State of Wisconsin

Department of Employee Trust Funds Group Life Insurance Program

2024 Group Life Insurance Actuarial Audit

January 31, 2025

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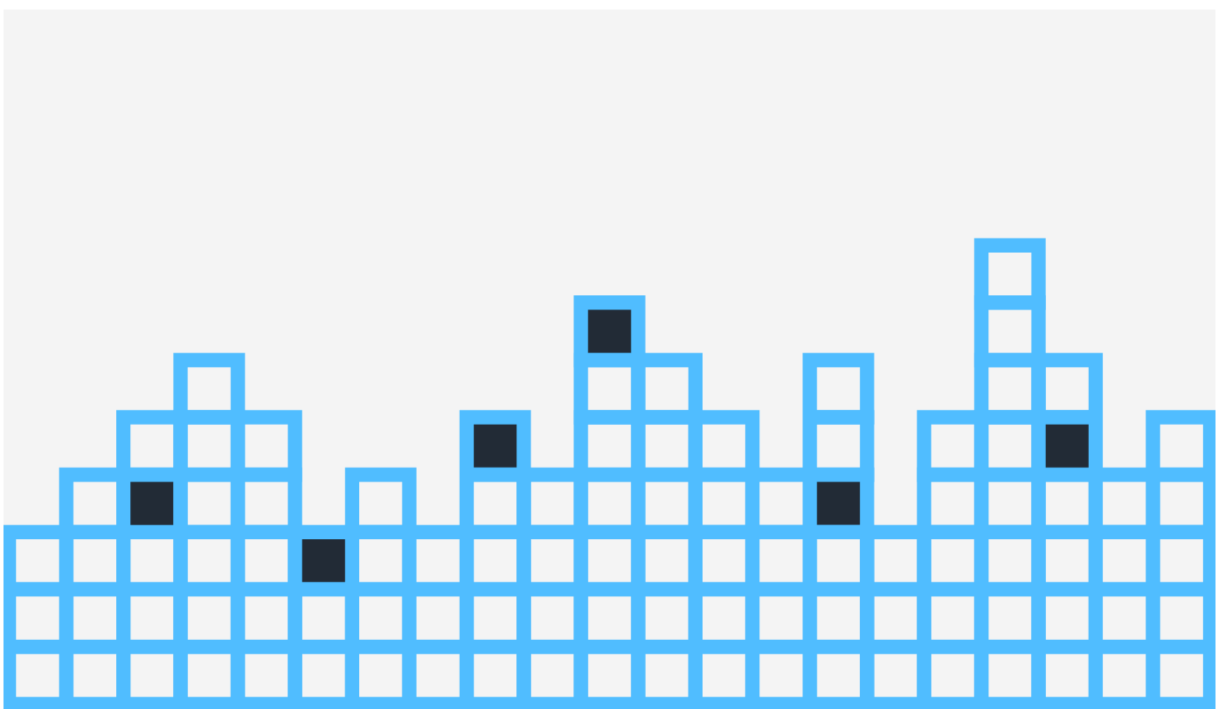

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Certification

We have performed an actuarial audit of the Wisconsin Department of Employee Trust Funds (ETF) group life insurance program. The program is insured by Securian and includes basic life, supplemental life, additional life, spouse and dependent life, accidental death and dismemberment (AD&D), and employer aviation benefits, with separate programs for the State and participating Local government employers. Our audit focused on reviewing the financial results presented to the State of Wisconsin Group Insurance Board (GIB) at the August 14, 2024 GIB meeting, as well as reviewing the program's reserves, funding and investment strategies, and rate methodology for compliance with the federal Older Workers Benefit Protection Act.

Milliman's work product is based on an analysis of Securian's actuarial methods and assumptions for the specific and limited purpose of evaluating the reasonableness and accuracy of these methods and assumptions for the Wisconsin group life insurance program. This is a complex, technical analysis that assumes a high level of knowledge concerning the operations of the plan and uses data described in Appendix A, which Milliman has not audited. No third-party recipient of Milliman's work product should rely upon Milliman's work product. Such recipients should engage qualified professionals for advice appropriate to their own specific needs. If this report is distributed to other parties, it must be provided in its entirety, including this certification section. Milliman consents to the release of this report to Segal.

In preparing this report, we relied, without audit, on information (both oral and in writing) furnished by ETF and Securian. We would like to express our appreciation to the ETF staff and the Securian staff for their assistance in supplying the requested information and for providing prompt responses to our questions.

On the basis of the foregoing, we hereby certify that, to the best of our knowledge and belief, this report is complete and accurate and has been prepared in accordance with generally recognized and accepted actuarial principles and practices which are consistent with the Actuarial Standards of Practice promulgated by the Actuarial Standards Board and the applicable Guides to Professional Conduct, amplifying Opinions, and supporting Recommendations of the American Academy of Actuaries. The consultants who worked on this assignment are health actuaries who specialize in group life and disability benefits. Milliman's advice is not intended to be a substitute for qualified legal or accounting counsel. The signing actuaries are independent of GIB and ETF. We are not aware of any relationship that would impact the objectivity of our work. We are members of the American Academy of Actuaries and meet the Qualification Standards of the American Academy of Actuaries to render the actuarial opinion contained herein.

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January 31, 2025

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Section 1 Summary of Findings

PURPOSE AND SCOPE OF THE ACTUARIAL AUDIT

ETF has engaged Milliman to perform an actuarial audit of the State of Wisconsin's group life insurance program. Our actuarial audit included the following tasks:

- An assessment of whether the plan's funding strategy is reasonable and the reserve balances are adequate for future benefit payments.
- An assessment of whether the funding assumptions and methods used in the Financial Experience Report (January 1, 2023 through December 31, 2023) are reasonable and appropriate for the group life insurance program structure and funding objectives, and whether they are consistent with generally accepted actuarial standards and practices.
- An assessment of whether the 5% annual premium increase for the State group life insurance plan approved by the GIB continues to be an appropriate strategy to keep the funding level secure.
- An assessment of whether the Life Insurance Program investment strategy is reasonable and appropriate for plan liabilities.
- An evaluation of Securian's rate methodology for compliance with the federal Older Workers Benefit Protection Act.

AUDIT CONCLUSION

The conclusions from our audit are provided below:

- The funding strategy for the group life plan is reasonable.
- The funding ratio for the State plan was 88.2% as of December 31, 2023. Although this funding ratio is within the tolerable range of 85% - 115% for the plan, it is also below the target level of 100%, meaning that assets are lower than estimated liabilities as of the valuation date. Thus, according to Securian's valuation assumptions and projections, the reserves for the State plan were inadequate for covering future benefit payments as of December 31, 2023. The funding ratio for the State plan has been below 100% for several years, driven by experience for the retiree life plan and reductions in the Retiree Premium Deposit Fund. The GIB approved a series of 5% annual premium rate increases for the State plan beginning in 2019, which are intended to increase the funding ratio to a level closer to 100%. While we believe the funding strategy is appropriate, emerging experience should be monitored closely with continued adjustments to premium rates as needed to achieve the target funding level.
- The reserve balance for the Local plan was considered adequate for covering future benefit payments as of December 31, 2023, according to Securian's valuation assumptions and financial projections. The funding ratio for the Local plan was 110.6% as of December 31, 2023, which is within the target range of 85% - 115% for the plan.
- The assumptions and methods used in Securian's Financial Experience Report covering experience from January 1, 2023 through December 31, 2023 ("Financial Report") are reasonable and appropriate for the group life insurance program structure and funding objectives, and they are consistent with generally accepted actuarial standards and practices.

- Securian's pooling charges for the group life plan appear to be higher than necessary based on historical experience.
- The 5% annual premium increase for the State plan approved by the GIB continues to be an appropriate strategy to keep the funding level secure.
- The investment strategy specified by Securian seems reasonable and appropriate for plan liabilities.
- Based on a high level review of expected claim costs by age band, there may be compliance issues with the Older Workers Benefit Protection Act that should be addressed by ETF in 2025.

RECOMMENDATIONS

The recommendations from our audit are provided below:

- We noticed differences between the expense ratios specified in the group life insurance agreement between ETF and Securian ("Agreement") and the expense ratios in the Financial Report, and we recommend that ETF ask Securian about these differences, which are described in detail below. We have not discussed these differences with Securian.
- Historical pooling charges in Securian's experience analysis are significantly higher than historical pooled claim levels. We recommend ETF ask Securian to recalibrate its pooling charges in order to better align those charges with the pooled claim levels for the State and Local plans. ETF could also consider whether pooling is necessary for the group life program, and possibly eliminating pooling from the experience rating formula.
- We reviewed Securian's documentation for disability claim reserves, and we noticed that some details may be missing from the documentation. We recommend Securian update the documentation to include the complete set of assumptions and adjustments. In addition, we recommend Securian perform experience studies for the Wisconsin group life plan relative to the 2023 Society of Actuaries Group Life Waiver of Premium Valuation Table and consider adjusting its claim termination basis using the results of those studies.
- In our review of the Financial Report, there was a general lack of documentation and disclosures that are required under various Actuarial Standards of Practice (ASOP). We recommend Securian add a Reliance and Limitations disclosure on its Financial Experience Report and any other actuarial communications in future years or provide ETF with a primary document that includes all ASOP requirements that can be referenced in subsequent actuarial communications.
- There may be compliance issues with the federal Older Workers Benefit Protection Act based on current benefit reduction schedules and premium rates. We recommend ETF perform an equal cost test to determine if claim costs are the same for older workers as they are for younger workers under the reducing benefit schedule.

AUDIT PROCESS

ETF and Securian provided reports, exhibits, data, and other information to Milliman for performing an audit of the group life insurance program. A detailed list of the information we received can be found in Appendix A. Milliman's audit focused on evaluating the reasonableness and accuracy of the assumptions and methods underlying the experience analysis presented in the Financial Report. We also analyzed the disability reserves calculated by Securian as of December 31, 2023, and we made observations on the valuation assumptions underlying these reserves. In addition, we have reviewed and commented on the program's funding and investment strategies, as well as the rate methodology for compliance with the federal Older Workers Benefit Protection Act.

LIMITATIONS

The scope of our actuarial review does not extend to the following items:

- A detailed review of the morbidity and mortality assumptions used by Securian to project liabilities for active employees and retirees in its funding analysis, although we have reviewed expected claim cost projections developed by Securian for active lives and retirees.
- A review of Securian's pooling assumptions and calculations, because these items are considered proprietary by Securian.
- An independent assessment of the adequacy of disability reserves, although we have reviewed Securian's documentation of its disability reserve basis which says the disability reserve "is adequate but not excessive". Securian also confirmed that adequacy testing is performed annually.
- An assessment of the magnitude of the expense ratios, interest credits, risk charges, and other parameters included in the Agreement for experience rating purposes;
- An assessment of the stop loss rates used by Securian for calculating the cost of stop loss coverage;

Section 2 - Funding Strategy

We have made the following specific observations on the funding strategy for the Wisconsin group life program, based on our review of the Agreement, Financial Report, exhibits, data, and other information supplied by Securian and ETF for the audit:

- The funding methods for the Wisconsin group life insurance program are provided in Appendix A of this report. These methods are relatively complex because they include different structures and reserves for the active employee and retiree programs, and because contributions are made during active employment (or before age 65 for retired employees) to fund retiree life benefits.
- The funding strategy includes a target funding level of 100% and a tolerable range of +/- 15%. This range is reasonable because it is broad enough to maintain a level of stability in the premium rates through random fluctuations in experience (as well as more material deviations such as COVID-19 claims), and because, in our view, the 85% floor / 115% ceiling are appropriate levels for triggering potential rate actions. An actuarial analysis of volatility to determine if the tolerable range is suitable for the Wisconsin group life insurance program was outside of the scope of work for this audit.
- The funding strategy for the State program also includes a series of annual 5% premium rate increases approved by the GIB in 2018 and effective from 2019 through 2028. Prior to the scheduled rate increases, the funding level for the plan was below the 85% floor (74.3% as of December 31, 2018). Since 2019, the funding level has been within the tolerable range, which suggests that the 5% rate increases have been effective. However, the funding levels have been close 85% for several years (85.4% in 2021, 88.5% in 2022, and 88.2% in 2023), in part due to the COVID-19 pandemic. This level is within the tolerable range but below the target level of 100%. If fund levels were to decrease below the 85% floor, then Securian and ETF would need to develop a plan to present to the GIB to bring the program back within the tolerable range. In the near term, however, we believe the annual 5% rate increases continue to be an appropriate strategy for the State in order to achieve the target funding level in future years.
- The funding level for the Local program was 110.6% as of December 31, 2023, suggesting that reserve balances would provide adequate funding for claim liabilities if experience were to follow to Securian's assumptions and projections.

Section 3 - Expense and Risk Charges

The Agreement specifies the expense charges used by Securian for the programs. The charges vary by plan (State and Local) and coverage type (pre-retirement, post-retirement, and spouse/dependent life). For both the State and Local plans, the expenses for pre-retirement and spouse/dependent benefits are expressed as a percentage of annual premium. For example, an expense of 3% applied to annual premium of $1,000,000 should yield an expense charge of $30,000 in the Financial Report. The expense ratios for post-retirement benefits are expressed as a percentage of post-retirement insurance inforce and claim charges, which makes it difficult to reconcile the expense charges in the Financial Report to the expense ratios in the Agreement.

The expense ratios included in the Financial Report are not always consistent with the expense charges from the Agreement. For example, for pre-retirement and spouse/dependent benefits, we noticed discrepancies in the expense ratios calculated from the expenses and premiums in the Financial Report to the expense ratios in the agreement. Table 1 below compares the expense ratios for pre-retirement and spouse/dependent coverage types.

Table 1
Wisconsin Group Life Expense Ratios as a Percentage of Annual Premium
Pre-retirement and Spouse/Dependent Programs

Coverage Type	Agreement		Financial Report	
	State	Local	State	Local
Pre-retirement	3.61%	8.05%	3.54%	8.65%
Spouse/Dependent	2.05%	5.80%	2.05%	6.34%

The expense ratios for the State plan are generally consistent between the Financial Report and the Agreement (with minor differences for pre-retirement coverage), whereas the expense ratios for the Local program are higher than those included in the Agreement.

For post-retirement benefits, we calculated expenses of $387,825 for the State plan using the expense ratios from the agreement and the insurance volumes and premiums from the Financial Report, which is very close to the $387,087 of expenses reported by Securian in the Financial Report. On the other hand, we calculated post-retirement expenses for the Local plan of $672,580 using the expense ratios from the agreement and insurance volumes and premiums from the Financial Report, which is higher than the $492,566 of expenses reported by Securian in the Financial Report.

We would recommend that ETF ask Securian about the discrepancies in expenses noted above.

The risk charges from the Agreement vary by plan and include several components. We compared the risk charges included in the Financial Report to the risk charges specified in the Agreement, based on the following components:

1. Risk charges up to 0.675% of annual premium for the State plan and up to 0.7125% of annual premium for the Local plan; and
2. Risk charges up to 0.25% for the State plan, and 0.28% for the Local plan, of the reinsured policy year premium for each reinsurer whose accumulated risk reserve is less than its proportionate share (equal to its reinsurance percentage) of the accumulated risk reserve.

The risk charges in the Financial Report are equal to 0.25% of annual premium for the State plan and 0.07% of annual premium for the Local plan, which are below the limits specified in the Agreement.

Section 4 - Pooling Charges

The pooling charges in the experience rating formula seem high based on historical pooled claim levels. Between 2008 and 2023, cumulative pooling charges for the State program were approximately $19.6 million higher than pooled claim amounts, and cumulative pooling charges for the Local program were approximately $2.2 million above pooled claims. There were only two instances of pooled claims exceeding pooling charges between 2008 and 2023, which occurred in 2021 for the Local active plan and in 2022 for the Local retiree plan. A summary of pooled claims and pooling charges between 2008 and 2023 for active employees and retirees is provided below for the State and Local plans:

Table 3A
Wisconsin Group Life Pooled Claims and Pooling Charges
State Program

Year	Active Employees			Retirees		
	Pooled Claims	**Pooling Charges**	**Difference**	**Pooled Claims**	**Pooling Charges**	**Difference**
2023	$865,192	$3,815,446	$2,950,254	$0	$237,292	$237,292
2022	$1,152,178	$3,308,759	$2,156,581	$50,047	$202,051	$152,004
2021	$1,912,375	$2,696,057	$783,682	$0	$161,777	$161,777
2020	$1,292,742	$2,338,360	$1,045,618	$0	$187,380	$187,380
2019	($13,876)	$1,940,660	$1,954,536	$0	$204,951	$204,951
2018	($7,588)	$1,713,776	$1,721,364	$0	$149,283	$149,283
2017	$801,675	$1,483,880	$682,205	$0	$150,868	$150,868
2016	$96,410	$1,421,117	$1,324,707	$0	$127,215	$127,215
2015	$77,934	$1,254,801	$1,176,867	$15,007	$105,318	$90,311
2014	$4,392	$903,382	$898,990	$0	$91,464	$91,464
2008-2013	$424,712	$3,513,917	$3,089,205	$0	$305,426	$305,426
Total	**$6,606,146**	**$24,390,155**	**$17,784,009**	**$65,054**	**$1,923,025**	**$1,857,971**

Table 3B
Wisconsin Group Life Pooled Claims and Pooling Charges
Local Program

Year	Active Employees			Retirees		
	Pooled Claims	**Pooling Charges**	**Difference**	**Pooled Claims**	**Pooling Charges**	**Difference**
2023	$38,608	$512,229	$473,621	$0	$84,253	$84,253
2022	$12,147	$408,719	$396,572	$170,107	$72,430	($97,677)
2021	$416,925	$380,530	($36,395)	$0	$56,026	$56,026
2020	$278,229	$300,324	$22,095	$0	$41,517	$41,517
2019	($1,102)	$236,740	$237,842	$0	$36,088	$36,088
2018	$23,449	$194,997	$171,548	$0	$30,307	$30,307
2017	$12,352	$168,914	$156,562	$0	$23,422	$23,422
2016	($171)	$146,140	$146,311	$0	$21,229	$21,229
2015	$54,822	$122,637	$67,815	$0	$16,096	$16,096
2014	($387)	$84,519	$84,906	$0	$13,199	$13,199
2008-2013	$82,509	$292,534	$210,025	$0	$33,846	$33,846
Total	**$917,381**	**$2,848,283**	**$1,930,902**	**$170,107**	**$428,413**	**$258,306**

We recommend ETF ask Securian to recalibrate its pooling charges in order to better align those charges with the levels of pooled claims observed historically. ETF could also consider whether pooling is necessary for the group life program, and possibly eliminating pooling from the experience rating formula.

Section 5 - Disability Reserves

Covered members who become disabled may qualify for waiver of premium benefits that continue life insurance coverage for the disabled member while concurrently waiving premium payments. Securian calculates disability claim reserves for this liability based on seriatim methods using claim listings as of December 31 and morbidity assumptions for projecting recoveries and deaths. The disability reserve represents the present value of expected life insurance payments on members who were disabled and qualified for waiver of premium benefits as of the valuation date.

We received documentation of Securian's disability reserve assumptions in the document *Waiver Study Documentation WI – 2023.docx*. These assumptions use claim termination rates from the 1970 Krieger Table (including the standard valuation margins) for claims incurred before 2009, as well as claim termination rates from the 2005 Society of Actuaries Group Term Life Waiver of Premium Valuation Table (2005 SOA) including the standard valuation margins for claims incurred in 2009 and beyond, adjusted based on recent trends in program experience. The claim termination rates also include an explicit provision for adverse deviation of 10% for mortality and 14% for recoveries. The discount rate assumptions vary by disability year ranging from 2.3% to 7.0%. A final adjustment of 0.54 is applied to reserves for claims incurred before 2009, and an adjustment factor of 0.9 is applied to claims incurred between 2009 and 2013.

We performed a reserve replication analysis using disability claim data as of December 31, 2023 and Securian's valuation assumptions. The following table summarizes the results of this analysis:

Table 4
Wisconsin Group Life Disability Reserve Replication Analysis

Claim Duration (Years)	State			Local		
	Securian	Milliman Replication	Ratio Mil:Sec	Securian	Milliman Replication	Ratio Mil:Sec
1	$2,435,525	$2,393,592	98.3%	$1,269,761	$1,272,538	100.2%
2	1,645,332	1,553,285	94.4%	2,381,987	2,295,005	96.3%
3	1,994,200	1,811,134	90.8%	2,398,147	2,178,072	90.8%
4	1,568,698	1,443,358	92.0%	1,193,036	1,077,427	90.3%
5	1,502,674	1,362,596	90.7%	997,611	928,175	93.0%
6	1,087,774	987,254	90.8%	961,385	873,207	90.8%
7	1,064,224	1,097,175	103.1%	1,333,977	1,337,383	100.3%
8	1,594,205	1,611,451	101.1%	1,474,243	1,489,644	101.0%
9	1,142,302	1,130,500	99.0%	1,401,052	1,437,139	102.6%
10	1,184,652	1,191,850	100.6%	1,189,552	1,207,095	101.5%
11-15	4,387,447	4,491,987	102.4%	3,093,326	3,131,912	101.2%
16-20	2,142,317	2,100,934	98.1%	1,102,130	1,055,551	95.8%
21+	541,996	509,604	94.0%	447,583	429,203	95.9%
Total	**$22,291,346**	**$21,684,719**	**97.3%**	**$19,243,790**	**$18,712,351**	**97.2%**

Overall, our replication reserves are within 3% of Securian's reserves for both programs. The differences are greatest for claims in durations 2-6 years. We audited the details of Securian's reserve projections for several claims and noticed that there appear to be additional adjustments to the claim termination rates related to the change in the definition of disability from own occupation to any occupation, which are not included in Securian's documentation. There appears to be another factor of 0.75 applied to female mortality rates that is not included in the documentation, and it is not clear if this factor is applied consistently and/or in every duration based on the reserve audit files.

The 1970 Krieger Table is outdated, and the 2005 SOA table is based on experience over 20 years old. There is a new industry valuation table for computing disability reserves (i.e., the 2023 Society of Actuaries Group Life Waiver of Premium Valuation Table) that is more granular than prior tables (e.g., the 2023 table includes diagnosis as a variable) and may be a better basis for computing Wisconsin disability reserves. We recommend Securian perform experience studies for the Wisconsin group life plan relative to the 2023 table and consider adjusting the basis using the results of those studies.

Section 6 - Investment Strategies

Securian provided the following details on the Wisconsin group life investment strategy:

- The high quality nature of the underlying invested assets provides stability in returns which in turn provides a degree of predictability in funding strength, reducing the unpredictability of life insurance premium contributions.
- Investment in the diverse credit quality general account of Securian reduces the risk of large losses.
- The frequency of establishing the interest crediting rate reflects market conditions, ensuring the returns are competitive.

Actual and target allocations of the assets held by Securian for the group life program as of December 31, 2023 are provided in the table below by asset class:

Table 5
Assets Held by Securian for the Wisconsin Group Life Program by Asset Class
As of December 31, 2023

Asset Class	Actual Allocation	Target Allocation
Government	0%	0%
ABS	2%	3%
CMBS	24%	22%
Agency MBS	10%	10%
Commercial Whole Loans	26%	25%
Municipals	0%	0%
Investment Grade Corporate Bonds (incl. Long)	37%	40%
High Yield Corporate Bonds	0%	0%
Equity	0%	0%

The percentages shown above were provided to Milliman by Securian and sum to 99% in the *Actual Allocation* column and 100% in the *Target Allocation* column. We suspect the discrepancies may be due to rounding, and we recommend that ETF ask Securian to confirm the actual asset allocation.

The actual allocations were very close to the target allocations as of December 1, 2023, with minor differences for asset classes ABS, CMBS, Commercial Whole Loans, and Investment Grade Corporate Bonds. The target allocations are consistent with what we would expect for group life insurance because they exclude riskier and less liquid assets (e.g., equity) and include less risky and more liquid assets (e.g., investment grade corporate bonds). Although equities are often used for backing retirement assets, it is uncommon to invest in equities for insured plans due to the additional risk-based capital required related to asset volatility.

Section 7 - Compliance with OWBPA

The Older Workers Benefit Protection Act (OWBPA) is a federal law[1] that includes requirements for employee benefit plans to protect older workers from age discrimination in employment. There are no OWBPA compliance issues for employee benefit plans that provide equal benefits at all ages. Some group life insurance plans (including the Wisconsin State and Local programs) feature benefit amounts that are reducing beyond a certain age (age 65 for the Wisconsin group life insurance program) and would not be considered compliant based on equal benefits criteria. In these cases, employers can demonstrate compliance by performing an equal cost test that shows claim costs are at least as high for older workers as they are for younger workers. For example, employers are allowed to reduce benefit amounts at older ages if the higher expected mortality at older ages means that the expected claim costs are not less generous for older workers than they are for younger workers.

If ETF were to perform an equal-cost test of this nature, we would recommend working with Securian to obtain historical experience for the State and Local programs that could be used to compare incurred claims for different age levels. The following considerations are relevant for this type of analysis:

- The protected class of employees is over age 40;
- The analysis can be performed in 5-year age bands with flexibility on the exact bands chosen;
- ETF may be able to consider results across a package of employee benefits including more than just group life insurance.

Although performing an equal cost test is outside of the scope of this audit, we asked Securian for an exhibit showing expected 2025 claim costs segmented into 5-year age bands. We used this information to estimate average claim costs by 5-year age band for the State and Local plans, as shown below:

Table 6
Wisconsin Group Life Expected 2025 Claim Costs

Age Band	State			Local		
	Expected Claim Cost	Estimated Employees*	Avg. Claim Cost	Expected Claim Cost	Estimated Employees*	Avg. Claim Cost
< 40	$2,626,996	17,308	$152	$2,390,449	27,386	$87
40-44	$2,526,872	7,435	$340	$1,957,306	10,580	$185
45-49	$3,107,864	7,088	$438	$2,435,709	10,507	$232
50-54	$3,986,185	7,438	$536	$3,259,632	11,225	$290
55-59	$5,356,138	7,697	$696	$4,067,292	11,614	$350
60-64	$7,571,706	8,689	$871	$5,296,849	11,924	$444
65-69	$4,580,166	9,133	$501	$2,384,592	12,244	$195
70+	$19,892,513	22,699	$876	$8,737,526	30,797	$284

* Estimated employees are based on the number of active employees and retirees specified in the Financial Report.

The average claim costs shown above are increasing at younger ages, then decrease at age 65, and increase again at age 70. Both plans feature benefit reduction schedules that begin at age 65, as follows:

- _State Basic Life Plan_: At age 65, benefit amounts reduce to 75% of the amount inforce prior to age 65. At age 66, benefit amounts reduce to 50% of the amount inforce prior to age 65.

[1] *Enacted in 1990 as an amendment to the 1967 Age Discrimination in Employment Act (ADEA).*

- *Local Basic Life Plan*:
    - Option 1: Same as the State basic life plan.
    - Option 2: At age 67, benefit amounts reduce to 25% of the amount inforce prior to age 65.

We believe it is likely that there are compliance issues with the group life program if treated on a standalone basis, due to the benefit reduction schedules. This is especially true for the Local plan which features a significant reduction at age 67. Thus, an equal cost test would need to be performed by ETF to assess compliance with OWBPA. The analysis shown above is high level and has the following limitations which could be addressed in a more detailed analysis:

1. Expected claim costs were calculated based on coverage amounts as of 12/31/2024 and the preliminary estimated claim rate assumption for 2025;
2. Projected claims include all claim types: Life, AD&D, and Disability;
3. Coverages include active employees, disabled employees, pre-65 retirees, and post-65 retirees;
4. The average benefit amounts in Table 6 may be distorted because they were not normalized for insurance volumes (e.g., per $1,000 of initial face amount of insurance). For example, the average initial insurance amounts could be lower for employees above age 65 than for employees 65 and below, which would suggest lower average claim costs for the older employees regardless of the reduction schedule. We did not have the necessary data to calculate expected claim costs per $1,000 of initial face amount of insurance.
5. Other employee benefits in addition to group life insurance can be included in an equal cost test.

Section 8 - Actuarial Standards of Practice (ASOPs)

PURPOSE OF ASOPS

ASOPs are standards that are established and continually updated by the Actuarial standards Board (ASB) and are essential in maintaining professionalism and trust in the actuarial field. A brief overview of the purpose that the ASOPs serve is as follows:

- The ASOPs provide actuaries: "guidance on the techniques, applications, procedures, and methods that reflect appropriate actuarial practices in the U.S."[2]
- Members of actuarial organizations in the U.S. are required "to satisfy applicable ASOPs when rendering actuarial services in the U.S."[3]
- "While these ASOPs are binding, they are not the only considerations that affect an actuary's work. Other considerations may include legal and regulatory requirements, professional requirements promulgated by employers or actuarial organizations, evolving actuarial practice, and the actuary's own professional judgment informed by the nature of the engagement. The ASOPs provide a basic framework that is intended to accommodate these additional considerations."[2]

DESCRIPTION OF RELEVANT ASOPS

In our review of the Financial Report, there was a general lack of transparency, documentation, and disclosures that are required under the ASOPs. Below is a list of the ASOPs that are relevant to Securian's work for rate setting and reserving for the group life insurance program.

1. ASOP 23: Data quality. This ASOP provides guidance to actuaries on selecting, reviewing, using, and relying on data in their actuarial work. Any actuarial communication should contain disclosures regarding source and selection of data, review of data, use of data, and reliance on data provided by others.
2. ASOP 41: Actuarial communications. This ASOP provides guidance to actuaries on the communication of actuarial findings to intended users and applies to all forms of actuarial communication, including written, electronic, and oral communications. Among other things, this ASOP requires actuaries to disclose any material assumptions, methods, and data used in their analysis, document their work, and communicate any uncertainties or limitations in the findings.
3. ASOP 28: Statements of opinion on assets and liabilities. This ASOP provides guidance to actuaries when issuing Statements of actuarial opinion on health insurance assets and liabilities. Among other things, this ASOP requires actuaries to identify applicable balance sheet items within the scope of the opinion and determine whether a provision for adverse deviation is appropriate for the intended purpose.
4. ASOP 56: Financial modeling. This ASOP emphasizes the importance of understanding the limitations and potential risks of models, as well as the need for transparency and thorough documentation.

We recommend Securian add a Reliance and Limitations disclosure on its Financial Experience Report and any other actuarial communications in future years or provide ETF with a primary document that includes all ASOP requirements that can be referenced in subsequent actuarial communications.

[2] https://www.actuary.org/content/actuarial-standards-practice-asops

[3] https://www.actuarialstandardsboard.org/wp-content/uploads/2013/10/asop001_170.pdf

Appendix A - Funding Methods

The Wisconsin group life insurance program provides life insurance benefits to active employees and retirees who are covered under separate programs for the State and participating Local government agencies.

<u>Group Life Insurance Program for Active Employees</u>

The State program is administered by Securian and funded through employee and employer premiums. The basic plan includes a benefit reduction schedule that reduces the benefit amount to 75% of the original amount at age 65 and 50% of the original amount at age 66. Participating employees pay premiums that cover most of the cost of basic and supplemental benefits during active employment, and the entire cost of any additional, spouse, and dependent insurance. The State also remits premiums that are designated to subsidize the cost of basic and supplemental benefits for active employees, to cover the cost of the employer aviation AD&D insurance plan, and to cover the cost of continuing basic benefits after retirement. The State contributes a total amount equal to 65.25% of employee premium contributions for basic insurance and 37.25% of employee premium contributions for supplemental insurance.

The Local program is also administered by Securian and funded through employee and employer premiums. Participating employers select a benefit reduction schedule for the basic plan that either features the same schedule as the State plan, or a schedule that reduces to 25% of the original amount at age 67. Employee-paid premiums cover the full cost of basic, supplemental, and additional insurance during active employment and for retired employees under age 65. Participating employers remit premiums equal to 40% of employee contributions for the basic plan that features the same schedule as the State plan, and 20% of employee contributions for the basic plan that features a 75% reduction at age 67. The employer contributions are designated to covering the cost of retiree life benefits for Local employees.

Both the State and Local group life insurance programs for active employees are retrospectively experience rated using an Active Employee Stabilization Reserve. This Active Employee Stabilization Reserve is credited for premiums and interest credits and debited for claims and expenses. The State and Local programs have separate Active Employee Stabilization Reserves.

<u>Group Life Insurance Program for Retirees</u>

The retiree life program is supported by contributions from employers and from pre-age 65 retirees. Contributions are made through age 65 and are intended to pre-fund the cost of post-65 retiree life benefits. The funds supporting the retiree life plan are held by Securian in a Premium Deposit Fund (PDF). These funds represent employer contributions on behalf of active employees, contributions from pre-age 65 retirees, and interest credits on prior PDF balances. Withdrawals from the PDF include benefit payments from post-65 claims and related expenses. There are separate PDF’s for the State and Local programs. Although the retiree life plan is insured with Securian, a separate financing agreement stipulates that Securian does not guarantee that the funds in the PDF will be sufficient to fund future retiree benefits, meaning that participating employers ultimately bear the risk of any shortfall with respect to retiree life benefits. This is not true for any of the active employee programs and related benefits discussed in the prior section.

If Wisconsin were to terminate its agreement with Securian, then Securian would keep the funds that it determines are necessary for paying future benefits for then-current retirees as of the termination date, including some or all of the funds in the Active Employee Stabilization Reserve if necessary.

Appendix B - Reliance Items

In preparing this summary report, we have relied on many sources of information provided to us by Securian and ETF, the principal items of which are listed below:

- Securian's Financial Experience Report covering experience from January 1, 2023 through December 31, 2023
- The insurance agreement between Securian and ETF for the contract period January 1, 2022 through December 31, 2028
- Historical premium rates for the State and Local programs
- Seriatim list of disability claims and reserves as of December 31, 2023
- Expected 2025 claim cost exhibits from Securian
- Documentation of Securian's disability valuation assumptions
- Financial exhibits showing historical reserve balances and funding levels
- Responses to questions

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