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Correspondence Memorandum

Date: August 9, 2018
To: Group Insurance Board
From: Tom Rasmussen, Life Insurance Program Manager
Eileen Mallow, Director
Office of Strategic Health Policy
Subject: Wisconsin Public Employers (WPE) Group Life Insurance
2107 Policy Year Report

ETF recommends the Group Insurance Board (GIB) accept the annual report from Securian Financial Group (Securian).

ETF also recommends the GIB defer discussion on rate setting until the November 2018 Board Meeting to allow analysis of options to increase the reserves to be presented.

The results of the 2017 policy year experience are highlighted in the attached letter (Ref. GIB | 8.22.18 | 7B) from Securian Vice President and Actuary Paul Rudeen. The 2017 policy year highlights and experience can be found in the Financial Experience Report (Ref. GIB | 8.22.18 | 7B Attachment A). ETF recommends the Board accept the Securian Annual report.

State Plan Experience

The state plan covers more than 83,000 total lives -- both active employees and retirees, more than 1,500 more than the prior year. Total life insurance in force on active employees, retirees, spouses and dependents increased by 3% to more than \$11.5 billion. Claims for both the employee and spouse and dependent plans were lower than expected, driven by fewer life and disability claims from employees.

The overall average interest earnings rate on all reserve funds held for the plan was 3.15%. This result reflects a conservative investment strategy involving primarily high-

Reviewed and approved by John Voelker, Deputy Secretary

Electronically Signed 8/13/18

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grade corporate bonds. The plan ended 2017 with an asset reserve of 68.1%, which continues a downward trend.

Local Government Plan Experience

The local plan covers more than 118,000 total lives for both active employees and retirees. The number of insured lives in the local government plan increased by less than 100 for active employees and increased by more than 1,300 for retirees in 2017. Total life insurance in force on active employees, retirees, spouses and dependent increased by 2% to \$12.4 billion. Claims for the employee plan were lower than expected, driven by fewer life and disability claims. Claims on the spouse and dependent plan were slightly higher than the current target level, which anticipates using the plan's reserves to cover excess claims.

The overall interest earnings rate on all reserve funds held for the plan was 3.09%. This rate reflects a conservative investment strategy involving primarily high-grade corporate bonds. The plan ended 2017 with an asset reserve of 105.6%.

Securian Performance Standards for Customer Service

The contract with Securian includes nine performance standards for timely provision of customer service. Securian attained higher-than-targeted goals in all nine standards.

Securian managed 32,296 transactions subject to the performance standards in 2017 and achieved a score of 99.88% within the standards for those transactions.

Securian performs a biennial client satisfaction survey of participating employers, with the goal of achieving a 90% satisfaction with overall service, processing of enrollments and evidence of insurability, processing of claims, support and training. In 2016, Securian achieved 100% in overall satisfaction.

Plan Reserves

The reserve valuation funding on the state program has trended down in recent years, for reasons described below. ETF staff has had on-going discussions with Securian regarding this trend. The table below summarizes the past five valuation calculations.

State of Wisconsin Valuation Funding Analysis		
Assets as a Percentage of Net Liabilities		
Date	State	Local
12/31/2017	68.1	105.6
12/31/2016	82.1	104.3
12/31/2015	74.0	107.4
12/31/2014	76.4	116.8
12/31/2013	78.2	108.8

Reasons for Declining State Program Reserves

- Under the state plan, for valuation purposes, the 2017 mortality was worse than expected. Actual claims were lower in 2017, which will be reflected in the next valuation.
- The state funding percentage in the 2016 policy year report was 82.1%. A revised interest rate assumption adopted for the 2017 produces a significant decrease in the valuation calculation.
- Investment returns are expected to remain low for the foreseeable future.

In consideration of the declining valuation, ETF is working with Securian to determine options for addressing the funding status. ETF will present recommendations for increasing the asset reserves at the November GIB meeting

Life insurance rates are adjusted on April 1 each year. Any program changes adopted at the November meeting will be implemented for the 2019 rating year.

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