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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  
Texas Income Protection Plan<sup>sm</sup> 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 Texas Income Protection Plan<sup>sm</sup> (TIPP) under the Texas Employees Group Benefits Program (GBP) for Fiscal Year 2025 (FY25).

### **Background**

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 TIPP is voluntary. TIPP is funded exclusively by member contributions; i.e., employers do not contribute toward the cost of the plans.

At its meeting on May 11, 2022, the Board of Trustees awarded a contract to Reed Group Management LLC (subsequently acquired by Alight Solutions) to provide third party administrative services and underwriting services for TIPP in return for an administrative fee for a six-year term from January 1, 2023 to December 31, 2028.

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

At its meeting on May 11, 2022, the Board of Trustees adopted the following recommendation of the staff and the consulting actuary.

- Maintain the member contribution rate for the STD plan at \$0.26 per \$100 of monthly covered salary for FY23.

- Increase the member contribution rate for the LTD plan 7.9% from \$0.63 to \$0.68 per \$100 of monthly covered salary for FY23.

### **FY24 Rate Analysis**

In FY23, we concluded that the \$0.26 STD member contribution rate in effect for FY23 could be reduced to \$0.24 and still cover the expected cost of coverage for FY24. We also confirmed that the \$0.68 LTD member contribution rate would be adequate to cover the expected cost of coverage for FY24.

We and the staff submitted these recommendations to the Board which approved them at its meeting on May 17, 2023.

### **FY25 Rate Analysis**

In preparation for development of rate recommendations for FY25, we conducted a detailed study of the historical experience of both the STD and LTD plans. The results of that study were surprising. The incidence of claims; i.e., the proportion of the insured population incurring a claim over the course of the fiscal year, has decreased sharply over the last three years for both plans. While we have confirmed the accuracy of the data used to develop these results, we have not been able to discern the reasons for the decline. Continued research is ongoing. In any event, the sustained improvement in plan experience is generating sufficiently positive operating results to provide support for a significant rate reduction for the STD plan. While LTD experience has also been positive, it takes longer for LTD claims to mature due to the longer waiting period that must be satisfied to qualify for benefits and the much longer duration of benefits. But continuation of the currently favorable experience for another year or two could provide support for a rate reduction for the LTD plan as well.

Simultaneously with the experience analysis, the staff has compared the STD benefits with those generally available in the employee benefit market and has developed recommendations for improvements that would bring STD benefits more into line with the market. The staff will present the recommended changes to the Board at the May meeting.

While the proposed STD benefit changes will increase claims cost significantly, we have concluded that the current rates will be sufficient to support the changes provided the disability incidence rates continue at the lower levels experienced over the last three years.; i.e., it will not be necessary to increase the STD member contribution rate for FY25 even if the Board approves the benefit changes recommended by the staff.

Based on our analysis, we reached the following conclusions:

- The member contribution rate currently in effect for the STD plan will be sufficient to support the expected cost of coverage under the STD benefits that the staff is proposing for FY25.
- The member contribution rate currently in effect for the LTD plan will be adequate to support the expected cost of coverage in FY25. Accordingly, the LTD rate can be maintained at its current level.

## Recommendation

Based on the analysis described above and in consultation with the staff, we recommend the following rate actions for FY25:

- Maintain the member contribution rate for the STD plan at \$0.24 per \$100 of monthly covered salary.
- Maintain the member contribution rate for the LTD plan at \$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.

In the coming years, we will continue to carefully examine the experience of both plans in order to (a) assure the STD rate is adequate to support the proposed benefits and (b) to determine if a rate reduction is possible for the LTD plan.

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**

**Texas Income Protection Plan<sup>SM</sup>**

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

<u>Plan</u>	<u>FY 2024</u>	<u>Recommended FY 2025</u>
Short Term Disability	\$ 0.24	\$ 0.24
Long Term Disability	0.68	0.68

Rates are per \$100 of monthly covered salary.