

GROUP LIFE INSURANCE PLAN COVERAGES
FOR STATE EMPLOYEES AND
THEIR SPOUSES AND DEPENDENTS

REPORT TO THE GROUP INSURANCE BOARD
OF THE STATE OF WISCONSIN

Submitted by
Minnesota Life Insurance Company

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TABLE OF CONTENTS

	<u>Page</u>
Premium Rates for the State Employee Group Life Insurance Plan	1
Stop-Loss Limits for the State Employee Group Life Insurance Plan	2
Benefits and Premiums for Insured Spouses and Dependents of State Employees	3

PREMIUM RATES FOR THE STATE 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 August 30, 1994.

The most recent change in premium rates occurred on March 1, 2004, when employee premium rates were reduced for basic, supplemental and additional insurance. Employer premium contribution percentages did not change, so employer premium contributions were also reduced at that time.

- 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.

The period 2000 through 2002 experienced the best three-year result ever. This excellent experience was the basis for the premium rate reductions in 2004. The overall claims result in 2003 was higher than the targeted result. We believe the 2003 result reflects a fluctuation, rather than a fundamental deterioration, of the mortality of the plan.

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 STATE 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 reinsurer.
- 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, overall claims in 2003 were 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 level in 2005.

BENEFITS AND PREMIUMS FOR INSURED SPOUSES AND DEPENDENTS OF STATE EMPLOYEES

Recent Claims Experience

Based on several years of high claims in the late 1990s, the Board in August 2000 approved an increase in the premium rate for this plan. Effective March 1, 2001, the monthly premium paid by State employees for each unit of spouse and dependent insurance increased from \$2.00 to \$2.50.

Claims were significantly lower in 2000, 2001 and 2002. A stabilization reserve is maintained to provide the plan with financial stability as claims fluctuate from year to year. The stabilization reserve balance on December 31, 2002 was equal to approximately 85% of the plan's annual premium, well above the targeted minimum of 50%. Based on the 2000-2002 claims experience and the strength of the stabilization reserve, the Board in August 2003 approved a decrease in the premium rate for this plan. Effective March 1, 2004, the monthly premium paid by State employees for each unit of spouse and dependent insurance decreased from \$2.50 to \$2.00.

At the time of the rate decrease, it was expected that claims and expenses would exceed premiums at the reduced rate. The excess would be drawn from the stabilization reserve, which was large enough to provide this support for at least several years. Claims during 2003 were higher than the targeted level, and the excess was drawn from the reserve. The stabilization reserve balance on December 31, 2003 was \$972,092. This balance is equal to approximately 75% of the plan's annual premium, still well above the targeted minimum of 50%.

Recommendation

Based on our analysis of recent experience and the size of the stabilization reserve balance, Minnesota Life recommends that spouse and dependent insurance benefits and premiums be continued at their current levels in 2005.

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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 50% of the active coverage amount.
- Maximum employee premium, by statute, is \$0.60 per \$1,000 in coverage.
- The State pays the difference between employee premium and total premium. State premiums, which are expressed as a percentage of employee premiums, are intended to pay a portion of the cost of current coverage and to also cover the cost of future postretirement coverage. The State pays an amount equal to 63% of the employee premium.
- Premiums are established annually by the Group Insurance Board. Minnesota Life makes recommendations based on experience 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.
- The State pays the difference between employee premium and total premium. The State pays an amount equal to 35% of the employee premium.
- Premiums are established annually by the Group Insurance Board. Employee premium rates are equal to those 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. Minnesota Life's recommendation is based on experience in the three most recent plan years.

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 Child	5,000

- Monthly premium is \$2.00 per unit of coverage. By statute, the State is 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.