



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 3, 2023 – 10 minutes

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): None

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 2023-24.

Recommendation

Staff recommends the board keep the lump sum death benefit amounts at their existing levels.

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.

For this item, the board is being asked to consider whether to increase both amounts based on the inflation rate of 5.6% seen in California in calendar year 2022. Increasing both amounts by 5.6% would increase the lump sum death benefit to \$7,287 for active Coverage A members and retired members and to \$29,148 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). Below is a table showing a history of the adjustments to the lump sum death benefit levels.

Historical Adjustments to the Lump Sum Death Benefit		
Date of Death	Active Coverage A and Retired Member	Active Coverage 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

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 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%.

When considering whether to increase the lump sum death benefit, the existing board policy does not provide any guidance regarding the basis for adjusting the death benefit. The existing policy pertains only to the timing of the reviews. It requires that the lump sum death benefit be reviewed annually and be based on the results of the most recent actuarial valuation and a recommendation from its consulting actuary.

In January 2023, staff presented to the Benefits and Services committee an [item](#) discussing the lump sum death benefit. At that meeting, the committee provided direction to staff to bring back to the full board proposed revisions to the existing policy stating that future increases should be based on the inflation in California in the previous calendar year and that the board should only consider increases when certain funding thresholds are met.

As indicated in January 2023, staff intends to bring back proposed changes to the existing policy in fiscal year 2023-24 so that the new policy is in place before the board needs to adopt the lump sum death benefit amounts in May 2024.

For this item, the board is being asked to consider whether to increase both amounts based on the inflation rate of 5.6% seen in California in calendar year 2022. Increasing both amounts by 5.6% would increase the lump sum death benefit to \$7,287 for active Coverage A members and retired members and to \$29,148 for active Coverage B members.

To assist the board, an analysis was performed to estimate the cost impact of increasing the lump sum death benefit. The cost analysis was based on the June 30, 2022, 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 two options were analyzed by Milliman for this agenda item:

- An increase of 5.6%, the change in the California CPI from December 2021 to December 2022.
- An increase of 58.7% to fully reflect inflation since 1992.

The following table identifies the impact on cost and benefits for the two different increases analyzed for this agenda item. Note that the increase in cost through 2046 assumes any increases in unfunded actuarial obligation will be amortized and paid for by June 30, 2046, the full funding target date set in the CalSTRS Funding Plan. This information can be found on page 5 of the attached cost analysis. The attached cost analysis contains additional information on the cost impact of amortizing increases in unfunded actuarial obligation over a shorter period.

Impact on Benefit Amounts and Costs				
	Active Coverage A or Retired Member Benefit Amounts (Currently \$6,903)	Active Coverage B Member Benefit Amounts (Currently \$27,612)	Increase in Actuarial Obligation	Increase in Cost Through 2046 as % of Payroll
One Year CPI Increase (5.6% increase)	\$7,287	\$29,148	\$60 Million	0.012%
Full CPI Increase (58.7% increase)	\$10,954	\$43,816	\$632 Million	0.124%

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 and will need to be funded through higher state contributions. If an increase is granted effective July 1, 2023, the increase will be reflected in the June 30, 2023 actuarial valuation and will impact the state contribution rate for 2024-25.

The June 30, 2022 actuarial valuation indicates the Defined Benefit Program is about 74% funded. The Defined Benefit Program is currently ahead of the funding schedule that was anticipated when the funding plan was adopted by the California Legislature in 2014. Despite the negative investment return in 2021-22, the exceptional investment return of 27.2% in fiscal year 2020-21 continues to positively impact projected funding levels. As per the original schedule, the Defined Benefit Program was expected to be 68% funded on June 30, 2022.

Increasing the lump sum death benefit amounts by 5.6% would not significantly change the funded status of the Defined Benefit Program. However, investment markets continue to be volatile. It is unclear whether CalSTRS will be able to earn an investment return of 7% or greater this fiscal year. An investment return below 7% would impact future funding levels and could require future state contribution rate increases if the investment return were to be significantly lower than 7%.

At this time, staff recommends the board keep the lump sum death benefit amounts at their existing levels.

Strategic Plan Linkage: Goal 1: Trusted stewards – Ensure a well-governed financially sound trust fund. (FY 2022-25 Strategic Plan).

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