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April 29, 2024

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

Re: Recommended Member Contribution Rates for the  
Life and AD&D Plans under the Texas Employees  
Group Benefits Program for Fiscal Year 2025

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 2025 (FY25).

### **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 recommended 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.

For many years, our annual analyses indicated consistently favorable Life Plan experience from year to year. During the period FY13 – FY19, member contributions exceeded claims and administrative fees by an average of about 5%. As a result, member contribution rates remained unchanged from FY13 through FY19.

In sharp contrast, the COVID-19 pandemic increased mortality significantly over the three-year period FY20 - FY22. Not surprisingly, during those three years, the number of deaths due to respiratory disease was up significantly. The elevated mortality resulted in claims and administrative fees exceeding contribution revenue by 15% in FY20, 32% in FY21 and 25% in FY22, which represents a total of loss of about \$70 million over the three-year period.

At the time we conducted the FY23 rate analysis, we concluded that it would be reasonable to expect that the elevated mortality level was likely to continue through at least FY23 and possibly longer until the pandemic had run its course. While the pandemic had increased Life Plan costs for the GBP, it has also generated significant losses for Minnesota Life.

Based on our analysis and in consultation with the staff, we made the following rationale and recommendations for FY23 which were accepted by the Board.

1. 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, were about 5.8% greater than the contribution revenue that was expected to be generated in FY22. As a result, we and the staff recommended 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.
2. While it would have been 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 were 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, and, therefore, we and the staff recommended continuation of the Basic Life rate for FY23 at the FY22 level.
3. 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. Therefore, we recommended no change in member contribution rates for AD&D.

### **FY24 Rate Analysis**

Our FY24 analysis confirmed the continuation of elevated mortality experience through FY22. At the time of the analysis, although increased member contribution rates had reduced plan losses, continuing high levels of mortality indicated that total losses were expected to continue to exceed the plan's maximum exposure under the minimum premium contract. Therefore, we considered it to be necessary to maintain member contribution rates at the FY23 levels for FY24. As a result, we and the staff recommended and the Board determined that all Life and AD&D contribution rates should remain at the FY23 levels for FY24.

### **FY25 Rate Analysis**

Our current analysis indicates that the combination of increased revenue resulting from the FY23 rate increase as well as improved claims experience in FY 23 produced a small surplus for FY23. While it's too early to know, it is reasonable to expect that the FY24 experience could be favorable as well. However, given the significant losses experienced over the period FY20 – 22, we believe that it would be prudent to retain the rates at the current level for FY25.

### **Conclusion and Recommendation**

Based on the analysis described above and in consultation with the staff, we recommend that all Life and AD&D contribution rates remain at the FY24 levels for FY25.

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

PSD:nlg

Enclosure

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## GROUP BENEFITS PROGRAM

### Life and AD&D Plans

#### Recommended Monthly Member Contribution Rates for FY 2025

Plan	FY 2024	Recommended FY 2025
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	0.13	0.13
50-54	0.20	0.20
55-59	0.35	0.35
60-64	0.60	0.60
65-69	0.98	0.98
70-74	1.56	1.56
75-79	2.55	2.55
80-84	4.15	4.15
85-89	7.18	7.18
90 & Over	11.18	11.18
Active Dependent Life and AD&D (3)	\$ 1.45	\$ 1.45
Retiree Minimum Optional Life (2)	2.48	2.48
Retiree Dependent Life (3)	3.23	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.