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March 31, 2023

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

RE: Extending ICI Coverage Beyond Age 69

Dear Jim,

Thank you for asking Milliman to assist Wisconsin Department of Employee Trust Funds (ETF) in analyzing the impact of extending Income Continuation Insurance (ICI) coverage beyond age 69. Earlier this year, ETF counsel determined that the ICI program does not comply with the Age Discrimination in Employment Act (ADEA) because coverage terminates at age 70 for all participating members. We are not attorneys and are not qualified to provide legal advice; therefore, we cannot comment on whether the current ICI program or changes to the program would comply with ADEA. At your request, we have analyzed the impact of extending ICI coverage beyond age 69 by extending the benefit schedule, which also terminates at age 69. This analysis was performed based on equal cost testing guidelines from the U.S. Equal Employment Opportunity Commission (EEOC) on assessing ADEA compliance for employee benefit plans, including disability insurance[1]. Based on our analysis, we believe ETF should consider adopting the EEOC's Safe Harbor schedule for the ICI program, because the other schedules that we have analyzed may not be considered ADEA compliant according to the equal cost requirements. The expected impact of adopting the Safe Harbor schedule for the ICI program is a modest increase in liabilities that would have a relatively small impact on program surplus levels.

ADEA Compliance

There are no ADEA compliance issues for employee benefit plans that provide equal benefits at all ages. Some disability plans (including the State and Local ICI plans) feature benefit periods that are reducing beyond a certain age (age 62 for ICI) and would not be considered compliant based on equal benefits criteria. In these cases, employers can demonstrate compliance by performing an equal cost test that shows claim costs are the same for older workers as they are for younger workers under the reducing benefit schedule. For example, employers are allowed to reduce the length of time disability benefits will be paid provided that the cost of disability benefits increases with age, and that expected claim costs are not less generous for older workers as they are for younger workers. In addition, EEOC has established the following Safe Harbor schedule that is compliant with ADEA and does not require justification from the employer:

[1] Source: https://www.eeoc.gov/laws/guidance/section-3-employee-benefits

- Benefits terminate at age 65 for disabilities incurred at age 60 or less.
- Benefits terminate after five years of disablement for disabilities incurred after age 60.

Current ICI Benefit Schedule

The current benefit schedule for the ICI program is provided below:

Table 1 Current ICI Benefit Schedule	
Age at Disablement	**Maximum Benefit Period**
Before age 62	To Age 65
62	3.5 years
63	3 years
64	2.5 years
65	2 years
66	1.75 years
67	1.5 years
68	1.25 years
69	To Age 70

The maximum benefit period is reducing for disabilities incurred at age 62 and older. If ICI coverage were extended beyond age 69, the current schedule would need to be extended beyond age 69.

Alternate Schedules

We considered the following alternate benefit schedules for performing equal cost tests prescribed by EEOC:

1. **Option 1**: The current schedule extended beyond age 69 by assuming a 1-year maximum benefit period for disabilities incurred at age 69 and older.

2. **Option 2**: The maximum benefit period reduces more gradually than the current schedule and benefits terminate after 3 years of disablement for ages 70 and older.

3. **Option 3**: The Safe Harbor schedule established by EEOC.

These options are summarized in Table 2 below:

Table 2 Alternate Benefit Schedules			
Age at Disablement	**Option 1**	**Option 2**	**Option 3**
Age 60 or below	To Age 65	To Age 65	To Age 65
61	4 years	5 years	5 years
62	3.5 years	4.75 years	5 years
63	3 years	4.5 years	5 years
64	2.5 years	4.25 years	5 years
65	2 years	4 years	5 years
66	1.75 years	4 years	5 years
67	1.5 years	4 years	5 years
68	1.25 years	4 years	5 years
69	1 year	4 years	5 years
70 and older	1 year	3 years	5 years

Expected Claim Costs

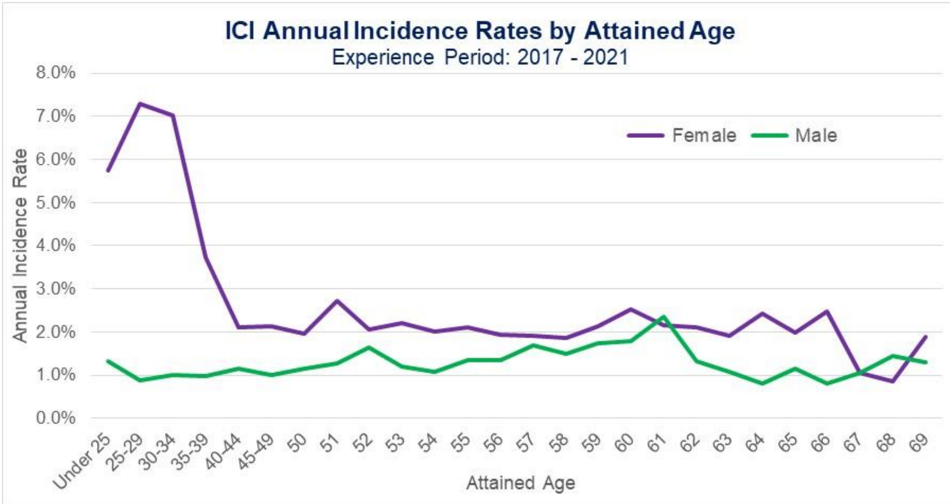
We calculated expected ICI claim costs for members of different ages based on incidence rate assumptions developed by Milliman using ICI experience from 2017 through 2021. These incidence rates vary by age and gender. We calculated expected claim costs by multiplying the incidence rates (which we assumed would not be affected by the benefit schedule options) by the expected benefit payments (which are different at older ages for the different benefit schedule options), where the expected benefit payments were calculated using the new ICI valuation assumptions and the same monthly benefit amount for all employees. The following table shows the expected annual claim costs per ICI participant by age band for the three benefit schedule options. The expected claim costs represent the average of the expected claim costs for male and female members of a given age.

Table 3
Expected Annual Claim Costs Per ICI Participant

Age at Disablement	**Option 1** (Current Extended)	**Option 2** (New Illustrative)	**Option 3** (Safe Harbor)
Under 25	$259	$259	$259
25-29	$382	$382	$382
30-34	$474	$474	$474
35-39	$337	$337	$337
40-44	$273	$273	$273
45-49	$295	$295	$295
50-54	$349	$349	$349
55-59	$339	$339	$339
60-64	$289	$311	$320
65-69	$157	$221	$240
70-74	$127	$223	$270
75-79	$127	$219	$271

To satisfy EEOC's equal cost test, the expected claim costs would need to be relatively uniform or non-decreasing with increasing age. The expected claim costs are decreasing beyond age 50 for Option 1. In our view, this pattern would not satisfy EEOC's equal cost test. Although Option 2 includes longer benefit periods than Option 1 and only slightly shorter benefit periods than the Safe Harbor schedule, the expected claim costs are lower at older ages and may be considered too low for satisfying the equal cost test. The expected claim costs under the Safe Harbor schedule (Option 3) are also relatively low at older ages, although this schedule is automatically ADEA compliant per EEOC's guidelines for disability plans.

The expected claim cost patterns shown above are related to the underlying incidence rate assumptions. In developing these assumptions, we noticed that ICI incidence rates are relatively flat for older employees, which is unusual because disability incidence rates are typically increasing with age. For this reason, ICI expected claim costs do not increase at older ages as one might expect. The following graph summarizes ICI claim incidence rates based on experience from 2017 through 2021.



Although disability incidence rates typically increase with age, the ICI incidence rates are relatively flat beyond age 45, which may be related to unique ICI program design and risk dynamics. For example, the decision to file an ICI claim can impact a member's retirement benefits because members must exhaust their accumulated sick leave up to 130 days before becoming eligible for benefits, which would result in fewer (if any) sick leave conversion credit benefits available at retirement age. Some older members may be reluctant to file an ICI claim due to implications on retirement benefits. Also, members who qualify for coverage that is 100% employer-paid tend to be older members who graduate into premium category 6 over time by accumulating more than 130 sick leave days. Members who do not currently participate in the program may be more likely to participate when they are eligible for the employer subsidy, and the adverse selection risk among these (older) employees may be relatively low compared to other (younger) employees who participate despite having to pay all or some of the premium. The following table shows the percentage of ICI participants aged 50 and above and 55 and above, based on enrollment data from the 2022 insurance files. Category 6 represents 100% employer-paid coverage and includes the highest proportion of members in the 50+ and 55+ age bands.

Table 4
ICI Participants Premium Category and Age Band
Source: 2022 Insurance Files

Premium Category	% Age 50+	% Age 55+
1	27%	15%
2	36%	20%
3	32%	20%
4	43%	28%
5	50%	32%
6	71%	47%
7	50%	34%
8	45%	28%
9	54%	38%
10	44%	29%
Total	**46%**	**29%**

These program design and risk dynamics may explain why ICI incidence rates are relatively flat beyond age 45. As a result, expected claim costs would be lower for older members under any benefit schedule with reducing benefit periods, which may be an issue for demonstrating ADEA compliance.

We used the ICI incidence rates shown above for calculating expected claim costs through age 69, and we used the incidence rates for age 69 to compute expected claim costs for ages 70 and above (which assumes a flat structure in older years, consistent with program experience).

Impact of Safe Harbor on ICI Liabilities and Contribution Rates

We estimated the impact of adopting the Safe Harbor schedule on program liabilities using ICI open claim data as of December 31, 2021. Based on this data, approximately 6% of State ICI claims and 9% of Local ICI claims would be affected by the change in schedule because they became disabled after age 60. The liabilities for these claims are higher under the Safe Harbor schedule than the current schedule because the Safe Harbor benefit periods are longer. The following table compares ICI open claim liabilities as of December 31, 2021 based on the current schedule and the Safe Harbor schedule. The overall impact is a modest increase in the estimated liability for the State and Local ICI plans as of December 31, 2021.

Table 5
Estimated Impact on ICI Open Claim Liabilities
Valuation Date: December 31, 2021

Plan	Current Schedule	Safe Harbor	% Increase
State ICI	$79,398,354	$80,105,422	0.9%
Local ICI	$6,375,611	$6,418,602	0.7%

We would expect a similar impact on the liabilities for IBNR claims and loss adjustment expenses. The impact may be slightly higher for IBNR claims because extending coverage beyond age 69 could shift the demographic mix of participating members towards older ages, which could result in higher claim costs.

Note that the estimated impact on program liabilities shown above does not include the impact of any retroactive benefit payments for claims that terminated in the past because they reached the maximum benefit duration.

We have also considered the impact of adopting the Safe Harbor schedule on ICI funding levels and contribution rates. We developed financial projections using ICI program experience as of December 31, 2021, and using the Safe Harbor schedule for projecting claim liabilities. We incorporated the basic benefit enhancements and the removal of supplemental benefits effective on January 1, 2024 into our projections. For the State ICI projection, we also incorporated the contribution rate reductions approved by the Board for 2022 (50%) and 2023 (20%), and we assumed that 2023 contribution rates are held level in 2024 and beyond. Based on this projection, the State ICI fund ratio (i.e., reserve balance divided by liability) is expected to decrease over time and reach 135% (i.e., within the target range of 130% to 140%) by 2026. Based on these results[2], we do not see an immediate need to adjust contribution rates for the Safe Harbor schedule.

We performed a similar analysis for the Local ICI plan which is on premium holiday and is significantly overfunded (611% fund ratio as of December 31, 2021). Based on our analysis, we do not see the need to adjust Local ICI contribution rates for adopting the Safe Harbor schedule. Our financial projections for the State and Local ICI plans are provided below, based on the Safe Harbor schedule.

[2] We plan to update this analysis using State ICI experience through December 31, 2022 when the data becomes available.

State ICI Financial Projection as of December 31, 2021 Assuming Safe Harbor Schedule

Calendar Year	2021	2022	2023	2024	2025	2026	2027
BOY Reserve Balance	$120,028,097	$154,290,018	$163,312,536	$168,515,513	$173,378,081	$176,408,852	$177,762,850
Premium Contributions	$39,386,893	$20,689,935	$17,048,506	$19,140,358	$19,714,569	$20,306,006	$20,915,186
Investment Income	$16,242,523	$10,491,721	$11,105,252	$11,459,055	$11,789,710	$11,995,802	$12,087,874
Total Revenues	$55,629,416	$31,181,656	$28,153,759	$30,599,413	$31,504,278	$32,301,808	$33,003,060
Insurance Claims	$18,240,575	$18,916,369	$19,592,163	$21,970,514	$24,306,693	$26,418,906	$28,373,922
Carrier Administrative Expenses	$2,332,822	$2,419,251	$2,505,679	$2,809,851	$3,108,629	$3,378,764	$3,628,795
Administrative Expense	$794,098	$823,518	$852,939	$956,480	$1,058,185	$1,150,139	$1,235,250
Total Operating Expenses	$21,367,495	$22,159,138	$22,950,782	$25,736,845	$28,473,507	$30,947,810	$33,237,967
Net Change in Reserve Balance	$34,261,921	$9,022,518	$5,202,977	$4,862,568	$3,030,771	$1,353,998	($234,907)
EOY Reserve Balance	$154,290,018	$163,312,536	$168,515,513	$173,378,081	$176,408,852	$177,762,850	$177,527,943
Actuarial Liability	$89,218,903	$97,116,506	$105,964,110	$114,957,830	$123,542,502	$131,697,450	$139,696,194
Surplus / (Deficit)	$65,071,115	$66,196,030	$62,551,403	$58,420,251	$52,866,350	$46,065,400	$37,831,749
Ratio of EOY Reserve Balance to Liability	**173%**	**168%**	**159%**	**151%**	**143%**	**135%**	**127%**

Note: 2021 is based on actual experience from 2021. The experience in 2022 and beyond was projected based on the valuation assumptions (e.g., incurred claims, investment income, etc.) for the State ICI plan.

Local ICI Financial Projection as of December 31, 2021 Assuming Safe Harbor Schedule

Calendar Year	**2021**	**2022**	**2023**	**2024**	**2025**	**2026**	**2027**
BOY Reserve Balance	$41,598,903	$43,754,728	$43,787,766	$43,752,446	$43,572,768	$43,286,483	$42,886,343
Premium Contributions	$0	$0	$0	$0	$0	$0	$0
Investment Income	$5,027,504	$2,975,322	$2,977,568	$2,975,166	$2,962,948	$2,943,481	$2,916,271
Total Revenues	$5,027,504	$2,975,322	$2,977,568	$2,975,166	$2,962,948	$2,943,481	$2,916,271
Insurance Claims	$2,260,238	$2,315,809	$2,371,381	$2,483,111	$2,557,402	$2,631,694	$2,705,985
Carrier Administrative Expenses	$411,674	$421,796	$431,917	$452,268	$465,799	$479,330	$492,861
Administrative Expense	$199,767	$204,679	$209,590	$219,465	$226,031	$232,597	$239,164
Total Operating Expenses	$2,871,679	$2,942,284	$3,012,888	$3,154,844	$3,249,233	$3,343,621	$3,438,009
Net Change in Reserve Balance	$2,155,825	$33,038	($35,320)	($179,678)	($286,284)	($400,140)	($521,738)
EOY Reserve Balance	$43,754,728	$43,787,766	$43,752,446	$43,572,768	$43,286,483	$42,886,343	$42,364,605
Actuarial Liability	$7,210,210	$7,432,350	$7,931,238	$8,647,647	$9,104,511	$9,511,779	$10,483,930
Surplus / (Deficit)	$36,544,518	$36,355,416	$35,821,208	$34,925,121	$34,181,973	$33,374,564	$31,880,675
Ratio EOY Fund Balance to Liability	607%	589%	552%	504%	475%	451%	404%

Note: 2021 is based on actual experience from 2021. The experience in 2022 and beyond was projected based on the valuation assumptions (e.g., incurred claims, investment income, etc.) for the Local ICI plan.

General

This letter has been prepared for Wisconsin ETF for the specific purpose of reviewing proposed changes to the ICI program, under the terms of Amendment 20 between Milliman and ETF signed on January 13, 2023. This letter may not be distributed to any other party without the written consent of Milliman. Any distribution of this letter should be in its entirety.

In preparing this letter, we relied on information and data (some oral and some in writing) supplied by ETF, including historical claim data from The Hartford and ETF as well as other sources. While Milliman has not audited this data, we have reviewed it for reasonableness and it is, in our opinion, sufficient and reliable for the purposes of our calculations. If any of this information is inaccurate or incomplete, the results shown could be materially affected and this letter may need to be revised.

This analysis relied on various assumptions and projections about future ICI experience. It is unlikely that future experience will conform exactly to these assumptions and therefore future results will vary from expected results to the extent future experience varies from these assumptions.

I, Paul Correia, am a Consulting Actuary at Milliman. I am a member of the American Academy of Actuaries and I meet its Qualification Standards to provide the actuarial opinion contained herein.

Please let me know if you have any questions. I can be reached at (207) 771-1204 or paul.correia@miliman.com. Thank you.

Sincerely,

Paul Correia, FSA, MAAA
Principal and Consulting Actuary