

Group Insurance Board State of Wisconsin Department of Employee Trust Funds

Report on Selected Internal Controls, Policies and
Procedures for the Group Life Insurance Program

Years Ended December 31, 2023 and 2022



WIPFLI

Executive Summary

November 15, 2024

State of Wisconsin – Department of Employee Trust Funds
Madison, Wisconsin

In accordance with our proposal dated November 28, 2018, and the contract dated April 29, 2019 and amended November 10, 2021 and April 8, 2024, and based on discussions with the State of Wisconsin Department of Employee Trust Funds (ETF) management, we have completed procedures to summarize certain controls of the administration of the Group Life Insurance Program (GLIP) by Minnesota Life Insurance Company dba Securian Financial (Securian) on behalf of ETF. The objective of this engagement was to perform reviews of certain internal controls related to the GLIP and certain Securian policies. This engagement was not intended to be, and was not, considered an audit or fraud examination because of the restricted nature and limited scope of the procedures performed.

Overview

To achieve the objectives of this engagement, we completed interviews and discussions with key staff at Securian and ETF and reviewed existing controls and processes and risk documentation.

Results of our observations and recommendations relied on, and are dependent on, the completeness and accuracy of information provided by Securian and ETF without independent verification.

Reporting Results of Procedures

A summary of the results of the control procedures is included in the Objectives, Procedures and Results section of this report.

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This engagement was performed in accordance with the Statement on Standards for Consulting Services as issued by the American Institute of Certified Public Accountants. This information is intended solely for the information and use of ETF in relation to the results of procedures performed pursuant to the proposal and contract. It is not intended to be, and should not be, reproduced, published, or distributed to anyone other than the specified party or for any other purpose without the prior written consent of Wipfli LLP (“Wipfli”).



Wipfli LLP

Review of Internal Controls, Policies and Procedures

Objectives, Procedures, and Results

Interest Crediting Reserves Calculation Review

Objectives

Obtain an understanding of how the interest crediting reserve is calculated.

Procedures

1. Discuss the policies and calculation with appropriate personnel.
2. Recalculate the formulas provided.
3. Compare calculation with requirements of the contract.

Results

Wipfli reviewed the administrative agreement which requires Securian to credit interest on the contingent liability reserve, the premium deposit fund, the stabilization reserve and the disability claim reserves in accordance with the investment year interest crediting method. Interest credits and charges on cash flow shall be calculated for each policy year. We discussed the interest crediting reserve calculation with Kjirsten Elsner, Relationship Management Director, Employee Benefit Solutions. The interest is credited on the contingent liability reserve, the premium deposit fund, the stabilization reserve, and the disability claim reserves using the year interest crediting method, which is consistent with the administrative agreement. Wipfli observed Securian's interest crediting methodology. At the end of each year, Securian establishes a rate which represents the interest earned on the general account, less investment expenses. Separate interest rates are established for invested assets in each of the ten most recent calendar years, and a single interest rate is established for all assets originating ten years or more before the most recent calendar year.

We observed the interest crediting calculation, which is broken out by state-active, state-retiree, local-active, and local-retiree groups. All amounts used in the calculations, except the post-age 65 claims paid, were agreed to the 2022 and 2023 State of Wisconsin Financial Reports. The post-age 65 claims paid amount used in the calculation differed by approximately (\$954,000) or (4.10%) and (\$595,000) or (4.27%) for 2022 state and local retirees and \$269,000 or 1.11% and \$268,000 or 1.84% for 2023 state and local retirees. This is due to the financial reporting balance including the change in pending claims from the prior year to the current year, while the interest crediting calculation considers the timing of claims paid. The ending interest crediting rate tied without exception.

Accordingly, the Securian interest crediting reserves are deemed compliant with the administrative contract.

Review of Internal Controls, Policies and Procedures

Objectives, Procedures, and Results

Policy Year Report

Objectives

Obtain an understanding of how the policy year reports are compiled.

Procedures

1. Discuss the policies and perform a walkthrough with appropriate personnel.
2. Trace and agree amounts reported in the Financial Experience sections to supporting documentation.
3. Trace and agree reserve balances at December 31, 2022 and December 31, 2023 to supporting documentation.
4. Compare processes in place with requirements of the contract.

Results

We discussed the policy year report compilation process with Neil Ballis, Audit Senior Consultant.

Development and issuance of policy year experience reports is handled by Securian's Experience Reporting Team. The reports are developed in compliance with agreed upon parameters and contractual provisions outlined in the policy, master services or administrative agreements. The data utilized is sourced via established reporting routines directly from the Company's administrative and claims platforms. Internal controls have been implemented by management to support and confirm the accuracy of these reports. The key controls over this process include:

- Status Monitoring:
Policies requiring annual policy year analysis and reporting are tracked and progress is actively monitored by management to ensure all reports are completed and completed timely.
- Quality Assurance Reviews:
Experience report calculations are reviewed for accuracy. The level of review is based upon the plan type and experience level of the associate preparing the report.

Securian's auditing department provides an independent appraisal function and leverages repeatable processes and procedures to review company controls, ensuring they are operating as intended. Internal audit analysis may include (but is not limited to) the following: QA processes, separation of duties, policies and procedures to guide operating activities, and information technology.

Review of Internal Controls, Policies and Procedures

Objectives, Procedures, and Results

Policy Year Report (Cont.)

Wipfli discussed the related audit procedures with Neil Ballis. Securian has Experience Reporting related controls integrated into Minnesota Life's Model Audit Rule compliance program. This program is managed and run by the Controller Department. Management of Securian signed off on these controls as effective for both 2022 and 2023. The Minnesota Department of Commerce, the domicile state regulator, is the audience for the Model Audit Rule certification. The Department also routinely examines Securian's solvency and compliance with Model Audit Rule. The Department's most recent solvency examination was conducted covering the five-year period ended 12/31/2022 and the formal report was issued in 2024, with no findings noted as a result of this examination. The year 2023 is currently under the next five-year cycle.

Internal Audit also routinely reviews the process and conducts verification steps surrounding the review, testing and certification of these controls and the program. There have been no significant audit findings during 2022-2023 related to the Company's Model Audit Rule Certification program.

We agreed certain data reported in the Financial Experience and Reserve Balances in the Policy Year Reports to supporting reports and documentation provided by Securian as follows:

- State of Wisconsin Financial Report 2023 and 2022 – page 15
 - Pre-Age 65 premiums were traced and agreed to the "Premium Without Aviation Split" report, which is included in the Wisconsin Premium Audit Report.
 - Total claim charges, excluding pool charges, were traced and agreed to supporting claim detail summary reports. Pool charges were traced and agreed to the annuitant pooling charge calculation, which is based on the life step rate table.
 - Tax and expense charges were traced and agreed to the supporting calculations. Expense rates were 3.61% for January – March 2022, 3.48% for April – December 2022 and January – March 2023, and 3.30% for April – December 2023. Tax charges were calculated based on a 2% premium rate.
- State of Wisconsin Financial Report 2023 and 2022 – page 16
 - Premium deposit fund beginning balances were traced and agreed to the prior year report ending balance.
 - Premium Deposit Fund – Contributions for active employees were traced and agreed to the "Premium Without Aviation Split" report. It was noted this report pulled amounts from the Wisconsin Premium Audit Reports.
 - Post-age 65 death claims were traced and agreed to the listing of total claims incurred.
 - Postretirement life insurance value withdrawals were traced and agreed to the deposits for new conversion total amounts on the care premiums report.
- State of Wisconsin Financial Report 2023 and 2022 – page 43
 - Premium Pre-Age 65 contributions were traced and agreed to the Annuitant Pooling Charge Calculation report.
 - Total claim charges, excluding pool charges, were traced and agreed to supporting claim detail summary reports. Pool charges were traced and agreed to the annuitant pooling charge calculation, which is based on the life step rate table.
 - Tax and expense charges were traced and agreed to the supporting calculations. Expense rates were 8.05% for 2022 and 2023. Tax charges were calculated based on a 2% premium rate plus 21% of the taxable difference.

Review of Internal Controls, Policies and Procedures

Objectives, Procedures, and Results

Policy Year Report (Cont.)

- State of Wisconsin Financial Report 2023 and 2022 – page 44
 - Premium deposit fund beginning balances were traced and agreed to the prior year report ending balance.
 - Contributions for active employees were traced and agreed to the Wisconsin Premium Audit Report.
 - Contingent liability reserve beginning balances were traced and agreed to the prior year report ending balance.
 - Post-age 65 death claims were traced and agreed to the listing of total claims incurred.

We identified no exceptions in our testing related to Securian's compliance with the administrative agreement as it relates to compiling the Policy Year Report.