



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



**LONG-TERM DISABILITY
INSURANCE PLAN
2005 PREMIUM DEVELOPMENT
AS OF DECEMBER 31, 2003**

PREPARED BY:

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Introduction

Deloitte & Touche LLP (D&T) and Gabriel, Roeder, Smith & Co. (GRS) shared the development of the LTDI numbers for December 31, 2003. 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 2005, 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

| | <u>12/31/2003</u> | <u>12/31/2002</u> | <u>12/31/2001</u> | <u>12/31/2000</u> | <u>12/31/1999</u> | <u>12/31/1998</u> |
|--------------------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|
| LTDI Beg Assets | \$266,967,728 | \$260,550,273 | \$226,170,712 | \$209,817,540 | \$188,960,073 | \$162,693,972 |
| Closing Adjustments | (\$799,976) | \$417,059 | \$21,501,124 | \$0 | \$0 | \$0 |
| Contributions | \$0 | \$0 | \$0 | \$0 | \$0 | \$8,718,448 |
| Inv Earnings | \$19,403,498 | \$12,394,761 | \$19,557,449 | \$20,797,867 | \$24,552,665 | \$20,937,313 |
| Paid Claims | \$7,039,042 | \$5,592,879 | \$5,706,460 | \$4,188,833 | \$3,091,348 | \$3,025,358 |
| Expenses | \$877,588 | \$801,486 | \$972,551 | \$255,862 | \$603,849 | \$364,302 |
| LTDI Ending Assets | \$277,654,620 | \$266,967,728 | \$260,550,274 | \$226,170,712 | \$209,817,541 | \$188,960,073 |
| Incurred Claims Reserve | \$53,950,828 | \$43,806,162 | \$34,345,986 | \$29,238,286 | \$25,879,420 | \$19,866,086 |
| RFC | \$223,703,792 | \$223,161,566 | \$226,204,287 | \$196,932,426 | \$183,938,120 | \$169,093,987 |
| Regular Premium (% of payroll) | 0.22% | 0.24% | 0.24% | 0.27% | 0.34% | 0.44% |
| RFC Adjustment | -0.22% | -0.24% | -0.24% | -0.27% | -0.34% | -0.44% |
| Recommended Premium Rate | None – 2005 | None – 2004 | None – 2003 | None - 2002 | None - 2001 | None – 2000 |

The funded status of the LTDI plan increased slightly as evidenced by the approximately \$500 thousand increase in the Reserve for Future Claims (RFC). Additionally, the RFC does not include the \$27.2 million in 2003 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 2005 LTDI Premiums
Based Upon 5 Year Adjustment of RFC
December 31, 2003**

| | | | Protective | | |
|-------------------------------------|-----------|------------------------|-------------------------|----------------------------|------------|
| | General | Executive & Elected | With Social Security | Without Social Security | Total |
| \$ in Millions | | | | | |
| 1) Payroll | \$9,272.8 | \$85.6 | \$856.3 | \$153.8 | \$10,368.6 |
| 2) RFC | 196.4 | 1.2 | 21.4 | 4.7 | 223.7 |
| %’s of Active Member Payroll | | | | | |
| 3) Regular Premium | 0.22% | 0.14% | 0.26% | 0.32% | 0.22% |
| 4) RFC Adjustment: 20% x (2)/(1) | (0.42) | (0.27) | (0.50) | (0.62) | (0.43) |
| 5) 2004 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% |

2005 Recommendation:

The 2005 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 2006 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

| | 1993 | 1994 | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | Total |
|-------------------------------|---------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|------------|
| General & Teachers | | | | | | | | | | | | |
| Number | 7 | 13 | 15 | 27 | 21 | 42 | 59 | 75 | 66 | 70 | 39 | 434 |
| Annual Benefits | 129,669 | 229,855 | 224,276 | 397,021 | 299,141 | 539,583 | 776,196 | 806,454 | 814,389 | 863,840 | 477,418 | 5,557,842 |
| Actuarial Present Value | 811,857 | 1,065,893 | 1,708,624 | 2,296,317 | 1,774,668 | 3,578,920 | 6,154,241 | 5,253,719 | 5,423,842 | 6,520,266 | 3,205,997 | 37,794,344 |
| Local Elected Official | | | | | | | | | | | | |
| Number | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Annual Benefits | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Actuarial Present Value | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Prot w/Social Sec | | | | | | | | | | | | |
| Number | 0 | 1 | 1 | 0 | 4 | 3 | 3 | 4 | 5 | 6 | 1 | 28 |
| Annual Benefits | 0 | 2,431 | 19,381 | 0 | 64,910 | 41,619 | 47,002 | 56,841 | 72,361 | 66,422 | 2,540 | 373,507 |
| Actuarial Present Value | 0 | 13,014 | 52,647 | 0 | 383,021 | 357,519 | 542,347 | 674,232 | 627,641 | 700,252 | 16,542 | 3,367,215 |
| Prot w/out Social Sec | | | | | | | | | | | | |
| Number | 1 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 1 | 1 | 0 | 3 |
| Annual Benefits | 1,284 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 16,939 | 25,661 | 0 | 43,884 |
| Actuarial Present Value | 5,235 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 266,175 | 67,667 | 0 | 339,077 |
| Totals | | | | | | | | | | | | |
| Number | 8 | 14 | 16 | 27 | 25 | 45 | 62 | 79 | 72 | 77 | 40 | 465 |
| Annual Benefits | 130,953 | 232,285 | 243,657 | 397,021 | 364,052 | 581,202 | 823,198 | 863,295 | 903,689 | 955,924 | 479,958 | 5,975,233 |
| Actuarial Present Value | 817,093 | 1,078,907 | 1,761,271 | 2,296,317 | 2,157,689 | 3,936,439 | 6,696,588 | 5,927,951 | 6,317,659 | 7,288,185 | 3,222,539 | 41,500,637 |

Development of Reserve for Future Claims (RFC) December 31, 2003

| | |
|---|-------------------|
| LTDI Assets | \$277,654,620 |
| Actuarial Present Value of: | |
| • Benefits being paid December 31, 2002 | \$41,500,637 |
| • Incurred but not reported claims (IBNR reserve) | <u>12,450,191</u> |
| Total | \$53,950,828 |
| Reserves for Future Claims (RFC) | \$223,703,792 |

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).

Eligibility: 1) Employees who begin or resume covered WRS employment on or after October 16th, 1992 or 2) employees who have been continuously employed under the WRS since before October 16th, 1992, and are eligible for coverage under the WRS disability program, but elect coverage under the LTDI program. (This right to elect between programs is temporary and has been renewed on an annual basis.)

* The WRS valuation rate was reduced to 7.8% on February 1, 2004. We will reduce this rate accordingly for the December 31, 2004 valuation.