

The State of Wisconsin



Local Income Continuation Insurance Plan Actuarial Review as of December 31, 2004

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I. Overview

The purpose of this report is to summarize our review of the Local Income Continuation Insurance Plan. Included is a brief review of the Plan's experience during 2004, an estimate of the Plan's liability as of December 31, 2004, and an analysis of current funding levels.

In preparing this report, we have relied on claim information provided by Broadspire 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 is in a very strong financial position with assets of \$16,708,151 and estimated liabilities of \$2,584,522. The asset balance does not include 0.7 million in deferred market losses 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. This change is discussed further on Page 3.

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. 2004 Experience Review

Fund Balance

During 2004, the fund balance increased from \$14,715,244 to \$16,708,151; Investment earnings were \$1,219,586 with paid claims and administrative expenses totaling \$498,550. These components are shown in the following table along with figures for the previous three years for comparison purposes.

	2004	2003	2002	2001
Beginning Balance	14,715,244	13,087,280	12,006,137	9,747,684
Closing Adjustments	(30,398)	(16,278)	(44,481)	802,223
Adjusted Beginning Balance	14,684,846	13,071,002	11,961,656	10,549,907
Revenues				
Contributions	1,302,270	1,235,874	1,112,957	1,129,346
Investment Earnings	1,219,586	991,409	610,950	928,679
Total	2,521,856	2,227,283	1,723,907	2,058,025
Expenses				
Paid Claims	385,169	476,675	496,277	504,059
Administrative Expenses	113,381	106,367	102,006	97,735
Total	498,550	583,041	598,283	601,794
Net Income	2,023,305	1,644,242	1,125,623	1,456,231
Ending Balance	16,708,151	14,715,244	13,087,280	12,006,137
Investment Earnings/Mean Balance	8.1%	7.4%	5.0%	8.6%

During 2004, 47 claims were closed. A total of 42 claims incurred in 2004 were reported. 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
2004	15	1,858	27	2,225	42	2,094
2003	7	1,949	10	1,817	17	1,871
2002	4	1,136	6	958	10	1,029
2001	3	262	2	87	5	192
2000	3	403	2	181	5	314
1999	1	797	0	NA	1	797
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	37	1,368	47	1,798	84	1,609

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 Broadspire claims data. The group presented for the December 31, 2004 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, 2004. 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
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, 2004

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, 2004 valuation. The factors are indexed by age at disablement, duration of disablement, and duration to the end of the benefit period.

Broadspire provided a listing of those persons known to be disabled as of December 31, 2004. 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, 2004, 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, 2004 for the Local Income Continuation Insurance program is \$2,584,522, developed as follows:

Reported Claim Liability	\$1,953,838
\$75 Supplement	25,251
Total Reported Liability	1,979,089
Incurred But Not Reported Liability	605,433
Total Liability	\$2,584,522

This total liability is 12.6% higher than the liability determined as of December 31, 2003. The increase is the result of more open claims at the end of 2004. The total liability is 1.1% lower than the liability determined as of December 31, 2002.

IV. Analysis of Funding Levels

The Local Income Continuation Insurance program continues to be in a strong financial position with assets of \$16,708,151 and estimated liabilities of \$2,584,522 which produces a net fund balance of \$14,123,629.

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 546% 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.

Net Fund Balance as Percentage of Estimated Liability by Year

	2004	2003	2002	2001	2000	1999
Assets	16,708,151	14,715,244	13,087,280	12,006,137	9,747,684	8,212,070
Estimated Liability	2,584,522	2,295,121	2,612,916	2,559,500	1,613,195	922,951
Net Fund Balance	14,123,629	12,420,123	10,474,364	9,446,637	8,134,489	7,289,119
Percentage	546%	541%	401%	369%	504%	790%

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, 2004						
Year of Disability	Number	Gross Benefit	Offset Amount	Net Benefit	Average Benefit	Estimated Liability
2004	15	33,274	8,291	24,983	1,666	661,471
2003	7	18,187	4,766	13,421	1,917	616,827
2002	4	9,488	4,119	5,369	1,342	371,675
2001	3	6,663	5,877	785	262	53,859
2000	3	7,238	6,029	1,208	403	108,087
1999	1	1,500	703	797	797	4,989
1998	0	0	0	0	NA	0
1997	2	2,950	1,720	1,230	615	129,763
1996	1	525	362	163	163	10,899
1995	0	0	0	0	NA	0
1994	0	0	0	0	NA	0
1993	1	833	444	389	389	21,519
1992 & Prior	0	0	0	0	NA	0
Total	37	80,658	32,312	48,346	1,307	1,979,089



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