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

August 29, 2006

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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. Claims during the period 2003 through 2005 were higher, although 2004 and 2005 both showed considerable improvement over 2003. We believe the 2003 through 2005 results reflect a fluctuation, rather than a fundamental deterioration, of the mortality of the plan. The magnitude of the excess claims in these years is not a material concern, given the financial strength 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 2007.

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 recent years 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 2007, Minnesota Life recommends that stop-loss rates be maintained at their current level in 2007.

BENEFITS AND PREMIUMS FOR INSURED SPOUSES AND DEPENDENTS OF STATE EMPLOYEES

Recent Claims Experience

The monthly premium paid by State employees for each unit of spouse and dependent insurance has been $2.00 during most of the plan's lifetime. Based on several years of high claims in the late 1990s, the premium was increased to $2.50 on March 1, 2001 with the goals of covering anticipated claim costs and strengthening the stabilization reserve that is maintained to provide financial stability as claims fluctuate from year to year.

When improved claims experience led to substantial growth of the stabilization reserve, the premium was changed back to $2.00 on March 1, 2004. It was anticipated that claims and expenses would exceed premiums at the reduced rate and that the excess would be drawn from the stabilization reserve, which was large enough to provide this support for at least several years.

Claims during 2005 were higher than the targeted level, and the excess was drawn from the reserve. The stabilization reserve balance on December 31, 2005 was $749,932. This balance is equal to approximately 73% 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 2007.

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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.

<u>Spouse and Dependent Insurance</u>

- 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.