

Income Continuation Insurance Program Changes



Item 2 – Group Insurance Board

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Action Items

- The Department of Employee Trust Funds recommends the Board adopt Option 3, which would apply the safe harbor provisions of the Equal Employment Opportunity Commission regulations that address the maximum duration of ICI benefits and age-related enrollment limits, effective May 1, 2023.

Income Continuation Insurance

Voluntary disability income replacement benefit payable to enrolled participants

- Separate state and local plans
- Short-term and long-term benefits payable to age 65 for most
- Monthly benefit – 75% of salary
 - Max monthly benefit Standard coverage only - \$4,000 (increasing to \$7,500 in 2024)
 - Max monthly benefit with Supplemental coverage - \$7,500 (eliminated for 2024)
- State ICI premiums are based on salary and accumulated sick leave balances
 - UW Faculty and Academic Staff – Elimination period based premium structure
- Local plan has elimination period based premium structure – currently on premium holiday

ICI Program Update

In addition to program statutes and administrative code (§40.61, 40.62, ETF 50.10), the ICI program must comply with all state and federal regulations that apply to employee benefit programs.

- The federal Age Discrimination in Employment Act (ADEA) requires that an employer that provides fringe benefits to its employees must generally do so without regard to an employee's age.
- Employers may provide lower benefits to older workers than it does to younger workers in limited circumstances if it can be demonstrated that the reduced benefits are provided at an equal cost for all benefit recipients – Equal Cost Test.

What is Compliance?

Equal Benefits

- No compliance issues for plans that provide equal benefits at all ages

Equal Cost

- For reduced benefit schedules
- Periodic review
- Lower claims cost option

Safe Harbor

- Below age 60 – Benefit payable to age 65
- 60 and above – Five year benefit duration
- Deemed compliant
- Higher claims cost option

Current State

- Enrollment for new employees limited to age 69 and under
- Covered employees lose coverage upon turning age 70
- Claimants over age 61 at disablement have a reduced benefit duration depending on age
- Claimants age 69 at disablement have reduced benefits that end at 70

Age at Disablement	Maximum Duration of Benefits in Years
61 or younger	To age 65
62	3.50 years
63	3.00 years
64	2.50 years
65	2.00 years
66	1.75 years
67	1.50 years
68	1.25 years
69	To age 70

Future State

- No upper age enrollment restrictions
 - Any eligible employee can enroll provided they meet all other eligibility requirements
 - Current enrollees continue coverage after turning 70
- Benefits paid according to ADEA compliant duration schedule



WRS Active Employees Age 70+

By Year of Birth

Year of Birth	Employees
1953	36
1952	162
1951	133
1950	103
1949	74
1948-1933	244
Total	752

By Agency

Agency	Employees
UW System	397
Health Services	36
Corrections	33
Courts	29
UW Hospital	27
Total Other Agencies	145
Local Employers	85
Total	752

State ICI Enrollment Age 65-70 (Born 1953-1958)

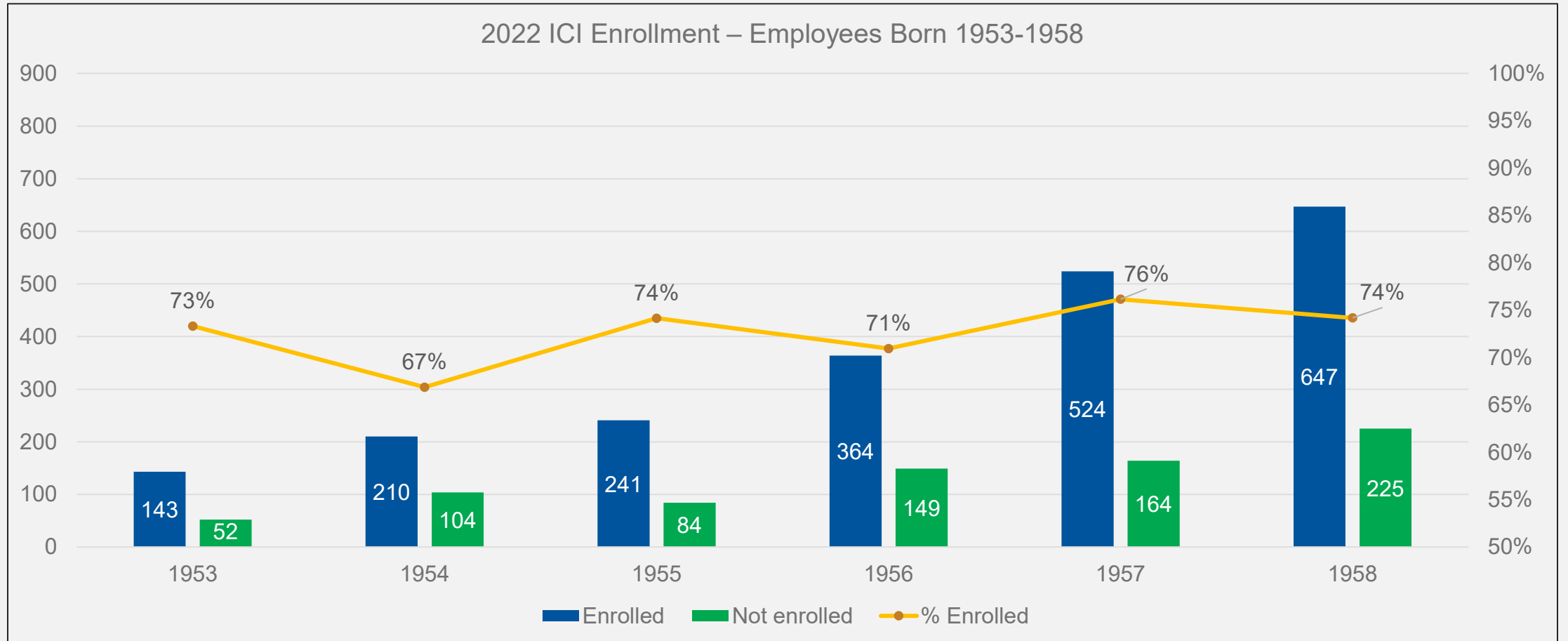
Rate Category

Year of Birth	1	2	3	4	5	6	Total	Ave. Monthly Salary
1953	6	6	3	6	10	45	76	\$ 6,702
1954	13	8	9	9	19	61	119	\$ 6,405
1955	11	11	10	9	15	62	118	\$ 6,220
1956	14	6	23	29	36	96	204	\$ 6,903
1957	34	24	34	30	41	160	323	\$ 6,753
1958	39	24	44	51	67	205	430	\$ 6,123
Total	117	79	123	134	188	631	1272	\$ 6,483

UW Faculty/Staff Elimination Period

Year of Birth	30	90	125	180	Total	Ave. Monthly Salary
1953	14	17	5	31	67	\$ 9,182
1954	15	29	5	42	91	\$ 8,795
1955	25	31	8	59	123	\$ 9,551
1956	32	54	7	67	160	\$ 8,495
1957	47	57	7	90	201	\$ 8,523
1958	38	75	19	85	217	\$ 8,198
Total	174	265	52	377	868	\$ 8,573

Percent ICI Enrollment Age 65-70



Financial Impact

Slight increase to program costs

- New group of eligible employees can enroll
- Current enrollees continue in the plan after turning age 70
- Benefits extend beyond current maximum duration schedule
- Relatively small group impacted
- Mitigated by other benefit offsets



ICI Program Update Options

Option 1

- Remove age-related enrollment restrictions
- Modified current maximum duration schedule extends benefits beyond age 69
- 1 year benefit duration for disabilities incurred at age 69 and older

Option 2

- Remove age-related enrollment restrictions
- Modified maximum duration schedule that reduces benefits more gradually than Option 1
- Benefits terminate after 3 years of disablement for claimants aged 70 or older.

Option 3

- Remove age-related enrollment restrictions
- Use the safe harbor benefit schedule established by EEOC
 - Under 60 – to age 65
 - 60 and older – 5 year maximum duration

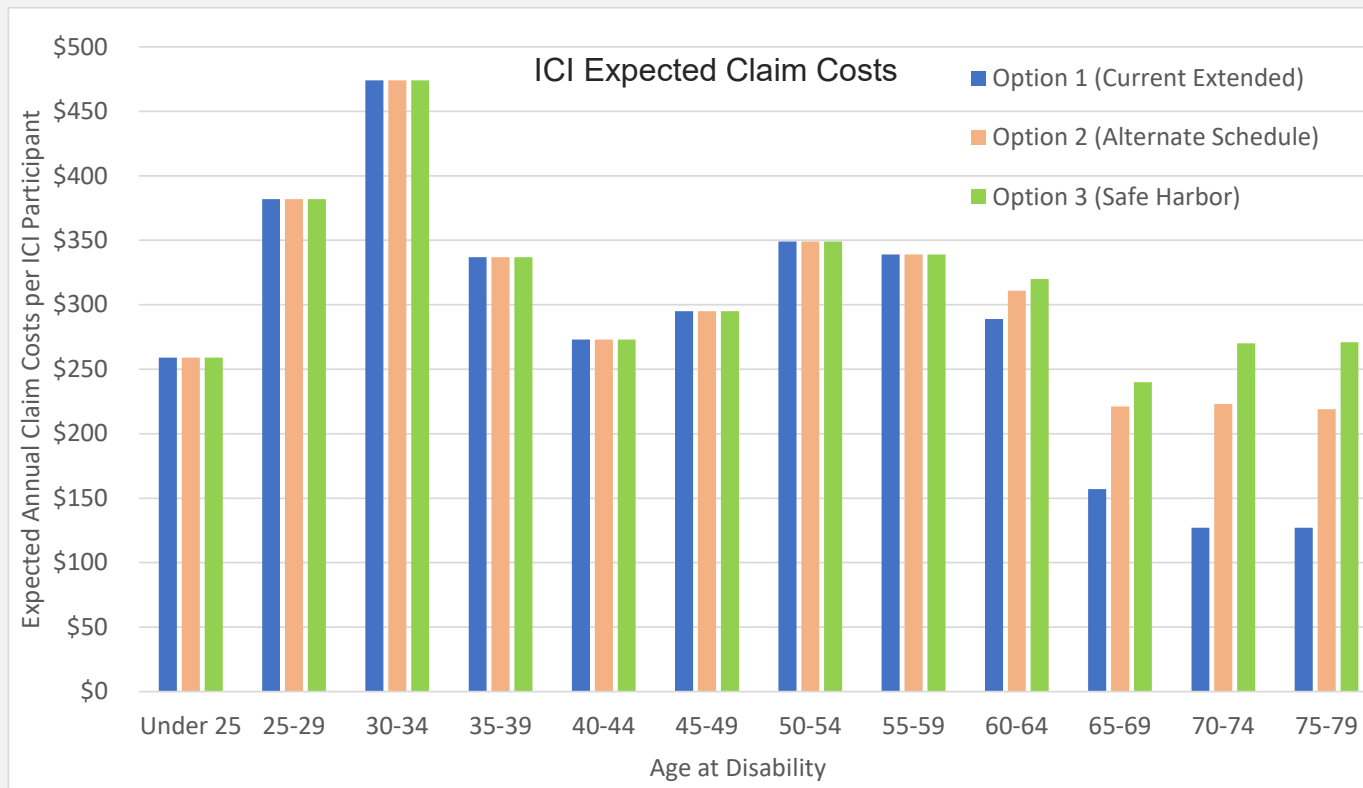
ICI Program Update Options

Duration 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

Equal Cost Test

Equal Cost Criteria: Plan sponsors must demonstrate that claim costs are not less generous for older workers as they are for younger workers under the reducing benefit schedule.



Expected claim costs are the same for every option through age 59 because the maximum benefit period is age 65 in every option.

Expected claim costs for Options 1 and 2 for ages 65 and above may be considered too low for satisfying EEOC's equal cost criteria.

Safe Harbor Impact on ICI Liabilities

The estimated impact of adopting the safe harbor schedule is a 0.9% increase in the State ICI open claim liability and a 0.7% increase in the Local ICI open claim liability as of December 31, 2021.

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%

The estimated impact on program liabilities shown above does not include liabilities for any retrospective payments to claims that closed in the past because they reached the maximum benefit period.

Based on our financial projections as of December 31, 2021, we do not see an immediate need to adjust contribution rates for adopting the safe harbor schedule.

Analysis

Advantages

- ✓ Options 1 and 2 are less costly than Option 3 with Option 1 as the least cost option
- ✓ Option 3 is deemed compliant under EEOC regulation
- ✓ Option 3 has the least complicated schedule

Disadvantages

- ✗ Options 1 and 2 require an equal cost test and periodic review, which may be difficult to justify under current program structure
- ✗ Current ICI program structure makes equal cost compliance challenging
- ✗ Option 3 is the largest cost option

Next Steps

- ETF will notify stakeholders of the updated plan structure upon approval by the Board
- ETF will instruct employers to immediately begin accepting applications for coverage from eligible employees:
 - New hires aged 70 and older
 - Employees who lost coverage by turning age 70
 - Employees age 70 and older who are eligible for deferred enrollment
 - Employees age 70 and older who waived ICI coverage when previously eligible can now enroll via Evidence of Insurability or wait until their next deferred enrollment opportunity
- ETF and The Hartford will update forms, brochures, and letters to reflect the updated program design
- ETF will instruct The Hartford to assign the approved maximum duration schedule to all open and future claims

Looking Ahead

- ETF and The Hartford will continue to review previously terminated claims
 - Seven year look-back under §40.08 (10) Wis. Stats.
 - Retroactive benefit payments could impact program liabilities
- ETF and Milliman incorporate new enrollment and benefit structure, assumption changes, from the 2023 ICI experience studies into the program valuation presented to the Board on May 17, 2023
 - Milliman's Experience Studies letter included in Attachment 3



Action Items

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Questions?

Thank you



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