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January 21, 2016

Ms. Deb Roemer
Director of the Benefit Services Bureau
Division of Retirement Services
Wisconsin Department of Employee Trust Funds
Madison, WI 53707

RE: Requested Contract Amendment for Plan Design Work

Dear Deb,

In early 2015, the Wisconsin Department of Employee Trust Funds (ETF) retained Milliman to perform some plan design analysis related to ETF's disability plans. The scope of work was defined in our letter of January 13, 2015 (as amended on March 26, 2015), and it included the following items:

1. Kickoff Meeting and Group Discussion
2. Analysis of Long-Term Disability Insurance (LTDI) Changes
3. Analysis of Income Continuation Insurance (ICI) Changes
4. Analysis of LTDI and Disability Annuity Changes
5. Discussion of Additional Plan Design Options

The ICI plan analysis that was addressed in the work order involved an assessment of the impact of switching state employees to a plan that would more closely mirror the plan for local employees, which permits a choice of elimination periods and does not require the exhaustion of sick leave before receiving benefits. Following the completion of our annual valuation of the ICI plan on May 1, 2015, it became clear that there were some very significant funding and pricing challenges with that plan. We jointly agreed that the plan design work would be refocused to prioritize the ICI plan, and that this analysis would include a set of detailed experience studies designed to identify the source of the historical challenges with the program and support the development of potential solutions.

Work is nearly complete on Items 1, 3 and 5 above. Specifically, we have completed the experience studies on the ICI plan, which were provided in our letter of November 19, 2015. We have also made significant progress on identifying potential ICI plan design changes and additional plan design options, both of which will be addressed in a forthcoming letter. We have not yet performed the analysis of the LTDI and Disability Annuity changes. We have agreed with ETF,

however, that any financial projections for the Disability Annuity program would best be performed by the plan's pension actuary, with the results then incorporated into our analysis.

The total charges for work to date are slightly above the original budget of \$75,000. We will complete the remaining ICI and plan design work at no additional cost to ETF. But we would like to ask ETF to consider a contract amendment authorizing an additional \$25,000 to fund the remaining work on the LTDI plan, along with an extension of the project end date to June 30, 2016. (While we anticipate completing the work before then, it is probably best to allow some flexibility.)

The primary reason for the added cost for this project is the complexity of the analysis that was required to perform the ICI experience studies, as the result of challenges in the underlying data. As one example, we realized that due to limitations in the data available from ETF, we would have to do our own estimates of historical paid premiums on a member level rather than summarizing amounts provided to us. Significant back-and-forth communication with ETF and Aetna (its disability claim administrator) was required to complete this work.

We apologize for not providing better documentation and a more timely update on the cost of the work. In hindsight, we should have requested a change in the contract amendment to reflect the reprioritizing of the ICI plan before we performed the more thorough experience studies, and it certainly would have been better for us to provide ETF with a more timely update on the cost of the experience studies while the work was in progress. We regret the lack of communication on that point.

We hope this proposal will be acceptable to ETF, and we look forward to hearing from you.

Sincerely,



Daniel D. Skwire, FSA, MAAA
Principal

cc: J. Guidry (ETF)
P. Correia (Milliman)