

# The State of Wisconsin



## Local Income Continuation Insurance Plan Actuarial Review as of December 31, 2007

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# 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 2007, an estimate of the Plan's liability as of December 31, 2007, 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 Plan (including supplemental benefits) is in a strong financial position, with assets of \$24,150,025 and estimated liabilities of \$3,822,315. The asset balance does not include \$0.2 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. These assumptions are described throughout the report and summarized in Exhibit 1.

## II. 2007 Experience Review

### Fund Balance

During 2007, the fund balance increased from \$20,919,663 to \$24,150,025; Investment earnings were \$2,644,345 with paid claims and administrative expenses totaling \$990,872. These components are shown in the following table along with figures for the previous three years for comparison purposes.

	2007	2006	2005	2004
<b>Beginning Balance</b>	20,919,663	18,604,406	16,708,151	14,715,244
Closing Adjustments	(25,656)	(125,560)	(3,488)	(30,398)
<b>Adjusted Beginning Balance</b>	<b>20,894,007</b>	<b>18,478,846</b>	<b>16,704,664</b>	<b>14,684,846</b>
<b>Revenues</b>				
Contributions	1,602,545	1,504,430	1,397,588	1,302,270
Investment Earnings	2,644,345	1,857,528	1,111,424	1,219,586
<b>Total</b>	<b>4,246,890</b>	<b>3,361,958</b>	<b>2,509,011</b>	<b>2,521,856</b>
<b>Expenses</b>				
Paid Claims	828,881	760,539	487,853	385,169
Administrative Expenses	161,991	160,602	121,416	113,381
<b>Total</b>	<b>990,872</b>	<b>921,141</b>	<b>609,269</b>	<b>498,550</b>
<b>Net Income</b>	<b>3,256,018</b>	<b>2,440,817</b>	<b>1,899,743</b>	<b>2,023,305</b>
<b>Ending Balance</b>	<b>24,150,025</b>	<b>20,919,663</b>	<b>18,604,406</b>	<b>16,708,151</b>
<b>Investment Earnings/Mean Balance</b>	<b>12.5%</b>	<b>9.9%</b>	<b>6.5%</b>	<b>8.1%</b>

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

### Claims By Year of Incurral

Year Incurred	Open Claims		Closed Claims		All Claims	
	Number	Average Benefit	Number	Average Benefit	Number	Average Benefit
2007	12	\$ 1,996	39	\$ 955	51	\$ 1,200
2006	6	1,080	44	820	50	851
2005	11	1,198	5	1,203	16	1,200
2004	7	617	2	19	9	484
2003	5	1,292	1	909	6	1,228
2002	2	1,014	1	240	3	756
2001	2	91	1	604	3	262
2000	3	403	0	-	3	403
1999	0	-	0	-	0	-
1998	0	-	0	-	0	-
1997	1	992	1	238	2	615
1996	1	163	0	-	1	163
1995	0	-	0	-	0	-
1994	0	-	0	-	0	-
1993	1	389	0	-	1	389
<b>Total</b>	<b>51</b>	<b>\$ 1,164</b>	<b>94</b>	<b>\$ 866</b>	<b>145</b>	<b>\$ 971</b>

The information for the group of participants is presented in the following table for December 31, 2007. While the data from years 1995 and prior are not necessarily directly comparable, the corresponding information for these years is presented here for illustration.

### Claims By Valuation Date

Plan Year	Open Claims		Closed Claims		All Claims	
	Number	Average Benefit	Number	Average Benefit	Number	Average Benefit
2007	51	\$ 1,164	94	\$ 866	145	\$ 971
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

\* While performing the valuation for December 31, 1996, it was determined that the criteria for including claimants in the Local Income Continuation 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.

# III. Estimated Liability as of December 31, 2007

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 interest rate was reduced from 8% to 7.8% as of February 1, 2004 and has remained at 7.8%. For consistency, and at the direction of ETF personnel, the valuation interest rate is tied to the WRS valuation rate; therefore a 7.8% discount rate was used in the December 31, 2007 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, 2007. The age at disablement, duration of disability, and duration to the end of the benefit period 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, 2007, there presumably are other claims incurred prior to that date but which are not 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 incurred during any twelve month period are unreported as of the end of that twelve month period. 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 liability for reported claims.

## Results

The total estimated liability as of December 31, 2007 for the Local Income Continuation Insurance program is \$3,822,315, developed as follows:

Reported Claim Liability	\$3,161,855
\$75 Supplement	21,710
Total Reported Liability	3,183,565
Incurred But Not Reported Liability	638,750
Total Liability	\$3,822,315

This total liability is 11% lower than the liability determined as of December 31, 2006. The decrease is the result of a decrease in open claims during the year coupled with a decrease in the average benefit.

Exhibit 2 contains a breakdown of the \$3,183,565 reported liability by year of disability.



## IV. Analysis of Funding Levels

The Local Income Continuation Insurance Plan continues to be in a strong financial position with assets of \$24,150,025 and estimated liabilities of \$3,822,315 which produces a net fund balance of \$20,327,710.

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 532% 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.

	2007	2006	2005	2004	2003	2002
<b>Assests</b>	24,150,025	20,919,663	18,604,406	16,708,151	14,715,244	13,087,280
<b>Estimated Liability</b>	3,822,315	4,307,964	3,669,243	2,584,522	2,295,121	2,612,916
<b>Net Fund Balance</b>	20,327,710	16,611,699	14,935,163	14,123,629	12,420,123	10,474,364
<b>Percentage</b>	532%	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, 2007

Year of Disability	Number	Gross Benefit	Offset Amount	Net Benefit	Estimated Liability	\$75 Supplement	Average Benefit	Estimated Liability
2007	12	\$ 26,272	\$ 2,323	\$ 23,949	\$ 676,406	\$ 21,710	\$ 1,996	\$ 698,116
2006	6	14,109	7,627	6,483	296,722	0	1,080	296,722
2005	11	29,355	16,178	13,177	927,326	0	1,198	927,326
2004	7	16,144	11,825	4,319	362,329	0	617	362,329
2003	5	15,960	9,499	6,461	499,996	0	1,292	499,996
2002	2	3,150	1,121	2,029	160,486	0	1,014	160,486
2001	2	3,338	3,156	181	1,797	0	91	1,797
2000	3	7,238	6,029	1,208	110,816	0	403	110,816
1997	1	1,942	950	992	105,592	0	992	105,592
1996	1	525	362	163	7,806	0	163	7,806
1993	1	833	444	389	12,579	0	389	12,579
<b>Total</b>	<b>51</b>	<b>\$ 118,866</b>	<b>\$ 59,514</b>	<b>\$ 59,351</b>	<b>\$3,161,855</b>	<b>\$ 21,710</b>	<b>\$ 1,164</b>	<b>\$3,183,565</b>



Deloitte Consulting LLP  
111 S Wacker Dr  
Chicago, IL 60606  
United States

Tel: 312 486 2265  
Fax: 312 486 2265  
[www.deloitte.com](http://www.deloitte.com)

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