STATE OF WISCONSIN
Department of Employee Trust Funds
Robert J. Conlin
SECRETARY

Wisconsin Department
of Employee Trust Funds
PO Box 7931
Madison WI 53707-7931

1-877-533-5020 (toll free)
Fax 608-267-4549
etf.wi.gov

Correspondence Memorandum

Date: May 21, 2019

To: Employee Trust Funds Board

From: Cindy Klimke-Armatoski, CPA
Chief Trust Finance Officer

Subject: December 31, 2018 Duty Disability Actuarial Valuation

ETF requests the Employee Trust Funds Board (Board) approve the Duty Disability Insurance Program Actuarial Valuation as of December 31, 2018 and determine the total contribution amount for 2020.

Milliman has completed the December 31, 2018, actuarial valuation of the Duty Disability Insurance Program. The results of the valuation are as follows:

	2017	**2018**
Actuarial Liability	$464,780,673	$454,585,247
Reserve Balance	$637,955,774	$641,995,178
Surplus / (Deficit)	$173,175,101	$187,409,931
Funded Ratio	137%	141%

Plan funding increased from 137% to 141% in the last year. This was primarily the result of a decrease in the actuarial liability due to changes in assumptions as described in the valuation report. The program continues to be in a healthy financial position with the funding level above the target range outlined in (ETF | 6.20.19 | 4D).

Duty Disability contribution rates are based on an experience rated tier schedule. While the base contribution rate tier structure remains constant, the actual contribution rates for each tier are adjusted to meet the plan's current funding needs.

With the increased funding level, it would be reasonable to reduce rates as outlined in the valuation report. Scenario 1 shows a financial projection if rates were reduced by approximately 50% from the current rates. Scenario 2 shows a financial projection if rates were reduced by approximately 75% from the current rates. Scenario 3 doesn't change contribution rates but uses a lower investment return assumption. This scenario was

Reviewed and approved by Robert J. Conlin, Secretary
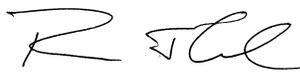
Electronically Signed 6/10/19

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included to show the impact investment income can have on the funding level. Scenario 4 shows the projected results of a premium holiday.

If the Board approves 2020 contributions of $3.8 million (approximately 50% lower than 2019 contributions) as noted in scenario 1, each experience tier Base Contribution Rate would be reduced by 66%. The contribution rate schedule for 2020 would then be:

Tier	Base Contribution Rate	Actuarial Adjustment Rate	2020 Contribution Rate	2019 Contribution Rate	# of Employers
1	0.25%	-0.17%	0.09%	0.17%	408
2	0.50%	-0.33%	0.17%	0.34%	43
3	1.00%	-0.66%	0.34%	0.67%	29
4	1.75%	-1.16%	0.60%	1.17%	10
5	2.75%	-1.82%	0.94%	1.84%	5
6	4.00%	-2.64%	1.36%	2.68%	4
7	5.50%	-3.63%	1.87%	3.69%	3
8	6.60%	-4.36%	2.24%	4.42%	1

The funded ratio, as of December 31, 2028, under this approach is projected to be 153%.

If the Board approves 2020 contributions of $1.9 million (approximately 75% lower than 2019 contributions) as noted in scenario 2, each experience tier Base Contribution Rate would be reduced by 83%. The contribution rate schedule for 2020 would then be:

Tier	Base Contribution Rate	Actuarial Adjustment Rate	2020 Contribution Rate	2019 Contribution Rate	# of Employers
1	0.25%	-0.21%	0.04%	0.17%	408
2	0.50%	-0.42%	0.09%	0.34%	43
3	1.00%	-0.83%	0.17%	0.67%	29
4	1.75%	-1.45%	0.30%	1.17%	10
5	2.75%	-2.28%	0.47%	1.84%	5
6	4.00%	-3.32%	0.68%	2.68%	4
7	5.50%	-4.57%	0.94%	3.69%	3
8	6.60%	-5.48%	1.12%	4.42%	1

The funded ratio, as of December 31, 2028, under this approach is projected to be 148%.

As noted in the actuarial valuation report, these projections are based on several assumptions. It is nearly certain that actual experience will vary from these assumptions and the resulting funded ratio will be different than what has been projected.

Actuaries from Milliman will be at the Board meeting to discuss this report and answer questions.

Attachment: Actuarial Valuation of The Duty Disability Insurance Program as of December 31, 2018