



STATE OF WISCONSIN
Department of Employee Trust Funds
 A. John Voelker
 SECRETARY

Wisconsin Department
 of Employee Trust Funds
 PO Box 7931
 Madison WI 53707-7931
 1-877-533-5020 (toll free)
 Fax 608-267-4549
 etf.wi.gov

Correspondence Memorandum

Date: April 26, 2024

To: Group Insurance Board

From: Jim Guidry, Benefit Services Bureau Director
 Division of Benefits Administration

Subject: Acceptance of State and Local Income Continuation Insurance Actuarial Valuations

The Department of Employee Trust Funds (ETF) requests the Group Insurance Board (Board) accept the State and Local Income Continuation Insurance (ICI) Actuarial Valuations as of Dec. 31, 2023. ETF also recommends the Board adopt Scenario 1 for the State ICI plan, which would reduce current premium rates by 10% for the 2025 plan year and by 10% for the 2026 plan year and also adopt the Baseline Scenario for the Local ICI plan, resulting in a continuation of the premium holiday in the 2025 plan year.

Milliman, Inc. (Milliman) has prepared the annual actuarial valuations of the State and Local ICI programs as of Dec. 31, 2023. The State ICI valuation shows the reserve balance has increased to 203% of actuarial liabilities (185% in 2022), which is above the reserve target range of 130% to 140%. During the May 2023 meeting, the Board approved a 10% reduction of State ICI premium rates for 2024.

The reserve fund ratio in the Local ICI program increased in 2023. The reserve fund, at 584% of liabilities (527% in 2022), exceeds the target ratio of 150% by a significant margin. Prior to 2023, the reserve balance to program liabilities ratio had been steadily declining as claims experience increased and more local employers began participating in the program.

Milliman recently performed experience studies on incurred but not reported (IBNR) claims for both the State and Local ICI programs. The studies evaluated if the IBNR assumptions used in annual program valuations are credible or need to be revised. Based on this analysis, Milliman developed new IBNR valuation assumptions for use in this and future program valuations. The new assumptions resulted in 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 ([Ref. GIB | 02.21.24 | 9, Attachment B](#)).

Reviewed and approved by Anne Boudreau, Deputy Administrator, Division of Benefits Administration
 Electronically Signed 05/08/2024

Board	Mtg Date	Item #
GIB	05.23.24	9

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 2019¹ for the State Income Continuation Insurance program and approved a reserve target range of 130%-140% of the program's actuarial liabilities.

By the end of 2022, the reserve balance was \$163.1 million and actuarial liabilities were \$88.3 million. The reserve balance was 185% of liabilities. For 2023, the reserve balance increased to \$172.5 million (5.7% increase) and the program liabilities decreased to \$85.1 million (3.6% decrease). The 2023 reserve ratio increased to 203% of liabilities, maintaining its position above the established reserve target range.

State ICI Plan Rate Recommendation

The 2023 State ICI valuation report provided by Milliman developed financial projections for five scenarios representing different contribution rate levels:

- **Baseline Scenario:** 2024 contribution rates are held level in future years. The fund ratio is projected to reduce to 169% by Dec. 31, 2029.
- **Scenario 1:** Contribution rates are reduced by 10% in 2025 and again in 2026, then held level in future years. The fund ratio is projected to reduce to 154% by Dec. 31, 2029.
- **Scenario 2:** Contribution rates are reduced by 10% in 2025 and again in 2026, then held level in future years with a -15% investment return (loss) in 2024. The fund ratio is projected to reduce to 105% by Dec. 31, 2029.
- **Scenario 3:** Contribution rates are reduced by 20% in 2025 and then held level. The fund ratio is projected to reduce to 151% by Dec. 31, 2029.
- **Scenario 4:** 2024 contribution rates are held level in future years, with a -25% investment return (loss) in 2024. In this stress test, the fund ratio is projected to reduce to the 135% target as of Dec. 31, 2024, and to 98% by Dec. 31, 2029.

All scenarios include IBNR claim liabilities based on the new assumptions developed from the recently completed IBNR experience study.

ETF recommends the Board adopt Scenario 1 which would reduce current premium rates for the State ICI program by 10% in the 2025 plan year and reduce rates another 10% in the 2026 plan year.

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.

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. By the end of 2022, the local ICI program's reserve balance was \$43.2 million, and liabilities were \$8.2 million, leaving the reserve balance at 527% of liabilities. On Dec. 31, 2023, the reserve balance had increased to \$43.9 million (1.6% increase), while liabilities decreased to \$7.5 million (8.3% decrease). The fund reserve ratio rose to 584%. In May 2020, the Board discussed ways to reduce the reserve balance in the Local ICI program. At that 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 12.9% in 2023 ([Ref. GIB | 02.21.24 | 10J](#)). Investment income substantially exceeded the assumed rate and also exceeded claims payments. This income was only marginally offset by the increase in program liability due to the revised IBNR assumptions. Prior to 2023, the reserve ratio had been steadily declining toward the reserve target.

Local ICI Plan Rate Recommendation

The 2023 Local ICI valuation provides financial projections for the Baseline Scenario: Premium contributions waived throughout the projection period, and Local ICI benefit enhancements became effective on Jan. 1, 2024.

As with the State ICI plan, this Scenario projects IBNR claim liabilities based on the new assumptions developed from the recently completed IBNR experience study.

ETF recommends the Board approve the Baseline Scenario that leaves the local ICI premium holiday in place for 2025.

ICI Program Update

ICI Standard and Supplemental Coverage

Effective Jan. 1, 2024, the maximum ICI benefit increased from \$4,000 to \$7,500 monthly. This change provides increased ICI standard coverage for the first time in 30 years, from a maximum of \$64,000 to \$120,000 of annual income. This program update effectively eliminated supplemental coverage under the plan.

Increasing the standard coverage maximum eliminated the need for enrollees to purchase Supplemental Coverage in order to cover their earnings between \$64,000 and \$120,000. Employers will no longer have to annually identify eligible employees and solicit enrollment applications from those employees.

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

Acceptance of State and Local ICI Actuarial Valuations

April 26, 2024

Page 4

Attachment A: [Actuarial Valuation of The State Income Continuation Insurance Plan, as of December 31, 2023](#)

Attachment B: [Actuarial Valuation of The Local Income Continuation Insurance Plan, as of December 31, 2023](#)