



121 Middle Street, Suite 401
Portland, ME 04101-4156
USA

Tel +1 207 772 0046
Fax +1 207 772 7512

milliman.com

August 27, 2019

Ms. Cindy Klimke, CPA
Chief Trust Finance Officer
State of Wisconsin
Department of Employee Trust Funds
4822 Madison Yards Way
Madison, Wisconsin 53705-9100

RE: Response to Segal Audit Report on Duty Disability Valuation

Dear Cindy,

This letter contains Milliman's response to the audit report produced by Segal for the Duty Disability Insurance plan. The audit report contains observations related to Milliman's valuation methods and funding analyses, based on the December 31, 2018 valuation of the Duty Disability plan.

Our responses to the comments and recommendations from Segal's audit report are provided below:

1. Segal recommends using a different claim termination basis for estimating future benefit payments, which would be based on different tables and assumptions:

"Segal recommends that Milliman estimate the claims termination rates by blending the 2018 WRS study of mortality for healthy retirees and mortality for disabled lives. Additionally, we suggest that Milliman use a mortality improvement scale. Segal recommends that the assumptions are explicit about the use or non-use of a mortality projection scale."

We believe the current claim termination rate assumptions, as adjusted by Milliman to reflect ETF experience, provides a reasonable basis for the valuation, for the following reasons:

- We adjust the mortality rates for disabled lives from the 2015 WRS Experience Study to reflect specific trends in Duty Disability claim terminations. The adjusted rates are different than the rates from the 2015 study, and produce reasonable results when we back-test the assumptions.
- We test our claim termination rate assumptions annually by performing retrospective runoff studies. The results from these tests, shown in our valuation reports, indicate that the rates are a reasonable basis for projecting Duty Disability claims. If the results from these tests indicated a mismatch between actual and expected experience, we would modify the assumptions accordingly.

- While we are not opposed to using mortality rates from the 2018 WRS Experience Study as the starting point for developing claim termination rate assumptions, we would then develop adjustment factors to apply to the rates from that table to reflect specific trends in Duty Disability claim experience. The result would be an assumption essentially identical to the one we currently use, with an immaterial impact on plan liabilities.

Although we do not currently include mortality improvement assumptions in our claim termination basis, we will study whether there has been material mortality improvement in prior years and will modify our future valuation assumptions accordingly.

2. Segal recommends additional documentation of the valuation assumptions:

“The source of several of the assumptions should be documented by Milliman every 3 years, via email or memorandum. These include the application of the offset assumptions and the claim termination assumptions.”

We are happy to provide additional documentation of our assumptions in a memorandum to ETF every three years, beginning with the 12/31/2019 valuation.

3. Segal recommends documenting that the investment income in our financial projections reflects smoothed values:

“The asset smoothing method should be disclosed”

We will disclose the asset smoothing method in the valuation reports going forward.

General

The information in this letter is intended for the internal use of Wisconsin ETF and may not be distributed to other parties without the written consent of Milliman. In preparing this information, we have relied on data provided to us by Wisconsin ETF, including the Duty Disability audit report from Segal. To the extent this information is inaccurate or incomplete, the results of our work may be materially affected.

I, Paul Correia, am a consulting actuary with Milliman and a member of the American Academy of Actuaries. I meet the qualification standards of the Academy to render the actuarial opinion contained herein.

Please let me know if you have any questions. Thank you.

Sincerely,



Paul Correia, FSA, MAAA
Principal & Consulting Actuary

cc: Jim Guidry, Gina Fischer, Erin Esser, Megan Jeffers (ETF), Dan Skwire (Milliman)