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Correspondence Memorandum

Date: April 24, 2023

To: Group Insurance Board

From: Jim Guidry, Director
Benefit Services Bureau

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, 2022. ETF also recommends the Board adopt Scenario 1 for the State ICI plan, which would reduce current premium rates by 10% for the 2024 plan year, and adopt the Baseline Scenario for the Local ICI plan, resulting in a continuation of the premium holiday in the 2024 plan year.

Milliman, Inc. (Milliman) has prepared the annual actuarial valuations of the State and Local ICI programs as of December 31, 2022. The State ICI valuation shows the reserve balance has increased to 185% of actuarial liabilities (174% in 2021), which is above the reserve target range of 130–140%. At the May 2022 meeting, the Board approved a 20% reduction of State ICI premium rates for 2023.

The reserve fund ratio in the Local ICI program declined in 2022. The reserve fund, at 527% of liabilities (611% in 2021), still exceeds the target ratio of 150% by a significant margin. The reserve balance ratio to program liabilities is declining as claims experience increases and more local employers join the program. This margin is significant enough for ETF to recommend a continuation of the premium holiday for that plan in 2024. More information on the State and Local ICI plan reserves continues below.

The ICI program is undergoing a number of structural changes for 2023 and 2024, impacting enrollment eligibility, benefit durations, and premium calculations. The valuation reports provided by Milliman incorporate these changes in their analysis.This memo also provides information on those program updates.

Additionally, Milliman recently performed experience studies for both the State and Local ICI programs. The studies are performed to evaluate if the assumptions used in annual program valuations are credible or need to be revised. Based on this analysis,

Matt Stohr

Reviewed and approved by Matt Stohr, Administrator, Division of Retirement Services
Electronically Signed 04/26/2023

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Milliman developed new claim termination and estimated offset assumptions for use in this and future program valuations. Milliman tested their assumptions by performing a runout study and the results were within target margins. The new assumptions resulted in a reduction in plan liabilities of 3.9% for the State ICI plan and 4.4% for the Local ICI plan (Ref. GIB | 05.17.23 | 6).

An executive summary is included on page three of each valuation report.

State ICI Program

State ICI Targeted Reserve Review
The Board established a reserve policy in November 2019[1] for the State ICI program and approved a reserve target range of 130–140% of the program's actuarial liabilities.

At the end of 2021, the reserve balance was $154.3 million and actuarial liabilities were $88.4 million. The reserve balance was 174% of liabilities. For 2022, the reserve balance increased to $163.1 million (5.7% increase) and the program liabilities decreased to $88.3 million (0.1% decrease). The 2022 reserve ratio increased to 185% of liabilities, maintaining its position above the established reserve target range.

State ICI Plan Rate Recommendation
The 2022 State ICI valuation report provided by Milliman developed financial projections for three scenarios representing different contribution rate levels:

- Baseline Scenario: 2023 contribution rates are held level in future years, and State ICI benefit enhancements become effective on January 1, 2024.

- Scenario 1: Contribution rates are reduced by 10% in 2024 then held level in future years, and State ICI benefit enhancements become effective on January 1, 2024.

- Scenario 2: Contribution rates are reduced by 20% in 2024 then held level in future years, and State ICI benefit enhancements become effective on January 1, 2024.

All scenarios include projected claims costs assuming the adoption of the Safe Harbor provisions for maximum benefit duration, effective May 1, 2023. They also include the benefit enhancements approved by the Board in November 2022. More information discussing both of these program changes is provided below. Milliman also incorporated the new actuarial assumptions developed from their recently completed experience studies that updated their estimated offset and claim termination rate assumptions.

[1] The reserve policy requires the The Board to review the policy language and reserve targets at least every three years. On May 18, 2022, the Board conducted this review and voted to maintain the current reserve policy and reserve targets for both the State and Local ICI plans.

ETF recommends the Board adopt Scenario 1 which would reduce current premium rates by 10% for the State ICI program for the 2024 plan year.

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 2021, the Local ICI program's reserve balance was $43.8 million, and liabilities were $7.2 million, leaving the reserve balance at 611% of liabilities. On December 31, 2022, the reserve balance had decreased to $43.2 million (1.2% decrease), while liabilities increased to $8.2 million (14.5% increase). As aforementioned, the growth in liabilities was mitigated by the new valuation assumptions developed by Milliman that reduced liabilities for the Local ICI plan. The fund reserve ratio fell to 527%, declining substantially from the previous year.

In May 2020, the Board discussed ways to reduce the reserve 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 7.3% in 2022 (Ref. GIB | 02.22.23 | 14I). As Milliman projects, however, the ratio of reserve balance to liabilities continues to trend downward toward the target as more employers join the program and claims volume continues to increase.

Local ICI Plan Rate Recommendation
The 2022 Local ICI valuation provides financial projections for the following scenarios:

- Baseline Scenario: Premium contributions waived throughout the projection period, and Local ICI benefit enhancements become effective on January 1, 2024.

As with the State ICI plan, this scenario includes projected claims costs assuming the adoption of the benefit changes approved by the Board in November 2022 and April 2023. It also includes the new actuarial assumptions developed from their recently completed experience studies.

ETF recommends the Board approve the Baseline Scenario that leaves the Local ICI premium holiday in place for 2024.

ICI Program Update
There are a number of changes impacting the ICI program in 2023 and 2024.

ICI Standard and Supplemental Coverage
In November 2022, the Board approved changes to the ICI program that increased the maximum ICI benefit from $4,000 to $7,500 monthly (Ref. GIB | 11.16.22 | 5). This change provides increased ICI basic coverage from a maximum of $64,000 to $120,000 of annual income. Since the program currently offers supplemental coverage for

salaries above $64,000 (up to $120,000) this program update effectively eliminated supplemental coverage under the plan.

Increasing the standard coverage maximum will eliminate the need for enrollees to purchase Supplemental Coverage in order to cover their earnings between $64,000 and $120,000. Coverage at the higher level will be automatic, beginning in 2024. Employers will no longer have to annually identify eligible employees and solicit enrollment applications from those employees.

This change becomes effective on January 1, 2024, and will apply to 2024 premium rates that go into effect on February 1, 2024. This change applies to both State and Local plans. The Hartford will administer ICI benefits under the new benefit structure beginning in 2024.

Enrollment and Benefits for Employees Over Age 60

In April 2023, the Board approved changes to the ICI plan that impacted plan provisions preventing enrollment and limiting benefits for older workers. This change was made to ensure compliance with the Age Discrimination in Employment Act (ADEA) regulations governing disability benefits.

At issue were ICI plan provisions that limited enrollment in the program to active employees under age 70, and provisions that provided reduced benefits for employees age 61 and older at the time of disablement. For the ICI plan to be fully compliant with ADEA, there should be no age restrictions for enrollment. Additionally, the ADEA regulations permit reduced benefits for older employees only if it can be demonstrated that the reduced benefits are provided at the same costs as benefits for younger employees. This test is known as the Equal Cost Test. ADEA regulations also provide a “safe harbor” benefit duration schedule for older employees that is deemed compliant. The Safe Harbor schedule is described in Table 1.

Table 1. Safe Harbor Benefit Schedule

Age at Disablement	Benefit Duration
To Age 60	To Age 65
60 and Over	5 Years

At the April 2023 meeting, Milliman prepared three maximum benefit duration schedules for the Board to review (Ref. GIB | 04.17.23 | 2). Two of these schedules reflected a reduced benefit schedule that would be subject to the Equal Cost requirement while the other schedule was the compliant Safe Harbor schedule in Table 1. Milliman also performed equal cost comparisons for all three schedules in order to measure for any potential compliance items. The two reduced cost methods appeared to be unable to meet the Equal Cost Test. Based on this information, the Board approved adopting the Safe Harbor schedule for all open and future claims. Enrollment restrictions were also lifted and newly eligible employees were able to enroll immediately for a May 1, 2023 coverage effective date.

ICI Premium Rate Calculation Schedule

ETF received a request from Benefitfocus to evaluate whether the current ICI premium rate tables could be replaced with an alternative premium rate calculation schedule in the Benefitplace Insurance Administration System (IAS) tool. Benefitfocus indicated that loading the current ICI premium rate tables each year would be costly and time consuming, while an alternative table would be more efficient for them to annually update.

Currently, Milliman updates ICI premium rate tables when the Board approves any premium changes in May of each year. At ETF's request, Milliman developed an alternative gross premium schedule that is based on a percentage of income (see Attachment C). Using the 2023 State premium rates, percentages were developed for each ICI premium rate category and elimination period. The updated schedule reduces the ICI rate schedule down to 14 sets of rates for the UW and six sets of rates for State agencies. Local employers would continue to have five sets of rates once premium collections resume for this plan. Table 2 illustrates the updated schedule and also indicates the employer/employee breakdown using the percentages required in Wis. Stat. § 40.05 (5).

Table 2. ICI Premiums as a Percentage of Covered Earnings
(For Illustrative Purposes Only)

Employer	ICI Premium Category	Total Premium as a % of Covered Earnings	Employer Premium as a % of Covered Earnings	Employee Premium as a % of Covered Earnings
STAR/UW	1	1.109%	0.000%	1.109%
STAR/UW	2	0.831%	0.000%	0.831%
STAR/UW	3	0.599%	0.401%	0.198%
STAR/UW	4	0.432%	0.333%	0.099%
STAR/UW	5	0.355%	0.302%	0.053%
STAR/UW	6	0.355%	0.355%	0.000%
UW	30-Day (One or more YOS)	1.010%	0.374%	0.636%
UW	90-Day (One or more YOS)	0.545%	0.374%	0.172%
UW	125-Day (One or more YOS)	0.505%	0.374%	0.131%

Employer	ICI Premium Category	Total Premium as a % of Covered Earnings	Employer Premium as a % of Covered Earnings	Employee Premium as a % of Covered Earnings
UW	180-Day (One or more YOS)	0.374%	0.374%	0.000%
UW	30-Day (Less than one YOS)	1.010%	0.000%	1.010%
UW	90-Day (Less than one YOS)	0.545%	0.000%	0.545%
UW	125-Day (Less than one YOS)	0.505%	0.000%	0.505%
UW	180-Day (Less than one YOS)	0.374%	0.000%	0.374%

ETF consulted with DOA/STAR and the UW for their feedback on this request and the responses were generally positive.The UW expressed a desire to have the premium rates expressed as a fixed dollar amount per $1,000 of income instead of a percentage of salary calculation. Table 3 illustrates this sample schedule based on a fixed dollar per unit cost. It was also requested that the new schedule be used for 2024 rate calculations beginning with the new plan year rather than IAS system to go live later in 2024.

Table 3. ICI Premiums as a Fixed Amount per $1,000 (For Illustrative Purposes Only)

Employer	ICI Premium Category	Total Monthly Premium per $1,000 of Income	Employer Monthly Premium per $1,000 of Income	Employee Monthly Premium per $1,000 of Income
STAR/UW	1	$0.92	$0.00	$0.92
STAR/UW	2	$0.69	$0.00	$0.69
STAR/UW	3	$0.50	$0.33	$0.17
STAR/UW	4	$0.36	$0.28	$0.08
STAR/UW	5	$0.30	$0.25	$0.04
STAR/UW	6	$0.30	$0.30	$0.00
UW	30-Day (One or more YOS)	$0.84	$0.31	$0.53

Employer	ICI Premium Category	Total Monthly Premium per $1,000 of Income	Employer Monthly Premium per $1,000 of Income	Employee Monthly Premium per $1,000 of Income
UW	90-Day (One or more YOS)	$0.45	$0.31	$0.14
UW	125-Day (One or more YOS)	$0.42	$0.31	$0.11
UW	180-Day (One or more YOS)	$0.31	$0.31	$0.00
UW	30-Day (Less than one YOS)	$0.84	$0.00	$0.84
UW	90-Day (Less than one YOS)	$0.45	$0.00	$0.45
UW	125-Day (Less than one YOS)	$0.42	$0.00	$0.42
UW	180-Day (Less than one YOS)	$0.31	$0.00	$0.31

Milliman indicated they would be able to produce both sets of tables for employers to use for the 2024 plan year. Moving to this schedule does not conflict with Wis. Stat. § 40.05 (5) as those statutes address the employer share of premiums and not the gross premium calculation. Also, the Board removed references to the ICI premium rate tables from the ICI plan language at its November 2022 meeting as part of the changes to standard and supplement coverage, meaning no plan language changes will be necessary to implement this schedule.

Other Items

State Budget
The Governor introduced his budget plan in February 2023. At ETF's request, the package included provisions to decouple sick leave from the ICI program to be effective January 1, 2025. As the budget process continues, ETF will continue to provide updates on this and other budget items of interest to the Board.

ICI Contract Administration.
The current contract with The Hartford requires a review of administrative fees at the end of the third year. Currently, administrative fees with The Hartford are held at the same level for the first three years of the contract. Next year, 2024, will be the third year of the contract, and ETF staff will begin discussions with The Hartford to review and update the administrative fee schedule.

The new contract with The Hartford also updated performance standards that apply to ICI program administration. In 2022, the first year under the updated standards, ETF issued five penalties; three for late report delivery, and two for data requests that did not meet quality review standards. The total amount of penalties for 2022 was $4,487.

The Hartford has also produced their 2022 ICI Annual Report (Ref. GIB | 05.17.23 | 8H).

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

Attachment A: *Actuarial Valuation of The State Income Continuation Insurance Plan as of December 31, 2022*

Attachment B: *Actuarial Valuation of The Local Income Continuation Insurance Plan, as of December 31, 2022*

Attachment C: Letter on State ICI Premium Smoothing from Milliman