

The State of Wisconsin



Local Income Continuation Insurance Plan Actuarial Review as of December 31, 2006

Table of Contents

I. Overview	1
II. 2006 Experience Review	2
III. Estimated Liability as of December 31, 2006	5
IV. Analysis of Funding Levels	7

I. Overview

The purpose of this report is to summarize our review of the Local Income Continuation Insurance Plan. Included are a brief review of the Plan's experience during 2006, an estimate of the Plan's liability as of December 31, 2006, and an analysis of current funding levels.

In preparing this report, we have relied on claim information provided by Aetna and the Department of Employee Trust Funds. We have not audited this information, but have relied on it as submitted after making reasonableness checks, as we deemed appropriate under the circumstances.

The results of this review indicate that the Local Income Continuation Insurance program (including supplemental) is in a very strong financial position with assets of \$20,919,663 and estimated liabilities of \$4,307,964. The asset balance does not include \$0.8 million in deferred market gains which will be smoothed over the next five years. The large net fund balance is due to a valuation methodology change, which took place at December 31, 1996.

We do not recommend a change in premium rate at this time.

The remainder of this report summarizes the review in more detail. A number of assumptions have been made in estimating the Plan's liability, which are described throughout the report and summarized in Exhibit 1.

II. 2006 Experience Review

Fund Balance

During 2006, the fund balance increased from \$18,604,406 to \$20,919,663; Investment earnings were \$1,857,528 with paid claims and administrative expenses totaling \$921,141. These components are shown in the following table along with figures for the previous three years for comparison purposes.

	2006	2005	2004	2003
Beginning Balance	18,604,406	16,708,151	14,715,244	13,087,280
Closing Adjustments	(125,560)	(3,488)	(30,398)	(16,278)
Adjusted Beginning Balance	18,478,846	16,704,664	14,684,846	13,071,002
Revenues				
Contributions	1,504,430	1,397,588	1,302,270	1,235,874
Investment Earnings	1,857,528	1,111,424	1,219,586	991,409
Total	3,361,958	2,509,011	2,521,856	2,227,283
Expenses				
Paid Claims	760,539	487,853	385,169	476,675
Administrative Expenses	160,602	121,416	113,381	106,367
Total	921,141	609,269	498,550	583,041
Net Income	2,440,817	1,899,743	2,023,305	1,644,242
Ending Balance	20,919,663	18,604,406	16,708,151	14,715,244
Investment Earnings/Mean Balance	9.9%	6.5%	8.1%	7.4%

The following table shows the number of open and closed claims by year incurred and the average net monthly benefit.

Open Claims By Year of Incurral

Year Incurred	Open Claims		Closed Claims		All Claims	
	Number	Average Benefit	Number	Average Benefit	Number	Average Benefit
2006	21	1,488	32	895	53	1,130
2005	13	1,230	29	1,429	42	1,367
2004	8	1,062	1	2,463	9	1,218
2003	7	1,672	0	NA	7	1,672
2002	3	702	0	NA	3	702
2001	3	262	0	NA	3	262
2000	3	403	0	NA	3	403
1999	0	NA	0	NA	0	NA
1998	0	NA	0	NA	0	NA
1997	2	615	0	NA	2	615
1996	1	163	0	NA	1	163
1995	0	NA	0	NA	0	NA
1994	0	NA	0	NA	0	NA
1993	1	389	0	NA	1	389
1992 & Prior	0	NA	0	NA	0	NA
Total	62	1,183	62	1,170	124	1,176

While performing the valuation for December 31, 1996, it was determined that the criteria for including claimants in the Local I.C.I. plan used for prior valuations was not correct. After reviewing the criteria used in prior valuations and after discussions with United Wisconsin Group, it was determined that participants from the Long-Term Disability Insurance Plan had probably been included in the valuation. In order to gain additional comfort with the data used in this valuation, we compared the claims paid from the trust to the claims paid according to the Aetna claims data. The group presented for the December 31, 2006 valuation shows total claims paid for the year reasonably close to the Trust reported total.

The information for the group of participants is presented in the following table for December 31, 2006. While the data from years 1995 and prior are not necessarily directly comparable, the corresponding information for these years is presented here for illustration.

Open Claims By Valuation Date

Plan Year	Open Claims		Closed Claims		All Claims	
	Number	Average Benefit	Number	Average Benefit	Number	Average Benefit
2006	62	1,183	62	1,170	124	1,176
2005	52	1,376	49	1,195	101	1,288
2004	37	1,368	47	1,798	84	1,609
2003	27	1,276	48	1,746	75	1,577
2002	34	1,569	46	1,299	80	1,414
2001	33	1,643	14	1,479	47	1,594
2000	24	1,326	60	1,256	84	1,276
1999	21	919	43	1,041	64	1,001
1998	27	1,147	54	888	81	974
1997	24	923	36	1,118	60	1,040
1996	20	719	44	1,144	64	1,011
1995	72	734	40	922	112	801
1994	55	682	30	904	85	760
1993	25	697	10	1,224	35	848

III. Estimated Liability as of December 31, 2006

The Plan's liability for outstanding claims under the Local Income Continuation Insurance program was estimated in two parts — reported claims and incurred but unreported claims. The following paragraphs summarize the method used and results.

Reported Claims

Disabled life reserve factors were calculated using the 1987 Commissioner's Group Basic Disability table adjusted for the State's own termination experience. These factors represent the present value of future payments, at 7.8% interest, to a disabled person with a monthly benefit of \$100. The WRS valuation rate was reduced from 8% to 7.8% as of February 1, 2004. For consistency, we reduced the interest rate accordingly for the December 31, 2006 valuation. The factors are indexed by age at disablement, duration of disablement, and duration to the end of the benefit period.

Aetna provided a listing of those persons known to be disabled as of December 31, 2006. The age at disablement, duration of disability, and duration to expiry was calculated for each individual. The appropriate factors were then multiplied by the amount of benefit for each disabled person. The results were summarized by year incurred and in total.

For disabilities that last over one year, a supplement of \$75 per month is included in the normal benefit amount for the purpose of defraying medical costs. This benefit was effective January 1, 2002 for all claims in pay status.

Incurred But Unreported Claims

In addition to those claims reported as of December 31, 2006, there presumably are other claims incurred prior to that date but which are not as yet reported. The Plan's liability for long-term disability claims begins on the date an employee is disabled, even though the employee is not eligible for payments during the waiting period or has not yet filed a claim. Thus, it is necessary to estimate the additional liability for claims incurred but not reported as of the valuation date.

Besides the waiting period, delays in the reporting and processing of claims normally occur. From the State's experience, we observed that approximately 25% of claims open and closed during the previous twelve months are unreported as of year end. Thus, the Plan's liability for claims incurred but not yet reported was calculated as the estimated number of incurred but not yet reported claims times an average open liability for claims using the previous six years of data.

Results

The total estimated liability as of December 31, 2006 for the Local Income Continuation Insurance program is \$4,307,964, developed as follows:

Reported Claim Liability	\$3,552,203
\$75 Supplement	34,705
Total Reported Liability	3,586,908
Incurred But Not Reported Liability	721,056
Total Liability	\$4,307,964

This total liability is 17% higher than the liability determined as of December 31, 2005. The increase is the result of an increase in open claims at the end of 2006 while the average benefit is decreasing from 2005. The total liability is 67.7% higher than the liability determined as of December 31, 2004.

IV. Analysis of Funding Levels

The Local Income Continuation Insurance program continues to be in a strong financial position with assets of \$20,919,663 and estimated liabilities of \$4,307,964 which produces a net fund balance of \$16,611,699.

A reasonable long-term objective would be to maintain a net fund balance of more than 100% of the estimated liabilities as a hedge against future adverse experience. Substantial year-to-year fluctuations can occur under disability income programs, particularly for the relatively small size of this program. Thus, in the near term, it is prudent to maintain a large fund balance in excess of estimated liabilities – perhaps 200%. The excess now represents 386% of the estimated liabilities. The following table shows the net fund balance as a percentage of the estimated liability by year. It is clear that this excess fluctuates from year to year.

	2006	2005	2004	2003	2002
Assets	20,919,663	18,604,406	16,708,151	14,715,244	13,087,280
Estimated Liability	4,307,964	3,669,243	2,584,522	2,295,121	2,612,916
Net Fund Balance	16,611,699	14,935,163	14,123,629	12,420,123	10,474,364
Percentage	386%	407%	546%	541%	401%

The employer's premium contribution rate was reduced from .375% of covered payroll to .25% effective March 1, 2002. A \$75 Supplemental Add-on benefit was also added effective January 1, 2002. We will continue to monitor the experience under the revised plan. We do not recommend additional benefit or premium rate changes at this time.

Exhibit 1

Elimination Period — 90 days average. Actual waiting period can vary between 30 and 180 days.

Benefit Period — The maximum duration of benefits for disabled insured employees is:

Age at Disablement	Maximum Duration of Benefits in Years
61 or Younger	To age 65
62	3.50 years
63	3.00 years
64	2.50 years
65	2.00 years
66	1.75 years
67	1.50 years
68	1.25 years
69	1.00 years

In no event are benefits payable beyond the 70th birthday.

Termination Rates — Percentage of the 1987 Commissioner's Basic Disability Table three month elimination period termination rates based on the State's own experience, as shown below:

Duration of Disablement	Termination Rate Adjustment
First Year	280%
Second Year	260%
Third Year	240%
Fourth Year	220%
Fifth Year	200%
Sixth Year	180%
Seventh Year	160%
Eighth Year	140%
Ninth Year	120%
Tenth Year & Later	100%

Interest — 7.8% per year.

Contingency Margins — None.

Exhibit 2

Reported Claim Liability by Year of Disability

Open Claims as of December 31, 2006					
Year of Disability	Number	Gross Benefit	Offset Amount	Net Benefit	Estimated Liability
2006	21	36,355	5,099	31,256	797,905
2005	13	28,604	12,620	15,984	909,713
2004	8	18,225	9,729	8,496	509,217
2003	7	19,355	7,651	11,704	884,771
2002	3	6,475	4,369	2,106	166,637
2001	3	6,663	5,877	785	55,504
2000	3	7,238	6,029	1,208	111,862
1999	0	0	0	0	0
1998	0	0	0	0	0
1997	2	2,950	1,720	1,230	126,510
1996	1	525	362	163	8,938
1993 & Prior	1	833	444	389	15,851
Total	62	127,223	53,900	73,322	3,586,908



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