

MINUTES OF
STATE OF WISCONSIN
GROUP INSURANCE BOARD
Tuesday, August 27, 2002

Radisson Inn – Madison
517 Grand Canyon Drive
Madison, WI 53719

BOARD PRESENT:

Stephen Frankel, Chair
Randy Blumer, Vice-Chair
Robert Alesch
Martin Beil
Dan Caucutt (DOA Designee)
Gale Dushack
Peter Fox
Esther Olson
Karen Timberlake

PARTICIPATING ETF STAFF:

Eric Stanchfield, Secretary
Dave Mills, Deputy Secretary
Tom Korpady, Administrator, Division of Insurance Services
Bill Kox, Director, Health Benefits & Insurance Plans Bureau
Audrey Koehn, Director, Disability Programs Bureau
Pam Henning, Director, Office of Strategic Planning
Dawn Duren, Group Insurance Board Liaison
Christina Licari, Retirement Boards Liaison

OTHERS PRESENT:

Susan Baez, Dean Health Plan
Karen Baumhardt, Blue Cross & Blue Shield United of Wisconsin
Marcia Blumer, Department of Employee Trust Funds
Paul Brazeau, WPS Insurance
Liz Doss-Anderson, Department of Employee Trust Funds
Rhonda Dunn, Department of Employee Trust Funds
Brian Eck, Gunderson Lutheran Health Plan
Colleen Evans-Carter, CompCareBlue
Charlotte Gibson, Department of Justice
David Fee, Humana Health Plan
Jean Gilding, Department of Employee Trust Funds
Steve Grob, Department of Employee Trust Funds
Emily Halter, Blue Cross Blue Shield United of Wisconsin
Jane Hamblen, Department of Justice
Dave Hinrichs, Department of Employee Trust Funds
Mary Hoffenbredl, Atrium Health Plan
Kathy Ikeman, Unity Health Insurance
Joy Kaiser, Medical Associates Health Plan
Sandy Katz, Department of Corrections
Erin Kelly, Network Health Plan
Nancy Ketterhagen, Department of Employee Trust Funds
Jon Kranz, Department of Administration
Lisa Kroener, Blue Cross Blue Shield United of Wisconsin

Arlene Larson, Department of Employee Trust Funds
Penney Leverenz, Network Health Plan
Eileen Mallow, Office of the Commissioner of Insurance
Kathy Milske, Network Health Plan
Cliff Morris, Health Choice
Peg Narloch, Department of Employee Trust Funds
Bob Olafson, Minnesota Life Insurance Company
Paul Ostrowski, Department of Employment Relations
Pat Pechacek, Deloitte & Touche LLP
Mary Pierick, Department of Employee Trust Funds
Michael Polk, Group Health Cooperative-South Central Wisconsin
Vicki Poole, Department of Employment Relations
Beth Ritchie, UW Systems Administration
Donna Rodenkirch, Department of Corrections
Pete Roverud, Deloitte & Touche LLP
Paul Rudeen, Minnesota Life Insurance Company
Jim Searcy, Deloitte & Touche LLP
Chris Schmelzer, Minnesota Life Insurance Company
Shelly Schueller, Office of the Secretary
Ron Sebranek, Physician's Plus Insurance Corporation
Mel Sensenbrenner, State Engineers Association
Sonya Sidky, Department of Employee Trust Funds
Joan Steele, Department of Employee Trust Funds
John Vincent, Department of Employment Relations
Al Wearing, Blue Cross Blue Shield United of Wisconsin
Tom Wendlick, Blue Cross Blue Shield United of Wisconsin
Bob Willett, Department of Employee Trust Funds
Kari Jo Zika, Department of Employee Trust Funds

Mr. Frankel, Chair, called the meeting to order at 8:36 a.m. Mr. Frankel announced that Chuck McDowell, secretary, had resigned from his position on the Board effective August 15, 2002. Chuck has accepted a position with Milwaukee County.

Mr. Korpady introduced Dawn Duren as the new Group Insurance Board Liaison and Christina Licari (observing) as the Retirement Boards liaison.

Consideration of Minutes of April 12, 2002, and June 4, 2002, Meetings

MOTION: Mr. Alesch moved approval of the minutes of the April 12, 2002, and June 4, 2002, meetings as submitted by the Board Liaison. Ms. Olson seconded the motion, which passed without objection on a voice vote. Due to the resignation of Chuck McDowell, secretary, the minutes are being held over to be signed at the November Board meeting after the election of a new secretary.

Alternate Plan Financial Status

Bob Williett, Director, Controller's Office, presented the financial review of alternate health providers. Bob recommended that the Board approve all of the health plans based on the financial status.

MOTION: Mr. Blumer moved to accept the financial review and that all plans are qualified plans. Ms. Timberlake seconded the motion, which passed without objection on a voice vote.

Motion to Convene in Closed Session

Mr. Frankel announced that the Group Insurance Board would convene in closed session pursuant to the exemptions contained in Wis. Stats. § 19.85 (1)(e) for deliberations concerning the competitive bargaining aspects involved in the expenditure of public funds. Staff from the Department of Employee Trust Funds, Department of Employment Relations, Department of Administration, Office of the Commissioner of Insurance, and Deloitte & Touche LLP were invited to remain during the deliberations.

MOTION: Mr. Beil moved to convene in closed session pursuant to the exemptions contained in Wis. Stats. § 19.85 (1)(e) for deliberations concerning the competitive bargaining aspects involved in the expenditure of public funds. Mr. Dushack seconded the motion, which passed without objection on the following roll call vote:

MEMBERS VOTING AYE: Alesch, Beil, Blumer, Caucutt, Dushack, Fox, Frankel, Olson, and Timberlake

MEMBERS VOTING NAY: None

The Group Insurance Board convened in closed session at 8:45 a.m. and reconvened in open session at 10:55 a.m.

Announcement of Action Taken on Business Deliberated During Closed Session.

Mr. Korpady announced that the Board took the following actions during the closed session:

- Approved rate settings for self-insured health plans. Rates for Standard Plan I will increase 13%, rates for Standard Plan II will increase 17% and rates for Medicare +\$100,000 will increase 9%. Local Standard Plan rates will increase 8%, and the Medicare Carve-Out for the Local Government Plan will increase 2%.
- Heard that the Standard Plan is becoming much less affordable. The Board observed that this plan may no longer be a viable alternative and has directed staff to study and gather information on why people stay in this plan, their reasons for doing so, and their needs.
- Reviewed the dental benefit plan changes.
- Approved the Health Maintenance Organization Service Area qualifications.
- Heard Security Health Plan has chosen to withdraw from participation in the plan for 2003. They felt as though they were becoming too expensive to be a competitive plan.
- Heard results of the negotiations in the bid process with the HMOs this year. Mr. Korpady noted that the state will save over \$5 million as a result of this negotiation process.

Life Insurance Program

Bob Olafson, Minnesota Life Insurance Company (MLIC), presented the 2001 Policy Year Report for the State and Local Government Employers. Mr. Olafson reviewed the highlights of the report and offered opportunity for discussion.

➤ **Employee and Employer Premium Contribution Rates**

➤ **State of Wisconsin Plan**

Mr. Olafson reported that the state plan has shown a steady pattern of improvement, which has allowed the Board to frequently reduce premium payments. The employee claims experience for the period of 1999 through 2001 was slightly better than the targeted

results. Based on the analysis of recent experience, MLIC recommends that 2003 employee premiums rates be reduced for basic, supplemental and additional insurance.

MLIC recommends the following premium rate reductions for basic, supplemental, and additional insurance for the following ages: (1) 40 through 49 and ages 55 through 69, (2) reduce employee premium rates for additional insurance at ages 40 through 49 and ages 55 through 69, (3) reduce employee premium rates for age 70; additional insurance at all ages 70 and over, and (4) continue with the current state premium contribution percentages.

➤ **Local Government Plan**

Claims in 1999 and 2000 were better than expected. In 2001, claims increased slightly higher than expected. Over the three-year period 1999-2001, total claims were essentially equal to the targeted result.

Based on the analysis of recent experience, MLIC recommends that employee and employer premium contribution rates be continued at their current levels in 2003.

➤ **Spouse and Dependent Insurance Premiums**

➤ **State of Wisconsin Plan**

Claim rates on the state spouse and dependent plan were generally higher than the pricing target over a period of several years in the late 1990s, with claims and expenses exceeding the plan's stop-loss limit in both 1998 and 1999. Based on claims experience, the Board in August 2000 approved an increase in the premium rate for this plan. Effective March 1, 2001, the monthly premium paid by state employees for each unit of spouse and dependent insurance increased from \$2.00 to \$2.50.

Following the high claims of 1999, both 2000 and 2001 had favorable claims results in comparison to the new \$2.50 premium rate. If this rate had been in effect during the entire 1999-2001 period, the overall result would have been somewhat better than the pricing target.

A stabilization reserve is maintained to provide the plan with financial stability as claims fluctuate from year to year. The stabilization reserve balance on December 31, 2001, was \$748,952. This is equal to approximately 61% of the plan's annual premium or slightly higher than the targeted minimum of 50%. MLIC anticipates that this reserve balance will increase gradually if current experience continues.

Based on MLIC's analysis of recent experience and in light of the premium rate increase that was implemented on March 1, 2001, MLIC recommends that spouse and dependent insurance benefits and premiums be continued at their current levels in 2003.

➤ **Local Government Plan**

Claims on the local government spouse and dependent plan improved significantly over several years in the late 1990's. Beginning with 1996 and continuing through 1998, each succeeding year established a new record low for claims. Based on this experience, the Board in August 1999 approved a reduction in premiums from \$3.00 to \$2.00 monthly per unit of coverage. This premium reduction was effective July 1, 2000.

Compared to prior years, claims were somewhat higher in 1999, and in both 2000 and 2001, claims were very high. If the \$2.00 premium rate had been in effect during the entire 1999-2001 period, the overall loss ratio would have been 117%, which is significantly greater than the pricing target.

A stabilization reserve is maintained to provide the plan with financial stability as claims fluctuate from year to year. During the years of low claims, the balance of this reserve grew rapidly and dramatically. The stabilization reserve on December 31, 2001, was \$2,488,949. This is equal to approximately 179% of the plan's annual premium, substantially larger than the targeted minimum of 50%.

Based on MLIC's analysis of recent experience and because of the large stabilization reserve balance, MLIC recommends that spouse and dependent insurance benefits and premiums be continued at their current levels in 2003.

➤ **Stop-Loss Limit**

➤ **State Government Plans**

Current stop-loss rates were implemented on January 1, 1999. Overall claims in the years 1999 through 2001 were lower than the experience on which the current rates are based.

Given recent experience and consistent with the recommended employee and employer premium contribution rates for 2003, Minnesota Life recommends that stop-loss rates be decreased by 10.5% effective January 1, 2003.

➤ **Local Government Plans**

The current stop-loss rates were implemented on January 1, 1999. Claims in the years 1999 through 2001 were essentially equal to the experience on which the current rates are based.

Given recent experience and consistent with the recommended employee and employer premium contribution rates for 2003, MLIC recommends that stop-loss rates be maintained at their current levels.

MOTION: Mr. Blumer moved acceptance of the report and adoption of MLIC's recommendation for premium and contribution rates for both state and local government plans. Mr. Beil seconded the motion, which passed without objection on a voice vote.

Reinsurance

Insurance claim liability due to steadily increasing amounts of insurance has increased the potential risk to the Wisconsin Public Employers Group Life Insurance plan's finances. To reduce the volatility of annual claims charges to the plan, MLIC recommends pooling the excess insurance amounts. Pooling will pass the total risk for insurance amounts above \$500,000 to the insurer's "pool" of similar risks. MLIC will make an annual "pool" charge to the plan for taking this risk and will charge the pool for any claim amount in excess of \$500,000.

Because the pooling technique reduces claim charge volatility, it also reduces the likelihood that charges will exceed the annual stop-loss limits. Thus, MLIC has proposed to reduce the risk charges for the stop-loss provision by 10% for the state plan and by 5% for the local government plan.

MOTION: Mr. Fox moved to accept the recommendations to reduce the risk charges for the stop-loss provision and to accept the excess of insurance pooling by reinsurance. Mr. Alesch seconded the motion, which passed without objection on a voice vote.

Milwaukee Teachers Death Benefit

Bob Olafson of MLIC presented proposed changes to the Milwaukee Teacher Death Benefit Plan from an annual term insurance basis to a paid-up, lifetime benefit basis. MLIC's proposal is to provide a benefit of \$3,500 during the insured's active employment and then for 15 years beyond the date of retirement. At the end of the 15th year, the benefit would reduce to \$1,500 and continue in force for the lifetime of the insured. This proposal assumes that the fund balance will be approximately \$1,032,000 on December 31, 2002. Alternative benefit levels have been proposed should the fund balance be significantly more or less than the projected amount of \$1,032,000 on December 31, 2002.

The Department recommends that the following alternative benefit levels for the Milwaukee Teacher Death Benefit Plan be approved should the fund balance as of December 31, 2002, be significantly more or less than the projected amount of \$1,032,000. If the fund balance is greater than \$1,095,000, or less than \$1,000,000, then the plan would continue as an annual term insurance, and the Board would reconsider this proposal next year.

MOTION: Mr. Beil moved to accept the Department's recommendation to change the Milwaukee Teachers Death Benefit Plan from an annual term insurance basis to a paid-up, lifetime benefit basis providing the fund balance falls within \$1,000,000 to \$1,095,000. Mr. Fox seconded the motion, which passed without objection on a voice vote.

Long-Term Disability Insurance (LTDI) Program – 2003 Premium Development

James Scarcy, Deloitte & Touche LLP, presented the report as provided to the Board. The following table, which was excerpted from the report, shows the funded status of the plan over the past four years.

	<u>12/31/01</u>	<u>12/31/00</u>	<u>12/31/99</u>	<u>12/31/98</u>
LTDI Beg Assets	\$226,170,712	\$209,817,540	\$188,960,073	\$162,693,972
Closing Adjustments	\$21,501,124	\$0	\$0	\$0
Contributions	\$0	\$0	\$0	\$8,718,448
Inv Earnings	\$19,557,449	\$20,797,867	\$24,552,665	\$20,937,313
Paid Claims	\$5,706,460	\$4,188,833	\$3,091,348	\$3,025,358
Expenses	\$972,551	\$255,862	\$603,849	\$364,302
LTDI Ending Assets	\$260,550,273	\$226,170,712	\$209,817,540	\$188,960,073
Incurred Claims Reserve	\$34,345,986	\$29,238,286	\$25,879,420	\$19,866,086
RFC	\$226,204,287	\$196,932,426	\$183,938,120	\$169,093,987
Regular Premium (% of payroll)	0.24%	0.27%	0.34%	0.44%
RFC Adjustment	(0.24%)	(0.27%)	(0.34%)	(0.44%)
Recommended Premium Rate	None - 2003	None - 2002	None - 2001	None - 2000

Mr. Searcy reported that the 2003 premium rates shown in the next table are based upon a continuation of the 20% (5 year) adjustment to the Reserve for Future Claims (RFC) that was adopted by the Board in connection with the development of the 1996 rates and continued

thereafter. This methodology has been sufficient to temporarily suspend premiums, which was done beginning in 1999.

Premium rates designate amounts to be transferred from the Wisconsin Retirement System (WRS) fund to the LTDI fund, so reductions in premium rates only result in a different allocation of funds and not in a reduction in amounts collected. The plan continues to be well funded as evidenced by the growing RFC. The current funded status allows for substantial lead time for any changes necessary due to anticipated higher claim levels in 2004 and beyond.

**Development of 2003 LTDI Premiums
Based Upon 5 Year Adjustment of Reserve for Future Claims
December 31, 2001**

	Protective				Total
	General	Executive & Elected	With Social Security	Without Social Security	
\$ in Millions					
1) Payroll	\$8,746.5	\$84.8	\$771.6	\$142.1	\$9,745.0
2) RFC	199.2	1.8	21.2	4.0	226.2
%s of Active Member Payroll					
3) Regular Premium	0.24%	0.22%	0.29%	0.30%	0.24%
4) RFC Adjustment: 20% x (2)/(1)	(.46)	(.42)	(.55)	(.57)	(.46)
5) 2002 LTDI Rate	0.00%	0.00%	0.00%	0.00%	0.00%
Prior Year Rate	0.00%	0.00%	0.00%	0.00%	0.00%

In light of the excellent funded status of the plan, as well as the fact that any premium reduction is transparent to both employers and employees, Deloitte & Touche recommended continuing the indefinite premium suspension that began in 1999.

MOTION: Mr. Beil moved to accept the 2003 LTDI Premium Rate Development report and to continue the indefinite premium suspension that began in 1999. Ms. Olson seconded the motion, which passed without objection on a voice vote.

LTDI Election Schedule Extension

The current LTDI plan election deadline is January 2, 2003. Employees eligible for coverage under the LTDI plan and the disability retirement provisions under §40.63 shall elect coverage under only one of these programs. Delaying the election allows members to exercise their choice at the time of application for benefits. This approach enables the Department to provide better information on the advantages or disadvantages of each program personalized to the applicant's specific situation. Actuaries for the Board and Department staff carefully monitor the programs and thus far have seen no significant adverse selection resulting from the delayed election.

MOTION: Mr. Beil moved to accept the recommendation that the Board adopt the motion to extend the deadline for the election of Long-Term Disability Insurance (LTDI) or § 40.63 benefits to January 3, 2005. Mr. Blumer seconded the motion, which passed without objection on a voice vote.

Administrative Rules

Ms. Koehn reviewed the proposed administrative rule and offered opportunity for discussion.

➤ **LTDI ETF Admin. Code 50 - Employer Certification**

The purpose of this rule change is to remove the employer's requirement of making a medical certification for purposes of determining whether the claimant meets the eligibility requirement for LTDI benefits.

The current rule for LTDI disability benefits under s. ETF 50 requires the employer to indicate that the claimant is disabled by the disability definition in the administrative code. This rule will clarify that the Department will rely on the physicians to make this determination.

MOTION: Mr. Fox moved to approve the administration rule s. ETF 50. Ms. Timberlake seconded the motion, which passed on a voice vote.

Miscellaneous

- **Legislative Update** Ms. Henning reported on the Budget Adjustment Bill, which included the following items pertinent to the Board: 2001 Wisconsin Act 109, suspending the state contribution to fund sick leave conversion credit programs, the Private Employer Health Care Coverage program, the State employer voluntary furlough, and provisions removed before the bill was passed.
- **Leapfrog Letter** Mr. Korpady commented on Leapfrog letter included in the Board packet welcoming the Board and the Department as members of the Leapfrog Group.
- **Pending Appeal Report** Mr. Mills commented that the Department continues to make significant progress as noted in the pending appeals report.
- **It's Your Benefit** Mr. Korpady reported that the second newsletter will be issued by the Department soon.
- **Third Party Audit Contracts** Mr. Korpady noted that the Department has made a preliminary selection of contract auditors, pending authorization of the ETF Board. These auditors will audit different programs administered by the third party vendors for the Department.
- **CORE** Core is moving administration of our programs to their Burlington office.
- **FACT Sheets** Group Health Insurance, Group Life Insurance, and ASLCC/SHICC fact sheets were distributed.

Motion to Convene in Closed Session

Mr. Frankel announced that the Group Insurance Board would convene in closed session pursuant to the exemptions contained in § Wis. Stats. 19.85 (1) (a) for quasi-judicial deliberations. Attorney Hamblen, Charlotte Gibson, Mr. Ostrowski, Mr. Vincent, Ms. Licari and Ms. Duren were invited to remain during the closed session deliberations.

MOTION: Mr. Beil moved to convene in closed session pursuant to the exemptions contained in § Wis. Stats. 19.85 (1) (a) for quasi-judicial deliberations. Ms. Timberlake seconded the motion, which passed without objection on the following roll call vote:

MEMBERS VOTING AYE: Alesch, Beil, Blumer, Caucutt, Dushack, Fox, Frankel, Olson and Timberlake

MEMBERS VOTING NAY: None

The Group Insurance Board convened in closed session at 11:46 a.m. and reconvened in open session at 1:55 p.m.

Announcement of Action Taken on Business Deliberated During Closed Session.

Mr. Frankel announced that the Board took the following action during the closed session:

- **Appeal 98-103-GIB.** The Board adopted the hearing examiner's decision with amendments to the proposed decision recommended by counsel.
- **Appeal 99-004-GIB.** The Board adopted the hearing examiner's proposed decision, with the Board's intention to make coverage of birth defects for newborns, while covered by a state plan, to be provided without interruption as provided by statute.
- **Appeal 99-108-GIB.** The Board adopted the hearing examiner's proposed decision, according to provisions in the Income Continuation Insurance contract.
- **Appeal 99-044-GIB.** The Board adopted the hearing examiner's proposed decision, with amendments recommended by counsel.
- **Appeal 98-088-GIB.** The Board adopted the hearing examiner's decision to uphold the employer's decision and to make the amendments recommended by counsel.
- **Appeal 2000-048-GIB.** The Board voted to adopt the Hearing Examiner's proposed decision with amendments recommended by counsel.
- **Appeal 2000-081-GIB.** The Board voted to table the appeal pending further discussion. The Board will make a decision pending further discussion via teleconference or at the November Board meeting.

Adjournment

MOTION: Mr. Beil moved adjournment. Mr. Duschak seconded the motion, which passed without objection on a voice vote.

The Group Insurance Board adjourned at 2:00 p.m.

Dated Approved: _____

Secretary: _____