January 21, 2004

Steve Grob
Manager, State Plans, Health & Disability Benefits
State of Wisconsin
Department of Employee Trust Funds
801 West Badger Road
P.O. Box 7931
Madison, WI 53707-7931

RE: Assessment of Optional Dental Plan for University of Wisconsin - Dental Blue Effective April 1, 2004

Dear Steve:

The University of Wisconsin is requesting a modification to their current dental coverage with Dental Blue. The modification includes three options: HMO, PPO, and Supplemental plans, and these are being rated separately by geographic region: Region 1 is in the southeast and Region 2 is the rest of the state. We have reviewed the attachments included with this submission which provides historical aggregate enrollment and utilization statistics, as well as a separate outline of the proposed benefit changes. The changes raise premium except for singles and single plus one dependent in Region 1.

Loss ratios for the product have been historically high and for 2002 and 2003 they have exceeded 100%, as shown in the attached table. We were provided with current enrollment by tier (but not by region) and we have calculated an average rate increase of approximately 41% statewide. We estimate that the proposed rate increases would put the loss ratio somewhere between 75% and 85%, which is reasonable for this type of product. The attached table shows the present rates and proposed rates along with the current state-wide distribution of contracts between the three tiers.

Since the increases will be substantial for people with more than one dependent, ETF should be aware of the potential for adverse selection. Adverse selection occurs when the better risks of a group leave the group and the average cost of the remaining members is higher than the average cost of the previous enrollees. The addition of the supplemental benefit also could result in adverse selection if members who previously only had basic dental coverage wanted a relatively inexpensive way to pay for expensive procedures which they previously delayed. We did not review any changes in underwriting which may affect the degree of adverse selection experienced by the plan in the future.

This modification to the existing program is reasonable in response to the current loss ratios, and we would recommend accepting the proposed changes.

If you have any questions regarding this letter, please call either Jim Scearcy at (612) 397-4038 or Tom Carlson at (612) 397-4169.

Sincerely,

James H. Scearcy, FSA, MAAA
Principal

Thomas P. Carlson, FSA, MAAA
Manager

TPC/kjw
Enclosure

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