



# Regular Meeting

## Item Number 10 – Open Session

**Subject:** Review of Lump Sum Death Benefit

**Presenter(s):** David Lamoureux and Rick Reed

**Item Type:** Action

**Date & Time:** May 2, 2024 – 10 minutes

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**Attachment(s):**

Attachment 1 – Milliman’s Lump Sum Death Benefit Level Analysis

Attachment 2 – Proposed Resolution for the Adoption of the Lump Sum Death Benefit

**PowerPoint(s):** Review of Lump Sum Death Benefit

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**Item Purpose**

The purpose of this item is to establish the lump sum death benefit amounts paid to beneficiaries of active and retired Defined Benefit Program members for Fiscal Year 2024-25.

**Recommendation**

Staff recommends the board increases the lump sum death benefit amounts to the following levels effective July 1, 2024:

	<b>Recommended lump sum death benefit amounts (effective July 1, 2024)</b>
Active Coverage A and Retired Member	\$7,093
Active Coverage B	\$28,372

**Executive Summary**

Since 1992, the board has had the authority to annually adjust the one-time lump sum death benefit payment payable upon the death of an active or retired Defined Benefit Program member. The board has done so ten times since 1992. The current one-time, lump sum death benefit paid on behalf of active Coverage A members and retired members is \$6,903. The current one-time,

lump sum death benefit paid on behalf of active Coverage B members is \$27,612. These amounts were set by the board in May 2022.

In March 2024, the board adopted revisions to the existing lump sum death benefit board policy to specify that annual increases would be tied to California inflation and capped at the long-term assumed inflation of 2.75% along with a catch-up provision. Increases would be considered for adoption when certain funding thresholds are met based on the most recent actuarial valuation. These funding thresholds are tied to the CalSTRS Funding Plan.

Inflation in California in calendar year 2023 was 3.48%. As per the lump sum death benefit board policy, the increases under consideration have been capped at 2.75%. As per the board policy, the 0.73% portion of inflation excess of 2.75% will be made available for future increases.

Based on the June 30, 2023 actuarial valuation, it has been determined that after increasing the lump sum death benefit amounts by 2.75%, the projected funded status for the Defined Benefit Program will exceed all funded status thresholds defined in the board policy. Therefore, it is recommended the board increase both amounts by 2.75% effective July 1, 2024. Increasing both amounts by 2.75% will increase the lump sum death benefit to \$7,093 for active Coverage A members and retired members and to \$28,372 for active Coverage B members.

### **Background**

A one-time lump sum death benefit payment is payable to the beneficiary upon the death of an active or retired Defined Benefit Program member under certain conditions specified in statute. When an active member dies prior to retirement, the amount of the lump sum benefit varies based on whether the member was under Coverage A or B.

Section 23801 of the Education Code provides for a death payment of \$5,000 to the beneficiary of an eligible deceased active member who had coverage under the Family Allowance Program (Coverage A) of the Defined Benefit Program. Education Code section 23880 also provides for a death payment of \$5,000 to the beneficiary of an eligible deceased retired member. Section 23851 of the Education Code provides for a death payment of \$20,000 to the beneficiary of an eligible deceased active member who had coverage under the Survivor Benefit Program (Coverage B) of the Defined Benefit Program.

Each of these three sections permits the board to “adjust the death payment amount following each actuarial valuation based on changes in the All Urban California Consumer Price Index” (California CPI). The table that follows shows a history of the adjustments to the lump sum death benefit levels.

<b>Historical Adjustments to the Lump Sum Death Benefit</b>		
<b>Date of Death</b>	<b>Active Coverage A and Retired Member</b>	<b>Active Coverage B</b>

10/16/92 to 6/30/94	\$5,000	\$20,000
7/01/94 to 12/31/96	\$5,110	\$20,440
1/01/97 to 6/30/98	\$5,227	\$20,908
7/01/98 to 6/30/99	\$5,493	\$21,974
7/01/99 to 6/30/00	\$5,598	\$22,394
7/01/00 to 6/30/01	\$5,763	\$23,052
7/01/01 to 6/30/02	\$6,010	\$24,040
7/01/02 to 6/30/18	\$6,163	\$24,652
7/1/18 to 6/30/2021	\$6,372	\$25,488
7/1/2021 to 6/30/2022	\$6,480	\$25,920
7/1/2022 to present	\$6,903	\$27,612

As shown above, the last adjustment to the lump sum death benefit was adopted by the board in May 2022. At the time, the board increased the death benefit amounts to fully reflect the increase in the California CPI between December 2020 and December 2021 to prevent the lump sum death benefit from being further eroded by inflation. The increase was about 6.5%.

In March 2024, the board adopted revisions to the existing the lump sum death benefit board policy. The policy specifies that annual increases are tied to the California inflation in the previous calendar year and capped at the long-term assumed inflation of 2.75% along with a catch-up provision.

Inflation in California in calendar year 2023 was 3.48%. As shown in the table below, the increases under consideration for fiscal year 2024-25 have been capped at 2.75%, as per the rules set in the board policy. A catch-up of 0.73% will be made available in future years when inflation is less than 2.75%.

**Rate of increase for fiscal year 2024-25**

1- Inflation in California in 2023	3.48%
2- Available catch-up for 2024-25	0.00%
3- Long-term inflation assumption	2.75%
<b>4- Rate of increase for 2024-25 (lesser of 1+2 and 3)</b>	<b>2.75%</b>
5- Catch-up for future years	0.73%

Increasing both amounts by 2.75% will increase the lump sum death benefit to \$7,093 for active Coverage A members and retired members and to \$28,372 for active Coverage B members.

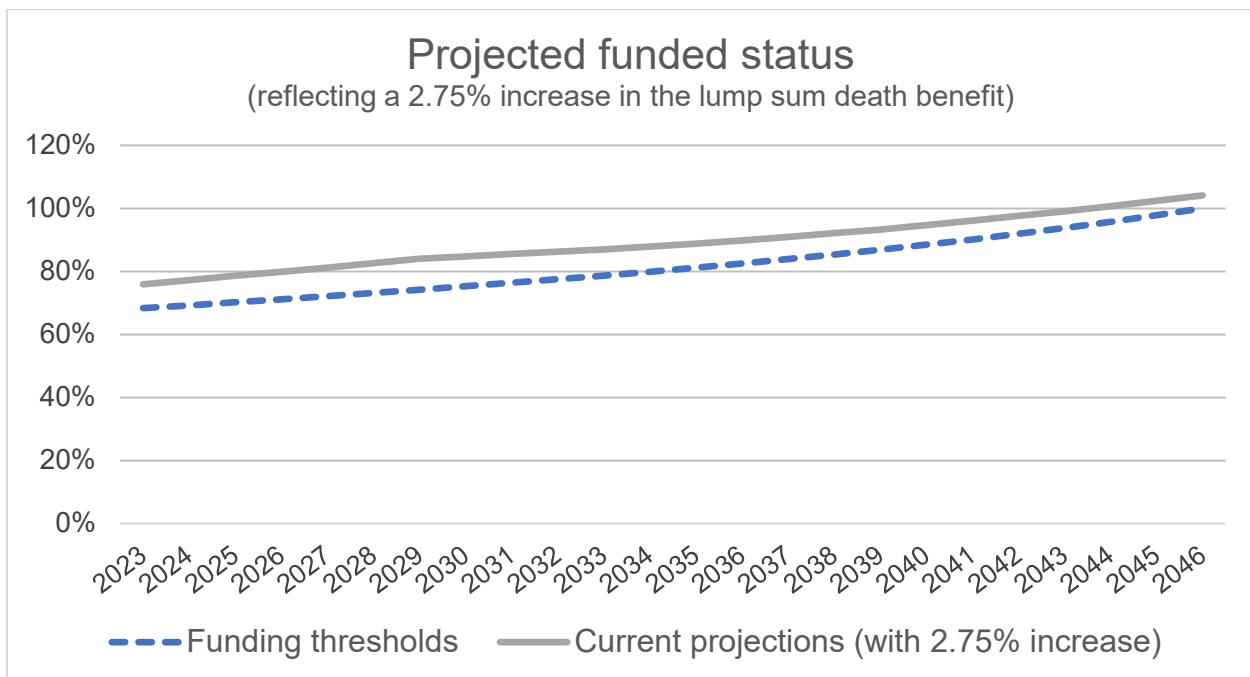
The policy was also revised to include funding thresholds tied to the CalSTRS Funding Plan. Specifically, the policy states that the board will consider increases in the lump sum death benefit amounts only if the following funding thresholds are met at each annual review:

- The funded status for the Defined Benefit Program is projected to be 100% or greater on June 30, 2046.

- In the most recent actuarial valuation, the funded status of the Defined Benefit Program, reflecting the increase under consideration, is greater than the funded status that was projected when the funding plan was adopted.

For this item, an analysis was performed to estimate the cost impact of increasing the lump sum death benefit amounts by 2.75%. The cost analysis was based on the June 30, 2023, actuarial valuation of the Defined Benefit Program and prepared by Milliman, CalSTRS consulting actuary. A copy of the analysis is attached to this agenda item. Page 3 of the cost analysis shows the projected funded status through 2046, reflecting a 2.75% increase, to help determine whether benefit increases should be recommended for adoption by the board.

As shown in the chart below, if the lump sum death benefit amounts were to be increased by 2.75%, the projected funded status for the Defined Benefit Program would remain ahead of the schedule set in the funding plan and meet the funding thresholds set in the board policy.



Increasing the lump sum death benefit would increase the actuarial obligation for the Defined Benefit Program by about \$31 million. As per the rules of the funding plan, increases in the lump sum death benefit above \$5,000 have always been treated as a benefit under the 1990 benefit structure, the responsibility of the state. Therefore, any increases in the lump sum death benefit will increase the state's share of the unfunded actuarial obligation.

The cost analysis also includes an estimated 0.006% of payroll increase in cost through 2046, which assumes the \$31 million increase in the unfunded actuarial obligation is amortized and paid for by June 30, 2046, the full funding target date set in the CalSTRS Funding Plan. The attached cost analysis contains additional information on the cost impact of amortizing increases

in the unfunded actuarial obligation over a shorter period. This information can be found on pages 5 and 6 of the attached cost analysis.

Since all funding thresholds have been met, it is recommended the board increase both lump sum death benefit amounts by 2.75% effective July 1, 2024. Increasing both amounts by 2.75% will increase the lump sum death benefit to \$7,093 for active Coverage A members and retired members and to \$28,372 for active Coverage B members.

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**Strategic Plan Linkage:** Goal 1: Trusted stewards – Ensure a well-governed financially sound trust fund.

**Board Policy Linkage:** Board Governance Manual: Section 7E - Benefits and Services Policy - Specified Interest and Contribution Rates and Lump Sum Death Benefit

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