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DATE: August 3, 2006

TO: Group Insurance Board

FROM: Diane Poole, Director
Peg Narloch, Policy Analyst
Deb Roemer, Policy Analyst
Disability Programs Bureau

SUBJECT: Method for Calculating Monthly Earnings for the Income Continuation Insurance (ICI) Program

ACTION REQUESTED

The University of Wisconsin (UW) has requested the Board consider changing the method for calculating monthly earnings for premium and benefit determination for UW Faculty (unclassified) employees (Attachment A).

Staff takes no position on this request. However, if the Board supports this change, staff recommends it be applied to <u>all</u> 12-month employees. Whenever there is a permanent change to an employee's salary, the employer will be required to change the premiums by using the projected earnings for the ensuing 12 months. This recommendation is reflected in the Ninth Amendment to the 2004 Administrative Services Only Contract Between Wisconsin Group Insurance Board and Aetna (Attachment B).

<u>Background - Average Monthly Earnings Basis to Determine Premiums & Benefits</u>

The UW System proposes (for faculty only) to have premiums and benefits based on the earnings for the previous calendar year, rounded to the next higher $1,000 and divided by 12. This is the same method used for less than 12-month state employees and all employees in the local government ICI plan.

Currently, the salary used to determine premiums and benefits for state employees depends on the type of employee:

- <u>Unclassified & Classified 12-Month Employee</u> — Gross salary, excluding overtime and temporary add-ons in the last complete payroll period in the previous calendar year (for premiums) and last complete payroll period prior to disability (for benefits).

- <u>Less than 12-Month Employee</u> — Earnings for the previous calendar year, rounded to the next higher $1,000 and divided by 12 (for both premiums and benefits).

- <u>New Hires or Those With a Break in Service of 3 Consecutive Months or More</u> — Projected earnings for the current year, rounded to the next higher $1,000 and divided by 12.

Reviewed and approved by Tom Korpady, Division of Insurance Services.

Signature ______________________ Date __________

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Pros (if applied for all 12-month employees initially and whenever there is a permanent change to an employee's salary):

- Provides consistency between the State and Local ICI Plans.
- Assures that premiums and benefits are proportionate.
- Incorporates overtime, add-ons, etc. for eligible employees.
- Simplifies administration of this program for employers and ETF.

Our actuary, Deloitte, indicates they have no objections to this change (Attachment C).

Cons (if applied for all 12-month employees whenever there is a permanent change to an employee's salary):

- Employees who are not eligible for overtime, add-ons, etc. are unable to raise their benefit level – this could be an equity issue.
- Employees who receive a significant increase in pay will no longer have the "benefit" of paying low premiums for a significantly higher benefit.
- Employers must assure premiums are updated on an individual employee basis.

Staff will be available at the Board meeting to discuss any questions or concerns.

NINTH AMENDMENT
TO THE 2004 ADMINISTRATIVE SERVICES ONLY CONTRACT
BETWEEN
WISCONSIN GROUP INSURANCE BOARD
AND
AETNA

WHEREAS, the Wisconsin Group Insurance Board (BOARD) and Aetna (CONTRACTOR) have entered into and executed the Administrative Services Only Contract (CONTRACT), under which the CONTRACTOR provides certain claims adjudication and management services to the BOARD with respect to the BOARD's ICI and LTDI plans;

NOW, THEREFORE, the BOARD and the CONTRACTOR hereby amend the Administrative Services Only CONTRACT between the BOARD and the CONTRACTOR as follows:

1. ATTACHMENT A – STATE ICI PLAN REVISIONS AS FOLLOWS:

Section 2.10(1) – Amended to read and effective February 1, 2007:

(1) EMPLOYER contributions toward premium shall be made in accordance with the provisions of § 40.05 (5), Wis. Stats., and the rates established in Table I. The determination of State contribution toward premium shall be made in February of each year, based on the total accumulation of unused sick leave recorded and credited in the last complete payroll period in the previous calendar year. Changes in EMPLOYER contribution toward premiums shall be effective for coverage beginning February 1st of each calendar year. (See Section 2.11 to determine average monthly earnings.)

Section 2.11(1) and (2) – Amended to read and effective February 1, 2007:

(1) EMPLOYEE contributions toward premium shall be made in accordance with the rates established in Table II and III. Premium rates for SUPPLEMENTAL COVERAGE are established in Table IV and IV-A.

(2) Except as provided in par. (a), the monthly premium shall be determined based on the average monthly earnings and sick leave credits (or the selected elimination period for UW Faculty). The average monthly earnings shall be the total earnings paid to the insured EMPLOYEE by the EMPLOYER during the previous calendar year as reported to the Wisconsin Retirement System, rounded to the next higher thousand and divided by twelve (12).

(a) If the prior year earnings represent an interruption extending three (3) consecutive months or more, or the EMPLOYEE is newly hired, the EMPLOYER shall estimate the base salary earnings to be received during the ensuing twelve (12) months rounded to the next higher thousand and divided by twelve (12) and that projection shall be the basis for establishing average monthly earnings until coverage has been in effect for a full calendar year.

(b) A new projection shall be made when there is a permanent change in the EMPLOYEE's salary (excluding annual adjustments).

(c) Annual changes in contributions towards premiums shall be effective for coverage beginning February 1 of each calendar year.

Section 2.11(3) – Deleted

Section 2.165(1) – Amended to read and effective February 1, 2007:

(1) The average monthly earnings shall be the total earnings paid to the insured EMPLOYEE by the EMPLOYER during the previous calendar year as reported to the Wisconsin Retirement System, rounded to the next higher thousand and divided by twelve (12).

(a) If the prior year earnings represent an interruption extending three (3) consecutive months or more, or the EMPLOYEE is newly hired, the EMPLOYER shall estimate the base salary earnings to be received during the ensuing twelve (12) months rounded to the next higher thousand and divided by twelve (12) and that projection shall be the basis for establishing average monthly earnings until coverage has been in effect for a full calendar year.

(b) A new projection shall be made when there is a permanent change in the EMPLOYEE's salary (excluding annual adjustments).

Section 2.165(2), (3), and (4) – Deleted

2. ATTACHMENT B – LOCAL ICI PLAN REVISIONS AS FOLLOWS:

Section 2.10 - amended to read and effective March 1, 2007:

The minimum EMPLOYER contributions shall be the gross premium rate for the 180 day elimination period option shown in Table I. An EMPLOYER may elect to contribute a greater amount toward the gross premium for any other elimination period selected by the EMPLOYEE. There will be no EMPLOYER contributions toward the EMPLOYEE's SUPPLEMENTAL COVERAGE. (See 2.11 to determine average monthly earnings.)

Section 2.11(2) - amended to read and effective March 1, 2007:

(2) Except as provided in par. (a), the monthly premium shall be determined based on the average monthly earnings and the selected elimination period. The average monthly earnings shall be the total earnings paid to the insured EMPLOYEE by the EMPLOYER during the previous calendar year as reported to the Wisconsin Retirement System, rounded to the next higher thousand and divided by twelve (12).

(a) The prior year earnings represent an interruption extending three (3) consecutive months or more, or the EMPLOYEE is newly hired, the EMPLOYER shall estimate the base salary earnings to be received during the ensuing twelve (12) months rounded to the next higher thousand and divided by twelve (12) and that projection shall be the basis for establishing average monthly earnings until coverage has been in effect for a full calendar year.

(b) A new projection shall be made when there is a permanent change in the EMPLOYEE's salary (excluding annual adjustments).

(c) Annual changes in contributions toward premiums shall be effective for coverage beginning March 1 of each calendar year.

Section 2.165 - amended to read and effective March 1, 2007:

(1) The average monthly earnings shall be the total earnings paid to the insured EMPLOYEE by the EMPLOYER during the previous calendar year as reported to the Wisconsin Retirement System, rounded to the next higher thousand and divided by twelve (12).

(a) If the prior year earnings represent an interruption extending three (3) consecutive months or more, or the EMPLOYEE is newly hired, the EMPLOYER shall estimate the base salary earnings to be received during the ensuing twelve (12) months rounded to the next higher thousand and divided by twelve (12) and that projection shall be the basis for establishing average monthly earnings until coverage has been in effect for a full calendar year

(b) A new projection shall be made when there is a permanent change in the EMPLOYEE’s salary (excluding annual adjustments).

(c) Annual changes in contributions toward premiums shall be effective for coverage beginning March 1 of each calendar year.

All other language in the CONTRACT, and its ATTACHMENTS remain unchanged.

IN WITNESS WHEREOF, the parties hereto cause this eighth amendment to be executed by their duly authorized representatives.

Executed on behalf of the Wisconsin Group Insurance Board	Executed on behalf of Aetna
__________________________ Stephen H. Frankel, Chair	__________________________ Name and Title
__________________________ Date	__________________________ Date
__________________________ Witnessed by	__________________________ Witnessed by