Deloitte Consulting LLP
111 S. Wacker Drive
Chicago, Illinois 60606
USA

Tel: 312-486-2501
Fax: 312-247-2501
www.deloitte.com

August 2, 2005

Mr. Steve Grob
Manager, Optional Plans
Division of Insurance Services
Department of Employee Trust Funds
801 West Badger Road
Madison, WI 53702

Re: Review of EPIC Life Insurance Company Dental and Excess Medical Supplemental Plan - Proposed Rate Increases and Benefit Restructuring for Late Enrollees

Dear Steve:

We have reviewed the information submitted by The EPIC Life Insurance Company (EPIC) related to the Dental, Excess Medical, and Accidental Death and Dismemberment (AD&D) supplemental insurance coverage, underwritten by EPIC and available to employees and annuitants of the State of Wisconsin on a payroll-deduction basis. This information is intended to support the proposed premium rates effective November 1, 2005 for Annuitants (or retired employees/dependents) and January 1, 2006 for Non-Annuitants (or active employees/dependents) and to present the 2006 Special Enrollment Proposal for employees or dependents who did not enroll during their initial eligibility period.

This voluntary, payroll deduction supplemental plan has been offered to State of Wisconsin employees and annuitants since the 1960's with EPIC underwriting it since November 1994. There are currently 18,000 employees and annuitants enrolled. The product is primarily a dental plan with 90% of claims paid for dental benefits and the remainder paid for medical benefits and AD&D benefits.

The dental benefits pay 50% of "Major" and "Ortho" type claims after a $200 annual deductible up to a $750 calendar-year maximum and a $1,200 orthodontic lifetime maximum. The Excess Medical fills the gap in the primary health care plan by paying up to a lifetime maximum of $250,000 for Non-Annuitants and $100,000 for Annuitants after a $250 individual ($500 family) annual deductible. The AD&D benefit is a scheduled benefit plan.

Proposed Rate Increases

From January 1997 through December 2002, the plan maintained the same premium rates and benefits. In January 2003, benefit changes were implemented for Non-Annuitants and benefit changes and premium rate increases were implemented for Annuitants. Over the past few years, costs have continued to increase. As a result, EPIC is requesting approval for revised premium rates. Increases are to be expected since the plan benefits are impacted by health care trend due to inflation and utilization increases. Dental trends have typically been running in the range of 5% to 8% per year, while excess medical trends can vary widely depending on the underlying primary health care plan.

The monthly premium rates being proposed are shown in the following table. Rates for Non-Annuitants are effective for the two-year period 1/1/06 through 12/31/07 and represent an increase of 14.2% over current rates. Rates for Annuitants are effective for the period 11/1/05 through 12/31/07 and represent an increase of 28.0% over current rates.

	Current Monthly Rates		**Proposed Monthly Rates**	
	Non-Annuitants	*Annuitants*	*Non-Annuitants*	*Annuitants*
Single	$11.30	$13.15	$12.90	$16.85
Employee/Spouse	$22.60	$26.30	$25.80	$33.65
Employee/Child	$22.60	$30.45	$25.80	$39.00
Full Family	$33.90	$36.25	$38.70	$46.40

EPIC has submitted an Actuarial Memorandum that summarizes the rates and benefits for the supplemental insurance plan, provides the experience used in developing the rate increases, and describes the assumptions and methodology used. In the Actuarial Memorandum, the signatory actuary certifies that the rate filing is in compliance with the laws and regulations of the State of Wisconsin and that the premiums are designed to be adequate, not unfairly discriminatory and reasonable in relationship to the benefits provided.

The following table shows recent historical loss ratios based on ratios of incurred claims to earned premiums for Non-Annuitants and Annuitants:

	2002 Loss Ratios	**2003 Loss Ratios**	**2004 Loss Ratios**
Non-Annuitants	72.9%	79.9%	71.4%
Annuitants	92.8%	96.8%	82.7%
Total	76.8%	83.4%	74.1%

Only 2004 experience was used in developing the proposed premium rates. This is appropriate since this experience is the most recent and represents a credible base to use for projecting future experience.

The table below summarizes the development of the required rate increase for Non-Annuitants and Annuitants and shows how the required rate increases compare with the installed rate increases, which are the rate increase percentages actually used when multiplying the current rates to develop the proposed rates.

The assumptions used include a trend rate of 5.30% per year. As mentioned earlier, since dental trends typically run in the range of 5% to 8% and excess medical trends can vary widely depending on the underlying primary health care plan, using a trend of 5.30% appears reasonable. The trend rate is compounded over 28 months in the case of Non-Annuitants and 29 months in the case of Annuitants to develop the trend adjustment factors. The trend adjustment factors are multiplied by the 2004 loss ratios to produce the projected loss ratios. The target loss ratio is 72% for Non-Annuitants and Annuitants. The required rate increase is developed by dividing the projected loss ratio by the target loss ratio.

While the *Guidelines for Optional Group Insurance Plans Seeking Group Insurance Board Approval for Payroll Deduction Authorization* require a minimum target loss ratio of 75%, we assume that the 72% loss ratio was previously approved by The Group Insurance Board since the information submitted by EPIC indicates that this is not a change from prior assumptions. The Actuarial Memorandum states that the 72% target loss ratio results in the allocation of $6.76 per contract per month to cover expenses and retention.

		Non-Annuitants		Annuitants		Total
Experience Period		*1/1/04-12/31/04*		*1/1/04-12/31/04*		
Incurred Claims		$2,396,281		$873,084		$3,269,365
Earned Premium		$3,354,759		$1,055,645		$4,410,404
Loss Ratio		71.4%		82.7%		74.1%
Projection Period		*1/1/06-12/31/07*		*11/1/05-12/31/07*		
Annual Trend		5.30%		5.30%		
Months of Trend		30		29		
Trend Adjustment		1.1378		1.1329		
Projected Loss Ratio		81.3%		93.7%		
Target Loss Ratio		72.0%		72.0%		
Required Rate Increase		12.88%		30.14%		17.01%
Installed Rate Increase		14.20%		28.00%		17.50%

The installed rate increase used for Non-Annuitants is 1.32% high than required, while for Annuitants it is 2.14% lower than required. As a result, some slight subsidization of the Annuitants by the Non-Annuitants is present within the proposed rates. Overall, the installed rate increases are 0.49% higher than required. The differences between required and installed rate increases are not significant.

Benefit Structuring for Late Enrollees

The 2006 Special Enrollment Proposal applies to employees or dependents who did not enroll during their initial eligibility period. An employee that was insured by EPIC through the supplemental plan and voluntarily dropped the plan will not be eligible for enrollment. The last Special Enrollment occurred in 2002.

The 2006 Special Enrollees will be provided with a graded benefit plan to reduce the risk of adverse experience caused by selection bias. This is likely to occur if the enrollee knows with some assurance that high claim amounts will occur. The graded benefit plan will include three years of benefit increases, where each year the member's dental maximum benefit increases. The increases in dental maximums are as follows:

First year of coverage	$350
Second year of coverage	$500
Third year of coverage	$750

An employee that was insured by EPIC through the supplemental plan and voluntarily dropped coverage will not be eligible for the Special Enrollment.

According to the information provided, claim experience for new enrollees who enrolled during the 2002 Special Enrollment has been running higher than other insured. For 2004, the new enrollees who enrolled in the 2002 Special Enrollment showed a loss ratio of 80.2%, while members who added dependents during the 2002 Special Enrollment showed a loss ratio of 79.4%. These loss ratios can be compared with the overall Non-Annuitant loss ratio for 2004 of 71.4%.

<u>Conclusion</u>

Based on our review we believe the proposed rate increases and the benefit structuring for late enrollees are reasonable and appear to be in line with current industry trends. The benefit restructuring for late enrollees provides adequate assurance that the risk of adverse experience caused by selection bias will be controlled and that the premium rates are reasonable in relation to the benefits provided.

Sincerely,

Thomas J. Livorsi

Thomas J. Livorsi, FSA, MAAA