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Correspondence Memorandum

Date: April 22, 2022

To: Group Insurance Board

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

Subject: Acceptance of State and Local Income Continuation Insurance (ICI)
 Actuarial Valuations

The Department of Employee Trust Funds (ETF) requests the Group Insurance Board (Board) accept the State and Local ICI Actuarial Valuations as of December 31, 2021. ETF also recommends the Board adopt Scenario 1 for the state ICI plan, which would result in a 20% premium decrease in the 2023 plan year, and a continuation of the local ICI program premium holiday in the 2023 plan year.

Milliman, Inc., has prepared the annual actuarial valuation of the State and Local ICI programs as of December 31, 2021. The State ICI valuation shows the fund balance has reached 174% of actuarial liabilities, which is higher than the target range of 130% to 140%. For 2022 the board approved a 50% reduction of State ICI premium rates, as the reserve target range had been met.

Additionally, the reserve fund ratio in the Local ICI program declined in 2021. The reserve fund, however, still exceeds the target ratio of 150% by a significant margin. This margin is significant enough for ETF to recommend a continuation of the premium holiday for that plan in 2023. More information on the State and Local ICI plan reserves continues below.

An executive summary is included on page six of each report.

State ICI Program

State ICI Targeted Reserve Review

The Board established a reserve policy in November 2019 for the State Income Continuation Insurance (ICI) program and approved a reserve target range of 130-140% of the program's actuarial liabilities. At the end of 2020, the State ICI program's fund balance was \$120.0 million and represented 134.1% of the program's actuarial liability of \$89.5 million. While this was continued improvement in the financial position of the

Reviewed and approved by Matt Stohr, Administrator, Division of Retirement Services
 Electronically Signed 04/26/2022

Matt Stohr

Board	Mtg Date	Item #
GIB	5.18.22	9A

program, the fund balance fell short of the designated target of 135% of program liabilities, though it did fall within the reserve target range.

At the end of 2021, the fund balance had increased to \$154.3 million and actuarial liabilities had decreased to \$88.4 million (1.2% decrease). The fund balance is now at 174% of liabilities, which is above of the target range of 130-140% of liabilities.

State ICI Plan Rate Recommendation

The 2021 State ICI valuation report provided by Milliman developed financial projections for three scenarios representing different contribution rate levels:

- Baseline scenario: 50% reduction in contribution rates for the 2022 plan year, then rates are held level in 2023 and beyond
- Scenario 1: 50% reduction in contribution rates for the 2022 plan year, 20% reduction in 2023, then rates held level in 2024 and beyond
- Scenario 2: 50% reduction in contribution rates for the 2022 plan year, then rates are held level in 2023 and beyond, with State ICI benefit enhancements effective January 1, 2023
(*informational only*)

ETF recommends the Board adopt Scenario 1 and approve a 20% reduction in premium rates for the State ICI program for the 2023 plan year. Adopting Scenario 1 will continue ETF's efforts at responsibly fine-tuning rate levels to achieve the desired funding target established in the ICI Reserve Policy.

Local ICI Program

Local ICI Targeted Reserve Review

The Board established a reserve target of 150% of actuarial liabilities for the local ICI program in November 2019. At the end of 2020, the local ICI program's fund balance was \$41.6 million, and liabilities were \$6.8 million, leaving the fund balance at 612% of liabilities. On December 31, 2021, the fund balance had increased to \$43.8 million (5.2 % increase) while liabilities increased to \$7.2 million (5.3% increase). The fund reserve ratio remained stable at 611% declining one basis point from the previous year. In May 2020, the Board discussed ways to reduce the fund balance in the Local ICI program. At the time, it was noted that the reserve ratio was declining from previous levels due to increased participation and claims costs. Employer participation in the local ICI program increased 4.7% in 2021¹. As Milliman indicates, however, it will be several years before the ratio approaches the target.

¹ Wienkes, K. *Participation in the Wisconsin Public Employers Group Health Insurance Program and Income Continuation Insurance Plan*. January 19, 2022. Retrieved 4/12/2022 from <https://etf.wi.gov/boards/groupinsurance/2022/02/16/gib12g/direct>

Local ICI Plan Rate Recommendation

The 2021 Local ICI valuation provides financial projections for the following scenarios:

- Baseline scenario: Continuation of the local ICI premium holiday for the 2023 plan year and beyond
- Scenario 1: Continuation of the local ICI premium holiday for the 2023 plan year and beyond, with Local ICI benefit enhancements effective January 1, 2023 (*informational only*)

ETF recommends the Board approve the baseline scenario that leaves the local ICI premium holiday in place.

ICI Update

In August 2022, ETF will recommend technical changes to the State and Local ICI program language that will reduce the complexity and administrative requirements of the program, as well as simplify processes in preparation for the Insurance Administration System (IAS).

Supplemental Coverage

Among the ICI plan language change recommendations, ETF will also include a recommendation to increase the ICI standard benefit to cover a maximum annual salary of \$120,000. Currently, standard coverage is limited to \$64,000 of annual salary. Additional “employee-pay-all” supplemental coverage can be purchased by enrollees up to \$120,000 of annual salary. Increasing the standard coverage maximum will eliminate the need for enrollees to purchase Supplemental Coverage in order to insure their earnings between \$64,000 and \$120,000. The supplemental coverage provisions of the ICI plan are not established in statute and can be updated with a board-approved change to the plan language. As part of this valuation process, Milliman has created informational scenarios that show the effect of the changes to the standard and supplemental coverage provisions (State-Scenario 2, Local-Scenario 1) .

The recommended plan language changes and additional information will be provided to the Board at the August meeting.

ICI Contract Administration.

January 1, 2022, marked the beginning of a new administrative services contract with The Hartford. The contract will last for a five-year period, until December 31, 2026, with one opportunity for a two-year extension.

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

[Attachment A: State ICI Actuarial Valuation](#)

[Attachment B: Local ICI Actuarial Valuation](#)