

**Deloitte.**

**State of Wisconsin  
Duty Disability Program**

**January 1, 2013 Results and Contribution Policy Changes**

June 20, 2013

## Valuation Results (\$Millions)

	1/1/2012	1/1/2013
<b>Actuarial Accrued Liability (AAL)</b>		
<b>Actives</b>	\$ 118	\$ 98
<b>Disableds</b>	<u>359</u>	<u>409</u>
<b>Total</b>	\$ 477	\$ 507
<b>Actuarial Value of Assets (AVA)</b>	<u>(449)</u>	<u>(490)</u>
<b>Unfunded Actuarial Accrued Liability (UAAL)</b>	<u>\$ 28</u>	<u>\$ 17</u>
<b>Funded Ratio</b>	94%	97%
<b>Annual Required Contribution (ARC)</b>	\$ 48	\$ 50
<b>Market Value of Assets (MVA)</b>	\$ 427	\$ 510

The increase in AAL was due to changes in demographic assumptions as a result of the most recent WRS experience study, new duty disability rates, and a change to the offset assumption for those currently disabled. The AVA is less than the MVA as past gains haven't yet been fully recognized.

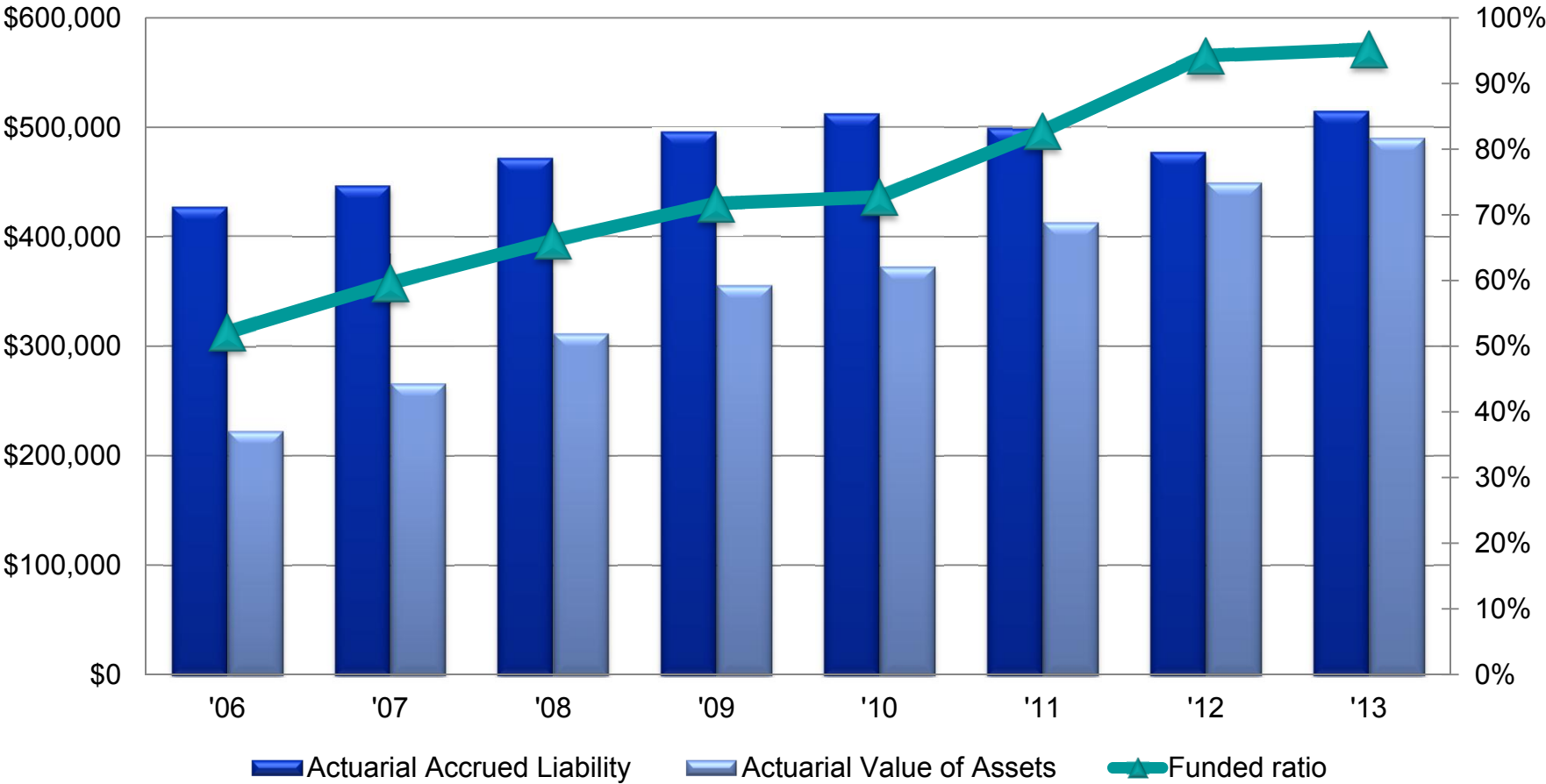
## Current Contribution Policy

The program is funded entirely by employer contributions, which vary by experience, as shown in the table below.

% of Covered Payroll	Applicable To
1.9	Groups with claims payout during the prior year of less than or equal to 0.5% of payroll.
2.4	Groups with one claim in which the payout during the prior year exceeded 0.5% of payroll, and groups with two or more claims in which the payout was more than 0.5% but less than 1.0% of payroll.
3.6	Groups with two or more claims in which the payout during the prior year was more than 1.0% but less than 2.0% of payroll.
5.4	Groups with two or more claims in which the payout during the prior year was more than 2.0% and less than 3.0% of payroll.
6.6	Groups with two or more claims in which the payout exceeded 3.0% but was less than 6.6% of payroll during the prior year.
6.6 + ½ of claims over 6.6%	Groups with two or more claims in which the payout exceeded 6.6% of payroll during the prior year.

# Historical Funded Percentage

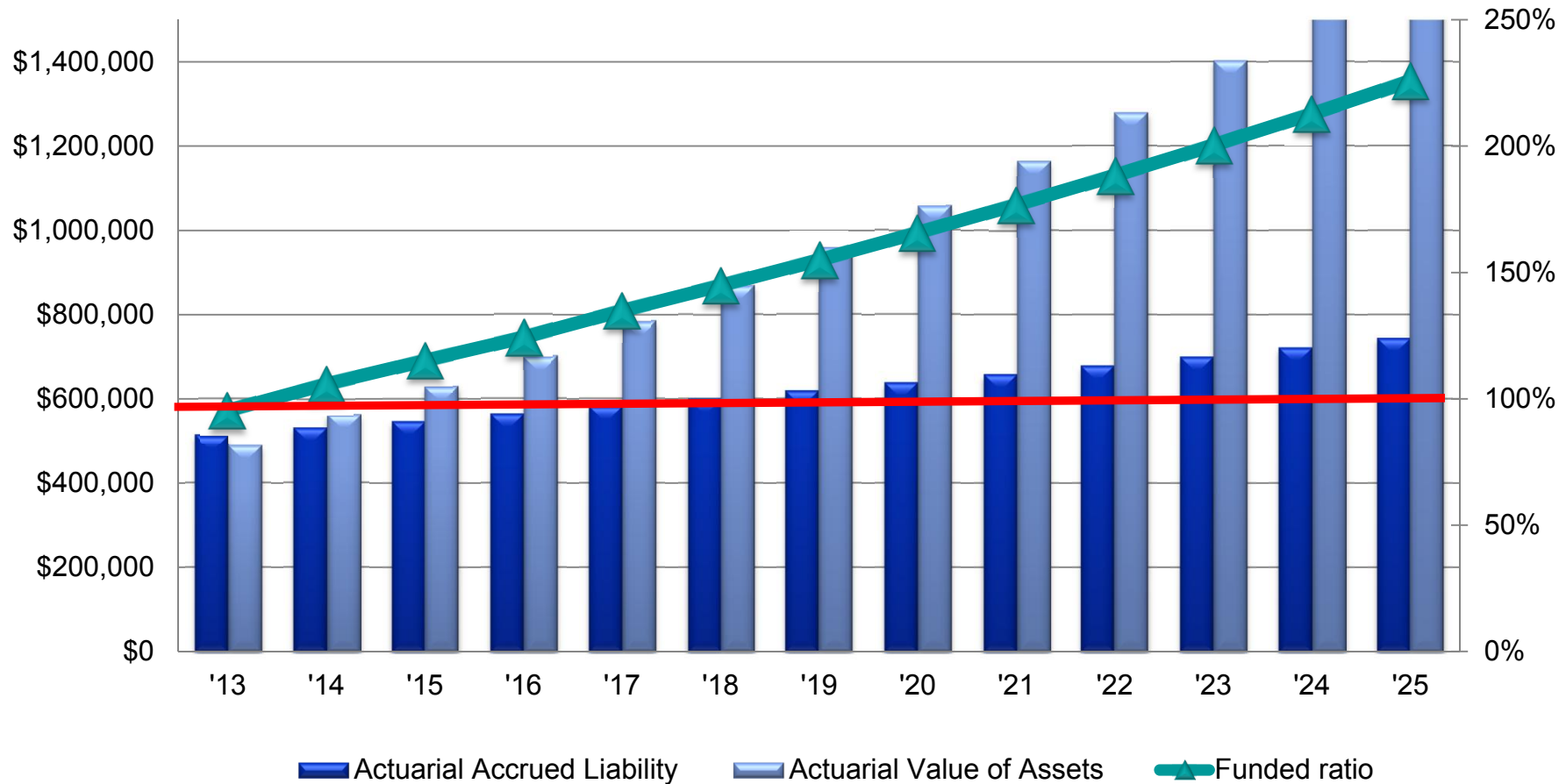
## Assets and Liabilities (Results are in thousands)



**GASB 43/45 implemented in 2006. Amortization basis set to match the contribution policy in place at that time with a target full funding date of Jan2014.**

# Projected Results under current contribution policy

## Assets and Liabilities as of January 1, 2013 (Results are in thousands)



**The Annual Required Contribution is projected to decrease from \$50 million in 2013 to \$9 million in 2014. Once the plan is fully funded, ongoing costs will only be due to Normal Cost – the attribution of the benefit across employees' careers.**

# Considerations for New Contribution Policy

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- The selected contribution policy is based on sound actuarial practices
  - Allows automatic changes to the contribution levels as necessary
  - Protects the funded status
  - Consistent with funding for other defined benefit programs (i.e., pensions)
  - Consistent with the new GASB standards and the draft recommendations issued by California Actuarial Advisory Panel (CAAP)
- The new policy adjusts for incidence of disability and allows the State to protect the interests of smaller employers
- Almost all employers get relief from the current funding levels of 1.9% to 6.6%+ down to 0.25% to 6.6%
- Employers who have higher claims experience will continue to be required to contribute a larger amount as a percentage of payroll than employers with low or no claims

# Contribution Policy for 2014 and Beyond

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## Determination of Employer Contribution:

- Employer pays the lower of the contribution rates shown in the table on the next slide determined by
  - claims as a % of payroll, or
  - number of claims
- Final contribution rate is based on the table plus the “Actuarial Adjustment Rate”
  - AAR will be adjusted annually as part of the valuation process
  - Determined as  $(ARC - \text{Expected Revenue}) \div \text{Total Payroll}$
  - The estimated AAR for 2014 is -0.06%
  - This is projected to result in total contributions for 2014 of \$9 million (compared to \$54 million in 2013)

## Methodology:

- Categories have a constant range (1.5%)
- Contributions steadily increase by an additional  $\frac{1}{4}$  % for each level (+.25%, +.50%, +.75%, etc.), with an upper limit unchanged from the current maximum of 6.6%
- All employers pay for insurance coverage, even if they have no prior claims (unchanged from current policy)
- AAR allows for easy annual adjustments that applies to all employers

## Recommended Contribution Policy

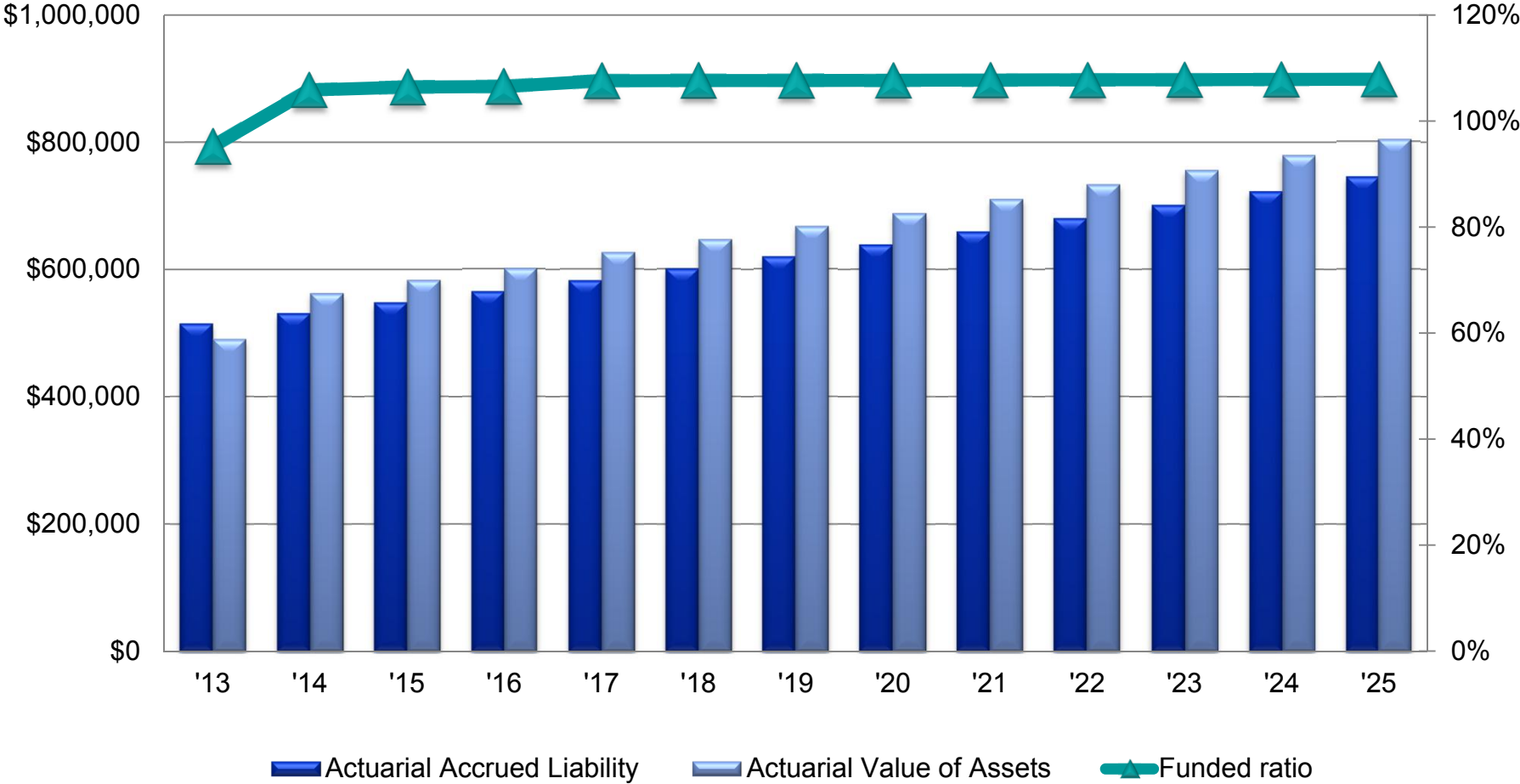
Contribution* (as a % of Covered Payroll)	Claims as a % of Payroll	Number of Claims
0.25%	≤ 1.5%	1
0.50%	> 1.5% but ≤ 3.0%	2
1.00%	> 3.0% but ≤ 4.5%	3
1.75%	> 4.5% but ≤ 6.0%	4
2.75%	> 6.0% but ≤ 7.5%	5
4.00%	> 7.5% but ≤ 9.0%	6
5.50%	> 9.0% but ≤ 10.5%	7
6.60%	Claims > 10.5%	8 or more

\* Contribution shown before Actuarial Adjustment Rate (for FY14, AAR estimated to be -0.06%)



# Projected results under recommended contribution policy

**Assets and Liabilities as of January 1, 2013**  
(Results are in thousands)



# Projection – Assumptions

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## Data Underlying Projections

- All projections throughout our analysis are based on assumptions, data, plan provisions, and methods used in the January 1, 2013 actuarial valuation