
AGENDA ITEM DETAILS

Subject: Consideration of Retirement Actuarial Factors for the Cash Balance Benefit (Group 4) - (Action)

RECOMMENDED ACTION:

Move that the Board of Trustees adopt the proposed methodology for determining the actuarial factors necessary to calculate the benefits payable to Group 4 retirees as described in Exhibit A to this agenda item for Group 4 disability, death, and service retirement benefits beginning on September 1, 2022.

Background/Analysis:

Under law, the Board of Trustees (Board) of the Employees Retirement System of Texas (ERS) must adopt mortality, service and other necessary tables after considering the results of the periodic experience studies of the ERS retirement plans. Gabriel, Roeder, Smith and Company (GRS), ERS' external pension actuarial firm, performed the most recent Pension Experience Study. The Board adopted the study on May 20, 2020. With the implementation of the new Group 4 cash balance benefit structure, the Board will need to adopt a new type of actuarial factor to convert a member's cash balance amount into a monthly annuity value (standard annuity). These annuity conversion factors are only applicable to the new Group 4 benefit and do not impact Groups 1, 2 or 3. The Group 4 cash balance annuities must be computed using the same mortality and other tables adopted under Government Code Section 815.105. Although the new cash balance benefit requires 5 years of service before retirement eligible, ERS must be prepared to handle any retirements that may arise due to the Proportionate Retirement Program, or other special circumstances.

Annuity conversion factors for Group 4

An annuity conversion factor is part of the standard annuity formula for the Group 4 cash balance retirement benefit. These factors are specific to the member's age and fiscal year (in months) at retirement and are determined using:

- Interest Rate: 4.00% per annum (guaranteed interest rate for Group 4 benefits)
- Mortality Tables: 2020 State Retirees of Texas mortality tables for males and females
- Mortality Improvements: Ultimate rates from the mortality projection scales published through 2019 by the Retirement Plans Experience Committee of the Society of Actuaries (the rates are the same for males and females)
- Unisex Blend: 50% Male / 50% Female

Annuity option reduction factors for Group 4

The standard annuity is the maximum starting annuity amount a retiree can earn in retirement, but it does not provide any benefits for a surviving family member upon the retiree's death. Retirees can choose one of five options that reduces the standard amount. An annuity option reduction factor is applied to the standard annuity when one of the following retirement annuity options are selected:

- Option 1 – 100% payment to survivor (pays the same amount to a designated beneficiary following the retiree's death)
- Option 2 – 50% payment to survivor (pays half the amount to a designated beneficiary following the retiree's death)

- Option 3 – Guaranteed 5 years of payments (pays five years of guaranteed payments, even if the retiree dies before five years)
- Option 4 – Guaranteed 10 years of payments (Pays ten years of guaranteed payments, even if the retiree dies before ten years)
- Option 5 – 75% payment to survivor (pays 75% of the amount to a designated beneficiary, following the retiree's death)
- Partial lump sum option (PLSO) (reduces the monthly annuity payment by selecting a lump sum amount up front up to 36 months of annuity payments)

Group 4 benefits are not subject to the following annuity reduction factors:

- Group 1 Law Enforcement and Custodial Officer early retirement
- Group 3 Law Enforcement and Custodial Officer early retirement
- Death Benefit Plan (DBP) reduction factors
- Non-Occupational disability retirement

An annuity option reduction factor is applied to the standard annuity formula for the Group 4 cash balance retirement benefit. These factors are specific to applicable ages and fiscal year (in months) at retirement and are determined using a 7% interest rate and the same mortality basis as the annuity conversion factors.

Factor Calculations

The annuity conversion factors were developed by GRS to be used for any age and fiscal year scenario. These factors were built to automatically incorporate generational mortality improvements and to accommodate the members more exact age (rounded to the month) at retirement. This will provide a smooth progression of the member's annuity value across each month the member is eligible to retire. GRS has certified them to be actuarial equivalent with the applicable interest in Group 4 and the mortality assumptions adopted by the Board on May 20, 2020.

STAFF RECOMMENDATION:

ERS staff recommends that the Board adopt the proposed annuity conversion and the applicable annuity option reduction factors methodology for Group 4 presented in this agenda item as **Exhibit A**. A proposed motion is included with this agenda item.

ATTACHMENTS:

1. Exhibit A – Group 4 Actuarial Factors Methodology
2. Slides – Group 4 Retirement Actuarial Factors