

The State of Wisconsin Group Insurance Board & Employee Trust Funds Board



Long-Term Disability
Insurance Plan
2007 Premium Development
As of December 31, 2005

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Introduction

Deloitte Consulting LLP ("Deloitte Consulting") and Gabriel, Roeder, Smith & Co. ("GRS") shared the development of the LTDI numbers for December 31, 2005. 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 2007, both of which were developed by Deloitte Consulting. Additional items, developed by GRS, are displayed in this report as required to support the recommended premiums.

Highlights

	<u>12/31/2005</u>	<u>12/31/2004</u>	<u>12/31/2003</u>	<u>12/31/2002</u>	<u>12/31/2001</u>	<u>12/31/2000</u>
LTDI Beg Assets	\$289,288,911	\$277,654,620	\$266,967,728	\$260,550,273	\$226,170,712	\$209,817,540
Closing Adjustments	(\$76,319)	(\$380,135)	(\$799,976)	\$417,059	\$21,501,124	\$0
Contributions	\$0	\$0	\$0	\$0	\$0	\$0
Inv Earnings	\$18,444,252	\$21,943,394	\$19,403,498	\$12,394,761	\$19,557,449	\$20,797,867
Paid Claims	\$9,863,169	\$8,817,188	\$7,039,042	\$5,592,879	\$5,706,460	\$4,188,833
Expenses	\$1,046,558	\$1,111,780	\$877,588	\$801,486	\$972,551	\$255,862
LTDI Ending Assets	\$296,747,117	\$289,288,911	\$277,654,620	\$266,967,728	\$260,550,274	\$226,170,712
Incurred Claims Reserve	\$90,302,382	\$71,254,858	\$53,950,828	\$43,806,162	\$34,345,986	\$29,238,286
RFC	\$206,444,735	\$218,034,053	\$223,703,792	\$223,161,566	\$226,204,287	\$196,932,426
Regular Premium (% of payroll)	0.22%	0.22%	0.22%	0.24%	0.24%	0.27%
RFC Adjustment	-0.22%	-0.22%	-0.22%	-0.24%	-0.24%	-0.27%
Recommended Premium Rate	None – 2007	None – 2006	None – 2005	None – 2004	None – 2003	None - 2002

The funded status of the LTDI plan decreased slightly as evidenced by the approximately \$11.6 million decrease in the Reserve for Future Claims ("RFC"). This is due to a 26.7% increase in the incurred claim reserve and a 4% increase in the LTDI assets. The reserve increase is due to a significant growth in the number of claims, as well as a modest 5% increase in average benefit. This is the expected outcome due to the combination of the immaturity of the plan's experience and the suspended premium payments. The RFC does not include the \$9.7 million in 2004 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 for another year.

Development of 2007 LTDI Premiums

Based Upon 5-Year Adjustment of RFC
December 31, 2005

			Protective		
	General	Executive & Elected	With Social Security	Without Social Security	Total
\$ in Millions					
1) Payroll	\$9,661.1	\$89.7	\$920.0	\$162.0	\$10,832.8
2) RFC	173.5	1.4	25.6	6.0	206.4
% 's of Active Member Payroll					
3) Regular Premium	0.20%	0.17%	0.31%	0.41%	0.21%
4) RFC Adjustment: 20% x (2)/(1)	(0.36)	(0.31)	(0.56)	(0.74)	(0.38)
5) 2005 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%

2007 Recommendation

The 2007 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 2008 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	2004	2005	Total
General & Teachers														
Number	3	11	12	21	13	40	44	49	62	86	149	107	95	692
Annual Benefits	71,498	183,186	199,248	326,568	210,441	570,608	634,418	587,813	739,832	1,074,307	1,870,035	1,340,902	1,401,445	9,210,301
Actuarial Present Value	456,886	703,900	1,072,518	1,830,647	1,343,273	3,798,756	4,544,710	3,526,389	4,818,052	8,217,858	12,949,553	10,331,479	11,280,308	64,874,329
Local Elected Official														
Number	0	0	0	0	0	0	0	0	0	0	0	0	1	2
Annual Benefits	0	0	0	0	0	0	0	0	0	0	0	0	1	2
Actuarial Present Value	0	0	0	0	0	0	0	0	0	0	0	0	1	2
Prot w/Social Sec														
Number	0	0	0	1	2	4	1	4	7	7	10	12	5	53
Annual Benefits	0	0	0	2,540	39,905	58,116	21,296	57,848	115,699	73,802	130,368	171,363	61,589	732,527
Actuarial Present Value	0	0	0	10,404	87,210	362,090	304,080	774,903	943,504	740,211	1,182,200	1,660,687	566,362	6,631,651
Prot w/out Social Sec														
Number	0	0	0	0	0	0	0	0	1	1	1	1	0	4
Annual Benefits	0	0	0	0	0	0	0	0	17,623	12,470	27,022	28,038	0	85,153
Actuarial Present Value	0	0	0	0	0	0	0	0	275,017	11,951	220,337	228,620	0	735,926
Totals														
Number	3	11	12	22	15	44	45	53	70	94	160	120	101	751
Annual Benefits	71,498	183,186	199,248	329,108	250,346	628,724	655,714	645,662	873,154	1,160,579	2,027,425	1,540,303	1,463,034	10,027,983
Actuarial Present Value	456,886	703,900	1,072,518	1,841,051	1,430,484	4,160,846	4,848,790	4,301,291	6,036,574	8,970,020	14,352,090	12,220,786	11,846,671	72,241,908

Development of Reserve for Future Claims (RFC)

December 31, 2005

LTDI Assets	<u>\$ 296,747,117</u>
Actuarial Present Value of:	
Benefits being paid December 31, 2005	\$ 72,241,906
Incurred but not reported claims (IBNR reserve)	<u>18,060,476</u>
<i>Total</i>	<u>\$ 90,302,382</u>
Reserves for Future Claims (RFC)	<u>\$ 206,444,735</u>

Incurred but not reported claims are now 25% of the total LTDI claims in payment status. The IBNR factor was decreased from 30% this year based on past experience. The liability is an increase of 26.7% over 2004. The increase is due to a significant growth in the number of claims, as well as a modest 5% increase in average benefit. 2004 also saw similar increases in claims and the liability over 2003.

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: 4.8% (which approximates a 7.8% valuation rate (reduced from 8% on February 1, 2004) with 3% annual benefit increases) is used to discount the projected future benefit stream to the valuation date.

IBNR: 25% of the Reserve for reported claims (reduced from 30% as of this year to reflect the pattern of decreasing actual IBNR to total LTDI claims in payment status, the factor had been reduced from 35% to 30% in 1999).

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 every two years.)



Deloitte Consulting LLP
400 One Financial Plaza
120 South Sixth Street
Minneapolis, MN 55402-1844
United States
Tel: (612) 397 4000
Fax: (612) 397 4450
www.deloitte.com

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