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Attachment 1, February 18, 2021



950 W. Bannock Street
Suite 430
Boise, ID 83702
USA
Tel +1 208 342 3485
milliman.com

February 10, 2021

Don Drum
Executive Director
Public Employee Retirement System of Idaho
PO Box 83720
Boise, ID 83720

Re: PERSI – Fire and Police Line of Duty Disability Benefits – Part 2

Dear Don:

As requested, we have performed an analysis of the cost of additional disability benefits for a new classification of disabilities, catastrophic disabilities. Per direction from PERSI we have assumed that 50% of safety members who become disabled in the line of duty will fall under this new classification and thus be eligible for the enhanced benefits. Our understanding of the proposed benefit enhancements for catastrophic disabilities are as follows:

- Members would have their benefit calculated to be no less than \$75,000 per year.
 - The benefit would apply to both the disability benefit until age 62, and the retirement benefit commencing at age 62.
 - The benefit floor would be updated every four years (starting fiscal year 2025), based on changes in average retiree benefits of all safety members (assumed to be 3.75% per year).
 - Members receiving the benefit floor would not be eligible for PERSI Cost of Living Adjustments (COLAs). Instead, their benefit would increase as the benefit floor increases.
 - When a catastrophically disabled member (who was married at the time of their disability) dies, if their spouse is still alive, then the spouse will continue to receive an unreduced pension amount for the remainder of their life.
- Members would receive a \$500,000 lump sum benefit (rather than the \$100,000 that line of duty disablements currently receive).

These benefit enhancements would apply to all fire and police members, regardless of hire date, who become catastrophically disabled after the benefit enhancement is passed into law.

The following table summarizes the results of our analysis, showing the cost (as a percent of safety members' pay) of each of the different benefit provisions.

Scenario	Current line of duty lump sum	Cat. disability benefit floor	Cat. disability increased lump sum	Total cost of line of duty + cat. disability benefits	Current line of duty contrib. rate	Increase in contrib. rate
No new benefits	0.05%	N/A	N/A	0.05%	0.04%	0.01%
\$75k floor + \$500k LS	0.05%	0.22%	0.09%	0.36%	0.04%	0.32%

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Cost of the enhanced line of duty disability pension benefit

If the \$75,000 benefit floor enhancement were implemented effective July 1, 2020, we estimate that the July 1, 2020 Normal Cost Rate (NCR) for safety members would increase by 0.203% of payroll. In addition, the July 1, 2020, safety members' UAAL amortization payment would increase by 0.015% of payroll. **This gives an estimated total ongoing cost of 0.218% of safety members' pay for the this proposed new \$75,000 benefit floor**, which rounds to a 0.22% contribution for safety members.

Note that this cost analysis is based on the assumption discussed in our December 4, 2020 letter, that 25% of safety member disablements are fire/police members becoming disabled in the line of duty, as well as the PERSI chosen assumption that 50% of line of duty disablements would meet the proposed criteria for catastrophic disabilities and thus would be eligible for this enhancement.

Note that this means that we are assuming that catastrophic disabilities will follow the same age distribution as total disabilities amongst the safety population (see our December 4, 2020 letter for more discussion on this). If catastrophic disabilities don't follow this distribution, then the cost will vary from what we've calculated here. For example, if catastrophic disabilities are more spread amongst members of all ages then the cost would likely be higher as this benefit enhancement is more expensive for catastrophic disabilities of younger members.

Cost of increased lump sum benefit

In our December 4, 2020 letter we stated that, as of our July 1, 2020 valuation, the existing \$100,000 lump sum benefit paid to fire/police members who become disabled in the line of duty had a Normal Cost Rate (NCR) of about 0.040% of safety members' pay and an Unfunded Actuarial Accrued Liability (UAAL) amortization payment of about 0.005% of safety members' pay. This gives an estimated total ongoing cost of 0.045% of safety members' pay for the \$100,000 lump sum benefit, which rounds to a 0.05% contribution for safety members.

This cost scales proportionally with the size of the lump sum benefit as well as the incidence rate. Therefore, if half of the recipients of the \$100,000 lump sum are instead getting a \$500,000 lump sum due to the new catastrophic disability benefit, the cost would increase by $50\% \times (\$500,000 - \$100,000) \div \$100,000 = 2.00$. **That gives us an estimated additional ongoing cost for a \$500,000 catastrophic disability lump sum benefit of 0.090% of safety members' pay**, which rounds to a 0.09% contribution for safety members.

Data, Assumptions, Methods, and Plan Provisions

This cost analysis is based on the assumption discussed in our December 4, 2020 letter, that 25% of safety member disablements are fire/police members becoming disabled in the line of duty, as well as the PERSI chosen assumption that 50% of line of duty disablements would meet the proposed criteria for catastrophic disabilities and thus would be eligible for this enhancement. If catastrophic disabilities are more common than assumed, then the costs will be higher than stated in this analysis.

For calculating the UAAL amortization payments, we have amortized the UAAL over the 21-year amortization period from the July 1, 2020 valuation.

We are assuming that any changes to disability benefits will not alter participant behavior. If more participants claim line of duty disablement as a result of these benefit increases, then the costs may be higher than estimated above.

We have assumed that the March 1, 2021 and all future Cost of Living Adjustments (COLAs) are 1.00% per year.

Other than described above, all assumptions, methods, and data used in this analysis are those described in the July 1, 2020 Actuarial Valuation Report.

Certification

Milliman has developed certain models to estimate the values included in this letter. The intent of the models was to estimate pension liabilities and costs. We have reviewed the models, including their inputs, calculations, and outputs for consistency, reasonableness, and appropriateness to the intended purpose and in compliance with generally accepted actuarial practice and relevant actuarial standards of practice (ASOP).

In preparing this letter and using our models, we relied, without audit, on information (some oral and some in writing) supplied by PERSI's staff. This information includes, but is not limited to, statutory provisions, member census data, and financial information. We found this information to be reasonably consistent and comparable with data used for other purposes. The analysis results depend on the integrity of this information. If any of this information is inaccurate or incomplete our results may be different and our calculations may need to be revised.

Actuarial Standard of Practice No. 51 (ASOP 51) directs actuaries to identify significant risks inherent in pension actuarial calculations or communications. Probably the most notable risk in pension funding is investment risk – the potential for plan assets to grow at a rate lower than assumed in the actuarial valuation. If investment performance is worse than expected, then additional funding may be required. Another risk is demographic risk – the potential for members experience to differ from our actuarial assumptions, including (but not limited to) line of duty disability rates. If member experience is different than anticipated by the actuarial assumptions, additional System funding may be required.

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The consultants who worked on this assignment are retirement actuaries. Milliman's advice is not intended to be a substitute for qualified legal or accounting counsel.

The signing actuary is independent of the plan sponsor. I am not aware of any relationship that would impair the objectivity of my work.

On the basis of the foregoing, I hereby certify that, to the best of my knowledge and belief, this report is complete and accurate and has been prepared in accordance with generally recognized and accepted actuarial principles and practices which are consistent with the principles prescribed by the Actuarial Standards Board and the Code of Professional Conduct and Qualification Standards for Actuaries Issuing Statements of Actuarial Opinion in the United States of the American Academy of Actuaries. I am a member

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Mr. Don Drum
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of the American Academy of Actuaries and meet the Qualification Standards to render the actuarial opinion contained herein.

Please let us know if you have any questions.

Sincerely,

A handwritten signature in black ink, appearing to read "Robert L. Schmidt". The signature is fluid and cursive, with a long horizontal stroke at the end.

Robert L. Schmidt, F.S.A., M.A.A.A.
Principal and Consulting Actuary

RLS/bl/gb/rc

cc: Mike Hampton

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