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**STATE OF WISCONSIN
DEPARTMENT OF EMPLOYEE TRUST FUNDS
801 West Badger Road
Madison, WI 53702**

CORRESPONDENCE MEMORANDUM

DATE: August 26, 2003

TO: Group Insurance Board

FROM: Marcia Blumer, Employee Benefit Policy Advisor
Division of Insurance Services

SUBJECT: Wisconsin Public Employers (WPE) Group Life Insurance annual report

Attached is the 2002 Policy Year Report for the WPE Group Life Insurance program. Bob Olafson's cover letter dated June 30, 2003, found inside the Policy Year Report, highlights the significant results of the 2002 policy year operations. This memo summarizes Minnesota Life's rate recommendations for the 2004 Policy Year. More detailed information regarding the recommendations can be found in the separate state and the local government plan reports. **Staff recommends approval of all of the rate proposals from the Minnesota Life Insurance Company.**

State Plan

The State employee claims experience in 2002 was the second best overall claims result in the State plan's history. The period of 2000 through 2002 experienced the best claims result ever. Because of the continued favorable claims experience, **Minnesota Life recommends employee premium rate reductions for basic, supplemental, and additional insurance in the 40 through 69 age groups.** This will result in an overall premium decrease of about 9.1% for both State employees and State agencies.

The claims experience for the State spouse and dependent insurance has fluctuated in the past several years, with the claims rate in 2002 lower than in any of the previous five years. The stabilization reserve balance is at approximately 85% of the plan's annual premium, well above the targeted minimum of 50%. Based on the recent favorable claims experience and the size of the stabilization reserve, **Minnesota Life recommends that spouse and dependent insurance benefits and premiums be reduced from \$2.50/month to \$2.00/month for each unit of coverage.**

The current stop-loss rates for the State employee plan were implemented on January 1, 2003. **Given the recent positive claims experience for the State employee plan, and consistent with the recommended decrease in State employee and employer premium contributions rates, Minnesota Life recommends that stop-loss rates be decreased by 7.1%, effective January 1, 2004.**

The annual stop-loss limit for the State spouse and dependent plan is set at 125% of policy year premium under the assumption that premiums will cover claims and expenses in an average year. As noted in the recommendations above, a 20% reduction in spouse and dependent premiums has been proposed. The resulting amount of premium collected will be about 5% less than needed to cover claims and expenses if claims continue at recent levels. The stabilization reserve will be utilized to cover the excess claims and expenses. With a proposed premium rate that is not expected to fully cover claims and expenses, it is expected that the stop-loss limit will be exceeded more frequently. To make the probability of exceeding the stop-loss limit generally consistent with the intended probability and with the risk charge formula, **Minnesota Life recommends a temporary increase in the stop-loss limit to 130% of policy year premium.**

Local Government Plan

Local government employee claims experience over the three-year period of 2000 through 2002 has continued to be slightly lower than the targeted result. **Based on the continuing favorable experience, Minnesota Life recommends that the 2004 local government employee premium rates for basic, supplemental, and additional insurance be reduced in the 40 to 59 age groups.** This will result in an overall employee rate reduction of about 3.1%.

Minnesota Life also recommends a 20% reduction in the employer contribution rate for local government employers who offer the 50% post-retirement benefit. The contribution rate for this level of post-retirement coverage is currently equal to 50% of the employee Basic premium rate. This recommendation will reduce the employer contributions to 40% of employee premium, resulting in a 6.6% reduction in premium costs for employers who offer this level of coverage.

Local government spouse and dependent claims have been somewhat greater than the targeted level for the last three years. However, the stabilization reserve is equal to approximately 175% of the plan's annual premium, substantially larger than the targeted minimum of 50%. Because of the large stabilization reserve balance, **Minnesota Life recommends that the spouse and dependent insurance benefits and premiums be continued at their current levels in 2004.**

The current stop-loss rates for the local government employee plan were implemented on January 1, 1999. **Given the recent positive employee claims experience, and consistent with the recommended decrease in employee and employer premium contributions rates for 2004, Minnesota Life recommends an overall stop-loss rate decrease of 3.0%, effective January 1, 2003.**

Over-Age-70 Additional Plan – State and Local Government Employees

Although participation in the Over-age-70 Additional plan for both the state and the local government plans remains small, it has continued to experience stable claims experience. **Minnesota Life recommends premium rate reductions for the Over-Age-70 Additional insurance at all age levels for both the state and the local government plans.**

Disability Premium Reserve

Since 1997, the disability claim reserve has been calculated at 60% of the 1970 Intercompany Group Life Disability Valuation Table, assuming 7% interest. This basis was established based on analysis of plan experience through 1994. Analysis of the 1996 through 2001 plan experience shows that the disability claim reserve may be reduced further. **Minnesota Life recommends that, effective January 1, 2003, the disability claim reserve factors be reduced to 54% of the 1970 Intercompany Table, assuming 7% interest.** If the waiver of premium reserve factors had been at the 54% level in the year 2002, it would have decreased the reserves for the State plan by \$1,447,832 and by \$1,364,556 for the local government plan. The released reserves will be transferred to the contingent liability reserve through the experience calculation for the 2004 policy year report.