



STATE OF WISCONSIN
Department of Employee Trust Funds
 A. John Voelker
 SECRETARY

Wisconsin Department
 of Employee Trust Funds
 PO Box 7931
 Madison WI 53707-7931
 1-877-533-5020 (toll free)
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Correspondence Memorandum

Date: January 21, 2022

To: Group Insurance Board

From: Jim Guidry, Bureau Director
 Benefit Services Bureau
 Division of Retirement Services

Subject: Income Continuation Insurance Program Underwriting Standards Review

ETF requests the Group Insurance Board (Board) approve the Evidence of Insurability (EOI) underwriting standards used by The Hartford.

Background

The Income Continuation Insurance (ICI) Program is a voluntary, self-insured, income replacement program available to all Wisconsin Retirement System (WRS) enrolled state employees and employees of all local government entities that elect to participate in the program. The ICI Program is authorized by Wis. Stat. §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 program is funded solely by employer and employee premiums and investment returns, and will pay benefits to any insured individual who becomes disabled while employed by a WRS participating employer.

On February 5, 2020, the Board authorized the development and release of a Request for Proposals (RFP) for administrative services for the ICI Program.

As part of the 2020 RFP for ICI Program administration, potential vendors were asked to describe their organization’s ability to perform program enrollment responsibilities, including providing medical underwriting standards for EOI applications.

On November 18, 2020, the Board authorized the Secretary of ETF to issue a letter of intent to award a contract on behalf of the Board for third-party administration of the ICI Program to The Hartford for the period of January 1, 2022, through December 31, 2026, with the potential for one additional two-year extension, subject to successful contract negotiations.

Review and Approval of Underwriting Standards

Reviewed and approved by Matt Stohr, Administrator, Division of Retirement Services Electronically Signed 01/28/2022

Board	Mtg Date	Item #
GIB	2.16.22	10B

Section 2.03 (1) of the ICI plan language indicates that the underwriting standards used by the vendor to process EOI applications must be approved by the Board:

2.03 COVERAGE AFTER INITIAL DATE OF ELIGIBILITY

(1) EVIDENCE OF INSURABILITY

Any EMPLOYEE, who does not elect to be covered during the initial enrollment period or who previously cancelled ICI coverage, or an EMPLOYEE who desires at a later date to change to a shorter elimination period, may complete an application of evidence of insurability furnished by the DEPARTMENT. . . . The evidence of insurability application shall be reviewed by the CONTRACTOR **subject to the health underwriting standards approved for the program by the BOARD.** (Emphasis added.)

ETF asked the disability programs actuary, Milliman, Inc. (Milliman), to review the underwriting methods used by The Hartford and to give an opinion on their adequacy.

Milliman has reviewed The Hartford's underwriting methods and has concluded that the methods are reasonably consistent with industry standards for voluntary group disability insurance.

Staff from ETF and Milliman will be at the Board meeting to answer any questions.

Attachment A: Review of Underwriting Methods for the State and Local Income Continuation Insurance Plans- Milliman Inc., January 7, 2022

Attachment B: Evidence of Insurability Instructions (ET-2308)



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milliman.com

January 7, 2022

Jim Guidry
Director
Benefit Services Bureau
Wisconsin Department of Employee Trust Funds
Madison, WI 53707

**RE: Review of Underwriting Methods for the State and Local Income Continuation Insurance Plans
Revised January 6, 2022**

Dear Jim,

Thank you for asking Milliman to assist the Wisconsin Department of Employee Trust Funds in reviewing the underwriting methods for the State and Local Income Continuation Insurance (ICI) plans. The Hartford performs the underwriting for these plans, which includes evaluating application and evidence of insurability (EOI) forms. We have reviewed the ICI underwriting guidelines and other information from The Hartford, as well as the ICI application and EOI forms. This letter discusses the ICI underwriting methods and contains our specific observations on these methods.

Background

Eligible members have several options for enrolling in the State or Local ICI plan:

1. **Initial Enrollment** – Members can apply for ICI coverage by completing form ET-2307 (State) or Form ET-2366 (Local) within 30 days of hire, or within 30 days of becoming a participant of the Wisconsin Retirement System. These forms require no medical EOI, meaning guarantee issue underwriting methods are used and members are automatically enrolled provided they satisfy the employment requirements.
2. **Deferred Coverage** – State employees excluding UW faculty and academic staff have the option to enroll when they first become eligible for employer premium contributions under ICI premium category 3, or when they first become eligible for an increase in employer contributions under ICI premium categories 4 or 5. State employees on leave of absence during the deferred coverage enrollment period have 60 days to apply for coverage from the time they return to work. Also, members in ICI premium category 6 have the option to enroll during any deferred coverage enrollment period.

UW faculty and academic staff can enroll after completing one year of WRS-creditable State service, and have 60 days to enroll if enrolling during the deferred coverage enrollment period or if enrolling via deferred coverage upon return from a leave of absence. Also, UW faculty and academic staff with 1,040 hours of accumulated sick leave can enroll during any deferred coverage enrollment period.

The deferred coverage enrollment period does not require medical EOI.

3. **Evidence of Insurability** – Members who do not enroll during the initial enrollment or deferred coverage enrollment periods can apply for coverage by providing EOI in form ET-2308. This form must also be completed by local members and UW faculty who are already enrolled in the ICI plan and wish to elect a shorter elimination period.

Observations

We have reviewed the application forms and underwriting methods for the State and Local ICI plans, and made the following observations:

- It is very common to use guarantee issue underwriting methods during the initial enrollment period for group disability insurance;
- Using guarantee issue underwriting methods during the deferred coverage period could exacerbate adverse selection risk because it allows members who previously declined coverage to enroll without providing EOI. In other words, some members who declined coverage during the initial enrollment period may have deteriorating health conditions that could incentivize enrolling during the deferred coverage period. On the other hand, the employer contributions during the deferred coverage period may provide incentive for healthy members to enroll in ICI coverage, which can help mitigate adverse selection risk. Furthermore, including an objective trigger related to the change in employer contributions can help mitigate adverse selection risk, in much the same way that many disability insurance policies allow employees to enroll (or modify coverage) during any change in family status.
- Form ET-2308 contains six “yes/no” questions related to the applicant’s health. It is very common to ask questions of this nature for underwriting voluntary group disability insurance. Sometimes, to simplify the underwriting, these questions are structured as “knock-out” questions for which a “Yes” response to any question results in the application being denied. This does not appear to be the case in Form ET-2308, because applicants can supply additional information on questions with a “Yes” response, and The Hartford evaluates this additional information for making decisions.
- Form ET-2308 also asks the applicant about 34 specific health conditions, such as heart disease, back disorders, AIDS, etc. This list of conditions is consistent with the conditions that are typically included in disability application forms. Also, it is very common for disability applications to include a question of this nature, for which some conditions

automatically trigger the decision to decline coverage, and some conditions prompt more extensive underwriting.

- ICI underwriting guidelines are mainly driven by The Hartford's internal guidelines which use auto-adjudication methods—i.e., most applications are approved or denied automatically based on the information provided in the application. When the information supplied in Form ET-2308 is not approved or denied automatically, The Hartford uses an underwriting manual from Munich Re to evaluate the responses. For example, the Munich Re manual is used when certain health conditions flagged in the application do not result in an automatic denial. The manual provides guidance for underwriting these health conditions and making a decision. Munich Re is recognized as one of the leading disability reinsurance companies, and, in our view, the underwriting manual is robust and reasonable for underwriting ICI applications that are not automatically approved or denied.
- When there is missing information on the application forms, The Hartford returns them to the employee along with a letter explaining what is missing, and advising that form must be completed and returned or the application will be denied. This approach is consistent with industry best practices.
- When an employee specifies a medical condition on the application forms but does not provide enough information regarding the condition to make a determination, a request is made for an attending physician statement to be completed. This request for additional information advises the employee that the application will be denied if the requested information is not received by The Hartford within 30 days. This approach is consistent with industry best practices.
- Some insurance companies use other underwriting tools to help mitigate the impact of less complete health questions. For example, a prescription drug database search can identify medications taken by the insured, and thereby provide insight into possible existing medical conditions. The Hartford indicated that it has the ability to utilize prescription drug database searches for underwriting ICI applications. Alternate methods, such as pharmacy database searches, are much faster than requesting physicians' statements, although the information tends to be less complete.
- According to the ICI performance guarantee program, The Hartford agrees to approve or deny 99% of applications within 10 business days or pay a penalty equal to 0.075% of annual premium. We have reviewed the EOI reports from The Hartford from 2021. According to these reports, 100% of applications submitted in 2021 were processed within 10 business days.
- The following table shows the number of applications submitted, approved, and denied during the EOI enrollment period from 1/1/2021 through 9/30/2021:

State and Local ICI Applications During the EOI Enrollment Period			
1/1/2021 – 9/30/2021			
Decision	State ICI	Local ICI	Total
Approved	38	23	61
Denied	28	3	31
Total	66	26	92

In total, 66% of applications were approved and 34% were denied. The denials were primarily State ICI applications, for which only 58% of applications were approved and 42% were denied. On the other hand, 88% of Local ICI applications were approved and only 12% were denied.

Conclusion

In our view, the underwriting methods for the State and Local ICI plans are reasonably consistent with industry standards for voluntary group disability insurance. Using guarantee issue underwriting methods during the initial enrollment period is very common. The use of guarantee issue underwriting methods during the deferred enrollment period does not appear to pose significant risk issues for the State ICI plan.

The Hartford performs all of the EOI evaluations based on internal underwriting guidelines, supplemented by external tools such as the Munich Re underwriting manual and prescription drug database searches. These methods seem appropriate from our perspective.

In 2021, The Hartford made determinations within 10 business days on 100% of ICI applications. Approximately two thirds of these applications were approved and one third were denied. The percentage of approved State ICI applications was much lower. ETF may wish to consider asking The Hartford for additional information on why so many State ICI applications were denied in 2021.

General

This letter is intended for the internal use of The Wisconsin Department of Employee Trust Funds (ETF) and may not be distributed to other parties without the written consent of Milliman, under the terms of Amendment 12 dated January 25, 2021. This letter may not be provided to third parties without Milliman's prior written consent. In preparing this letter, we have relied on data provided to us by ETF and The Hartford on ICI underwriting methods. To the extent this information is inaccurate or incomplete, the results of our work may be materially affected.

I, Paul Correia, am a consulting actuary with Milliman and a member of the American Academy of Actuaries. I meet the Qualification Standards of the American Academy of Actuaries to render the actuarial opinion contained herein.

Please let me know if you have any questions on this information. I can be reached at paul.correia@milliman.com. Thank you.

Sincerely,

A handwritten signature in black ink that reads "Paul Correia". The signature is written in a cursive, flowing style.

Paul Correia, FSA, MAAA
Principal and Consulting Actuary

c.c. Erin Esser, Gina Fischer, Matt Nelson, Megan Jeffers, Dan Skwire



Evidence of Insurability Instructions

Income Continuation Insurance

Wis. Stat. § 40.61

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

The *Evidence of Insurability* application allows you to apply to enroll in the Income Continuation Insurance (ICI) Program if you did not enroll when originally eligible (open enrollment period) or if coverage was canceled. This includes unclassified teachers at the University of Wisconsin and local employees who wish to change to a shorter waiting period. You are responsible for the cost of any medical examination(s).

In order to be approved, you must demonstrate good health satisfactory to the plan administrator and must be seen by a physician for a physical examination within 12 months of the date the application is submitted. You must be under 70 years of age to apply for ICI.

To apply for supplemental ICI coverage in addition to ICI coverage, your annual earnings must exceed \$64,000. You cannot use this form to apply for supplemental ICI coverage only. Supplemental ICI premiums are paid by the employee with no employer contribution.

The insurance coverage effective date shall be the first day of the calendar month which begins on or after the date the application is approved.

Complete the form in its entirety to ensure timely processing of your application. **Answer all questions completely.** If a question is not answered or a question is not answered completely, the form will be returned to you.

Enter the date you completed the application. Your completed application must be received by the Department of Employee Trust Funds no later than one month from this date in order to ensure current medical information.

Your signature is required.

Mail the completed application directly to:

Department of Employee Trust Funds
P.O. Box 7931
Madison, WI 53707-7931

Your copy of the application will be mailed to you approximately 60 to 90 days after insurability has been determined. ETF will notify you and your employer of denial or approval and the effective date of coverage, if applicable.

Personally identifiable information, such as your Social Security number, date of birth, etc., will not be used for any purpose other than for the administration of the benefit programs administered by ETF.



Evidence of Insurability
 Income Continuation Insurance
 Wis. Stat. § 40.61

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

 First MI Last

 Street Address or P.O. Box

 City State ZIP Code

Social Security number: _____

Date of birth (MM/DD/YYYY) _____

Sex <input type="checkbox"/> M <input type="checkbox"/> F	Height ft. in.	Weight lbs.

- Have you ever applied through ICI Evidence of Insurability before? Yes No
- Are you applying to shorten your waiting period? Yes No
- In addition to ICI, are you applying for supplemental coverage? Yes No
 (Annual earnings must exceed \$64,000 to be eligible for supplemental.)

UW Faculty and Academic Staff

Local Government Employees Only

I elect the following waiting period
 (calendar days):

- 30 day 125 day 30 day 90 day 180 day
 90 day 180 day 60 day 120 day

I elect the following waiting period
 (calendar days):

Current Employer or Department _____

Employer Number
 69-036

Occupation _____	Date Eligible for WRS (MM/DD/YYYY) _____
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Answer each of the following questions carefully and completely

Yes No

- Are you presently in good health and free from physical impairment? If no, explain. Yes No
- If female, are you currently pregnant? (If yes, you are not eligible to apply at this time. Please apply later). Yes No
- Has any life, health, or accident and sickness insurance application including income continuation insurance been canceled, rejected or assigned to a special rate category because of your medical condition? If yes, explain. Yes No
- Have you, within the last five years, made claim for or received disability or retirement payments because of an illness or injury? If yes, give date, amount, company, type of illness or injury, type of insurance and reason. Yes No
- During the last five years have you been hospitalized, had surgery or been advised to have surgery? If yes, give date, hospital, doctor and diagnosis. Yes No
- Have you, within the last five years, missed work for more than two weeks because of an illness or injury? If yes, list dates of time off and type of illness or injury. Yes No

7. Have you ever been diagnosed or received treatment by a health care provider or had reason to suspect you have had any of the following:

- | | |
|---|--|
| <input type="checkbox"/> Heart Disease/Attack | <input type="checkbox"/> Mental or Nervous Disorder |
| <input type="checkbox"/> Chest Pain, Angina, or Shortness of Breath | <input type="checkbox"/> Dizziness or Paralysis |
| <input type="checkbox"/> Disorder of Heart Muscles, its Nerves or Vessels | <input type="checkbox"/> Asthma, Emphysema, Breathing or Lung Disorder |
| <input type="checkbox"/> Irregular Heart Beat, Murmur or Rheumatic Fever | <input type="checkbox"/> Indigestion, Ulcers or Colitis |
| <input type="checkbox"/> Abnormal Blood Pressure | <input type="checkbox"/> Cancer of any Type, Past or Present |
| <input type="checkbox"/> Disorder of Veins or Arteries | <input type="checkbox"/> Tumor or Cysts |
| <input type="checkbox"/> Diabetes, High or Low Blood Sugar | <input type="checkbox"/> Conditions of the Brain or Nervous System |
| <input type="checkbox"/> Disorder of Kidneys or Bladder | <input type="checkbox"/> Conditions of the Eyes, Ears, Nose or Throat |
| <input type="checkbox"/> Venereal Disease, Syphilis, Gonorrhea, Genital Warts or Genital Herpes | <input type="checkbox"/> Conditions of the Skin or Lymph Nodes |
| <input type="checkbox"/> Protein, Blood or Sugar in Urine | <input type="checkbox"/> Conditions of the Prostate, Ovaries or Uterus |
| <input type="checkbox"/> Night Sweats, Persistent Swollen Glands, or Diarrhea | <input type="checkbox"/> Conditions of the Stomach, Intestines, Gallbladder or Liver |
| <input type="checkbox"/> Arthritis, Bursitis or Gout | <input type="checkbox"/> Conditions of the Thyroid or any Gland |
| <input type="checkbox"/> Disorder of Back, Neck or Spine | <input type="checkbox"/> Treatment to limit use of Alcohol, Other Chemicals or Drugs |
| <input type="checkbox"/> Disorder of Muscles, Bones or Joints | <input type="checkbox"/> AIDS or any Disorder of Immune System* |
| <input type="checkbox"/> Temporomandibular Joint Syndrome (TMJ) | <input type="checkbox"/> Human Immunodeficiency Virus (HIV)* |
| <input type="checkbox"/> Recurrent Abdominal Pain or Hernia | <input type="checkbox"/> AIDS Related Complex (ARC)* |
| <input type="checkbox"/> Stroke, Epilepsy or Seizure Disorder | |
| <input type="checkbox"/> Migraine or Persistent Headaches | |

*You are not required to submit, nor are we seeking a result of an HIV Antibody Test.

8. If any of the above are checked, give date, nature and period of disability, doctor's name and address and result.

9. Physician who is most familiar with your medical history. Include physician's full name, address, city, state, ZIP.

Name: _____ Address: _____

Date last visited: _____ Reason for visit: _____

Other Physician(s) consulted within the last five years: (Add additional names and addresses on a separate sheet of paper, if necessary.)

Name: _____ Address: _____

Upon approval of this application I hereby authorize payroll deductions from my earnings. I hereby authorize any and all physicians, hospitals, clinics, etc. to release to the Wisconsin Department of Employee Trust Funds or the ICI Program Administrator information from my health record. I understand that the specific type of information to be released includes any and **all medical and/or treatment records, and may include records pertaining to alcohol abuse, drug abuse, records with reference to child abuse, developmental disabilities, mental illness, HTLV-III (AIDS) testing and results, and/or treatment records.** This release is being made for the purpose of applying for insurance. A copy of this authorization shall be considered as effective and valid as the original and is effective for 90 days from the date signed below.

I understand that Wis. Stat. § 943.395, provides criminal penalties for knowingly making false or fraudulent claims on this form and hereby certify that, to the best of my knowledge and belief, the above information is true, correct and complete.

Date (MM/DD/YYYY)	Signature	Telephone No.: Work: () Home: ()
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<input type="checkbox"/> _____ did not respond to several requests for additional medical information <input type="checkbox"/> The medical information received from _____ indicates _____ Reapply: _____ Application: <input type="checkbox"/> APPROVED <input type="checkbox"/> DENIED Date: _____ By: _____	For ETF only. Effective date of Coverage (MM/DD/YYYY):
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Copy and Distribute: ETF Employee Employer