

Duty Disability Reserve Policy

Item 4D: Employee Trust Funds Board

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Action Item

- **Recommendation to approve the Duty Disability Program Reserve Policy.**
- **Recommendation to approve a fund reserve target of 130%, establishing a reserve fund range of 125% to 135% of the total actuarial liability for the Duty Disability program.**

Duty Disability

- Lifetime income replacement program payable to protective occupation participants
 - 80% of salary - monthly
 - Work-related disabilities
 - Unable to perform protective occupation
- Contributions (premiums) paid by employers
 - Experience tiers

Duty Disability Financials

Duty Disability Fund Balance/Liabilities-2018	
Fund Balance	\$641,995,178
Actuarial Liability	\$454,585,247
Surplus	\$187,409,931
Reserve % of Liability	141%

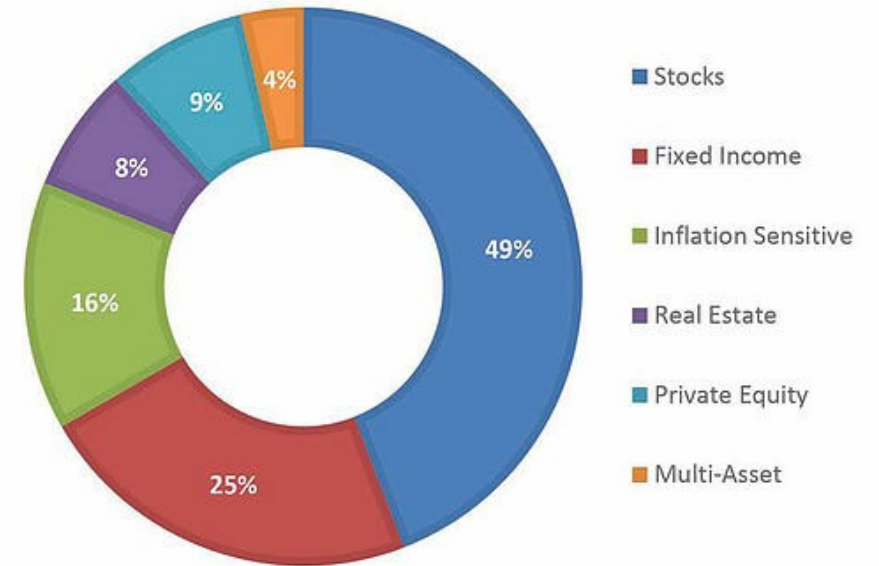
Surplus and Plan Funding

- Duty Disability liabilities reflect expected future benefits and expenses
- Surplus provides funding for unexpected losses
 - Adverse claim experience
 - Unfavorable investment returns
- Duty Disability experience can be volatile
 - Lifetime benefit period
 - Survivor benefits
 - Annual increases
 - Investment returns
- Surplus can help mitigate risk of plan becoming underfunded

WRS Core Fund Portfolio

- Relatively high investment returns due to Core Fund asset allocation
- Duty Disability liabilities reflect 7.0% interest rate assumption
- Target surplus should take into consideration asset risk
 - Higher target surplus when liabilities backed by high-risk assets
- If liabilities backed by less risky assets, target surplus would be lower but liability would be higher
 - Less investment income to fund future benefits and expenses

2019 CORE FUND ASSET ALLOCATION TARGETS*



Totals exceed 100% due to SWIB's overall leverage of Core Fund assets.

*SWIB's actual asset allocation may vary up to +/- 6% from the targets shown above.

Target Surplus Calculation

- Based on NAIC Risk Based Capital (RBC) formula and December 31, 2018 valuation date

Surplus Component	Value
C1: Asset Risk	\$86,707,672
C2: Insurance Risk	\$23,272,574
<u>C3: Operational Risk</u>	<u>\$50,935</u>
Subtotal $((C1^2 + C2^2)^{1/2} + C4)$	\$89,827,508
<u>Additional Margin (50% of Subtotal)</u>	<u>\$44,913,754</u>
Estimated Target Surplus	\$134,741,262

- Target surplus amount (\$134.7 million) is roughly 30% of Duty Disability liability (\$454.6 million)

Other Surplus Considerations

- Excess surplus can be viewed as a positive plan attribute
 - Better than deficit
- Duty Disability plan is exposed to multiple risk factors and volatility
 - Asset risk
 - Insurance risk
 - Catastrophic risk
- Surplus can help mitigate risk
- For comparison, disability programs in some US states are underfunded
 - These states have adopted pay-as-you-go funding mechanisms
 - Employee contributions fund benefit payments in the following year

Duty Disability Reserve Policy

Objective

- Provide the Board with guidance in establishing program reserve target
 - Sufficient to fund plan liabilities
 - Maintain fiscal integrity
 - Maintain contribution rate adequacy and stability

Duty Disability Reserve Policy

Reserve Target

- Percentage of actuarial liability
- Comprised of liability amount (100%) plus desired surplus (Targeted amount)
- Range $\pm 5\%$

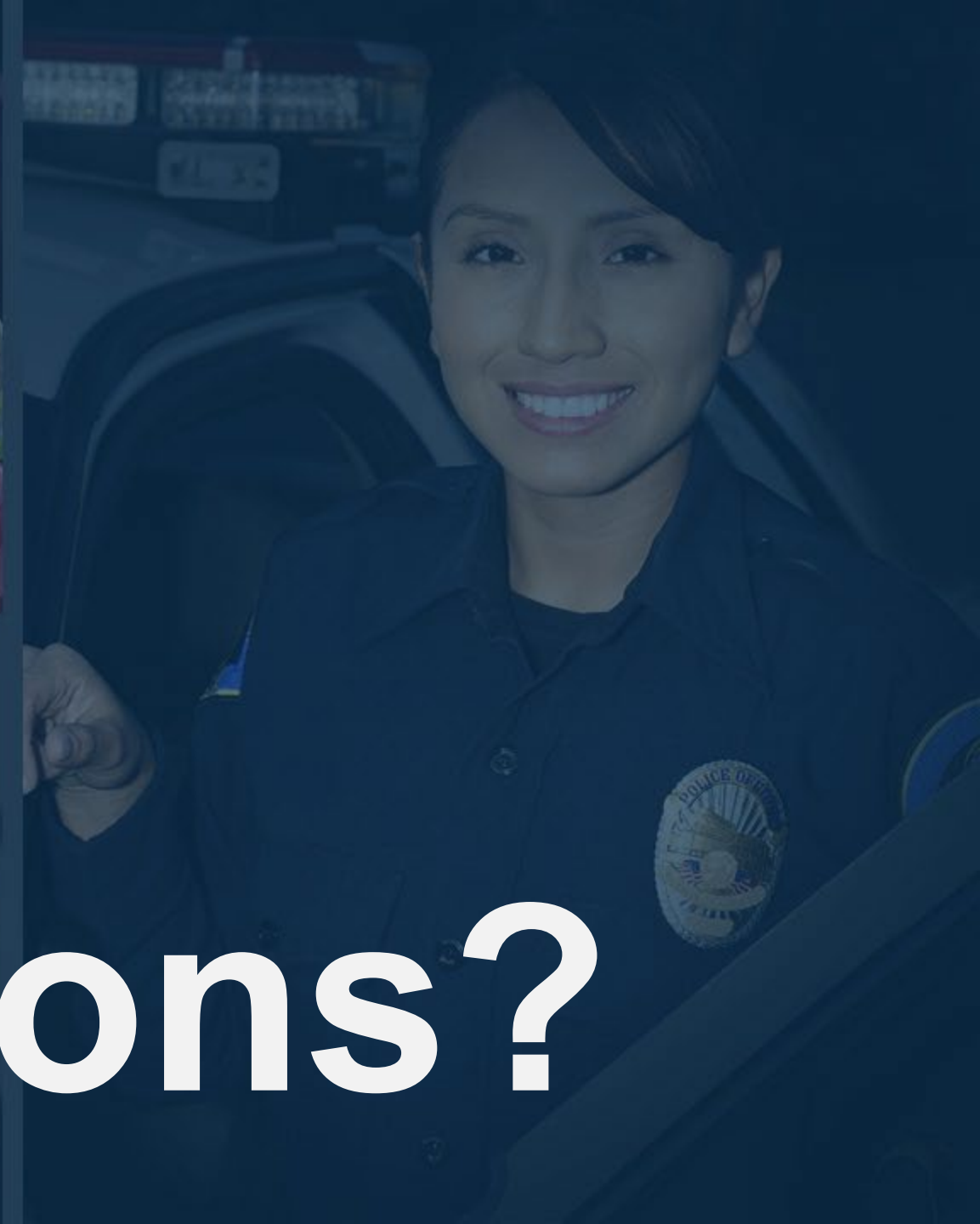
Rate adjustments can be spread over multiple years.

Flexibility to set contribution rates outside of range.

Policy reviewed every three years.

Action Item

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Questions?

Thank you



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