



**THE STATE OF WISCONSIN  
GROUP INSURANCE BOARD  
&  
EMPLOYEE TRUST FUNDS BOARD**



**LONG-TERM DISABILITY  
INSURANCE PLAN  
2004 PREMIUM DEVELOPMENT  
AS OF DECEMBER 31, 2002**

**PREPARED BY:**

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## **Introduction**

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Deloitte & Touche LLP (D&T) and Gabriel, Roeder, Smith & Co. (GRS) shared the development of the LTDI numbers for December 31, 2002. The results of the GRS work are contained in a separate document. This report contains the reserve for claims incurred plus the development of the recommended premium rates for 2004, both of which were developed by D&T. Additional items, developed by GRS, are displayed in this report as required to support the recommended premiums.

## Highlights

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	<u>12/31/02</u>	<u>12/31/01</u>	<u>12/31/00</u>	<u>12/31/99</u>	<u>12/31/98</u>
LTDI Beg Assets	\$260,550,273	\$226,170,712	\$209,817,540	\$188,960,073	\$162,693,972
Closing Adjustments	\$417,059	\$21,501,124	\$0	\$0	\$0
Contributions	\$0	\$0	\$0	\$0	\$8,718,448
Inv Earnings	\$12,394,761	\$19,557,449	\$20,797,867	\$24,552,665	\$20,937,313
Paid Claims	\$5,592,879	\$5,706,460	\$4,188,833	\$3,091,348	\$3,025,358
Expenses	\$801,486	\$972,551	\$255,862	\$603,849	\$364,302
LTDI Ending Assets	\$266,967,728	\$260,550,273	\$226,170,712	\$209,817,540	\$188,960,073
Incurred Claims Reserve	\$43,806,162	\$34,345,986	\$29,238,286	\$25,879,420	\$19,866,086
RFC	\$223,161,566	\$226,204,287	\$196,932,426	\$183,938,120	\$169,093,987
Regular Premium (% of payroll)	0.24%	0.24%	0.27%	0.34%	0.44%
RFC Adjustment	(0.24%)	(0.24%)	(0.27%)	(0.34%)	(0.44%)
Recommended Premium Rate	None – 2004	None – 2003	None - 2002	None - 2001	None – 2000

The funded status of the LTDI plan declined as evidenced by the approximately \$3 million decrease in the Reserve for Future Claims (RFC). Additionally, the RFC does not include the \$60.9 million in 2002 deferred market losses which need to be smoothed into the asset balance over the next five years. This large positive funded status will enable the Plan to continue to suspend premium payments.

**Development of 2004 LTDI Premiums  
Based Upon 5 Year Adjustment of RFC  
December 31, 2002**

	General	Executive & Elected	Protective		Total
			With Social Security	Without Social Security	
<b>\$ in Millions</b>					
1) Payroll	\$9,007.5	\$86.9	\$803.9	\$147.9	\$10,046.2
2) RFC	193.8	1.7	24.1	3.6	223.2
<b>%'s of Active Member Payroll</b>					
3) Regular Premium	0.23%	0.21%	0.32%	0.26%	0.24%
4) RFC Adjustment: 20% x (2)/(1)	(.43)	(.39)	(.60)	(.49)	(.44)
5) 2003 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%

2004 Recommendation:

The 2004 premium rates shown above are based upon a continuation of the 20% (5 year) adjustment to the RFC that was adopted by the Board in connection with the development of the 1996 rates and continued thereafter. The assets as calculated under this methodology have been sufficient to temporarily suspend premiums, which was done beginning in 1999.

Premium rates merely designate amounts to be transferred from the WRS retirement 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 large positive Reserve for Future Claims. The current funded status allows for substantial lead time for any changes necessary due to anticipated higher claim levels in 2005 and beyond.

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, we recommended continuing the indefinite premium suspension which began in 1999.

# Benefits Being Paid and Reserves By Year Incurred

	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	Total
<b>General &amp; Teachers</b>												
Number	2	4	16	15	32	22	50	49	62	65	20	337
Annual Benefits	35,904	76,476	277,068	220,776	487,632	330,996	698,712	682,308	745,092	895,380	187,392	4,637,736
Actuarial Present Value	329,559	559,317	1,219,565	1,444,801	2,770,789	1,719,750	4,633,455	5,136,209	4,830,092	6,878,154	1,299,521	30,821,212
<b>Local Elected Official</b>												
Number	0	0	0	0	0	0	0	1	0	0	0	1
Annual Benefits	0	0	0	0	0	0	0	3,516	0	0	0	3,516
Actuarial Present Value	0	0	0	0	0	0	0	3,401	0	0	0	3,401
<b>Prot w/Social Sec</b>												
Number	0	0	0	1	1	2	5	1	4	6	0	20
Annual Benefits	0	0	0	19,380	2,916	38,352	60,120	20,472	55,524	86,592	0	283,356
Actuarial Present Value	0	0	0	68,124	17,363	167,326	445,377	302,713	790,183	729,342	0	2,520,428
<b>Prot w/out Social Sec</b>												
Number	0	0	0	0	0	0	0	0	0	0	1	1
Annual Benefits	0	0	0	0	0	0	0	0	0	0	16,944	16,944
Actuarial Present Value	0	0	0	0	0	0	0	0	0	0	269,740	269,740
<b>Court Reporter</b>												
Number	0	0	0	0	0	0	0	0	0	1	0	1
Annual Benefits	0	0	0	0	0	0	0	0	0	8,508	0	8,508
Actuarial Present Value	0	0	0	0	0	0	0	0	0	82,267	0	82,267
<b>Totals</b>												
Number	2	4	16	16	33	24	55	51	66	72	21	360
Annual Benefits	35,904	76,476	277,068	240,156	490,548	369,348	758,832	706,296	800,616	990,480	204,336	4,950,060
Actuarial Present Value	329,559	559,317	1,219,565	1,512,925	2,788,152	1,887,076	5,078,832	5,442,323	5,620,275	7,689,763	1,569,261	33,697,048

## Development of Reserve for Future Claims (RFC) December 31, 2002

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LTDI Assets	\$266,967,728
<b>Actuarial Present Value of:</b>	
• Benefits being paid December 31, 2002	\$33,697,048
• Incurred but not reported claims (IBNR reserve)	<u>10,109,114</u>
Total	\$43,806,162
Reserves for Future Claims (RFC)	\$223,161,566

Incurred but not reported claims are 30% of the total LTDI claims in payment status. Actual experience is monitored to confirm the validity of the 30% factor.

## APPENDIX 1

### **Assumptions**

***Mortality:*** The projected future benefit stream is reduced for mortality. The Wisconsin Projected Experience Table – 93 is used; 98% of male mortality and 97% of female mortality.

***Set Forward:*** Male mortality is adjusted by incorporating a 12 year set forward (males only).

***Recovery:*** No recoveries are assumed in the projected future benefit stream.

***Benefit Period:*** Projected benefits cease at age 65.

***Interest:*** 5% (which approximates an 8% valuation rate with 3% annual benefit increases) is used to discount the projected future benefit stream to the valuation date.

***IBNR:*** 30% of the Reserve for reported claims (reduced from 35% in 1999 to reflect the pattern of decreasing actual IBNR to total LTDI claims in payment status).