

Memo

Date: August 1, 2006
To: Group Insurance Board
From: James Searcy
Subject: Long Term Disability Insurance (LTDI) Election Schedule Extension

The purpose of this memo is to discuss the open LTDI election option that currently exists for some employees, to address the appropriateness of extending the election option one more year and to make our recommendation for assessing the impact of extending the election option in the future.

LTDI Election Option

When the LTDI plan was initially established, it was available to employees hired after October 16, 1992. In addition, employees hired before that date had the option to elect coverage under LTDI rather than taking the WRS disability benefit. This option was scheduled to sunset January 4, 1999. This option period has been extended periodically. Given the excellent funded status of the plan (see below), we are comfortable with extending the coverage election period another year.

The following exhibit shows the LTDI Incurred Claim Reserve and Ending Asset Balance over the past four years. All amounts are in millions.

<u>Year</u>	<u>Incurred Claim Reserve</u>	<u>Ending Asset Balance</u>	<u>Reserve for Future Claims</u>
	<u>(\$000,000)</u>	<u>(\$000,000)</u>	<u>(\$000,000)</u>
2002	43.8	267.0	223.2
2003	54.0	277.7	223.7
2004	71.3	289.3	218.0
2005	90.3	296.7	206.4

As indicated in the above exhibit, the funded status has decreased slightly over the past four years. However, the plan continues to be very well funded and is progressing exactly as anticipated.

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Analysis Prior to the Next Extension

We feel it would be prudent to identify the impact of continuing to extend the election period to ensure that the LTDI election option does not adversely affect the plan at some future date. In order to accurately assess the effect of the extended LTDI election period, Deloitte recommends that an analysis be done during the next year. We recommend that the individuals eligible for the extended election period (i.e. those hired before October 16, 1992) be identified. In addition, we recommend that the potential impact of their future elections be calculated. This will enable the board to make a more informed decision one year from now. However, as stated above, due to the funded status of the plan, there is not a sense of urgency in performing this analysis.

cc: Michael McDermid
Diane Poole