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Correspondence Memorandum

Date: May 22, 2023

To: Employee Trust Funds Board

From: Marie Ruetten, Deputy Administrator
Division of Trust Finance

Subject: Duty Disability Insurance Actuarial Valuation – December 31, 2022

The Department of Employee Trust Funds (ETF) requests that the Employee Trust Funds Board (Board) approve the Duty Disability Insurance Program Actuarial Valuation as of December 31, 2022 and set 2024 contribution rates the same as 2023 rates.

	2021	2022
Actuarial Liability	$523,760,207	$556,763,814
Reserve Balance	$744,560,957	$754,059,930
Surplus / (Deficit)	$220,800,750	$197,296,116
Funded Ratio	142%	135%

The program continues to be in a healthy financial position with the funding level at the top of the 125% to 135% target range, per the Board's policy. The actuarial liability increased 6% from the prior year, primarily due to Duty Disability benefit increases that were applied in January 2023. The reserve balance increased by approximately 1%, due to investment income.

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.

The actuarial valuation report includes a baseline scenario and three other scenarios. The scenarios incorporate updated actuarial assumptions from the most recent experience study discussed in the Duty Disability Insurance Program Experience

CKlimke

Reviewed and approved by Cindy Klimke-Armatoski, Chief Trust Financial Officer and Controller
Electronically Signed 06/13/23

Board	Mtg Date	Item #
ETF	06.22.23	4D

Studies memo (Ref. ETF | 06.22.23 | 4C). The baseline scenario assumes current contribution rates are held level in future years, and as a result, projects the funds' surplus as a percentage of the actuarial liability to modestly grow to slightly above the Board's target.

Scenario 1 assumes a 0.96% investment loss for 2023, a 1.7% increase in covered payroll due to 2023 Wisconsin Act 4 allowing jailers to reclassify to protective occupation status, and no change in contribution rates throughout the projection period. This results in the projected fund balance being below the target range by 2024 and continuing. Scenario 2 assumes no change in contribution rates with a 6.9% (rather than 1.7% in the baseline) increase in covered payroll and incurred claims beginning in 2024 due to Wisconsin Act 4, which becomes effective January 1, 2024. Under these assumptions the fund balance is projected to stay relatively unchanged and within the target range. Scenario 3 assumes contributions are waived in 2024 and resume in 2025 and beyond based on 2023 contribution rates. The fund's surplus as a percentage of the actuarial liability is also expected to grow in this scenario. These projections show contributions have a small impact on the funding of the program. Investment income is the biggest driver of changes in fund balance.

Based on the actuarial valuation, ETF recommends no change of rates for 2024. If the Board approves continuation of the 2023 contribution rates (targeting 2024 contributions of approximately $1.1 million), the 2024 rates would be:

Tier	Base Contribution Rate	Actuarial Adjustment Rate	2024 Contribution Rate	Number of Employers	2023 Contribution Rate
1	0.25%	-0.23%	0.02%	423	0.02%
2	0.50%	-0.46%	0.04%	44	0.04%
3	1.00%	-0.91%	0.09%	26	0.09%
4	1.75%	-1.60%	0.15%	10	0.15%
5	2.75%	-2.51%	0.24%	7	0.24%
6	4.00%	-3.65%	0.35%	3	0.35%
7	5.50%	-5.02%	0.48%	2	0.48%
8	6.60%	-6.03%	0.57%	1	0.57%

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.

Staff will be at the Board meeting to answer any questions.

Attachment A: Actuarial Valuation of The Duty Disability Insurance Program as of December 31, 2022