RESERVE POLICY FOR THE WISCONSIN PUBLIC EMPLOYERS GROUP LIFE INSURANCE PROGRAM

Adopted: May 12, 2021
Reviewed: April 24, 2025

BACKGROUND

The Group Insurance Board (Board) offers group life insurance to all Wisconsin Retirement System (WRS) eligible state employees and their dependents and all WRS local employees and their dependents, if their employer participates. The Wisconsin Public Employers Group Life Insurance Program (Program) is governed under Chapter 40 of the Wisconsin State Statutes, Chapter 60 of the Wisconsin Administrative Code. The Program is administered by a contract between the Board and an established life insurer. The Program is supported by premiums paid by both the employee and employer. The life insurance administrator guarantees adequate assets for all active employee claims; retiree benefits are considered paid up at age 65, subject to a reducing benefit until the insured reaches age 70. The funding target established by the Board under this policy is used in determining annual rates to be paid by Program enrollees.

A supplemental insurance plan provides added term insurance for active employees, equal to 100% of insurance under the basic plan. The supplemental insurance terminates on the later of the employee's 65th birthday or retirement but in no event beyond the employee's 70th birthday.

An additional plan offers extra coverage on an employee-pay-all basis. An employee may elect up to three units of additional insurance. Each unit provides coverage equal to 100% of insurance under the basic plan. The additional insurance terminates on the later of the employee's 65th birthday or retirement. An employee who continues in active employment beyond age 70 may maintain the additional insurance coverage by continuous payment of premiums.

OBJECTIVE

This reserve policy is designed to provide guidance for the Board in establishing premiums that are sufficient to fund plan liabilities, protect the fiscal integrity of the Program, and maintain a reasonable premium rate for employees and employers. Implementation of the funding target policy is subject to review annually by the Board as discussed below.

FUNDING GUIDELINES

The reserve policy seeks to balance these two objectives:

1. Benefit Adequacy - Contributions and current plan assets must be sufficient to provide for all benefits expected to be paid to members and their beneficiaries when due.
2. Contribution Stability and Predictability – Contribution volatility must be controlled to the extent reasonably possible, consistent with other policy goals.

FUNDING METHODS AND PRINCIPLES

As required in the financial agreement, the life insurance vendor annually performs an annual valuation of the life insurance plans using reasonable actuarial assumptions of interest, mortality, withdrawals, and salary scales as recommended by vendor and as approved by the Board.

The vendor annually advises the Board of the results of this valuation. The valuation includes both the estimated excess of the present value of future benefits to retired employees over the present value of future premiums to be paid by these retired employees. In addition, the valuation includes the estimated excess of the present value of future post-retirement insurance benefits to current employees over the present value of future employer premiums to be paid on behalf of these employees.

The following principles will be used to implement this policy for the annual valuation performed by the vendor:

- Funding Target - The funding objective is to reach and maintain 100% funding. If the funding level falls outside the range of +/-15% of the target level, the vendor and the Department of Employee Trust Funds (ETF) will develop a plan to present to the Board to bring the funding back to the targeted level.
- Benefit Schedule - The assumption for benefits included in the annual valuation will include all planned future benefit changes as approved by the Board.
- Premium Schedule - The assumption for premium rates included in the annual valuation will include all planned future premium changes as approved by the Board.

As provided in the financial agreement between the Board and the vendor, the vendor guarantees that payment of the policy year premium of each policy year shall be sufficient to provide for pre-retirement insurance coverage and for coverage under the spouse and dependent insurance plans. The vendor does not guarantee that the funds accumulated for the post-retirement insurance benefit shall be sufficient.

LIFE INSURANCE PROGRAM FUNDING TARGET

The Board will, in consultation with the life insurance insurer actuaries, establish separate funding targets for the state and local Programs. The current policy, approved by the Board, establishes a valuation target of 100% of anticipated liabilities for both the state and local Programs.

To preserve the fund integrity and ease the impact of premium rate changes, the Board may decide to spread recommended rate adjustments so that any funding target adjustment is reached over a period of years rather than in one year. This policy does not prohibit the Board, upon the advice of ETF staff and Program actuaries, from setting premium rates that cause the funding target to fall outside the target range if the Program’s financial condition, claim experience, and other factors or trends indicate that a different target is necessary to fulfill the Board’s fiduciary responsibility. Each year, and in consultation with the insurer’s actuaries, the Board reviews the funding target and premiums.

RISK MANAGEMENT
As with all retirement benefit plans, the post-retirement life insurance plan is subject to risks. These risks include demographic risk, economic risk, benefit risk, and governance risk.

Methods for managing and minimizing these risks are outlined here.

<u>Demographic Risk</u> *(the possibility that the plan's experience related to mortality, withdrawals from the plan, and other demographic factors will not match actuarial assumptions).*

The Board approves actuarial assumptions based on recommendations from the vendor. Regular review of actuarial assumptions is a best practice in the management of demographic risks. The valuation assumptions are updated in the following manner in order to mitigate demographic risk:

- Withdrawal and salary increase rates: These assumptions are set consistent with the triennial WRS experience study.
- Mortality: The mortality assumption is set based on the most recent mortality experience of the life insurance plan, taking into account experience trends.

<u>Economic Risk</u> *(investment and wage inflation risk)*

Investment Risk relates to market returns not meeting actuarial expectations or that volatility of the returns will create instability in funding levels, thus creating unpredictability in required premium contribution levels.

The financial assets that are accumulated to pay the benefits of the life insurance plan are invested by the vendor (see the INVESTMENT POLICY section). The vendor and ETF review the financial experience of the program annually, including rates of return as they relate to the overall funding status of the program.

<u>Benefit Risk</u> *(the risk that benefit changes will result in future contributions that are unaffordable).*

ETF will review legislative proposals and consult with the vendor as appropriate to determine possible impacts on the life insurance plans. If it is determined that a legislative proposal might materially affect plan funding, ETF may recommend that an actuarial valuation be conducted and ask that the results of the valuation be considered in the analysis of the proposed legislation.

<u>Governance Risk</u> *(the risk that the plan's administrative policies and procedures are not fully appropriate for carrying out the functions of the plan).*

Management of governance risk requires sufficient administrative structures for monitoring compliance with this policy and ensuring that appropriate funding contributions are made. Mitigation of governance risk also requires that structures be in place to determine long- term costs of benefit changes before passage of any law that materially affects plan funding. For the life insurance plans, such risk is addressed by the following:

- The vendor provides an annual valuation of the life insurance plans, as described above.
- Reserve Policy Review: This Post-Retirement Life Insurance Benefit Funding and Investment Policy will, at a minimum, be formally reviewed by ETF triennially.
- The Legislative Audit Bureau performs an annual financial audit of ETF to ensure that ETF's financial statements and internal controls are in compliance with applicable statutes, policies, and guidelines
- Ensuring premium payments are made. Premium payments are required to be made in accordance with Wis. Stats. 40.05 (6). ETF contracts with an external auditor to perform an audit of the vendor's administrative practices and procedures. This audit is typically performed every three years.

INVESTMENT POLICY
Investment for the life insurance plans are held with the vendor. In accordance with the administrative agreement between the Board and the vendor, interest is calculated and credited to the life insurance plans based on the rate of return for a segment of the vendor's general fund and not tied to any specific investments. The funds invested during the year earn interest based on that year's rate of return.

The overall aggregate interest rate is calculated using a tiered approach based on the year the funds were invested and the rate for that year. Investment interest is credited based on the aggregate rate of return and assets are not adjusted to fair market value. Furthermore, the vendor guarantees the principal amounts of the reserves, including all interest previously credited thereto.

This strategy achieves several goals:

1. The high-quality nature of the underlying invested assets provides stability in returns which in turn provides a degree of predictability in funding strength, reducing the unpredictability of life insurance premium contributions.
2. Investment in the diverse creditability general account of the vendor reduces the risk of large losses.
3. The frequency of establishing the interest crediting rate reflects market conditions, ensuring the returns are competitive.

RESERVE TARGET POLICY REVIEW PERIOD
The Board will review this policy and the funding targets at least every three years.

AUDIT OF PLAN RESERVES
ETF will present the results of an independent audit of the life insurance administrator to the Board not less than every five years.

REVISIONS

Version	Adopted Date	Change Description
1.0 (Original)	May 12, 2021	
2.0		• Added statutory citations. • Added additional information in the background section outlining plan design. • Added the three bulleted principles used to implement the policy for the annual valuation.
3.0		• Added Risk Management and the evaluation assessed. • Added Investment Policy summary.