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CORRESPONDENCE MEMORANDUM

DATE: October 14, 2010
TO: Group Insurance Board
FROM: Marcia Blumer, Program Manager
Wisconsin Public Employers Group Life Insurance Program
Division of Insurance Services
SUBJECT: Policy and Premium Provisions for Expanded Accidental Death and Disability (AD&D) Coverage

Staff recommends the Board approve extending to local government employees the Accidental Death and Dismemberment (AD&D) provision to cover accidental deaths when the insured is a pilot, crew member, or passenger on an aircraft owned, operated, or leased by the employer and being used for the business of the employer. The benefit would be at no additional cost to the local government employer or the employee.

The Board approved the AD&D benefit revision for State employees at the April 13, 2010, meeting. The Board also requested a survey of local government employers to determine the risk to the plan if the same benefit were offered to insured local government employees. The following is a summary of how the benefit will be implemented for State employers and the recommendation for providing the benefit to local government employees.

Aviation Accidental Death Benefit for State Employees

At the April 13, 2010, Group Insurance Board meeting, the Board approved a revision of the AD&D provisions of the Wisconsin Public Employers Group Life Insurance policy for state employees to include an accidental death benefit for victims of plane crashes when the employee was a pilot, crew member or passenger on a state plane and the purpose of the flight was work-related. The AD&D limitation in the policy was revised to the following:

Reviewed and approved by Lisa Ellinger, Deputy Administrator,
Division of Insurance.

Lisa Ellinger 10/18/10
Signature Date

Board	Mtg Date	Item #
GIB	11.9.10	4A

“Travel in or descent from any aircraft, except as a fare-paying passenger on a regularly scheduled commercial flight on a licensed passenger aircraft carrier or except for a state employee who is a pilot, crew member or passenger on an aircraft owned, operated or leased by a state employer and being used for business of the state employer.”

The approval to change the limitation language was contingent upon State **employers** (rather than employees) assuming the additional costs associated with the increased risk. The cost of offering the benefit was estimated to be an additional \$210,000 per year.

Currently, State employers pay an amount equal to 63% of the basic premium and 35% of the supplemental premium paid by employees. A portion of the employer premium contributions for active employees goes toward the current cost of the active employees' coverage and a portion accumulates as reserve funds to pay for future post-retirement benefits.

To fund the increased risk created by providing employment-related aviation AD&D insurance, the State employer contribution for basic coverage will increase by 2.25% to an amount equal to 65.25% of the employee-paid premium and the contribution for supplemental coverage will increase by 2.25% to 37.25%. This increase will be effective April 1, 2011. The contributions and claims related to the aviation AD&D insurance will be accounted for separately and will be reported to the Board in the annual financial experience report. Because claims for this benefit will be sporadic and volatile, excess contributions in years with positive results will be accumulated in a reserve to pay claims when they occur and to stabilize the plan's finances. The new administrative agreement defines the financial basis in detail.

Aviation Accidental Death Benefit for Local Governments

The Board requested that local governments be polled to determine their level of exposure regarding work-related travel in aircraft. Minnesota Life polled a sample of 18 large local government employers. The employers were asked if any employees travel in aircraft while carrying out their employment duties and, if so, how many employees travel in aircraft, the frequency of such flights and the types of aircraft used.

With one exception, the employers reported that employees who travel by air would be traveling as fare-paying passengers on regularly scheduled commercial flights. All of the cities that were contacted reported that no one traveled by air for work-related duties. Several of the counties, technical colleges and school districts reported that a very small number of officials attend conferences and meetings outside of Wisconsin but air travel for these events is rare. When such travel is done for employment-related purposes, it is as a fare-paying passenger on a scheduled commercial flight.

Counties reported that the transfer of prisoners across state lines by aircraft is done by the Federal government. Traffic control done by aircraft is handled by the State Patrol. Drug enforcement by air is handled by the Federal government, with the exception of one county, which reported that its sheriff's department uses helicopter surveillance for this purpose. However, it is very infrequent; perhaps once during the year.

Based on the survey results, it appears the exposure for local governments is very low compared to the exposure under the State portion of the plan. Minnesota Life estimates that the additional annual premium needed to cover aviation-related accidental death under the local portion of the plan would be immaterial, less than \$1,000. If the AD&D provisions for local government employees are revised to match those of the state employees, it could be done without the need for an additional explicit annual premium charge. It should be noted that while it is unlikely that a claim would occur in any one year, it is possible that a claim could occur at some time. If it does, the claim might be several hundred thousand dollars and would reduce the plan's reserves.

Staff will be available at the meeting to answer any questions you may have.