



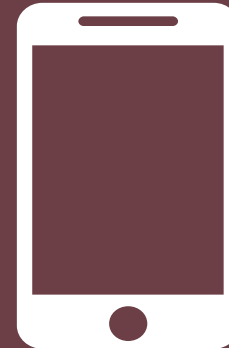
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## Meeting Materials

- Available at [etf.wi.gov](http://etf.wi.gov)



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# Welcome to the Employee Trust Funds Board

June 17, 2021



# Announcements

Item 1 – No Memo



# Consideration of Open Minutes of March 25, 2021



Item 2 - Memo Only







# Committee Reports

## Item 3 - Employee Trust Funds Board



Executive Committee – Wayne Koessl

Audit Committee – Bill Ford

Budget and Operations Committee – Roberta Rasmus



# Wisconsin Retirement System 40<sup>th</sup> Annual Valuation of Active Lives and Gain/Loss Analysis – December 31, 2020



Item 4A – Employee Trust Funds Board

Gabriel Roeder Smith & Company  
Brian Murphy, Senior Consultant  
Jim Anderson, Senior Consultant  
Rich Koch, Senior Consultant



# Summary of December 31, 2020 Valuation Results

	General, Executive & Elected Officials		Protective Occupation				Average 2022
			With Soc. Sec.		Without Soc. Sec.		
	2022	2021	2022	2021	2022	2021	
Employer Normal Cost	6.50%	6.75%	12.00%	11.75%	16.40%	16.35%	7.20%
Participant Normal Cost	6.50%	6.75%	6.50%	6.75%	6.50%	6.75%	6.50%
<b>Total Normal Cost</b>	<b>13.0%</b>	<b>13.5%</b>	<b>18.5%</b>	<b>18.5%</b>	<b>22.9%</b>	<b>23.1%</b>	<b>13.7%</b>
<b>Estimated Total NC (\$ millions)*</b>	<b>\$1,849.6</b>	<b>\$1,867.4</b>	<b>\$277.6</b>	<b>\$258.0</b>	<b>\$58.3</b>	<b>\$56.5</b>	

\* Based on payroll projected from valuation date to fiscal year using the payroll growth assumption.



# Sick Leave Conversion Credit Programs Annual Valuation



Item 4B- Employee Trust Funds Board

Gabriel Roeder Smith & Company  
Brian Murphy, Senior Consultant  
Jim Anderson, Senior Consultant  
Rich Koch, Senior Consultant



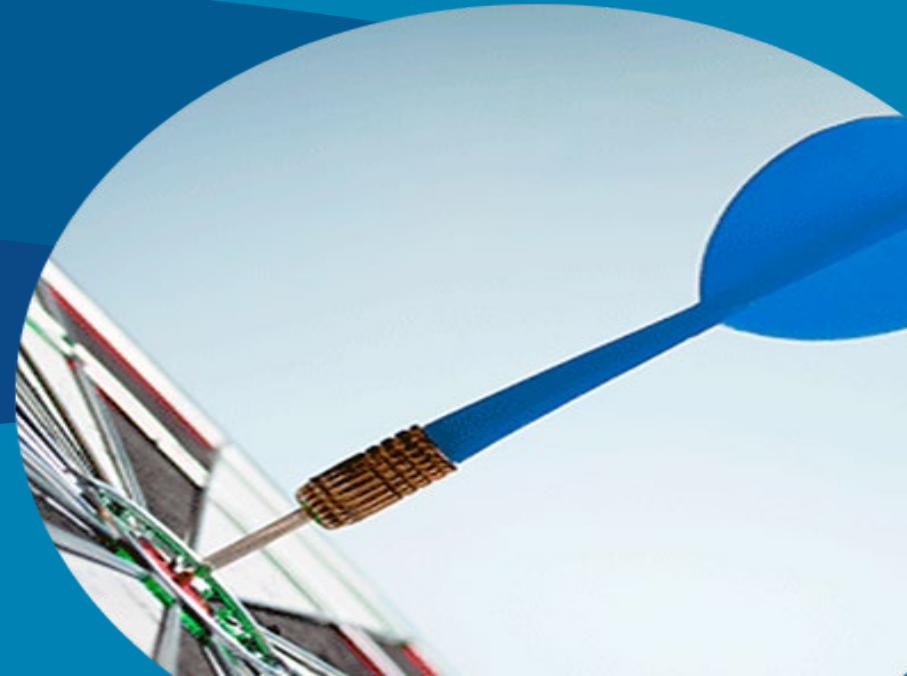




# Wisconsin Sick Leave Conversion Credit Programs

Annual Actuarial Valuation as of  
December 31, 2020

June 2021



# Wisconsin Sick Leave Conversion Credit Programs - Valuation

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- Benefit provided to State of Wisconsin employees and eligible dependents
  - Covers cost of health insurance premiums until sick leave credits are exhausted
- Assets based on 5-year smoothing of investment earnings known as the Market Recognition Account developed for Wisconsin Retirement System (WRS) valuation
- Assumptions & actuarial cost method consistent with WRS valuation

# Accumulated Sick Leave Conversion Credit Program (ASLCC)

	<b><u>ASLCC Plan</u></b>
Eligibility	Termination with 20 or more years of WRS creditable service (not necessarily all State Service) or eligible for an immediate annuity
ASLCC Credits	Credit computed at time of retirement, disability, or death while employed = (# days unused sick leave) x (highest basic pay rate)

Conversion credits used to cover cost of Health Insurance premiums for Employee and Dependents. Unused portion carried forward without interest and may be continued to an insured spouse after the death of the primary annuitant.

# Supplemental Health Insurance Conversion Credit Program (SHICC)

<b><u>SHICC Plan</u></b>			
Eligibility	Termination with at least 15 years of continuous service with State of Wisconsin (completely separate from WRS creditable service)		
SHICC Matching Credits	<u>Employment Category</u>	<u>First 24 Years of Service</u>	<u>Over 24 Years of Service</u>
	Protective	78 Hours/year	104 Hours/year
	Non-Protective	52 Hours/year	104 Hours/year

Conversion credits used to cover cost of Health Insurance premiums for Employee and Dependents. Unused portion carried forward without interest and may be continued to an insured spouse after the death of the primary annuitant.





# Summary of Participant Data Report Page 3

## Active Participants

	State Employees (Non-University)	University	University Hospital	Total
Number	33,220	31,347	9,532	74,099
Annual Payroll	\$2,053,388,106	\$2,394,918,114	\$655,053,085	\$5,103,359,305
Accrued Unused Sick Days	2,727,926 days	2,810,532 days	364,619 days	5,903,077 days
Averages: Age	44.7 years	46.2 years	40.5 years	44.8 years
Service	11.4 years	10.7 years	7.9 years	10.6 years
Sick Leave Days	82.1 days	89.7 days	38.3 days	79.7 days

## Terminated Vested Participants

Number	ASLCC Sick Leave Balance	SHICC Sick Leave Balance	Total Sick Leave Balance
423	\$17,193,204	\$11,014,908	\$28,208,112



# Summary of Participant Data Report Page 3

## Retirees & Beneficiaries

<b>Status</b>	<b>Number</b>	<b>ASLCC Sick Leave Balance</b>	<b>SHICC Sick Leave Balance</b>	<b>Total Sick Leave Balance</b>
Annuitants Actively Using Sick Leave Credits	17,979	\$609,822,789	\$ 988,055,617	\$1,597,878,406
Escrowed/On-Hold Annuitants	5,804	262,195,771	190,539,606	452,735,377
<b>Total</b>	<b>23,783</b>	<b>872,018,560</b>	<b>1,178,595,223</b>	<b>2,050,613,783</b>

In addition to the counts above, an additional 15,857 annuitants were excluded from the valuation due to having an account status of closed or being reported with a \$0 sick leave balance.

# Average Premium Calculation Report Page 5

	Rate Category		
	Total	Pre-65	Post-65
1. Number*	18,106	4,171	13,935
2. Monthly Premium Amounts for Retirees Currently in Pay Status*	\$ 13,179,921	\$5,250,009	\$7,929,912
3. Annual Premiums for Retirees Currently in Pay Status: (2)x12	\$158,159,052		
4. Reported Premiums from Financial Statements	\$156,004,006		
5. Ratio of Reported to Annualized Premium Amounts: (4)/(3) not less than 1	1.0		
<b>6. Adjusted Monthly Premiums: (2)/(1)x(5)</b>		<b>\$ 1,258.69</b>	<b>\$ 569.06</b>
First Prior Year		\$ 1,331.31	\$ 603.99
Second Prior Year		\$ 1,227.59	\$ 663.64

*\* Retirees with an account status of active and a premium amount populated in the data provided (some of whom have exhausted their sick leave credits). Excludes pre-65 retirees currently enrolled in a Medicare health care plan. These members were excluded from the average premium calculation because the averages are used to project future premiums of people not covered by Medicare. The number counts above were used strictly for developing average premiums and may be different from retiree counts shown throughout this presentation.*

# Summary of Sick Leave Asset Data Report Page 6

	<u>ASLCC Program</u>	<u>SHICC Program</u>	<u>Total</u>
Beginning Balance	\$1,591,772,775	\$1,031,100,598	\$2,622,873,373
Adjustment	<u>8,513,683</u>	<u>(8,634,103)</u>	<u>(120,420)</u>
Adjusted Beginning Balance	\$1,600,286,458	\$1,022,466,495	\$2,622,752,953
<b>Revenues</b>			
Contributions	\$ 45,222,516	\$ 15,080,311	\$ 60,302,827
Investment Income	<u>164,760,484</u>	<u>105,654,833</u>	<u>270,415,317</u>
Total Revenues	\$ 209,983,000	\$ 120,735,144	\$ 330,718,144
<b>Expenses</b>			
Insurance Premiums	\$ 106,522,088	\$ 49,481,918	\$ 156,004,006
Other	0	0	0
Administration	<u>662,952</u>	<u>639,658</u>	<u>1,302,610</u>
Total Expenses	\$ 107,185,040	\$ 50,121,576	\$ 157,306,616
Ending Balance - December 31, 2019	<u>\$1,703,084,418</u>	<u>\$1,093,080,063</u>	<u>\$2,796,164,481</u>
Internal Rate of Return	10.5%	10.5%	10.5%

Based on Market Recognition Account and provided by ETF.





# December 31, 2020 Sick Leave Valuation Results – Employer Contribution Rates Report Page 1

Valuation Date December 31	Fiscal Year Ending December 31	ASLCC	SHICC	Total	UAAL* Amortization Years
2011	2013	0.9%	0.4%	1.3%	14
2012^	2014	0.9%	0.5%	1.4%	13
2013	2015	0.8%	0.4%	1.2%	12
2014	2016	0.8%	0.4%	1.2%	11
2015^	2017	0.9%	0.4%	1.3%	10
2016	2018	0.8%	0.4%	1.2%	9
2017	2019	0.8%	0.3%	1.1%	8
2018^	2020	0.9%	0.3%	1.2%	7
2019	2021	0.8%	0.3%	1.1%	6
2020	2022	0.7%	0.1%	0.8%	5

\* *Unfunded Actuarial Accrued Liabilities*

^ *Assumption change*



# Concluding Remarks

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- This year's results were affected by an approximate 7.0% decrease in the average post-65 premium
- During 2020, investment return on a market value basis was greater than the assumed level of 7.0%
- The Market Recognition Account phases-in gains and losses over 5 years -- resulting in a 10.5% return on a smoothed basis
  - This led to contribution rates decreasing relative to the prior year
  - If actuarial assumptions are realized, there will be downward contribution pressure in future years
  - This is a big if given the current volatility in the investment markets

# Disclaimers

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- This presentation shall not be construed to provide tax advice, legal advice or investment advice.
- Brian Murphy, Mark Buis and James Anderson are Members of the American Academy of Actuaries (MAAA) and meet the Qualification Standards of the American Academy of Actuaries to render the actuarial opinions contained herein.
- This is one of multiple documents comprising the actuarial report. Additional information regarding actuarial assumptions and methods, and important additional disclosures are provided in the full report entitled “Wisconsin Accumulated Sick Leave Conversion Credit Programs Annual Actuarial Valuation, December 31, 2020.”
- If you need additional information to make an informed decision about the contents of this presentation or the contents of the full report, or if anything appears to be missing or incomplete, please contact us before making use of the information.

# 40.65 Disability Actuarial Review



Item 4C- Employee Trust Funds Board

Milliman, Inc.

Paul Correia, Principal and Consulting Actuary





# **Actuarial Valuation of the State of Wisconsin Duty Disability Program**

**As of December 31, 2020**

**State of Wisconsin Employee Trust Funds  
Board Meeting  
June 17, 2021**

Paul L. Correia, FSA, MAAA  
Milliman, Inc.

# Actuarial Valuation of Duty Disability Program

## Limitations of Analysis

- We relied on information provided by the Department of Employee Trust Funds (ETF). If any of this information is inaccurate or incomplete, our results may be affected.
- The valuation uses actuarial assumptions that are individually reasonable and that, in combination, offer our best estimate of anticipated experience.
- To the extent that actual experience varies from the assumptions, the emerging costs of the plan will vary from the projections we have prepared.
- The calculations in this presentation are consistent with our understanding of Duty Disability funding requirements and goals. Additional determinations may be needed for other purposes.
- Milliman's work product was prepared exclusively for ETF for a specific and limited purpose. It is not for the use or benefit of any third party for any purpose.
- I, Paul Correia, am a Consulting Actuary with Milliman. I am a member of the American Academy of Actuaries, and I meet its Qualification Standards to render the actuarial opinion contained herein.

# Duty Disability

## Summary of Benefits

- Member Benefits:** 80% of salary (75% for local employees who are not eligible for a Social Security disability benefits and not eligible for a WRS disability benefit or LTDI)
- Benefit Offsets:** Social Security benefits  
Unemployment compensation  
Workers' Compensation  
WRS retirement, separation, or disability benefits  
Earnings from employer where the disability occurred  
Earnings from other employment
- Benefit Increases:** Annual increases based on either Social Security salary index or WRS core annuity index, depending on the member's age and retirement status
- Survivor Benefits:** Survivor benefits are payable if the disabled member dies from the same condition that triggered Duty Disability benefits
- Survivor benefit amounts vary depending on disability date and disabling condition (cancer versus all other conditions)

# Duty Disability

## Liabilities as of December 31, 2020

Liability Component	Estimated Liability
Open Claims	\$413,524,714
Future Survivors	\$21,037,538
IBNR Claims	\$23,966,544
Loss Adjustment Expense	\$9,191,378
<b>Total</b>	<b>\$467,720,173</b>

- Open Claims: Liability represents the present value of expected future benefit payments, based on 967 disabled members and 59 survivors (i.e. spouses and domestic partners) who were receiving benefits as of December 31, 2020.
- Future Survivors: Liability represents future benefits payable to survivors of currently disabled members
- Incurred but not Reported (IBNR) Claims: Liability represents the present value of expected future benefit payments to members and survivors whose claims were incurred but had not been reported as of December 31, 2020.
- Loss Adjustment Expenses: Liability represents the present value of future expenses related to ongoing management and payment of Duty Disability claims.



# Duty Disability

## Comparison to Prior Year

Liability Component	12/31/2019	12/31/2020
Open Claims	\$412,357,049	\$413,524,714
Future Survivors	\$20,390,585	\$21,037,538
IBNR Claims	\$24,400,599	\$23,966,544
Loss Adjustment Expense	\$9,173,828	\$9,191,378
<b>Total</b>	<b>\$466,322,061</b>	<b>\$467,720,173</b>

- The December 31, 2020 liabilities were calculated using the same valuation assumptions as last year.
- The number of open claims remained the same (1,026 in both years).
- The average monthly benefit amount increased by approximately 0.5%.
- The liability for open claims increased by approximately 0.3% from December 31, 2019 to December 31, 2020
- The liability for IBNR claims decreased slightly from December 31, 2019 to December 31, 2020 based on recent trends in incurred claims experience.

# Duty Disability

## Retrospective Adequacy Study

Experience Period	Average Annual Margin	
	Disabled Members	Survivors
2016	1.04%	4.07%
2017	1.06%	2.44%
2018	0.48%	0.22%
2019	1.00%	0.31%
2020	0.96%	-1.22%
<b>Total</b>	<b>0.91%</b>	<b>1.17%</b>

- Experience: Claims from disabled members and survivors within the period 2016 - 2020
- Positive overall margins (i.e., 0.91% and 1.17%) indicate the liabilities were adequate to cover the runoff of open claims during the study period

# Duty Disability

## Fund Balance and Surplus Position

Balance Sheet Component	2020
Beginning of Year Balance	\$659,050,876
+ Investment Income	\$67,455,529
+ Premium Contributions and Miscellaneous Income	\$4,104,762
- Insurance Claims	\$36,591,380
- <u>Administrative Expenses</u>	<u>\$793,512</u>
End of Year Balance	\$693,226,275
Actuarial Liability as of December 31, 2020	\$467,720,173
Surplus as of December 31, 2020	\$225,506,102

- The plan was in a surplus position of \$225.5 million as of December 31, 2020.
- Surplus is 48% of estimated liability as of December 31, 2020.
- The surplus target for the plan is within the range of 25% to 35% of the estimated liability.

# Duty Disability Funding Analysis

Modeled Scenario	Assumptions		Expected Surplus 12/31/2022	Expected Surplus 12/31/2029
	Investment Income	Contribution Rate		
<b>Baseline</b>	7.0%	Current rates	\$244M (51% of 2022 liability)	\$324M (61% of 2029 liability)
<b>Scenario 1</b>	7.0%	Reduced by 50% in 2022 then held level	\$242M (51% of 2022 liability)	\$301M (57% of 2029 liability)
<b>Scenario 2</b>	7.0%	Waived in 2022 and beyond	\$240M (50% of 2022 liability)	\$278M (52% of 2029 liability)
<b>Scenario 3</b>	-10% in 2020, 7.0% thereafter	Current rates	\$118M (25% of 2022 liability)	\$121M (23% of 2029 liability)
<b>Scenario 4</b>	0% in 2020, 7.0% thereafter	Current rates	\$192M (40% of 2022 liability)	\$240M (45% of 2029 liability)

- Fund and surplus projections take into consideration potential future claims of active employees (even though estimated liability does not under GASB10)

# Duty Disability

## Conclusions

- Estimated liabilities as of December 31, 2020 are similar in magnitude to last year. The liabilities were calculated using the same assumptions as last year.
- The funding analysis indicates that Duty Disability surplus is expected to grow in the baseline scenario, and that it is sensitive to investment income and contributions.
- We would not recommend a premium holiday at this time because of the uncertainty due to the pandemic and the sensitivity of the fund to market returns.



The background is a collage of two images. The top-left image shows three firefighters in full gear, including helmets and oxygen tanks, smiling and looking towards the right. The top-right image shows a close-up of a female police officer in uniform, smiling at the camera. The bottom-left image shows a man with glasses and a woman looking at a document together, with the man pointing at it.

# Duty Disability Insurance Employer Rates 2022

Item 4C – Employee Trust Funds Board

Cindy Klimke-Armatoski, Chief Trust Finance Officer  
Division of Trust Finance





# Action Needed

- ETF requests the Employee Trust Funds Board approve the Duty Disability Insurance Program Actuarial Valuation as of December 31, 2020 and set 2022 contribution rates at 50% of current rates.

# Duty Disability Program Reserves

	2019	2020
<b>Actuarial Liability</b>	\$466,322,061	\$467,720,173
<b>Reserve Balance</b>	\$659,050,876	\$693,226,275
<b>Surplus / (Deficit)</b>	\$192,728,815	\$225,506,102
<b>Funded Ratio</b>	141%	148%

# Duty Disability Rates

- Employer paid contributions
- Contribution rates based on experience-rated tier schedule

Tier	Number of Claims	Claims as a % of Covered Payroll	2021 Contribution Rate as a % of Covered Payroll
1	1	≤1.5%	0.09%
2	2	>1.5% but ≤ 3.0%	0.17%
3	3	>3.0% but ≤ 4.5%	0.34%
4	4	>4.5% but ≤ 6.0%	0.60%
5	5	>6.0% but ≤ 7.5%	0.94%
6	6	>7.5% but ≤ 9.0%	1.36%
7	7	>9.0% but ≤ 10.5%	1.87%
8	8 or more	Claims > 10.5%	2.24%

# Recommended 2022 Rates (reduction of ~50% of 2021 rates)

Tier	Base Contribution Rate	Actuarial Adjustment Rate	Recommended 2022 Contribution Rate	# of Employers
1	0.25%	-0.21%	0.04%	419
2	0.50%	-0.42%	0.08%	42
3	1.00%	-0.83%	0.17%	26
4	1.75%	-1.45%	0.30%	10
5	2.75%	-2.28%	0.47%	5
6	4.00%	-3.32%	0.68%	2
7	5.50%	-4.57%	0.93%	3
8	6.60%	-5.48%	1.12%	2

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**Questions?**

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# Thank you

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# Transformation, Integration, and Modernization Consulting Services Contract Extension



Item 4D- Employee Trust Funds Board

Michelle Baxter, Director  
Office of Enterprise Initiatives





# 10 Minute Break

Employee Trust Funds Board





# Open Meetings Law Training Planning


Item 4E- No Memo

Dan Hayes, Attorney

David Nispel, General Counsel


Office of Legal Services





# Secretary's Report

## Item 5A - Employee Trust Funds Board



John Voelker, Secretary





The background is a collage of three images. The top left shows three firefighters in full gear, smiling. The top right shows a close-up of a female police officer in uniform, smiling. The bottom left shows a man and a woman looking at a document together.

# ETF Organizational North Star Metrics

## Item 5B - Employee Trust Funds Board

Pam Henning, Assistant Deputy Secretary



# State 2021-2022 Biennial Budget Update

## Item 5C – Employee Trust Funds Board

Tarna Hunter, Director of Strategic Engagement and  
Government Relations

Office of the Secretary



# Operational Updates

Items 5D – 5H - Memo Only





# Future Items for Discussion

Item 6A – Employee Trust Funds Board



# Adjournment



Item 7 – No Memo



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# Thank you

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