment of premiums based on contractual premium rates.

The maximum claims rates and administrative fees for the Life Plan and the AD&D premium rates are guaranteed for the term of the contract.

FY23 Rate Analysis

Each year we and the staff develop member contribution rates for the Life Plan based on (a) reasonable expectations of future claims determined through a review of the plan experience over the last ten years, (b) anticipated claim payment patterns, (c) expected investment income earned on funds held by ERS and (d) the maximum claims rates and administrative fees included in the Minnesota Life contract.

Over time, our annual analyses have indicated that the Life Plan experience has been consistently favorable from year to year. During the period FY13 – FY19, member contributions have exceeded claims and administrative fees by an average of about 5%. As a result, the current member contribution rates have remained unchanged since FY13; i.e., for 10 years.

In sharp contrast, our most recent experience analysis indicates that the COVID-19 pandemic has increased mortality significantly during FY20 and FY21. Not surprisingly, during the last two years, the number of deaths due to respiratory disease is up significantly. Early indications are that mortality will remain at an abnormally high level during FY22. It is reasonable to expect that this tendency will continue until the pandemic has run its course.

The elevated mortality has resulted in claims and administrative fees exceeding contribution revenue by 15% in FY20 and 32% in FY21 which represents a total of loss of about \$47 million over the two-year period. We expect that elevated mortality is likely to continue through FY23, although not at the high level experienced the past two years.

Under the minimum premium arrangement described above, the Life Plan's financial exposure is limited to the maximum claims rates and administrative fees which, in the aggregate, are about 5.8% greater than the current contribution revenue. We and the staff concluded that the member contribution rates for Optional Life should be increased 5.8% in order to provide for the plan's maximum exposure for FY23. It is likely that Minnesota Life will incur losses at least through next year.

While it would be consistent to increase the Basic Life rate as well, the Texas Legislature did not appropriate an increase in funding for Basic Life and Health insurance. As a result, we concluded that the Basic Life rate should remain unchanged. While losses can be expected, they will be small since the amount of Basic Life coverage is small. The losses on Basic Life can continue to be covered from previously accumulated funds.

We concluded that the current member contribution rates for the AD&D Plan are sufficient to produce adequate revenue to provide for the FY23 AD&D premium rates included in the Minnesota Life contract.

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Conclusion and Recommendation

Based on the analysis described above and in consultation with the staff, we recommend that the contribution rates for Optional Life coverage be increased 5.8% for FY23. Further, we recommend that rates for Basic Life and all AD&D coverages remain at the FY22 levels for FY23

It is our opinion that, collectively, the recommended Life and AD&D member contribution rates will provide revenue sufficient to meet the expected obligations under these plans. 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

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Enclosure

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GROUP BENEFITS PROGRAM

Life and AD&D Plans

Recommended Monthly Member Contribution Rates for FY 2023

<u>Plan</u>	<u>FY 2022</u>	<u>Recommended FY 2023</u>
Active and Retiree Basic		
Term Life and AD&D (1)	\$ 2.22	\$ 2.22
Active and Retiree Optional Life and AD&D (2)		
Under Age 25	\$ 0.05	\$ 0.05
25-29	0.05	0.05
30-34	0.06	0.06
35-39	0.06	0.06
40-44	0.08	0.08
45-49	0.12	0.13
50-54	0.19	0.20
55-59	0.33	0.35
60-64	0.57	0.60
65-69	0.93	0.98
70-74	1.48	1.56
75-79	2.41	2.55
80-84	3.92	4.15
85-89	6.79	7.18
90 & Over	10.57	11.18
Active Dependent Life and AD&D (3)	\$ 1.38	\$ 1.45
Retiree Minimum Optional Life (2)	2.34	2.48
Retiree Dependent Life (3)	3.05	3.23
Voluntary AD&D		
Employee Only (4)	\$ 0.02	\$ 0.02
Employee & Family (4)	0.04	0.04

(1) Rates are per unit of coverage. \$5,000 of coverage for active employees. \$2,500 of coverage for retired employees. Basic Term Life for retirees does not include AD&D.

(2) Rates are per \$1,000 of coverage. Optional Life for retirees does not include AD&D.

(3) Rates are per unit of coverage. \$5,000 of coverage for dependents of active employees. \$2,500 of coverage for dependents of retired employees. Dependent Life for retirees does not include AD&D.

(4) Rates are per \$1,000 of coverage.