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Correspondence Memorandum

Date: January 26, 2024

To: Group Insurance Board

From: Jim Guidry, Director
Benefit Services Bureau

Subject: Income Continuation Insurance (ICI) Program Changes

The Department of Employee Trust Funds (ETF) requests the Group Insurance Board (Board) approve the recommended changes to the Income Continuation Insurance (ICI) program State and Local plan language that modify the effective date of the annual ICI premium rate changes for the State ICI Plan and make other technical updates, effective February 22, 2024.

Summary
The ICI program is a voluntary disability income replacement program open to all eligible state employees and all local government employees whose employer has elected to participate in the ICI program.

The ICI program provides a disability income benefit equal to 75% of an employee's average monthly earnings. Coverage insures up to a maximum annual salary of $120,000, resulting in a monthly benefit of up to $7,500. Long-term ICI benefits also include a $75/month add-on benefit to help cover medical costs for recipients.

The ICI plan language changes are presented in Attachment A and are being proposed to modify the plan language in preparation for the new Insurance Administration System. The remaining changes are technical in nature.

Implementing the changes proposed in this memo does not impact ICI eligibility, employer and employee premiums, or benefits.

Review of Program Changes

IAS Related Changes
Currently, State ICI premium rate changes are effective February 1 of each year. With the pending implementation of the new Insurance Administration System (IAS), employers will need to report employees' annual earnings and premium categories for

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Electronically Signed 01/31/2024

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ICI premium purposes to ETF each year. In most cases, earnings are based on an employee's previous calendar year's WRS-reportable earnings. Employers are unable to determine the annual earnings amount until the close of the last payroll in December.

In the future state under IAS, once ETF receives earnings information from an employer, the data will be imported into the new system and employee and employer premium amounts will be calculated by ETF. The premium amounts will subsequently be transmitted to the employers so updated employee deductions can be applied. These additional processes, which include the generation and transmission of itemized employee and employer premium data from ETF to employers, along with necessary data validations, and time for employers to do any system updates that may be required, make the February 1 effective date of new rates unworkable (if not impossible) for employers to meet. By changing the effective date for new premium rates to April 1, there will be adequate time for this process to take place and to address any unexpected issues that may arise. The new date will also synchronize the State ICI premium update process with the Local ICI plan as premium rate changes under that plan are also effective on April 1. The Local ICI plan is currently on a premium holiday.

The change to the effective date of State ICI premium rate updates will first apply on April 1, 2025.

<u>Technical Updates</u>
Amendments to the ICI plan language also include technical changes needed to clarify plan provisions, reflect current practices, and update language to conform to the new ICI rate table structure. Attachment A provides the specific ICI plan language changes (by section) for both the State and Local ICI plans in addition to the IAS-related changes. The technical updates include:

- Clarifying current practice that requires employees with ICI coverage while on a leave of absence and upon return from a leave of absence to pay the current ICI premium applicable to the premium rate category/elimination period and earnings they were enrolled in prior to going on leave of absence. The existing language could be construed to read that the employee could be charged the same premium that they were charged prior to going on leave of absence.
- Modifying plan language to reflect the updated ICI premium rate tables.
- Repealing and replacing obsolete language related to ICI plan elimination periods.

Other ICI Updates
Milliman, Inc., ETF's disability program actuary, has recently completed an experience study of its assumptions of ICI claims that are incurred but not reported (IBNR). IBNR claims represent disabilities that occur by the valuation date, but the disability claim is not reported until after the valuation date. Milliman periodically reviews and updates IBNR assumptions to ensure they reflect updated claims activity, and these assumptions are used to develop IBNR liability estimates as part of the overall annual

ICI valuation process. Milliman's letter dated December 29, 2023, is included in Attachment B.

As Milliman's letter indicates, the IBNR assumptions for the State and Local ICI program valuations for the period ending December 31, 2022, were 25% of annual incurred claims. As a result of their recent experience studies, the new IBNR valuation assumption for the State ICI program was reduced to 17% and increased to 26% for the Local ICI plan. Had the new IBNR assumptions been used for the 2022 program valuations, the result would have been a $1,355,712 decrease in State ICI IBNR liabilities and an $18,856 increase in Local ICI IBNR liabilities. The new IBNR assumptions will be used by Milliman to determine IBNR liabilities for the ICI program valuations as of December 31, 2023, that will be presented to the Board at the May 23, 2024, meeting. Staff from Milliman will attend the May 23, 2024, meeting to answer any questions related to this experience study.

Conclusion
ETF recommends the Board approve the amendments to the State and Local ICI plan language as proposed in Attachment A.

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

Attachment A: ICI Plan Changes Table (Redlined)
Attachment B: Letter-Milliman, Inc.; IBNR Experience Studies for the State and Local ICI Plans, December 29, 2023.