

RETIREMENT SYSTEMS DIVISION

STEVEN C. TOOLE
EXECUTIVE DIRECTOR

July 8, 2017

TO: Members of the TSERS & LGERS Boards of Trustees

FM: Sam Watts
Policy Director, Retirement Systems Division

RE: Proposed Assumption Change for the Contributory Death Benefit (CDB) Plans

- Effective June 30, 2017, the Retirement System is required under Governmental Accounting Standards Board (GASB) pronouncements to assume that a certain percentage of active employees and vested deferred members will elect the CDB upon retirement.
- The Boards' funding policy assumption for CDB does not include this assumption, meaning that we assume that zero percent of actives elect the CDB upon retirement, and premiums paid by new participants offset 100 percent of their liability.
- Since this GASB change is required under the new accounting rules, it has been implemented for accounting schedules currently being produced.
- The Boards' funding policy assumptions do not have to follow the GASB requirements, but staff and consulting actuaries are recommending that the Boards adopt this change and mirror the accounting assumption effective with the Valuations being produced this year to be dated December 31, 2016.
- The reason for this recommendation is to reduce unnecessary complexity in the Valuations.
- The recommendation is that the valuations include an assumption that 50 percent of active members and 65 percent of disabled members elect the CDB on retirement.
- The assumption change would result in a \$6 million reduction in the projected deficit for the CDB. (The deficit was \$74.8 million on December 31, 2015.)
- For ease of administration, staff recommends the final decision be consistent between TSERS and LGERS CDB plans.
- Staff recommends TSERS and LGERS Boards of Trustees vote to approve a new CDB assumption, which will be used in development of the 2016 valuations, that 50 percent of active members and 65 percent of disabled members elect the CDB on retirement.