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December 29, 2023

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

RE: IBNR Experience Studies for the State and Local ICI plans

Dear Jim,

Thank you for asking Milliman to assist Wisconsin Department of Employee Trust Funds (ETF) in performing experience studies for the State and Local Income Continuation Insurance (ICI) programs. These studies focused on analyzing the claim costs attributable to ICI claims incurred but not reported (IBNR) by the December 31st valuation date. We used the results of these studies to develop new assumptions for estimating IBNR claim liabilities for the State and Local ICI plans, which we plan to use in our actuarial valuation of the ICI plans as of December 31, 2023. This letter contains the results of our experience studies along with the new valuation assumptions and a comparison of estimated IBNR claim liabilities between the prior and new assumptions.

IBNR Experience Studies

We performed IBNR experience studies for the State and Local ICI plans by analyzing historical claim experience from January 1, 2017 through December 31, 2021 as of December 31, 2022, in which we identified claims incurred on or before December 31st of a given year but reported after that date, and flagged these claims as IBNR claims. For example, we identified claims that were incurred in 2017 and were not reported in the ICI claim data as of December 31, 2017 but appeared in claim data from 2018 and beyond. Similarly, we identified IBNR claims for 2018 through 2021. We then compared the incurred claims from these IBNR claims to total incurred claims for each of the years and in total. The results of this analysis are provided in Table 1 (State ICI) and Table 2 (Local ICI) below. The final row in each of the tables shows the percentage of incurred claims attributable to IBNR claims.

Table 1						
State ICI Incurred Claims (\$ millions)						
Year	2017	2018	2019	2020	2021	2017 - 2021
IBNR Claims	\$3.16	\$4.45	\$1.45	\$1.25	\$2.91	\$13.23
Total Claims	\$18.41	\$18.69	\$12.65	\$16.05	\$17.60	\$83.40
IBNR %	17.2%	23.8%	11.5%	7.8%	16.5%	15.9%

Table 2						
Local ICI Incurred Claims (\$ millions)						
Year	2017	2018	2019	2020	2021	2017 - 2021
IBNR Claims	\$0.37	\$0.53	\$0.21	\$0.52	\$0.63	\$2.26
Total Claims	\$0.84	\$1.31	\$1.69	\$1.80	\$3.83	\$9.46
IBNR %	43.6%	40.4%	12.6%	28.8%	16.5%	23.8%

On average, IBNR claims represented 15.9% of annual incurred claims for the State ICI plan and 23.8% of annual incurred claims for the Local ICI plan.

Valuation Assumptions

When we performed the actuarial valuation for the ICI program as of December 31, 2022, we calculated the IBNR claim liabilities by assuming that IBNR claims represent 25% of annual incurred claims for both the State and Local ICI plans. This assumption was developed by Milliman several years ago based on similar experience studies.

We have developed new valuation assumptions for the State and Local ICI plans using the results of our experience studies shown above in Tables 1 and 2. The new assumptions are different for the State and Local ICI plans and include explicit margin of 5% for the State ICI plan and 10% for the Local ICI plan. We included higher margin for the Local ICI plan because claim experience is more volatile than the State ICI plan due to the smaller size of the block. The new IBNR valuation assumptions are provided in Table 3 below and represent the percentage of annual incurred claims attributable to IBNR claims for estimating IBNR claim liabilities.

Table 3	
State and Local IBNR Valuation Assumptions	
Plan	IBNR %
State ICI	17%
Local ICI	26%

We tested the impact of switching the valuation assumption from 25% to 17% for the State ICI plan, and from 25% to 26% for the Local ICI plan, based on a December 31, 2022 valuation date. The following table compares estimated liabilities for the State and Local ICI plans as of December 31, 2022 based on the prior and new valuation assumptions:

Table 4			
Comparison of State and Local IBNR Liabilities as of December 31, 2022			
Based on Prior and New Valuation Assumptions			
Plan	Prior Assumption	New Assumption	Difference
State ICI	\$4,236,602	\$2,880,890	(\$1,355,712)
Local ICI	\$471,404	\$490,260	\$18,856

The impact of adopting the new assumptions is a 32% decrease in the IBNR claim liability for the State ICI plan, and a 4% increase in the IBNR claim liability for the Local ICI plan.

General

This letter has been prepared for Wisconsin ETF for the specific purpose of developing valuation assumptions for estimating ICI IBNR claim liabilities. 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 ICI claim data from The Hartford and ETF. 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@milliman.com. Thank you.

Sincerely,



Paul Correia, FSA, MAAA
Principal and Consulting Actuary