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## Correspondence Memorandum

**Date:** January 25, 2023  
**To:** Group Insurance Board  
**From:** Tom Rasmussen, Life and Dental Insurance Plan Manager  
Office of Strategic Health Policy  
**Subject:** Life Insurance Audit Report

**This memo is for informational purposes only. No Board action is required.**

### Background

The Department of Employee Trust Funds (ETF) retained Wipfli LLP (Wipfli) to complete a biennial contract compliance audit of ETF contract ETI0047 (Contract), between ETF and Securian Financial Group (Securian) for Third Party Administration of the Wisconsin Public Employers (WPE) Group Life Insurance Program (Program). Wipfli is an independent auditing firm.

ETF asked Wipfli to determine if Securian has sound business practices, sufficient internal controls, and applies agreed-upon procedures for third-party administration of the WPE Program.

Attached are audit reports prepared by Wipfli for plan years 2020 and 2021. The reports separate the internal controls review into a separate document to match professional standards for indicating what falls under agreed-upon procedures. The audit included inquiries, observations, tests, and sampling regarding procedures Securian uses to administer the Program. The audit was based on the agreed-upon procedures outlined in the contract between ETF and Wipfli, dated November 10, 2021, or as otherwise discussed by ETF and Wipfli in advance of the audit.

### Audit Highlights

The audit confirms Securian is compliant with policy and reporting elements of the administrative agreement in key areas. Key areas the audit examined include the following:

- Evidence of Insurability Coverage Declinations and Approvals
- Claims Testing
- Eligibility and Premium Testing
- Disability Premium Waivers

Reviewed and approved by Eileen Mallow, Director, Office of Strategic Health Policy  
Electronically Signed 02/01/2023

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- Cancellation and Termination Processing
- Life to Health Conversions
- Premium Billing and Collection
- Review of Internal Controls.

### **Evidence of Insurability Coverage Declinations and Approvals**

The Administrative Agreement requires Securian to approve or request additional information deemed necessary for making an underwriting decision on 98% of all applications requiring evidence of insurability within seven calendar days after the receipt of the completed application. The Administrative Agreement also requires Securian to make a final disposition of 95% of all evidence of insurability applications (with notification mailed to the applicant) within seven calendar days after receipt of all necessary information. ETF asked Wipfli to audit applications that were filed under the evidence of insurability provision to ensure declinations and approvals contained appropriate documentation consistent with policies developed by Securian. Wipfli also examined the timeliness of Securian making a final disposition as outlined in the Contract performance standards.

Wipfli reviewed 25 randomly selected files from the 1,400 evidence of insurability applications submitted during the 2020-2021 period.

### Findings

There were two exceptions identified.

ETF requested Securian examine the exceptions identified and provide an explanation of the circumstances of why they occurred. In one exception identified, Securian's underwriting system showed that the approval decision and notification statement was ordered on the same date it was received. However, Securian found an error with the production of the notification letter. Securian confirmed that the notification statement was sent outside of the performance standard of seven calendar days.

In the second exception identified, Securian acknowledged there was an error in the timing for the approval of the spouse coverage related to this application. The spousal coverage should have been approved within seven days of Securian receiving the application, but due to the error, the notification letter was sent outside of the seven-day performance standard.

ETF is satisfied with Securian's response to the exceptions and with steps being taken to minimize the likelihood that similar errors will occur in the future.

### **Claims Testing**

The Administrative Agreement requires 95% of claims must be paid within 10 calendar days after receipt of all necessary proof, and 99% of all initial requests for additional information be mailed within seven calendar days of receipt of notice of death. Wipfli examined 60 randomly selected claims out of the 5,098 claims paid during the 2020-

2021 period. Wipfli also examined the amount of each claim to ensure that the claim payment was recomputed based on the type of claim (state vs. local), coverage elected, earnings, and age.

### Findings

There was one exception identified. Securian examined the exception identified and acknowledged the time to pay the death and dismemberment claim from time of receipt of all necessary proof exceeded 10 calendar days. When the certificates were received on the claim, the proof date for the claim was updated to reflect the date that the certificates were established and the date that allowed Securian to move forward with claim payment. This was done in error. ETF is satisfied with Securian's explanation.

### **Eligibility and Premium Testing**

The Administrative Agreement requires 99% of all eligible applications be approved or denied within seven calendar days following receipt of a completed application. Wipfli examined participant applications to verify that coverage effective dates and premiums began in the same period, and premiums were being correctly calculated according to age, State vs. Local, and active vs. retiree and pre-age 65 retiree status. Wipfli randomly selected 25 of the 20,464 applicants who enrolled and/or had a status change(s) during the 2020 – 2021 period.

### Findings

No exceptions were found as a result of the examination. The processing time for all selected records fell within the required standard.

### **Disability Premium Waivers**

The Administrative Agreement requires, for new waiver of premium disability claims, Securian request additional information for 99% of such claims within seven calendar days after the receipt of the claim. Also, for new waiver of premium disability claims, Securian must make final disposition of 95% of claims within 10 calendar days of receipt of all necessary information. Participants who are actively employed and become totally disabled may receive continued coverage that requires no premiums. ETF asked Wipfli to verify that disability premium waiver claims were processed as specified in the Administrative Agreement as well as to ensure appropriate documentation and adjudication timeliness are being met. Wipfli obtained documentation of Securian's process for disability premium waivers under the plan and reviewed 25 randomly selected records of the 2,037 files that included requests for waivers of premiums during the 2020 – 2021 period.

### Findings

For all files selected, documentation, denials, and determinations were consistent with policies established by Securian. There were two exceptions identified.

Securian responded to these exceptions with an explanation that one of the claims involved lengthy medical and legal review before issuing the claim determination. Securian acknowledges the claim decision was made outside of the performance

standard. The other exception identified was related to a waiver claim that originally began in 2004. A disability review occurs every two to three years for on-going disability claims.

### **Cancellation and Termination Processing**

ETF asked Wipfli to examine employee cancellations and terminations to verify the effective date of the cancellation was the first day of the month following the status termination date. Wipfli obtained documentation of Securian's process for policy cancellation and termination under the plan. They examined 25 randomly selected records out of 18,994 records that included cancellations and terminations during the 2020-2021 period. They inspected the cancellation or termination date for each record examined and compared it to the Securian database.

#### Findings

There were no exceptions noted between the cancellation or termination dates per Securian's database.

### **Life to Health Conversions**

Employees whose Basic life insurance coverage is at its final, reduced amount may choose to convert their coverage to pay premiums for health insurance or long-term care insurance. Premiums are paid until the account containing the conversion value is reduced to zero. ETF asked Wipfli to examine a random sample of health-to-life conversion policies to ensure that the remittances were completed timely.

Wipfli obtained documentation of Securian's process for life-to-health conversion under the plan. They obtained a data file containing a listing of all health insurance premiums paid on health to life conversions and randomly selected 25 of the 298 life-to-health conversions with premiums paid during the 2020-2021 period.

For the 25 randomly selected participants, Wipfli inspected the annual remaining balance notification letter sent to the participant. In addition, they inspected the schedule of the remaining balance attached to each annual notification letter. They obtained and inspected the four-month letter sent to participants that disclosed a reduced value of zero in the corresponding four months.

#### Findings

All letters were sent within the time requirements.

### **Premium Billing and Collection**

ETF asked Wipfli to examine whether premiums were correctly calculated according to age, and rates specified in the Administrative Agreement. Coverage and premiums are based on the previous year's annual earnings as reported by ETF or expected earnings in the year of hire.

Wipfli obtained an electronic data file containing all premiums billed during March 2020 and October 2021 and all premiums collected during December 2020 and April 2021.

Using randomly selected samples, Wipfli viewed the premium billing calculations, which included a listing of all the employees, their insurance coverage, and the rate table used. They also viewed the amount invoiced and compared it to the amount received from the employer.

### Findings

No exceptions were found as a result of applying this procedure. Any difference was the result of employer adjustments, which were provided along with the premium files. No exceptions were found in the recording of premiums between state, local, active, and retirees as consistent with the requirements of the Contract.

### **Review of Internal Controls**

Wipfli's objective was to obtain an understanding of the procedures and controls surrounding the Program's processes in specific areas of enrollment and eligibility, premium billing and collection, retirement, claims, cancellations, and disability premiums. Wipfli also examined how the interest crediting reserve is calculated and obtained an understanding of how the policy year reports are compiled.

Wipfli examined Securian's System and Organizations Control (SOC 1) report and bridge letter covering the testing timeframe and found no relevant testing exceptions or control weaknesses considered to be significant.

Wipfli also reviewed Securian's process for crediting interest on the contingent liability reserve, the premium deposit fund, the stabilization reserve, and the disability claim reserves in accordance with the investment year interest crediting method (as required by the Administrative Agreement). Interest credits and charges on cash flow are required to be calculated for each policy year.

Wipfli also reviewed Securian's processes in place to compile the policy year reports as outlined in the policy, master services, and administrative agreements.

### Findings

Wipfli observed and deemed the interest crediting reserves to be compliant with the Administrative Agreement. Also, Wipfli identified no exceptions in its testing related to Securian's compliance with the Administrative Agreement as it relates to compiling the policy year reports.

### **Conclusion**

No significant exceptions were identified, and no recommendations were made by Wipfli as a result of the audit. ETF is satisfied with the explanations that Securian provided for the exceptions that were identified. All performance standards were met by Securian during the audit period. Copies of the audit reports are included.

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

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Attachment A: [Report on Applying Agreed Upon Procedures 2020-2021](#)  
Attachment B: [Internal Controls and Procedures Review Report 2020-2021](#)