



November 21, 2024

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

Re: Independent Actuarial Audit of the December 31, 2023 Actuarial Valuation and the 2018-2020 Experience Study for the State of Wisconsin Sick Leave Conversion Credit Programs – GRS Response

Dear Cindy:

Milliman did an independent review of our work in connection with the Sick Leave Conversion Credit Programs. In Section 4 of the audit report, Milliman comments:

We independently calculated the key actuarial components for the ASLCC and SHICC programs as of December 31, 2023. Under the applicable actuarial cost method, the key actuarial components are the Present Value of Benefits and the Present Value of Future Earnings. We found that all significant benefit provisions were accounted for in an accurate manner, the actuarial assumptions and methods were applied correctly, and our total present values are moderately close to GRS's calculations.

The auditing actuary's primary recommendations from Section 1 of their report are shown below along with our response.

1. We recommend future reports include the market value of assets for informational purposes.

GRS Response: *We will discuss with ETF and consider including the market value of assets in future valuations for informational purposes.*

2. Add to the annual valuation report the normal cost and amortization period under the Entry Age cost method for informational purposes.

GRS Response: *We will discuss with ETF and consider including the normal cost and amortization period under the Entry Age cost method in future valuations for informational purposes*

3. Provide reasoning and explain the "why" when changing methodology used to set an assumption. For example, we do not believe this was provided when updating the health care premium or sick leave balance accumulation corridor assumptions in the 2021 Experience Study.

GRS Response: *GRS will add additional disclosure when changing methodology in the next experience study to be conducted in 2027 for the 2024-2026 period.*

4. When studying the participation rate, start with active member retirements and determine: (a) what fraction of them moved immediately to use sick leave credits, (b) what fraction of them initially deferred using their sick leave credits and then later started using them (for this group, also study how long, on average, members stayed in deferred use), and (c) what fraction never use their sick leave credits. This analysis would allow for the adoption of assumptions around active member retirements that more accurately reflect participant behavior.

GRS Response: *GRS reviewed and updated this assumption in the 2021-2023 experience study delivered earlier this month.*

5. The current assumption of 100% of active members commencing benefits immediately after retirement is conservative (i.e., overestimates liabilities), and an assumption more in line with participant behavior would decrease liabilities. For example, a decrease in the participation assumption by five to ten percent would decrease the liability by approximately \$140-280 million. It is noted in the experience study report that the 100% immediate participation rate allows for a margin of adverse deviation. The margin should be documented, quantified, and clearly communicated.

GRS Response: *GRS reviewed and updated this assumption in the 2021-2023 experience study delivered earlier this month.*

6. Review period of time from termination to commencement for escrowed members. This group only accounts for approximately 4% of the liability, so the assumption would likely not have a material impact on the liabilities, but it would improve the accuracy of the valuation and provide a better understanding of member behavior.

GRS Response: *We will consider taking this into account when performing the next experience study to be conducted in 2027 for the 2024-2026 period.*

7. Update the commencement age assumption for members who are active as of the valuation date but terminate in the future and defer usage of their sick leave balance to make this assumption consistent with what is used for current members that are no longer employed and deferring usage of their sick leave balance. The assumption for future terminated employees not eligible for immediate retirement is to begin usage at normal retirement age whereas the current assumption for those that are already terminated and deferring usage as of the valuation date is to begin usage at first eligibility. This would likely not have a material impact on the liabilities but would improve the internal consistency of the assumptions used in the valuation.

GRS Response: *The benefit commencement age for current terminated vested members is used as provided in the sick leave valuation data extract. The benefit commencement age for current active members who terminate after vesting are determined in the same manner as the Retirement System valuation. We will discuss with ETF staff to confirm the benefit commencement ages provided for current terminated vested members and review in the next experience study to be conducted in 2027 for the 2024-2026 period.*



8. We believe it would be valuable to review if sick leave accrual rates change based on age or years of service, along with personal historical accrual patterns, which could improve the accuracy of this assumption. Without a study, it cannot be determined if this would or would not have a material impact on the calculation of liabilities.

GRS Response: *The utilization of sick leave will vary from person-to-person and year-to-year. Given this, we believe using a career average sick leave accrual rate for purposes of projecting future sick leave credit balances is a reasonable and appropriate approach. We will review the methodology again in the next experience study to be conducted in 2027 for the 2024-2026 period.*

9. Future premiums for members that are not currently using their sick leave balance as of the valuation date are based on the average premiums for 1-person contracts blended 50-50 with the average premiums for multiple-person contracts. This implies that 50% will elect multiple-person contracts which is consistent with the analysis in the experience study. However, the post-commencement mortality assumption used to value these members is single life mortality. We believe the mortality assumption should also account for the 50% probability of the member electing a multiple-person contract. This would have a moderate increase on the liabilities and would improve the internal consistency of the assumptions used in the valuation

GRS Response: *We will consider an update to the model in conjunction with the next experience study to be conducted in 2027 for the 2024-2026 period.*

10. Include the extent for which the census data was reviewed.

GRS Response: *We will add a disclosure to the cover letter of future valuation reports regarding our review of the data used in the annual valuation.*

Throughout the various sections of the report, the auditing actuary confirmed that the methods, assumptions and data were all reasonable, appropriate and in alignment with the applicable Actuarial Standards of Practice. In addition, the auditing actuary was able to replicate valuation results to within a reasonable threshold of the results published in the most recent actuarial valuation.

We are pleased that the auditing actuary has validated our reports and appreciate the suggestions that the auditing firm has made for improving the clarity of the reports. Thank you for the opportunity to comment on the audit report.

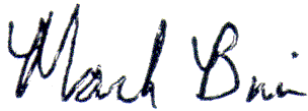


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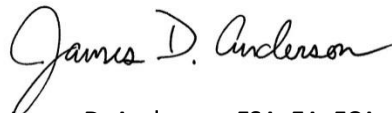
Mark Buis, James D. Anderson and Richard C. Koch Jr. are Members of the American Academy of Actuaries (MAAA) and meet the Qualification Standards of the American Academy of Actuaries to render the actuarial opinions contained herein.

This communication shall not be construed to provide tax advice, legal advice or investment advice.

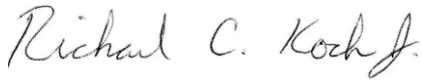
Sincerely,
Gabriel, Roeder, Smith & Company



Mark Buis, FSA, EA, FCA, MAAA



James D. Anderson, FSA, EA, FCA, MAAA



Richard C. Koch Jr., FSA, EA, MAAA

MB/JDA/RCK:dj

