State of Wisconsin
Department of Employee Trust Funds
DOA-3049 (R01/2000))
S. 51.01(5) Wis. Stats.; s. 111.32(13m) Wis. Stats.

Department of Employee Trust Funds
801 W. Badger Road
P. O. Box 7931
Madison, WI 53707-7931

Contract

Commodity or Service: Consulting Actuary for Wisconsin Group Insurance and Disability Programs

Contract No./Request for Proposal No: ETD0013 Amendment 1

Contract Period: October 1, 2014 through December 31, 2015

1. This contract is entered into by the State of Wisconsin, Department of Employee Trust Funds hereinafter referred to as the "Department", and between the Milliman, Inc., hereinafter referred to as the "Contractor", whose address and principal officer appears on page 2. The Department is the sole point of contact for this contract.

2. Whereby the Department of Employee Trust Funds agrees to direct the purchase and the Contractor agrees to supply the contract requirements cited in accordance with the State of Wisconsin standard terms and conditions and in accordance with the Contractor's proposal date February 17, 2014 hereby made a part of this contract by reference.

3. In connection with the performance of work under this contract, the Contractor agrees not to discriminate against any employees or applicant for employment because of age, race, religion, color, handicap, sex, physical condition, developmental disability as defined in s.51.01(5), Wis. Stats., sexual orientation as defined in s.111.32(13m), Wis. Stats., or national origin. This provision shall include, but not be limited to, the following: employment, upgrading, demotion or transfer; recruitment or recruitment advertising; layoff or termination; rates of pay or other forms of compensation; and selection for training, including apprenticeship. Except with respect to sexual orientation, the Contractor further agrees to take affirmative action to ensure equal employment opportunities. The Contractor agrees to post in conspicuous places, available for employees and applicants for employment, notices to be provided by the contracting officer setting forth the provisions of the nondiscrimination clause.

4. Contracts estimated to be over fifty thousand dollars ($50,000) require the submission of a written affirmative action plan. Contractors with an annual work force of less than fifty (50) employees are exempted from this requirement. Within fifteen (15) business days after the award of the contract, the plan shall be submitted for approval to the Department. Technical assistance regarding this clause is provided by the Purchasing Agent, Department of Employee Trust Funds, P.O. Box 7931, Madison, WI 53707-7931, 608.266.8989, or via e-mail at ETFProcurement@etf.wi.gov.

5. This initial contract period is for fifteen (15) months. Each contract period annually will be for twelve (12) months and extend unless and until either party gives the other 180 days' notice of their intent to cancel the contract.

6. For purposes of administering this Contract, the Order of Precedence is:
   A). This Contract with Milliman, Inc.;
   B). The Contract Amendment 1 dated March 26, 2015;
   C). Questions from vendors and ETF Answers dated January 28, 2014;
   D). Exhibit A, Changes Agreed to by the Parties from the Request for Proposal (RFP) ETD0013;
   E). Exhibit B, Business Associates Agreement dated June 3, 2014;
   F). The RFP dated January 6, 2014; and,
   G). Contractor's proposal dated February 17, 2014.

7. This Contract Amendment 1 is to add Milliman's Proposal for Disability Plan Design Analysis Scope of Work dated January 13, 2015 (amended March 26, 2015). Task reimbursement amounts are eligible for payment from Table 1, when ETF gives written acceptance of the tasks satisfactory receipt and will cost no more than $75,000. All task estimated timeframes are mutually agreed upon and deviations must be mutually agreed upon. This Contract Amendment 1 may be amended to reflect any change in tasks' estimated timeframes, additional requested work or costs associated with additional work requests. The Additional Plan Design Options (APDO) for researching the plan design for similar employers, including other state systems and large public sector plans will cost no more than $5,000. Reimbursement for the APDO work is eligible for payment when ETF gives written acceptance of satisfactory receipt. All travel expenses associated with the services for this amendment shall be billed at actual costs, be reasonable for the work conducted, and when appropriate, be at state approved rates. Contract Amendment 1 is for the total cost not to exceed $80,000.

Contract Number & Service: ETD0013-Consulting Actuary for Wisconsin Group Insurance and Disability Programs
Amendment 1

State of Wisconsin Department of Employee Trust Funds	Contractor to Complete
By *(Name)* **Robert J. Conlin**	Legal Company Name Milliman, Inc.
Signature	Trade Name Milliman
Title **Secretary** Department of Employee Trust Funds	Taxpayer Identification Number 91-0675641
Phone 608.266.0301	Company Address *(City, State, Zip)* 121 Middle Street Suite 401 Portland, ME 04101
Date *(MM/DD/CCYY)* 04/14/2015	By *(Name)* Daniel D. Skwire
	Signature
	Title Principal
	Phone 207.771.1203
	Date *(MM/DD/CCYY)* 3/30/2015

Milliman

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January 13, 2015 (amended on March 26, 2015)

Ms. Lisa Ellinger
Administrator
Division of Insurance Services
Department of Employee Trust Funds

(via email)

RE: Proposal for Disability Plan Design Analysis

Dear Lisa:

The Department of Employee Trust Funds (ETF) has asked Milliman to perform an actuarial analysis of several potential changes to ETF's disability programs. This letter provides a description of the proposed scope and budget for this work.

Scope of Work

The scope of work for this project will include 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

Each item is described in further detail below.

Kickoff Meeting and Group Discussion

We held this meeting at the ETF offices on December 8, 2014. The object, which we achieved successfully, was for us to discuss the current disability programs in some details, understand certain technical aspects of the analysis to be performed, and begin brainstorming about additional plan design options. We agreed that Milliman would not invoice its time and expenses for this meeting until such time as ETF agreed to proceed with the remainder of the analysis.

Analysis of LTDI Changes

Milliman will analyze the impact of closing the LTDI program to new members, including the following specific items:

- Estimate of premium impact to WRS Trust.
- Estimate remaining liability for current LTDI recipients.
- Estimate run-off period for current LTDI recipients.
- Effects on §40.63 disability annuity program.
    - Estimate increase in number of disability annuitant applications.
    - Estimate the number of members who would be impacted by the 40.63 program's higher service requirement.
    - Estimate length of run-off period for 40.63 if LTDI is not closed.
- Impact on funding levels for ICI state program.
- Estimate the impact of changing the LTDI death benefit from an inactive to an active participant death benefit, and the impact of resulting increase in death benefits paid to existing LTDI recipients under the scenario where LTDI is closed

Although our valuation work will provide us with some of the required data for this analysis, we will need to request and review additional information related to the 40.63 disability annuity program and the amount of potential LTDI death benefits for active and inactive participants.

Analysis of ICI Changes

ICI pays benefits for state employees currently after the later of 30 days and the exhaustion of sick leave. Milliman will analyze the impact of removing the requirement to exhaust sick leave and moving to a structure similar to the ICI program for local employees, where elimination period range from 30 to 180 days. This analysis will include the following specific items:

- Estimate premium impact on employers and employees.
- Estimate impact on claims costs.
- Estimate impact of premium changes on ICI enrollment including take-up rates and elimination period enrollment distribution.
- Estimate impact on funding levels for ICI state program.
- Estimate effect of change on Accumulated Sick Leave Conversion Credits and Supplemental Health Insurance Conversion Credits programs.
- Estimate impact of premium increases on current members enrolled in permanent premium plateaus.

Although our valuation work will provide us with some of the required data for this analysis, we will need to request and review additional information related to sick pay balances, ICI enrollment patterns, and the use of the Accumulated Sick Leave and Supplemental Health Insurance Conversion Credits programs.

Analysis of LTDI and Disability Annuity Changes

Milliman will analyze the impact of changing the WRS death benefit for those receiving LTDI benefits from an inactive to an active participant death benefit, but (unlike the analysis discussed above) under the assumption that the LTDI program is not closed to new claims.

Additional Plan Design Options

In our discussions on December 8, ETF indicated that a primary motivation for the plan changes being considered in this actuarial analysis was the administrative complexity involved with the current number of disability plans and their overlapping offsets. Although closing the LTDI program for new claims would remove one layer of complexity going forward, it would still be necessary to administer existing LTDI claims for many decades in the future, and the change would be counter to actions taken by other public sector entities to provide disability benefits outside of, rather than within, their defined benefit pensions.

We therefore propose providing ETF with a variety of other disability plan design options that could help achieve greater administrative simplicity by reducing benefit overlap, simplifying offsets, and better aligning sick pay, death benefits, and disability benefits. For example, we might discuss possibilities such as terminating LTDI benefits once a member is eligible for WRS retirement benefits, making the ICI program a short-term disability only benefit, allowing an optional employee buy-up on the LTDI program to obtain a higher level of income replacement, or replacing both LTDI and ICI with a single new disability program.

The analysis we provide will include a detailed discussion of the proposed options. If it would be helpful, we are also able to research the designs used by other state systems and large public sector employers (the cost for that work is discussed separately below). In order to manage the scope and budget, we do not propose providing a detailed cost analysis of these plan design options at this time. But we would be happy to do so if, after reviewing them, you feel that any of them are of sufficient interest to pursue further analysis.

Proposed Budget

We propose providing the requested analysis on a fixed fee basis, with the following fees for each portion of the work:

Table 1
Budget and Timeline for ETF Disability Plan Design Work

Task	Fixed Fee	Estimated Timeframe
Kickoff Meeting	$5,000 (includes travel costs)	December, 2014
LTDI Changes	$30,000	June, 2015
ICI Changes	$25,000	July, 2015
LTDI / Disability Annuity Changes	$5,000	June, 2015
Additional Plan Design Options	$10,000	July, 2015
Total	$75,000	

Please note the following items regarding this budget estimate:

- The fixed fee for the kickoff meeting includes travel expenses from our December meeting, but note that no travel costs are included for the other portions of the work since we do not contemplate any travel will be required. Should any travel be requested and approved by ETF for this work, we will invoice the travel expenses separately.

- The budget for the LTDI/Disability Annuity Changes (i.e., analyzing the cost of the higher death benefit assuming the LTDI program remains open to new claims) assumes that the other work on LTDI changes will also be performed.

- The budget for the Additional Plan Design Options does not include researching the plan design for similar employers, including other state systems and large public sector plans. The cost for that work would be an additional $5,000.

The time frames shown above are initial estimates, and they depend on our ability to receive timely and accurate responses to our data requests and other questions. To the extent that there are any challenges in completing the valuation work, which occurs in a similar time frame, this may also affect the time frames for the plan design analysis.

General

Paul and I look forward to discussing this proposal with you once you have had a chance to review it. If everything looks acceptable, then let's discuss what paperwork is required to include this work under our existing contract with ETF. Meanwhile, please feel to contact either me at (207) 771-1203 or dan.skwire@milliman.com, or Paul at (207) 771-1204 or paul.correia@milliman.com with any questions you may have. We hope to have the opportunity to work with you and your team on this analysis.

Sincerely,

Daniel D. Skwire, FSA
Principal

cc: P. Correia (Milliman)