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Correspondence Memorandum

Date: May 26, 2022
To: Employee Trust Funds Board
From: Anne Boudreau, Deputy Administrator
 Division of Retirement Services
Subject: Duty Disability Program Reserve Policy Review

ETF recommends the Employee Trust Funds Board (Board) approve the attached Duty Disability Program Reserve Policy and also approve maintaining the current reserve target of 130% of plan liabilities.

The Duty Disability program is a lifetime income replacement program. Duty disability benefits are payable to protective occupation participants injured while performing their protective occupation duties. This program is funded entirely by contributions paid by employers, and contribution rates are based on an experience rated tier schedule. While the contribution rate tier structure remains constant, the actual contribution rates for each tier are adjusted to meet the plan’s current funding needs.


The current Duty Disability Reserve Policy and the reserve target of 130% of plan liabilities were adopted by the Board on June 20, 2019 and set a reserve target range between 125% and 135% of plan liabilities. As of December 31, 2021, the Duty Disability program had a fund balance of \$744.6 million, actuarial liabilities of \$523.8 million, and an actuarial surplus of \$220.8 million. The reserve fund is 142% of liabilities.

The objective of this policy is to establish a reserve balance target for the Duty Disability program to guide the Board in making decisions about changes to Duty Disability premiums that are sufficient to fund plan liabilities, protect the fiscal integrity of the program, and maintain premium rates that are adequate, stable, and equitable.

The Board must review the policy and targets at least every three years. ETF staff, after consulting with disability program actuaries, are not recommending any changes to the reserve policy or the reserve targets at this time.

Staff and actuaries from Milliman will be at the Board meeting to answer any questions.

Attachment A: Reserve Policy for the Duty Disability Program

Reviewed and approved by Matt Stohr, Administrator, Div. of Retirement Services
 Electronically Signed 6/7/22


Board	Mtg Date	Item #
ETF	6.23.22	4D



Reserve Policy for the Duty Disability Program

The Duty Disability Insurance Program is a lifetime income replacement program. Duty disability benefits are payable to protective occupation participants injured while performing their protective occupation duties. In some instances, death benefits are also available for surviving spouses or children. Protective occupation participants include law enforcement, fire suppression, correction officers and other occupations as defined in Wis. Stat. § 40.02 (48). Duty Disability benefits are payable to eligible protective occupation participants who have been permanently injured while performing work-related duties or contracted a disease due to the participant's protective occupation that resulted in a permanent reduction in pay or position; a permanent assignment to light duty; retirement; or an adverse effect on promotional opportunities if employer rules, ordinances, policies or written agreements specifically prohibit promotion because of the disability.

The Duty Disability Insurance Program is funded entirely by contributions paid by employers. The reserve target established by the Employee Trust Funds Board (Board) under this policy is used to determine the annual required contribution for the program. Duty Disability contribution rates are based on an experience-rated tier schedule. Annually, an actuarial adjustment rate is applied to every tier in the schedule. While the contribution rate tier structure remains constant, the actual contribution rates for each tier are adjusted to meet the plan's current funding needs.

OBJECTIVE

This reserve policy is intended to guide the Board in establishing a Duty Disability Program fund reserve target sufficient to fund plan liabilities, protect the fiscal integrity of the program, and maintain contribution rates that are adequate, stable, and equitable.

DUTY DISABILITY RESERVE TARGET

The Board will, in consultation with Duty Disability Program actuaries, establish a reserve target for the program that is expressed as 100% of the total program liability, plus an additional target surplus percent. This policy establishes the reserve target range as five percentage points above and five percentage points below the reserve target approved by the Board.

To preserve fund integrity and ease the impact of contribution rate changes, the Board may decide to spread recommended rate adjustments so that the surplus target is reached over a period of two or more years rather than in one year.

This policy does not prohibit the Board from, upon the advice of ETF and program actuaries, setting contribution rates that set a reserve balance that is outside the reserve target range if the program's financial condition, claim experience, and other factors or trends indicate that a different target is necessary.

RESERVE TARGET REVIEW PERIOD

The Board will review this policy at least every three years.