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**CORRESPONDENCE MEMORANDUM**

**DATE:** September 1, 2009  
**TO:** Employee Trust Funds Board  
**FROM:** Tom Korpady, Administrator  
Division of Insurance Services  
**SUBJECT:** Long-Term Disability Insurance (LTDI) Actuarial Valuation

**This memo is for informational purposes only. No Board action is required.**

Deloitte Consulting LLP, ETF's actuary, recommended continuing the indefinite premium suspension due to the LTDI plan's continued financial strength. At its August 25, 2009, meeting, the Group Insurance Board accepted this report and approved the actuary's recommendation. A brief summary of the plan's experience and recommendation is found on page one of the report.

Attachment – LTDI Report

Board	Mtg Date	Item #
ETF	9/17/09	5



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



Long-Term Disability  
Insurance Plan  
2010 Premium Development  
As of December 31, 2008

Prepared By:  
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Deloitte Consulting LLP

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# I. Introduction

The purpose of this report is to summarize our actuarial review of the Long-Term Disability Insurance ("LTDI") Plan. Included are a brief review of the Plan's experience during 2008, development of 2010 LTDI premiums, a summary of benefits paid and corresponding reserves, and an estimate of the Plan's Reserve for Future Claims ("RFC", or the fund surplus of the Plan).

The results of our review indicate that the LTDI Plan is in a strong financial position, with assets of \$313,852,818 and estimated liabilities of \$138,640,973. The asset balance does not include \$98,968,558 in deferred market losses which will be smoothed over the next four years. The RFC has decreased in each of the last four years, primarily due to the Plan receiving no contributions for each of those years.

We recommend that contributions not be reinstated at this time.

In preparing this report, we have relied on claim information provided by Aetna and the Department of Employee Trust Funds, and on payroll information provided by Gabriel, Roeder, Smith & Company ("GRS"). We have not audited this information, but have relied on it as submitted after making reasonableness checks as we deemed appropriate under the circumstances.

Deloitte Consulting LLP ("Deloitte Consulting") and GRS shared the development of the LTDI numbers for December 31, 2008. The results of the GRS work are contained in a separate document. This report contains the Incurred Claims Reserve and the recommended premium rates for 2010, 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.

## II. 2008 Experience and Highlights

	2008	2007	2006	2005
<b>Beginning Balance</b>	\$325,385,010	\$309,687,976	\$296,747,117	\$289,288,911
Closing Adjustments	\$54,049	(\$2,574,197)	(\$2,075,655)	(\$76,319)
<b>Adjusted Beginning Balance</b>	<b>\$325,439,059</b>	<b>\$307,113,779</b>	<b>\$294,671,462</b>	<b>\$289,212,592</b>
<b>Revenues</b>				
Contributions	\$0	\$0	\$0	\$0
Investment Earnings	\$10,029,343	\$37,442,701	\$28,493,846	\$18,444,252
<b>Total</b>	<b>\$10,029,343</b>	<b>\$37,442,701</b>	<b>\$28,493,846</b>	<b>\$18,444,252</b>
<b>Expenses</b>				
Paid Claims	\$20,443,753	\$17,774,253	\$12,329,911	\$9,863,169
Administrative Expenses	\$1,171,832	\$1,397,216	\$1,147,421	\$1,046,558
<b>Total</b>	<b>\$21,615,584</b>	<b>\$19,171,469</b>	<b>\$13,477,332</b>	<b>\$10,909,727</b>
<b>Net Income</b>	<b>(\$11,586,241)</b>	<b>\$18,271,232</b>	<b>\$15,016,514</b>	<b>\$7,534,525</b>
<b>Ending Assets</b>	<b>\$313,852,818</b>	<b>\$325,385,011</b>	<b>\$309,687,976</b>	<b>\$296,747,117</b>
<b>Incurred Claims Reserve</b>	<b>\$138,640,973</b>	<b>\$135,756,290</b>	<b>\$108,286,975</b>	<b>\$90,302,382</b>
<b>Reserve for Future Claims (RFC)</b>	<b>\$175,211,845</b>	<b>\$189,628,720</b>	<b>\$201,401,001</b>	<b>\$206,444,735</b>
<b>Regular Premium (% of payroll)</b>	<b>0.19%</b>	<b>0.20%</b>	<b>0.19%</b>	<b>0.21%</b>
<b>RFC Adjustment</b>	<b>-0.19%</b>	<b>-0.20%</b>	<b>-0.19%</b>	<b>-0.21%</b>
<b>Recommended Premium Rate</b>	<b>None - 2010</b>	<b>None - 2009</b>	<b>None - 2008</b>	<b>None - 2007</b>

The funded status of the LTDI plan decreased as evidenced by the approximate \$14.4 million decrease in the RFC. The decrease in the RFC from year-end 2007 to year-end 2008 is attributable to a 3.5% decrease in the Plan's assets and a 2.1% increase in the Incurred Claims Reserve (which includes reserves for both the known and incurred but not reported claims). The increase of the Incurred Claims Reserve is partly explained by a 13.1% growth in the number of open claims and a 1.0% decrease in the average net benefit from the prior year. As premiums have been suspended since 1999, we would expect the fund balance to decrease if the sum of the paid claims and the increase in the Incurred Claims Reserve is more than investment earnings. The RFC does not include deferred market losses of \$99.0 million in 2008 which will be smoothed into the asset balance over the next four years. The large positive RFC will enable the Plan to continue to suspend premium payments for another year.

### III. Development of 2010 LTDI Premiums

Based Upon the 5-Year Adjustment of the RFC  
as of December 31, 2008

	General	Executive & Elected	Protective		Total
			With Social Security	Without Social Security	
<b>\$ in Millions</b>					
<b>1) Payroll</b>	\$10,806.27	\$100.55	\$1,099.27	\$181.15	\$12,187.25
<b>2) RFC</b>	\$139.86	\$1.53	\$27.62	\$6.21	\$175.21
<b>% of Active Member Payroll</b>					
<b>3) Regular Premium</b>	0.17%	0.20%	0.33%	0.45%	0.19%
<b>4) RFC Adjustment: 20% x (2)/(1)</b>	(0.26)%	(0.30)%	(0.50)%	(0.69)%	(0.29)%
<b>5) 2010 LTDI Rate</b>	0.00%	0.00%	0.00%	0.00%	0.00%
<b>Prior Year Rate</b>	0.00%	0.00%	0.00%	0.00%	0.00%

Items 1, 2 & 3 provided by GRS

### 2010 Premium Recommendation:

The 2010 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 since 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 RFC. The current funded status allows for substantial lead time for any changes necessary in the allocation of funds, in the event that claim levels increase dramatically in 2011 or beyond.

We recommend continuing the indefinite premium suspension as the the Plan continues to have a large positive fund balance.

# IV. Benefits Being Paid and Reserves

By Year of Incurral as of December 31, 2008

	2003 & Prior	2004	2005	2006	2007	2008	Total
<b>General &amp; Teachers</b>							
Number	424	96	162	200	211	124	1,217
Annual Benefit	\$6,101,171	\$1,253,678	\$2,095,089	\$2,674,198	\$2,964,760	\$1,658,885	\$16,747,780
Act. Present Value	\$32,528,269	\$8,294,269	\$14,087,762	\$18,717,766	\$21,405,597	\$12,407,264	\$107,440,926
<b>Local Elected Official</b>							
Number	-	-	-	-	-	-	-
Annual Benefit	-	-	-	-	-	-	-
Act. Present Value	-	-	-	-	-	-	-
<b>Prot w/ Social Sec</b>							
Number	1	2	3	6	8	5	25
Annual Benefit	\$4,645	\$29,558	\$40,228	\$92,075	\$140,326	\$41,962	\$348,796
Act. Present Value	\$8,381	\$213,323	\$236,757	\$774,015	\$1,615,155	\$258,763	\$3,106,395
<b>Prot w/o Social Sec</b>							
Number	1	1	-	-	-	-	2
Annual Benefit	\$19,504	\$24,825	\$-	\$-	\$-	\$-	\$44,330
Act. Present Value	\$241,839	\$123,618	\$-	\$-	\$-	\$-	\$365,457
<b>Total</b>							
<b>Number</b>	<b>426</b>	<b>99</b>	<b>165</b>	<b>206</b>	<b>219</b>	<b>129</b>	<b>1,244</b>
<b>Annual Benefit</b>	<b>\$6,125,321</b>	<b>\$1,308,061</b>	<b>\$2,135,317</b>	<b>\$2,766,273</b>	<b>\$3,105,086</b>	<b>\$1,700,847</b>	<b>\$17,140,905</b>
<b>Act. Present Value</b>	<b>\$32,778,489</b>	<b>\$8,631,210</b>	<b>\$14,324,518</b>	<b>\$19,491,781</b>	<b>\$23,020,752</b>	<b>\$12,666,028</b>	<b>\$110,912,778</b>

# V. Development of Reserve for Future Claims (RFC)

December 31, 2008

LTDI Assets	<u>\$ 313,852,818</u>
<b>Actuarial Present Value of:</b>	
Claims in payment status as of December 31, 2008	\$ 110,912,778
Incurred but not reported claims (IBNR reserve)	<u>27,728,195</u>
<i>Total Incurred Claims Reserve</i>	<u>\$ 138,640,973</u>
Reserves for Future Claims (RFC)	<u>\$ 175,211,845</u>

The IBNR reserve amount is 25.0% of the total LTDI liability for claims in payment status. The total liability increased 2.1% from 2007. The increase is due to a growth in the number of known claims, coupled with a 1.0% decrease in average net benefit.



# 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% in 2005 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. (At the 2007 Group Insurance Board meeting, the Board voted to extend the open election between programs indefinitely.)



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