

June 30, 2004

The Group Insurance Board
801 West Badger Road
Madison, WI 53713

RE: EMPLOYEE LIFE INSURANCE PLAN
2003 POLICY YEAR HIGHLIGHTS

Ladies and Gentlemen:

This report presents the 2003 policy year experience on the group life insurance plans for employees of the State of Wisconsin and participating local government employers. The most important developments on the plans during 2003 are summarized in this letter. Details may be found in the policy year report on the page(s) indicated following each section. Historical statistics are presented on pages 13-15 for the State plan and on pages 25-27 for the local government plan.

STATE PLAN

PREMIUMS

- In August 2002, the Board approved reductions in employee premium rates for basic, supplemental and additional insurance. These rates were implemented effective March 1, 2003 and reduced premiums 6.9% overall. (Page 2)

CLAIMS

- The employee plan had its best three-year experience result ever during the period 2000 through 2002. In 2003, the employee plan experienced relatively high claims. Death claims and waiver-of-premium disability claims were both quite high. (Pages 6 and 7)
- Claims on the spouse and dependent plan were quite high, with a higher claim rate than in any of the previous ten years. (Page 10)

OTHER BENEFITS

- This was the ninth year in which retired State employees were allowed to convert the value of their postretirement life insurance to an account to pay health insurance or long-term care insurance premiums. During 2003, a total of 129 retired State employees utilized this option, including 29 new elections in 2003 and 100 continuations of earlier elections. Eighty-five retired employees used the account to pay health insurance premiums and 44 used it for long-term care insurance premiums. Converted values for these employees are deducted from the plan's reserves at the time this option is elected. (Page 8 and Page 31)

PLAN GROWTH

- The total number of insured active employees and retirees under age 65 increased by over 700. On December 31, 2003, over 56,000 active employees and retirees under age 65 were insured under the plan, plus over 13,000 retired employees at ages 65 and over. Total life insurance in force on active employees, retirees, spouses and dependents grew by 4% to over \$7.2 billion. (Page 5)

FUNDING STATUS

- The overall average interest earnings rate on all reserve funds held for the plan was 6.64%. This result reflects a conservative investment strategy involving primarily high-grade corporate bonds and residential mortgages.
- The plan ended 2003 with funding of future benefits at a very strong level. (Page 9)

LOCAL GOVERNMENT PLAN

CLAIMS

- After claims had emerged at the target level in 2002, claims were somewhat higher and above the target level in 2003. Life and AD&D claims that were quite high were partially offset by low waiver-of-premium disability claims. (Pages 18 and 19)
- Spouse and dependent claims were good during 2003, with the lowest claim rate of any year during the most recent five-year period. (Page 22)

OTHER BENEFITS

- This was the eighth year in which retired local employees were allowed to convert the value of their postretirement life insurance to pay health insurance premiums. Usage of this provision among local government retirees has been minimal, as only a small number participate in the Board's health insurance plans. The long-term care insurance plan offered through ETF is not available to local government employees. Only two people used this option during 2003. (Page 20 and Page 31)

PLAN GROWTH

- The plan continued its steady growth. In 2003, seven local government employers entered the plan, and another twenty participating employers increased the number of coverages they offer to their employees. On December 31, 2003, a total of 636 employers participated.

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- The total number of insured active employees and retirees under age 65 increased by about 300. On December 31, 2003, over 83,000 active employees and retirees under age 65 were insured under the plan, plus over 17,000 retired employees at age 65 and over. Total life insurance in force on active employees, retirees, spouses and dependents grew by 5% to over \$7.3 billion. (Page 17)

FUNDING STATUS

- The overall average interest earnings rate on all reserve funds held for the plan was 6.63%. This result reflects a conservative investment strategy involving primarily high-grade corporate bonds and residential mortgages.
- The plan ended 2003 with funding of future benefits at a very strong level. (Page 21)

Respectfully submitted,

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