

# Income Continuation Insurance Reserve Policy

Item 11: Group Insurance Board

Jim Guidry, Director, Benefit Services Bureau

Dan Skwire, Milliman, Inc.



# Action Item

- **Recommendation to approve the Income Continuation Insurance Program Reserve Policy.**
- **Recommendation to approve Milliman's recommendation of a fund reserve target of 135% for the state ICI program and a reserve target of 150% for the local ICI program.**

# Income Continuation Insurance

- Voluntary disability income replacement program payable to enrolled participants
  - Separate state and local plans
  - Short-term and long-term benefits payable to age 65
  - 75% of salary - monthly
  - Unable to perform duties of current position (short-term)
  - Unable to perform duties of any position (long-term)

# Income Continuation Insurance

## State ICI

- Premiums based on monthly salary and accumulated sick leave
  - Employers and Employees share premium costs
- UW faculty and academic staff premiums based on employee selected elimination period
- Exhaust sick leave (up to 130 days)
- Supplemental benefits
- Long-term add on \$75
- Payable until age 65

## Local ICI

- Premiums based on employee selected elimination period
  - Employers and Employees share premium costs
- No ties to accumulated sick leave
- Supplemental benefits
- Long-term add on \$75
- Payable until age 65

# ICI Financials

State and Local ICI Program Fund Balances December 31, 2018		
	State ICI	Local ICI
Fund Balance	\$71,493,483	\$38,914,553
Actuarial Liability	\$90,549,241	\$5,966,337
Surplus/(Deficit)	(\$19,055,758)	\$32,948,215
Reserve %	79%	652%

# ICI Reserve Policy

## Objective

- Provide the Board with guidance in establishing program reserve target
  - Sufficient to fund plan liabilities
  - Maintain fiscal integrity
  - Maintain premium rate adequacy and stability
- LAB Recommendation

# ICI Reserve Policy

## Reserve Target

- Percentage of actuarial liability
- Comprised of liability amount (100%) plus desired surplus (targeted amount)
- Range  $\pm 5\%$

Rate adjustments can be spread over multiple years.

Flexibility to set premium rates outside of range.

Policy reviewed every three years.

# Surplus and Plan Funding

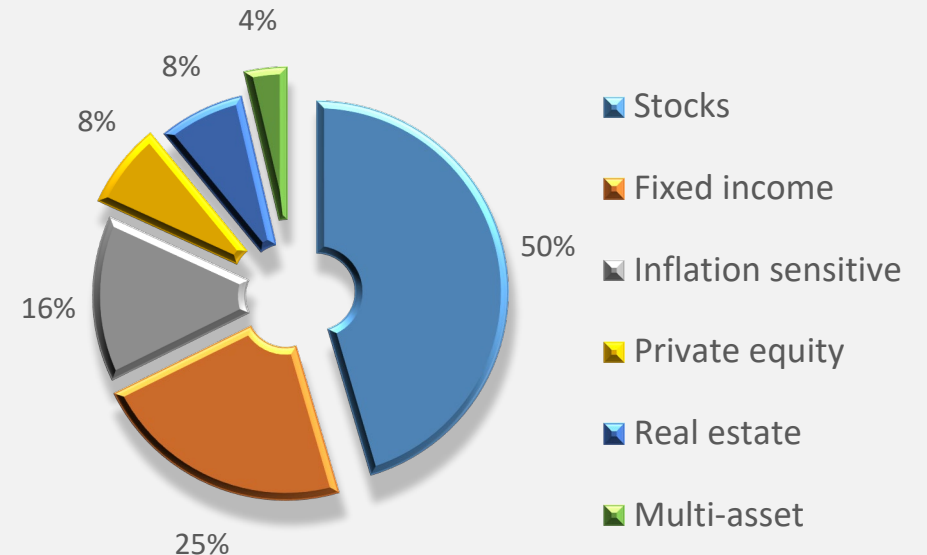
- ICI liabilities reflect expected future benefits and expenses
- Surplus provides funding for unexpected losses
  - Adverse claim experience
  - Unfavorable investment returns
- ICI experience can be volatile
  - Claim terminations
  - Benefit offsets
  - Investment returns
- Surplus can help mitigate risk of plan becoming underfunded



# WRS Core Fund Portfolio

- Relatively high investment returns due to Core Fund asset allocation
- ICI liabilities reflect 7.0% interest rate assumption
- Target surplus should take into consideration asset risk
  - Higher target surplus when liabilities backed by high-risk assets
- If liabilities backed by less risky assets, target surplus would be lower but liability would be higher
  - Less investment income to fund future benefits and expenses

2019 Core Fund Asset Allocation Targets\*



Total exceed 100% due to SWIB's overall leverage of Core Fund assets.

\*SWIB's actual asset allocation may vary up to +/- 6% from targets

# Target Surplus Calculation

## (\$ Millions)

- Based on NAIC Risk Based Capital (RBC) formula and December 31, 2018 valuation date

Surplus Component	State	Local
C1: Asset Risk	\$17.4	\$1.1
C2: Insurance Risk	\$8.5	\$1.5
<u>C3: Operational Risk</u>	<u>\$0.1</u>	<u>\$0</u>
Subtotal $((C1^2 + C2^2)^{1/2} + C4)$	\$19.5	\$1.9
<u>Additional Margin (50% of Subtotal)</u>	<u>\$9.8</u>	<u>\$0.9</u>
<b>Estimated Target Surplus</b>	<b>\$29.3</b>	<b>\$2.8</b>
<b>Actual Surplus/(Deficit) as of Dec. 31, 2018</b>	<b>(\$19.1)</b>	<b>\$32.9</b>

- The State ICI target surplus of \$29.3 million is roughly 32% of the liability of \$90.5 million
- The Local ICI target surplus of \$2.8 million is roughly 47% of liability of \$6.0 million

Note: We have relied on data provided to us by Wisconsin ETF and The Hartford. To the extent this information is inaccurate or incomplete, the results of our work may be materially affected. Also, we have constructed several projection models and have made assumptions about future claim experience. It is nearly certain that actual experience will not conform exactly to the assumptions used in this analysis.

# Other Considerations

- The high surplus in the Local ICI plan funds the ongoing premium holiday.
- If surplus in Local plan is reduced to target level, then it is very likely that premium contributions would need to be reinstated.
- Deficit in State plan is expected to be eliminated within next few years, according to financial projections as of December 31, 2018.

# Action Items

- **Recommendation to approve the Income Continuation Insurance Program Reserve Policy.**
- **Recommendation to approve Milliman's recommendation of a fund reserve target of 135% for the state ICI program and a reserve target of 150% for the local ICI program.**



**Questions?**