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Correspondence Memorandum

Date: October 18, 2019

To: Group Insurance Board

From: Jim Guidry, Director
Benefit Services Bureau

Subject: Intent to Issue Request for Proposal for Income Continuation Insurance Program Administrative Services

This memo is for information purposes only. No board action is required.

In June the Department of Employee Trust Funds (ETF) intends to issue a Request for Proposal (RFP) for the administration of the Income Continuation Insurance (ICI) program. This memorandum to the Group Insurance Board (Board) provides contract background and details on the procurement timeline that ETF intends to follow so that the Board is afforded enough time to review the details of the RFP plan. A formal request to issue the RFP will be presented to the Board at its February 6 meeting.

Background

The ICI program is a voluntary, self-insured, income replacement program available to all WRS enrolled state employees and employees of all local government entities that decide to participate in the program. The ICI program is authorized by Wisconsin Statute §40.62 and is currently administered by The Hartford. The program offers both short-term and long-term benefits for employees who develop disabilities that prevent them from working, either temporarily or permanently. All state employers are required to participate, while participation is optional for local employers. The ICI program is funded solely by premiums paid by employers and employees and investment returns.

The ICI program will pay benefits to any insured individual who becomes disabled while employed by a WRS participating employer. ICI will pay up to 75% of average monthly earnings. There are two types of coverage, Standard and Supplemental:

- Standard Coverage – Covers up to $64,000 of annual earnings. The maximum benefit is $4,000 per month. Premiums are shared by employers and employees.

Reviewed and approved by Matt Stohr, Administrator, Division of Retirement Services
Matt Stohr Electronically Signed 10/25/19

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- Supplemental Coverage – Available to employees whose annual salary exceeds \$64,000. Covers between \$64,000 and \$120,000 of annual earnings. The maximum benefit is \$7,500 per month. Supplemental coverage premiums are paid entirely by the employee.

ICI benefits are payable until the recipient turns age 65 (with some exceptions), recovers, returns to full-time work, or dies, whichever occurs first. A \$75 supplemental benefit is added to the monthly benefit amount when the benefit transitions from short-term to long-term ICI after one year.

ICI benefits will begin after a state employee serves an elimination period or exhausts sick leave up to a maximum 130 working days, whichever is longer. All state employees (other than University of Wisconsin faculty and academic staff) have a 30-day elimination period. UW faculty and academic staff choose an elimination period of 30, 90, 125 or 180 days.

Local employees, like UW faculty and academic staff, select their own elimination period, up to 180 calendar days. The local ICI plan does not require employees to exhaust sick leave prior to receiving benefits.

In the state ICI plan, premiums are determined by an employee’s salary and level of accumulated sick leave. The employee’s accumulated sick leave determines which of the six premium rate categories they fall into. ICI premiums for UW faculty and academic staff are determined by an employee’s salary and the employee-selected elimination period. Premiums for local employees are also based on an employee’s salary and desired elimination period. The ICI local plan is currently on a premium holiday which is expected to continue when the RFP is issued.

Employer contributions to the state ICI program are based on percentages established in §40.05 (5) Wis. Stat. The employee share of the premium is determined by reducing the total premium by the employer share. The highest rate category, Category 6, is 100% employer paid. For UW faculty and academic staff and local employees, employers pay 100% of the premium for a 180-day elimination period. If a local employee wishes to enroll in a shorter elimination period, they will pay the premium differential. Additionally, there is no employer contribution for UW faculty and academic staff until they have 12 months of state employment under the WRS.

ICI benefits will not duplicate certain benefits available from other sources, including the WRS, Social Security Administration, workers’ compensation, and unemployment compensation. Duplicate benefit payments must be paid back to the ICI program.

The ICI program paid \$18.5 million in benefits in 2018, a 7% decrease from 2017. The number of claimants receiving an ICI benefit (state or local) was approximately 1,221 as of December 31, 2018, which is a decrease of 5.6% from the previous year.

ICI Contract

The current ICI contract was originally executed on December 16, 2008, between ETF and Aetna Life Insurance Company for the administration of the ICI and Long-Term Disability Insurance (LTDI) programs. The original contract term covered the period from January 1, 2009 through December 31, 2013, with an option to extend the contract for two additional two-year periods. Both of those options were enacted by the Board and resulted in the extension of the contract through December 31, 2017.

Aetna's disability book of business was purchased by The Hartford Life Insurance Company (The Hartford) in November 2017.

Beginning in 2015, ETF initiated a redesign of the disability benefit programs with the intended goals of reducing duplication in long-term disability benefit programs, reducing program complexity, and addressing financial issues with the state ICI program. In order to maintain stability in ICI program administration while the redesign project continued, the Board approved an amendment to the ICI contract to allow two additional one-year extensions. Those extensions were also approved by the board and covered the plan years 2018 and 2019.

In 2018, due to delays in obtaining statutory changes necessary to move forward with redesigning the ICI plan, the Board approved another contract amendment to permit an additional two-year extension to cover plan years 2020 and 2021. That extension was completed in June 2019.

The disability programs redesign effort resulted in the closure of the LTDI program on December 31, 2017. The program had been administered by The Hartford, but as a result of the closure of the program, the payment and administration of the remaining open LTDI claims was moved to ETF for runout. The decrease in claims administration for The Hartford caused ETF to negotiate a reduction in the annual administrative fee paid to The Hartford. The annual fee for the 2019 plan year was reduced by 24%, or $864,000.

2020 Request for Proposals for ICI Program Administration

Issuing an RFP using the timeline presented below will allow ETF enough time to ensure that the transition from The Hartford to a new vendor, if necessary, is completed by the time the new vendor becomes responsible for claims administration and payment beginning with the 2022 plan year.

The RFP will include updates to the current list of monthly, quarterly, and annual reports that are provided to ETF, including requirements to provide SOC I and SOC II reports and reconciled funding reports. In addition, updated compliance reporting requirements and enhanced data sharing requirements will be included.

Once approved by the Board in February 2020, ETF will proceed with the preparation and distribution of the RFP as outlined in the timetable below. The contract will be for a five-year period from January 1, 2022 through December 31, 2027, with an additional two-year extension permitted. The tentative RFP timeline is as follows:

February 2020	Board approves issuing RFP for ICI Program
June 2020	ETF Issues RFP
August 2020	Proposals due
November 2020	RFP results reviewed by the Board and Board approves vendor to contract with for 2022
February 2021	Execute new contract
March 2021	Begin implementation and transition process
January 1, 2022	New contract begins

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