

## Public Agenda Item #25

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

August 24, 2022

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# Group 4 Retirement Benefits



- ERS must be prepared to handle any Group 4 retirements that may occur starting 9/1/22
- Board must adopt a new type of actuarial factor to convert the Cash Balance amount into an annuity
- Board adopted mortality, service and other necessary tables for benefits administration after the Experience Study on May 20, 2020
- ERS staff worked with Gabriel, Roeder, Smith and Company (GRS), ERS' external pension actuary to develop methodology to determine Group 4 actuarial factors that align with those assumption tables and maintain pension plan costs

# Group 4 Actuarial Factors



- There are two types of actuarial factors that will be used to administer Group 4 retirement benefits
- The new annuity conversion factor is part of the starting standard annuity formula
- An annuity option reduction factor will continue to be applied to the standard annuity if a member selects an optional payment form at retirement

# Group 4 Annuity Option Reduction Factors



Annuity option reduction factors are used when members:

- Select a beneficiary option
  - Option 1 – 100% payment to survivor
  - Option 2 – 50% payment to survivor
  - Option 3 – Guaranteed five years of payments
  - Option 4 – Guaranteed 10 years of payments
  - Option 5 - 75% payment to survivor
- Select a Partial Lump Sum Option
  - 1-36 months of standard annuity paid in a single payment that permanently reduces the monthly annuity for retiree's lifetime.

# Group 4 Annuity Calculation Example #1



Regular State employee with standard annuity

Retirement Date	Member's Age at Retirement	Survivor's Age at Retirement	Cash Balance Amount	Annuity Conversion Factor	Annuity Option Reduction Factor
September 2052	65 years, 0 months	N/A	\$500,000	180.2010	N/A

Calculation	Monthly Annuity Value
1. Calculate the standard annuity: Cash Balance divided by annuity conversion factor	$\$500,000 / 180.2010 = \$2,774.68$

# Group 4 Annuity Calculation Example #2



Regular State employee with Option 1 – 100% payment to survivor

Retirement Date	Member's Age at Retirement	Survivor's Age at Retirement	Cash Balance Amount	Annuity Conversion Factor	Annuity Option Reduction Factor
March 2053	58 years, 5 months	63 years, 0 months	\$500,000	206.7040	93.4875%

Calculation	Monthly Annuity Value
1. Calculate the standard annuity: Cash Balance divided by annuity conversion factor	$\$500,000 / 206.7040 = \$2,418.92$
2. Calculate the optional annuity: Standard annuity times annuity option reduction factor	$\$2,418.92 \times 93.4875\% = \$2,261.39$

# Group 4 Annuity Calculation Example #3

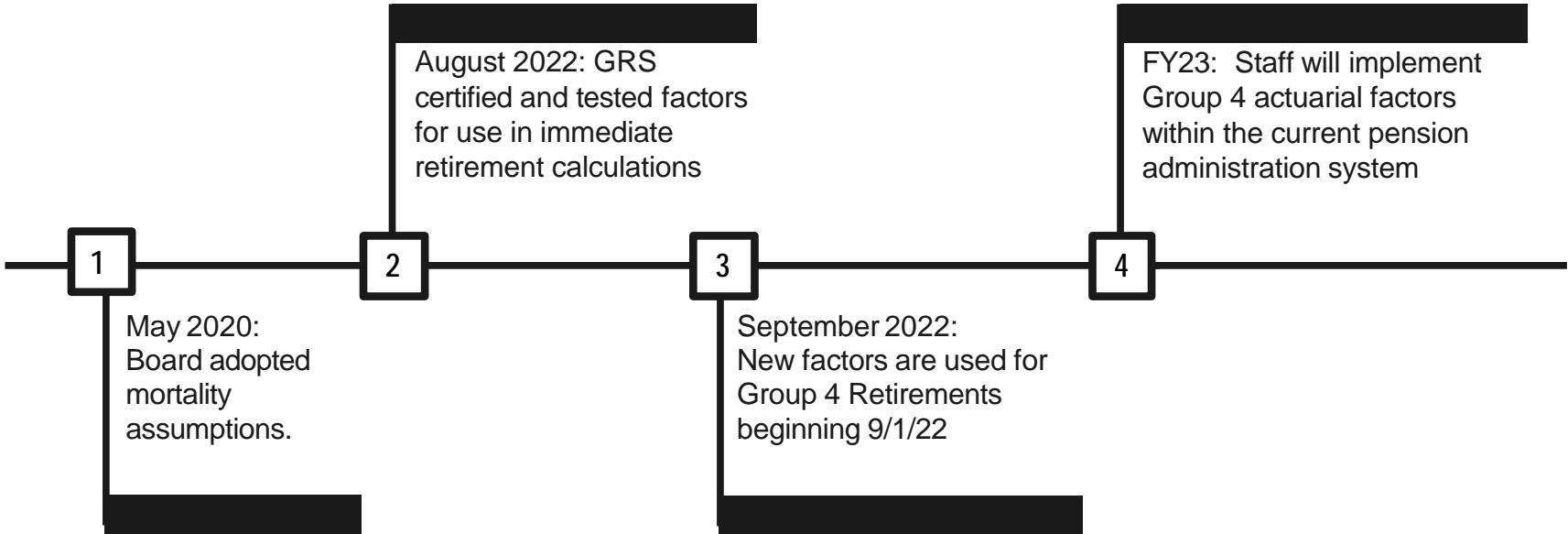


Regular State employee with Option 5 – 75% payment to survivor

Retirement Date	Member's Age at Retirement	Survivor's Age at Retirement	Cash Balance Amount	Annuity Conversion Factor	Annuity Option Reduction Factor
July 2054	62 years, 7 months	59 years, 2 months	\$500,000	191.1144	91.4035%

Calculation	Monthly Annuity Value
1. Calculate the standard annuity: Cash Balance divided by annuity conversion factor	$\$500,000 / 191.1144 = \$2,616.23$
2. Calculate the optional annuity: Standard annuity times annuity option reduction factor	$\$2,616.23 \times 91.4035\% = \$2,391.33$

# Group 4 Actuarial Factors Timeline





Questions?  
**Action Item**