



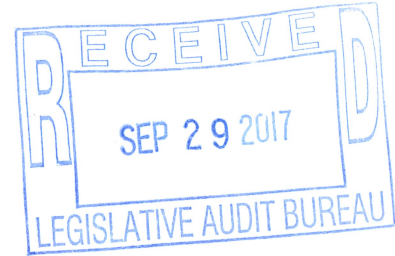
STATE OF WISCONSIN
Department of Employee Trust Funds
Robert J. Conlin
SECRETARY

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September 29, 2017

THE HONORABLE ROBERT COWLES
CO-CHAIR JOINT LEGISLATIVE AUDIT COMMITTEE
ROOM 118 SOUTH
STATE CAPITOL
MADISON, WI 53707

THE HONORABLE SAMANTHA KERKMAN
CO-CHAIR JOINT LEGISLATIVE AUDIT COMMITTEE
ROOM 315 NORTH
STATE CAPITOL
MADISON, WI 53707



Dear Senator Cowles and Representative Kerkman:

You asked the Department of Employee Trust Funds to report by September 30, 2017 on its progress in addressing the recommendations of the Legislative Audit Bureau's Report 17-7 relating to the Income Continuation Insurance program's financial condition and ETF's efforts to improve that condition. This letter is in response to that request.

ETF has addressed each of the recommendations in the audit report. The LAB recommended that ETF:

- *continue to closely monitor the financial status of both the State and Local Income Continuation Insurance programs;*
- *work with the Income Continuation Insurance program actuary to bring the actual fund balance closer to the fund balance recommended for each program; and*
- *report to the Joint Legislative Audit Committee by September 30, 2017, on the status of its fund balances and its efforts to redesign the Income Continuation Insurance program.*

ETF staff and its past and current consulting actuary have consistently monitored the financial status of the State and Local ICI programs. As noted in ETF's response to the audit, ETF's governing board has taken several steps over the years to address the deteriorating financial position of the State ICI program, including:

- ✓ In 2014, a new actuary reviewed the ICI program and made changes to the actuarial assumptions to more accurately reflect actuarial valuations of the ICI program;
- ✓ The Group Insurance Board approved premium increases through 2020 to address the deficit in the State ICI Program;
- ✓ The Group Insurance Board approved premium holidays to address a surplus in the Local ICI program; and
- ✓ ETF staff have worked with the ICI actuary to redesign the program structure to address the long-term fund balance of the ICI program rather than relying solely on premium increases. The redesign focuses on addressing declining enrollments, changes benefit levels to align with industry norms, and simplifies the program structure. In early 2017, the Group Insurance Board approved the program redesign and recommended moving forward with the legislative changes needed to implement it.

ETF continues to closely monitor the financial status and the funding levels of the State and Local ICI programs. ETF tracks the revenue, expenditures and enrollment levels of the ICI programs. These are the major indicators of program health and funding levels. This is a mid-year progress report so the financial information is not final and is unaudited. Amounts are subject to change.

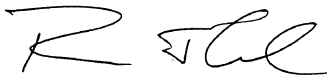
- ✓ As of August 31, 2017, the State ICI program's fund balance experienced a \$2 million increase (\$52 million to \$54 million) over the December 31, 2016 balance. This positive increase is due to two factors: (1) Group Insurance Board approval of an ICI actuarial recommendation to increase annual premiums by 20% and, (2) a decline in claims expenditures in 2017. These factors have contributed to an improved financial condition which should endure if the current trends for 2017 continue. It is also important to note that the reserve calculations do not include 2017 investment earnings.
- ✓ As of August 31, 2017, the Local ICI program's fund balance declined \$1 million from \$37.4 million to \$36.4 million. The program's fund balance is very healthy overall and the decline primarily reflects the decision by the Group Insurance Board to approve premium holidays for the Local ICI program. Recent increases in employer and employee enrollments should continue to drive the surplus level down. Program changes included in the redesign should also increase employer and employee enrollments which will drive fund balances lower. The Group Insurance Board is monitoring these trends to ensure that fund levels are appropriate for the enrollment levels. Again, the reserve calculations do not include 2017 investment earnings.

As noted above, the Group Insurance Board approved redesigning the ICI program structure. The new program structure will streamline and simplify disability benefits, making it easier for employees to participate in the program. The changes will also reduce the State ICI program's actuarial liability expense for existing and future claims. ETF has worked with the Legislative Reference Bureau to draft the legislation and is working with your offices to introduce the legislation.

In closing, ETF has been working diligently with the program actuaries to redesign the program that improves the financial position of the ICI programs and supports a sustainable income replacement program for employees. We look forward to working with your offices to introduce the ICI program redesign legislation.

Please let me know if you have any questions.

Sincerely,

A handwritten signature in black ink, appearing to read "R Conlin". The signature is fluid and cursive, with the first letter "R" being particularly large and stylized.

Robert J. Conlin
Secretary

cc: Michael Farrell, Chairman, Group Insurance Board
cc: Joe Chrisman, State Auditor, Legislative Audit Bureau