GROUP LIFE INSURANCE PLAN COVERAGES

FOR LOCAL GOVERNMENT EMPLOYEES AND

THEIR SPOUSES AND DEPENDENTS

REPORT TO THE GROUP INSURANCE BOARD

OF THE STATE OF WISCONSIN

Submitted by

Minnesota Life Insurance Company

August 24, 2004

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PREMIUM RATES FOR THE LOCAL GOVERNMENT EMPLOYEE GROUP LIFE INSURANCE PLAN

Review of Recent Plan Experience

- Premiums

  The premium rate structure for the plan is described in the Appendix at the end of this report. The fundamental principles of this structure were adopted by the Board on November 29, 1994.

  The most recent change in premium rates occurred on July 1, 2004, when employee premium rates were reduced for basic, supplemental and additional insurance. Because employer contributions are based on a percentage of employee premium rates, employer premium contributions were also reduced at that time. In addition, for those employers that elect the 50% postretirement benefit, the employer premium contribution percentage was decreased on July 1, 2004. This resulted in a further reduction in premium contributions for these employers.

- Claims

  Historically, claim rates have shown a steady pattern of improvements over many years. These improvements have allowed the Board to reduce premium rates frequently.

  Over the three-year period 2000 through 2002, total claims were slightly below the targeted result. Based on this claims experience, the Board in August 2003 approved a decrease in the premium rate for this plan. In 2003, claims were somewhat above target. Claims during the three-year period 2001 through 2003 were also somewhat above the targeted result.

Recommendation

Based on our analysis of recent experience, Minnesota Life recommends that employee and employer premium contribution rates be continued at their current levels in 2005.

STOP-LOSS LIMITS FOR THE LOCAL GOVERNMENT EMPLOYEE
GROUP LIFE INSURANCE PLAN

Summary of Stop-Loss Provision

- Limits the liability of plan reserves for high claims in a policy year. Excess claims and expenses above the stop-loss limit are covered by risk reserves of Minnesota Life and the reinsurers.

- State and local government plans are separate for purposes of the stop-loss provision.

- The annual stop-loss limit for each plan is calculated by applying a table of stop-loss rates to the amounts of insurance in force.

- Stop-loss rates are determined based on recent claims experience and are set so that claims and expenses are expected to exceed the stop-loss limit in three years out of every one hundred years.

Recent Experience

The current stop-loss rates were implemented on January 1, 2004. As discussed in the first section of this report, claims in the years 2001 through 2003 were somewhat higher than the experience on which the current rates are based.

Recommendation

Given recent experience and consistent with the recommended employee and employer premium contribution rates for 2005, Minnesota Life recommends that stop-loss rates be maintained at their current levels in 2005.

BENEFITS AND PREMIUMS FOR INSURED SPOUSES AND DEPENDENTS OF LOCAL GOVERNMENT EMPLOYEES

Recent Claims Experience

In both 2000 and 2001, claims were very high compared to other recent results. Claims were better in 2002 and improved again in 2003 but were still above a normal target level.

A stabilization reserve is maintained to provide the plan with financial stability as claims fluctuate from year to year. The stabilization reserve on December 31, 2003 was $2,615,685. This is equal to approximately 180% of the plan's annual premium, substantially larger than the targeted minimum of 50%. This large reserve provides a source of funds to cover claims and expenses in excess of premiums.

Recommendation for Benefits and Premiums

Based on our analysis of recent experience and because of the large stabilization reserve balance, we recommend that spouse and dependent insurance benefits and premiums be continued at their current levels in 2005.

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August 24, 2004

APPENDIX

SUMMARY OF BENEFIT AND PREMIUM STRUCTURE

Employee Insurance

Basic Coverage:

- Controlled by ss. 40.05 (6) (a) and 40.72 (1), Stats.
- Coverage can be continued, and the employee is liable for premium, up to age 70 (age 65 if retired). Thereafter, eligible employees receive premium-free postretirement coverage at 25% or 50% of the active coverage amount.
- Maximum employee premium, by statute, is $0.60 per $1,000 in coverage.
- Employer pays the difference between employee premium and total premium. Employer premiums, which are expressed as a percentage of employee premiums, are intended to cover the cost of postretirement coverage. Employers that elect the 50% postretirement benefit pay an amount equal to 40% of the employee premium. Most local employers pay an amount equal to 20% of the employee premium to provide a 25% postretirement benefit.
- Premiums are established annually by the Group Insurance Board. Minnesota Life makes recommendations based on the combined experience of the basic, supplemental and additional plans in the three most recent plan years.

Supplemental Coverage:

- Controlled by ss. 40.05 (6) (a) and 40.72 (10), Stats.
- Coverage can continue, and employee is liable for premium, up to age 70 (age 65 if retired). There is no postretirement benefit.
- Maximum employee premium, by statute, is $0.60 per $1,000 in coverage.
- Employer pays the difference, if any, between employee premium and total premium. Prior to July 1, 1995, local employers were required to pay an amount equal to at least 20% of the total premium. Based on Board action in November 1994, effective July 1, 1995, employers are not required to contribute toward the premiums for supplemental insurance; employees pay the total premium.
- Premiums are established annually by the Group Insurance Board. The total supplemental premium is set equal to the employee premium for the basic plan.

Additional Coverage:

- Controlled by s. 40.03 (6) (b), Stats. and the life insurance contract.

- An employee may purchase one, two or three units of coverage.

- The employee pays the entire premium. There is no maximum premium. Coverage can be continued for as long as the employee remains employed (or until age 65 if retired). There is no postretirement benefit.

- Premium rates are set by the Group Insurance Board. The premium rates for additional insurance are set equal to the employee premium rates for the basic plan.

Spouse and Dependent Insurance

- An insured employee's legal spouse and unmarried children, including stepchildren, adopted children, children in adoptive placement and legal wards, are eligible for coverage.

- A dependent child is eligible until age 19 or until age 25 if a full-time student. A physically or mentally disabled dependent may qualify beyond age 25.

- An employee may purchase either one or two units of coverage.

- Amounts of insurance per unit of coverage:

Spouse	$10,000
Dependent	5,000

- Monthly premium is $2.00 per unit of coverage. By statute, local government employers are not required to contribute toward premiums.

- Benefits and premiums are established by the Group Insurance Board. Minnesota Life makes recommendations based on experience in the three most recent plan years.