



## Regular Meeting

### Item Number 5 – Open Session

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

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

**Item Type:** Action

**Date & Time:** May 4, 2022 – 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):**

No PowerPoint

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**PURPOSE**

The purpose of this item is to establish the lump sum death benefit amount paid to beneficiaries of active and retired Defined Benefit Program members for Fiscal Year 2022-23.

**SUMMARY**

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 payment of a \$5,000 death payment 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 payment of a \$5,000 death payment to the beneficiary of an eligible deceased retired member. Section 23851 of the Education Code provides for payment of a \$20,000 death payment 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 death benefit for active Coverage A members and retired members is currently \$6,480, and the current death benefit for active Coverage B members is \$25,920. The board has adjusted the lump-sum death benefit nine times since 1992. The last increase was provided in June 2021 and was effective July 1, 2021. Below is a table showing 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>
Prior to 10/16/92	\$2,000	not applicable
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 present	\$6,480	\$25,920

Existing law provides the board with discretion to adjust the lump-sum death benefit and provides guidelines to help inform the decision-making process. It is within the board’s discretion to make no adjustment. Should the board choose to adjust the lump-sum death benefit amount, the board is required to consider the changes in the California CPI and the most recent actuarial valuation. Existing law does not, however, require changes to mirror the California CPI, nor does it require that all changes be uniform. In other words, the board can elect to adjust the death benefit at a rate less than the full change in the California CPI, and it can adjust one death benefit at a different rate than another death benefit.

The last adjustment to the lump-sum death benefit was adopted by the board in June 2021. At the time, the board increased the death benefit payments to fully reflect the increase in the California CPI between December 2019 and December 2020 to prevent the lump-sum death benefit from being further eroded by inflation. The increase was about 1.7%.

To assist the board, an analysis was performed to estimate the cost impact of increasing the lump-sum death benefit to various levels. The following options were analyzed for this agenda item:

- Fully reflect inflation since 1992.
- A 10% increase in the lump-sum death benefit.
- An increase of 6.5%, the change in the California CPI from December 2020 to December 2021.

The cost analysis was based on the June 30, 2021, 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.

The following table identifies the impact on cost and benefits for the various increases analyzed for this agenda item. Note that the total cost through 2046 assumes any increases in unfunded actuarial obligation will be amortized and paid for by June 30, 2046, a 25-year period effective this fiscal year. As discussed below, any increase in the lump sum death benefit would be funded by state contributions according to the funding plan. The attached cost analysis contains additional information on the cost impact of amortizing increases in unfunded actuarial obligation over a shorter period.

<b>Impact on Benefit Amounts and Costs</b>				
	<b>Active Coverage A or Retired Member Benefit Amounts (Currently \$6,480)</b>	<b>Active Coverage B Member Benefit Amounts (Currently \$25,920)</b>	<b>Increase in Actuarial Obligation</b>	<b>Increase in Cost Through 2046 as % of Payroll</b>
<b>Full CPI Increase (60.1% Increase)</b>	\$10,377	\$41,508	\$595 Million	0.121%
<b>10.0% Increase</b>	\$7,128	\$28,512	\$101 Million	0.020%
<b>6.5% Increase</b>	\$6,903	\$27,612	\$66 Million	0.013%

The 2021 actuarial valuation indicates that the Defined Benefit Program is about 73.0% funded. The adoption of any of the increases presented in this item would not significantly change the funded status of the Defined Benefit Program. However, any increases in cost resulting from higher lump-sum death benefits would ultimately be passed on in the form of higher contributions.

Historically, 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. Any increases in the lump-sum death benefit would be funded through higher state contributions. Although the 2021 actuarial valuation projects that the state’s share of the unfunded actuarial obligation is expected to become a surplus in a couple years, there is no guarantee that an unfunded actuarial obligation won’t reappear, especially when considering the extreme volatility displayed by investment markets once again this fiscal year. Any increase in the lump sum death benefit will be in addition to any future increases that may be necessary for the state supplemental contribution rate. Therefore, staff recommends the board keep the lump-sum death benefits at their existing levels.

**RECOMMENDATION**

Staff recommends the board keep the lump-sum death benefits at their existing levels.