STATE OF WISCONSIN
Department of Employee Trust Funds
Robert J. Conlin
SECRETARY

Wisconsin Department
of Employee Trust Funds
PO Box 7931
Madison WI 53707-7931
1-877-533-5020 (toll free)
Fax 608-267-4549
etf.wi.gov

Correspondence Memorandum

Date: December 18, 2023 (Revised)

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 Rate Increase Options and the Wisconsin Post Retirement Life Insurance Benefit Funding and Investment Policy.

Department of Employee Trust Funds (ETF) requests the Group Insurance Board (Board) approve a rate increase for the Wisconsin State Plan effective April 1, 2019, from one of the three options presented.

REVIEW OF THE WISCONSIN POST-RETIREMENT LIFE INSURANCE BENEFIT FUNDING AND INVESTMENT POLICY FROM SECURIAN

Background

The WPE Group Life Insurance Program (GLIP) is a benefit provided under the Wisconsin Retirement System and is available to active employees, continuants, retirees of the State of Wisconsin and members of participating Wisconsin local government employers. The program is governed under Chapter 40 of the Wisconsin State Statutes, Wisconsin Administrative Code and the life insurance policy between the GLIP and Securian Financial Group, Inc. (Securian).

The GLIP provides term life insurance for active employees, continuants, and retirees of the State of Wisconsin and for local government members whose employer elects to offer the plan. While the state and local government plans have historically been very similar in both benefits and premiums, the two plans have always been financially independent of one another.

The Board has administered a comprehensive GLIP for state members since January 1, 1958, and for WPE who elect to participate since January 1,1960. Minnesota Life Insurance, now known as Securian, has been the insurer for these plans since inception. The life insurance program has not experienced a rate increase since it began in 1958.

Reviewed and approved by John Voelker, Deputy Secretary

Electronically Signed 10/31/18

Board	Mtg Date	Item #
GIB	11.14.18	8A

At the August 22, 2018, board meeting**,** ETF asked the Board to defer discussion on rate setting to allow ETF, Securian and Milliman time to analyze options to increase the valuation. An attached letter from Milliman explains observations on the group life plan based on their preliminary review of plan documents, agreements and financial reports. After analysis, it has been determined that steps need to be taken to improve the valuation, especially for the State pool, and the best way to improve the valuation is to increase the state plan premium.

All plan options presented are expected to return the plan to 100% funding status within ten years. Although options 2 and 3 involves rate increases spread over time, if the Board were to authorize the proposed rate increase for the entire ten-year period, then Securian would reduce the plan liability accordingly, resulting in a valuation that showed the plan to be at 100% funded immediately. If the Board only approved one rate increase at a time, the improvements in the plan's funding status would be reported piecemeal. The analysis of the impact of the structure of the rate increases on the GASB 74/75 results is outside the scope of this project.

Decreasing plan benefits was an option considered. Research conducted by ETF program and legal staff concluded this could create legal risks for the program. Other governmental plans have not adopted benefit decreases in response to life insurance funding issues. Decreasing plan benefits would not sufficiently increase the valuation without also being accompanied by an increase in rates. ETF recommends that decreasing plan benefits is not a prudent or viable option and would not resolve the valuation.

It should be noted that a premium rate increase will increase employer contributions by the same proportion. State contributions are a percentage of the active member contributions.

The valuation on the state plan has gradually trended down in recent years, for reasons described below. The table below summarizes the past five valuation calculations

State of Wisconsin Valuation Funding Analysis Assets as a Percentage of Net Liabilities ($ Millions)		
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 2017 produces a significant decrease in the valuation calculation.
- Investment returns are expected to remain low for the foreseeable future.

The goal is to increase the state plan valuation fund to a level of 100% by the year 2028.

Options
Considering the noted facts, a variety options are available to ultimately achieve the goal of increasing the valuation. The options include, but are not limited to the following:

Option 1:

An annual 5% premium increase during the next ten years. The monthly premium would increase $.88 for the first year and a total of $11.01 over the course of 10 years for a 45-year-old individual with a $50,000 annual salary that has basic, supplemental and 1x additional coverage. The State would experience an increase in employer contributions of $200,000 the first year and $2.6 million by year ten.

Advantages

- The increase in premium would be incremental and spread evenly over a 10-year period.
- Would allow rates to be more easily adjusted in future years to account for experience.

Disadvantages

- Premiums would increase for both members and the State every year for the next 10 years.
- With this option, the aggregate cost for members is higher than most other options.

Option 2:

Premium increase of 13% every three years during the next 10 years. In this example, the monthly premium would increase $2.28 for the first year and a total of $11.03 over the course of 10 years for a 45-year-old individual with a $50,000 annual salary that has basic, supplemental and 1x additional coverage. The State would experience an increase in employer contributions of $500,000 the first year and $2.6 by year ten.

Advantages

- Premium increases would be incremental and would not impact the state or members annually.
- Involves more modest increases which could be less disruptive and have less impact on participation.
- Would allow rates to be more easily adjusted in future years to account for experience.

Disadvantages

- Has a higher 10-year aggregate fiscal impact for both the state and member.
- The state would experience an increase in annual employer contributions of $500,000 the first year and $2.6 million by year 10.

Option 3:

A one-time premium increase of 47% effective April 1, 2019.
This option increases the average monthly premium by $8.23 from $17.50 to $25.73 for a 45-year-old individual with a $50,000 annual salary that has basic, supplemental and 1x additional coverage. This is the typical level of coverage for a member. The State would experience an increase in employer contributions of $2,000,000 the first year.

Advantages

- The valuation would reach the desired 100% goal within the first year of implementation.
- Allows the valuation to reach the desired goal by the time a new Request for Proposal is released.
- The aggregate fiscal impact over the next 10 years would be less with this option than other options considered.
- The fiscal impact for employees would be minimized since there was not an increase in health insurance premiums the past two years.

Disadvantages

- Involves a substantial increase and could impact plan participation and result in reduced revenues and increased adverse selection risk.
- The state's share of contributions would increase by $2 million next year.

The following table illustrates the member premium comparison between the options for a 45-year-old with a $50,000 annual salary with basic, supplemental and 1x additional coverage.

Employee Monthly Premium Comparison Age 45; $50,000 salary, basic, supp., and 1x additional coverage			
Year	5% Increase Every Year	13% Increase Every Three Years	Onetime 47% Increase
Current	$17.50	$17.50	$17.50
1	$18.38	$19.78	$25.73
2	$19.29	$19.78	$25.73
3	$20.26	$19.78	$25.73
4	$21.27	$22.35	$25.73
5	$22.23	$22.35	$25.73
6	$23.45	$22.35	$25.73
7	$24.62	$25.25	$25.73
8	$25.68	$25.25	$25.73
9	$27.15	$25.25	$25.73
10	$28.51	$28.53	$25.73

The following table illustrates the annual state contribution increase between options.

Increase to Annual State Contribution ($MM)			
Year	5% Increase Every Year	13% Increase Every Three Years	Onetime 47% Increase
Current	$4.2	$4.2	$4.2
1	$0.2	$0.5	$2.0
2	$0.4	$0.5	$2.0
3	$0.7	$0.5	$2.0
4	$0.9	$1.2	$2.0
5	$1.2	$1.2	$2.0
6	$1.4	$1.2	$2.0
7	$1.7	$1.9	$2.0
8	$2.0	$1.9	$2.0
9	$2.3	$1.9	$2.0
10	$2.6	$2.6	$2.0

Wisconsin Post-Retirement Life Insurance Investment Policy:
The Wisconsin Post-Retirement Life Insurance Investment Policy is attached. A summary of the investment policy follows:

Investments for the life insurance plans are held with Securian. In accordance with the administrative agreement between the Board and Securian, interest is calculated and credited to the life insurance plans based on the rate of return for a segment of Securian'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 of return for that year. Investment interest is credited based on the aggregate rate of return and assets are not adjusted to fair market value. Furthermore, Securian 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 credit quality general account of Securian reduces the risk of large losses.
3. The frequency of establishing the interest crediting rate reflects market conditions, ensuring the returns are competitive

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

Attachment A: Milliman Letter dated October 15, 2018 (Confidential)
Attachment B: Wisconsin Post-Retirement Life Insurance Benefit Funding and Investment Policy
Attachment C: Securian WPE Group Life Insurance Program Optional Coverages

WISCONSIN POST-RETIREMENT LIFE INSURANCE BENEFIT FUNDING AND INVESTMENT POLICY

The group life insurance plans for State of Wisconsin and Wisconsin local government employees provide term life insurance for both active and retired employees. Employees may also insure their spouses and dependent children.

Both active and retired State employees are eligible for a basic term insurance plan. Insurance for all employees under age 65 and for active employees ages 65 to 69 is equal to earnings under the Wisconsin Retirement System for the previous calendar year rounded to the next higher thousand dollars. At age 65, insurance reduces to a percentage of the insurance then in force. For active employees over age 65, these reductions are delayed until the earlier of retirement or attainment of age 70. A retired employee retains lifetime coverage in a reduced amount.

A supplemental insurance plan provides added term insurance for active employees equal to 100% of insurance under the basic plan. Prior to April 24, 1990, an employee could alternatively select supplemental insurance equal to 50% of insurance under the basic plan. Employees enrolled under that alternative may maintain that level of coverage. 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 insurance 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 continued payment of premiums.

Employees pay premiums to cover the major portion of the cost of the basic and supplemental coverages during active employment. Employees pay premiums to cover the entire cost of the additional insurance.

FINANCIAL OBJECTIVE

The main financial objective of the life insurance plans is to deliver life insurance benefits and fully fund the post-retirement life insurance benefit provided by statute on a continuing basis, through disciplined and timely accumulation of sufficient assets.

FUNDING GUIDELINES

This funding policy seeks to balance the following main objectives:

- **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.

- **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 with Securian Financial, the life insurance carrier (Securian) annually performs an annual valuation of the life insurance plans using reasonable actuarial assumptions of interest, mortality, withdrawals and salary scales as recommended by Securian and as approved by the Group Insurance Board.

Securian annually advises the Group Insurance 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 Securian:

- 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, Securian and ETF will develop a plan to present to the Group Insurance 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 Group Insurance Board.

- Premium Schedule - The assumption for premium rates included in the annual valuation will include all planned future premium changes as approved by the Group Insurance Board.

As provided in the financial agreement between the State of Wisconsin and Securian, Securian 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. Securian does not guarantee that the funds accumulated for the post-retirement insurance benefit shall be sufficient.

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.

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

The Group Insurance Board approves actuarial assumptions based on recommendations of Securian. 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.

Economic Risk *(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 Securian (see the INVESTMENT POLICY section). The goal for investing assets is to prudently invest the assets in a diversified manner relative to credit quality to meet funding needs while minimizing the risk of large losses. The Investment Policy achieves this goal by using Securian's general account assets to provide interest credits on plan investments that reflect a diverse high quality investment strategy.

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

ETF will review legislative proposals and consult with Securian as appropriate to determine possible impacts on the life insurance plans. If it is determined that a legislative proposal might materially affect plan funding, the 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.

Governance Risk *(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:

- Securian provides an annual valuation of the life insurance plans, as described above.

- Funding 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 Securian's administrative practices and procedures. This audit is typically performed every three years.

INVESTMENT POLICY

Investments for the life insurance plans are held with Securian. In accordance with the administrative agreement between the Group Insurance Board and Securian, interest is calculated and credited to the life insurance plans based on the rate of return for a segment of Securian'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 of return for that year. Investment interest is credited based on the aggregate rate of return and assets are not adjusted to fair market value. Furthermore, Securian 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 credit quality general account of Securian reduces the risk of large losses.

3. The frequency of establishing the interest crediting rate reflects market conditions, ensuring the returns are competitive.

Wisconsin Public Employers Group Life Insurance Program

Life can change in an instant. Be prepared by purchasing life insurance coverage for yourself and your family through the Wisconsin Public Employers Group Term Life Insurance Program.

Your optional coverages

Coverage options	Active employees	Retirees
Basic term life	1x previous year's WRS earnings, rounded to the next higher $1,000 (if not already a multiple of $1,000). At age 70, coverage for employees automatically continues and reduces to 50%. No further premiums are due from the employee to continue this coverage.	• If retired, coverage continues at 100% until age 65. • Coverage reduces to 75% at age 65 and 50% at age 66. • Premiums are deducted from monthly annuity until age 65. Thereafter, insurance is free for the lifetime of the retiree.
Supplemental term life	1x previous year's WRS earnings, rounded to the next higher $1,000 (if not already a multiple of $1,000). At age 70, coverage for employees terminates.	• If retired, coverage continues at 100% until age 65 and then coverage ends.
Additional term life	1x, 2x or 3x previous year's WRS earnings, rounded to the next higher $1,000 (if not already a multiple of $1,000).	• If retired, coverage continues at 100% until age 65 and then coverage ends.

Coverage type	Coverage amount	Additional information
Spouse and Dependent term life	Coverage options available: Spouse: **$10,000** Each dependent child: **$5,000** Spouse: **$20,000** Each dependent child: **$10,000**	• Coverage is for an insured employee's eligible spouse and dependent(s). • Dependent children are eligible up to age 26. Coverage may continue beyond age 26 for disabled children. • Coverage ceases when employee reaches age 70 or retires, whichever occurs first.

Monthly cost of coverage

Rates increase with age and are subject to change

Basic and Supplemental term life(Rates/$1,000/month)	
Age	Employee
Under 30	$0.04
30-34	0.04
35-39	0.04
40-44	0.06
45-49	0.10
50-54	0.16
55-59	0.22
60-64	0.30
65-69	0.39

Additional term life (Rates/$1,000/month)	
Age	Employee
Under 30	$0.06
30-34	0.06
35-39	0.06
40-44	0.09
45-49	0.15
50-54	0.24
55-59	0.33
60-64	0.45
65-69	0.59

Rates are effective through March 31, 2019.

Spouse and Dependent term life (Rates/month)		
Spouse:	$10,000	$2.50
Each dependent child:	$5,000	
Spouse:	$20,000	$5.00
Each dependent child:	$10,000	

Rates are subject to change
One monthly premium covers all eligible insureds.

Additional features

Beyond paying a benefit in the event of your death, your group life insurance plan has other important features:

- **Early benefit payments if diagnosed** as terminally ill – If an insured person becomes terminally ill with a life expectancy of 12 months or less, you may request early payment of up to 100 percent of the life insurance amount.
- **No premiums if you become disabled** – If you become totally and permanently disabled from earning any income according to the terms of the plan, life insurance premiums may be waived.
- **Accidental death and dismemberment and loss of use** – If you are killed in a covered accident or suffer a loss of a limb in a covered accident, additional payments may be made.

How much life insurance do I need?

Check out our life insurance calculator at
LifeBenefits.com/insuranceneeds

This is a summary of plan provisions related to the insurance policy issued by Minnesota Life Insurance Company to the Wisconsin Public Employee Group Life Insurance Program. In the event of a conflict between this summary and the policy and/or certificate, the policy and/or certificate shall dictate the insurance provisions, exclusions, all limitations and terms of coverage. All elections or increases are subject to the actively at work requirement of the policy.

Insurance products are underwritten by Minnesota Life Insurance Company, an affiliate of Securian Financial Group, Inc. Products are offered under policy form series 2832-G.

Securian Financial is the marketing name for Securian Financial Group, Inc., and its affiliates.

securian FINANCIAL™ | INSURANCE INVESTMENTS RETIREMENT

lifebenefits.com

400 Robert Street North, St. Paul, MN 55101-2098

F69465-1 Rev 8-2018 DOFU 8-2018
46621