GROUP LIFE INSURANCE PLAN COVERAGES

FOR LOCAL GOVERNMENT 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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PREMIUM RATES FOR THE LOCAL GOVERNMENT 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 November 29, 1994.

  The most recent change in premium rates occurred on July 1, 2004, when employee premium rates were reduced for basic, supplemental and additional insurance. Because employer contributions are based on a percentage of employee premium rates, employer premium contributions were also reduced at that time. In addition, for those employers that elect the 50% postretirement benefit, the employer premium contribution percentage was decreased on July 1, 2004. This resulted in a further reduction in premium contributions for these employers.

- 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.

  Claims during 2005 were the best ever experienced on the plan, and considerably better than the targeted level. These results were also considerably improved over results in 2003 and 2004, which had been higher than the targeted level. The excellent 2005 result means the claims during the most recent three-year period are somewhat better than the targeted level. However, the 2005 result is so dramatically different from other recent years' experience that it appears to reflect primarily a fluctuation, rather than a fundamental improvement, 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 2007.

STOP-LOSS LIMITS FOR THE LOCAL GOVERNMENT 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 reinsurers.

- 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, claims in the years 2003 through 2005 were somewhat lower 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 levels in 2007.

BENEFITS AND PREMIUMS FOR INSURED SPOUSES AND DEPENDENTS OF LOCAL GOVERNMENT EMPLOYEES

Recent Claims Experience

The monthly premium paid by local government employees for each unit of spouse and dependent insurance has been $2.00 during most of the plan's lifetime. On July 1, 1996, when benefits were increased to their current level, the premium was increased to $3.00 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 greatly improved claims experience led to rapid, dramatic growth of the stabilization reserve, the premium was changed back to $2.00 on July 1, 2000. It was anticipated that claims and expenses might exceed premiums at the reduced rate, and that any excess would be drawn from the stabilization reserve, which was large enough to provide this support for at least several years.

During the years 1999 through 2002, the reserve provided a source of funds to cover claims and expenses in excess of premiums. During the period 2002 through 2005, claims have essentially been at the targeted level. However, the stabilization reserve balance has grown because of interest credits earned. The stabilization reserve balance on December 31, 2005 was $2,957,800. This is equal to approximately 200% of the plan's annual premium, substantially larger than 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 premiums be reduced from $2.00 to $1.75 monthly for each unit of insurance effective July 1, 2007. If recent claim rates continue, we expect claims and expenses to exceed premiums at the reduced rate. The excess will be drawn from the stabilization reserve, which is large enough to provide this support for at least several years.

Cost Implications

Reducing the monthly premium from $2.00 to $1.75 per unit of coverage will reduce employee premiums by 12.5%. The following table shows the current and proposed annual premium costs based on insurance in force on December 31, 2005.

	Current Rates	Proposed Rates	Reduction
Employees	$1,515,168	$1,325,772	$189,396

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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 25% or 50% of the active coverage amount.
- Maximum employee premium, by statute, is $0.60 per $1,000 in coverage.
- Employer pays the difference between employee premium and total premium. Employer premiums, which are expressed as a percentage of employee premiums, are intended to cover the cost of postretirement coverage. Employers that elect the 50% postretirement benefit pay an amount equal to 40% of the employee premium. Most local employers pay an amount equal to 20% of the employee premium to provide a 25% postretirement benefit.
- Premiums are established annually by the Group Insurance Board. Minnesota Life makes recommendations based on the combined experience of the basic, supplemental and additional plans 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.
- Employer pays the difference, if any, between employee premium and total premium. Prior to July 1, 1995, local employers were required to pay an amount equal to at least 20% of the total premium. Based on Board action in November 1994, effective July 1, 1995, employers are not required to contribute toward the premiums for supplemental insurance; employees pay the total premium.
- Premiums are established annually by the Group Insurance Board. The total supplemental premium is set equal to the employee premium 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. The premium rates for additional insurance are set equal to the employee premium rates for the basic plan.

<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	5,000

- Monthly premium is $2.00 per unit of coverage. By statute, local government employers are 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.