

June 30, 2005

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

RE: EMPLOYEE LIFE INSURANCE PLAN
2004 POLICY YEAR HIGHLIGHTS

Ladies and Gentlemen:

This report presents the 2004 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 2004 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 2003, the Board approved reductions in employee premium rates for basic, supplemental and additional insurance. These rates were implemented effective March 1, 2004 and reduced premiums 9.1% overall. (Page 2)
- The Board also approved a reduction in the employee premium rate for spouse and dependent insurance from \$2.50 per month to \$2.00 per month. This 20% rate decrease was implemented on March 1, 2004. (Page 2)

CLAIMS

- Based on a study of waiver-of-premium disability claims, the claim reserves were reduced by 10%. The \$1.6 million of reserves released was added to the funds for future postretirement insurance. (Page 7)
- In 2004, the employee plan experienced moderately high claims. Death claims and living benefit claims that were higher than expected were partially offset by lower than expected waiver-of-premium disability claims. (Pages 6 and 7)
- Claims on the spouse and dependent plan were high but showed considerable improvement over the prior year's result. (Page 10)

OTHER BENEFITS

- This was the tenth 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 2004, a total of 137 retired State employees utilized this option, including 42 new elections in 2004 and 95 continuations of earlier elections. Ninety-one retired employees used the account to pay health insurance premiums and 46 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 300. On December 31, 2004, 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 5% to over \$7.6 billion. (Page 5)

FUNDING STATUS

- The overall average interest earnings rate on all reserve funds held for the plan was 6.09%. This result reflects a conservative investment strategy involving primarily high-grade corporate bonds and residential mortgages.
- The plan ended 2004 with funding of future benefits at a very strong level. (Page 9)

LOCAL GOVERNMENT PLAN

PREMIUMS

- In August 2003, the Board approved reductions in employee premium rates for basic, supplemental, and additional insurance. The Board also approved reducing the employer premium contribution percentage for employers that elect the 50% postretirement benefit. These reductions were implemented effective July 1, 2004 and reduced premiums 3.4% overall. (Page 3)

CLAIMS

- Based on a study of waiver-of-premium disability claims, the claim reserves were reduced by 10%. The \$1.4 million of reserves released was added to the funds for future postretirement insurance. (Page 19)
- Claims were essentially at the target level in 2004. Death claims that were somewhat higher than expected were offset by low waiver-of-premium disability claims. (Pages 18 and 19)

- Claims on the spouse and dependent plan were the best in the plan's history. (Page 22)

OTHER BENEFITS

- This was the ninth 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 three people used this option during 2004. (Page 20 and Page 31)

PLAN GROWTH

- The plan continued its steady growth. In 2004, nineteen local government employers entered the plan, and another twenty-one participating employers increased the number of coverages they offer to their employees. On December 31, 2004, a total of 655 employers participated.
- The total number of insured active employees and retirees under age 65 decreased by about 100. On December 31, 2004, 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 \$7.7 billion. (Page 17)

FUNDING STATUS

- The overall average interest earnings rate on all reserve funds held for the plan was 6.07%. This result reflects a conservative investment strategy involving primarily high-grade corporate bonds and residential mortgages.
- The plan ended 2004 with funding of future benefits at a very strong level. (Page 21)

Respectfully submitted,

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