



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



Long-Term Disability  
Insurance Plan  
2009 Premium Development  
As of December 31, 2007

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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 2007, development of 2009 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 \$325,385,011 and estimated liabilities of \$135,756,290. The asset balance does not include \$2.0 million 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. 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 Gabriel, Roeder, Smith & Co. ("GRS") shared the development of the LTDI numbers for December 31, 2007. 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 2009, 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. 2007 Experience and Highlights

	<u>12/31/2007</u>	<u>12/31/2006</u>	<u>12/31/2005</u>	<u>12/31/2004</u>	<u>12/31/2003</u>	<u>12/31/2002</u>
LTDI Beg Assets	\$309,687,976	\$296,747,117	\$289,288,911	\$277,654,620	\$266,967,728	\$260,550,273
Closing Adjustments	(\$2,574,197)	(\$2,075,655)	(\$76,319)	(\$380,135)	(\$799,976)	\$417,059
Contributions	\$0	\$0	\$0	\$0	\$0	\$0
Inv Earnings	\$37,442,701	\$28,493,846	\$18,444,252	\$21,943,394	\$19,403,498	\$12,394,761
Paid Claims	\$17,774,253	\$12,329,911	\$9,863,169	\$8,817,188	\$7,039,042	\$5,592,879
Expenses	\$1,397,216	\$1,147,421	\$1,046,558	\$1,111,780	\$877,588	\$801,486
LTDI Ending Assets	\$325,385,011	\$309,687,976	\$296,747,117	\$289,288,911	\$277,654,620	\$266,967,728
Incurred Claims Reserve	\$135,756,290	\$108,286,975	\$90,302,382	\$71,254,858	\$53,950,828	\$43,806,162
RFC	\$189,628,721	\$201,401,001	\$206,444,735	\$218,034,053	\$223,703,792	\$223,161,566
Regular Premium (% of payroll)	0.20%	0.19%	0.21%	0.22%	0.22%	0.24%
RFC Adjustment	-0.20%	-0.19%	-0.21%	-0.22%	-0.22%	-0.24%
Recommended Premium Rate	None - 2009	None – 2008	None – 2007	None – 2006	None – 2005	None – 2004

The funded status of the LTDI plan decreased slightly as evidenced by the approximately \$11.8 million decrease in the Reserve for Future Claims ("RFC"). While the Plan's assets increased by 5.1%, the Incurred Claims Reserve (which includes both the Disabled Life and IBNR reserves) increased by 25.4%, which results in a decrease in the RFC from year end 2006 to year end 2007. The 25.4% Incurred Claims Reserve increase is explained in part by growth in both the number of open claims (increased 18.3% over the prior year) and the average net benefit (increased 5.1% over 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 Reserve for Future Claims does not include deferred market losses of \$2.0 million in 2007 which will be smoothed into the asset balance over the next four years. This large positive Reserve for Future Claims will enable the Plan to continue to suspend premium payments for another year.

### III. Development of 2009 LTDI Premiums

Based Upon the 5-Year Adjustment of the RFC  
as of December 31, 2007

			Protective		
	General	Executive & Elected	With Social Security	Without Social Security	Total
<b>\$ in Millions</b>					
1) Payroll	\$10,277.9	\$94.6	\$1,035.6	\$173.7	\$11,581.8
2) RFC	154.6	1.3	26.8	7.0	189.6
<b>%'s of Active Member Payroll</b>					
3) Regular Premium	0.18%	0.16%	0.31%	0.48%	0.20%
4) RFC Adjustment: 20% x (2)/(1)	(0.30)	(0.27)	(0.52)	(0.80)	(0.33)
5) 2009 LTDI Rate	0.00%	0.00%	0.00%	0.00%	0.00%
Prior Year Rate	0.00%	0.00%	0.00%	0.00%	0.00%

\*Items 1, 2, & 3 provided by GRS

#### 2009 Premium Recommendation:

The 2009 premium rates shown above are based upon a continuation of the 20% (5 year) adjustment to the Reserve for Future Claims 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 Reserve for Future Claims. 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 2010 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, 2007

	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	Total
<b>General &amp; Teachers</b>																
Number	4	6	9	19	11	41	43	52	59	85	140	105	173	216	116	1,079
Annual Benefits	74,232	108,768	118,087	273,758	146,699	611,363	650,577	611,682	669,151	1,093,073	1,816,320	1,233,975	2,069,706	2,688,979	2,568,621	14,734,990
Actuarial Present Value	376,002	477,012	801,889	1,425,688	771,352	3,582,993	4,128,412	3,614,352	4,769,828	7,705,985	11,763,527	9,307,077	16,146,117	21,685,719	18,481,990	105,037,944
<b>Local Elected Official</b>																
Number	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Annual Benefits	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Actuarial Present Value	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
<b>Prot w/Social Sec</b>																
Number	0	0	0	0	0	0	0	0	0	2	0	2	3	7	5	19
Annual Benefits	0	0	0	0	0	0	0	0	0	6,176	0	34,257	62,495	97,939	88,853	289,720
Actuarial Present Value	0	0	0	0	0	0	0	0	0	25,298	0	256,617	515,258	978,267	1,349,732	3,125,173
<b>Prot w/out Social Sec</b>																
Number	0	0	0	0	0	0	0	0	1	0	0	1	0	0	0	2
Annual Benefits	0	0	0	0	0	0	0	0	18,297	0	0	23,288	0	0	0	41,585
Actuarial Present Value	0	0	0	0	0	0	0	0	276,296	0	0	165,619	0	0	0	441,915
<b>Totals</b>																
Number	4	6	9	19	11	41	43	52	60	87	140	108	176	223	121	1,100
Annual Benefits	74,232	108,768	118,087	273,758	146,699	611,363	650,577	611,682	687,448	1,099,248	1,816,320	1,291,520	2,132,200	2,786,918	2,657,474	15,066,295
Actuarial Present Value	376,002	477,012	801,889	1,425,688	771,352	3,582,993	4,128,412	3,614,352	5,046,124	7,731,283	11,763,527	9,729,314	16,661,375	22,663,986	19,831,722	108,605,032

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

December 31, 2007

LTDI Assets	<u>\$325,385,011</u>
<b>Actuarial Present Value of:</b>	
Claims in payment status as of December 31, 2007	\$108,605,032
Incurred but not reported claims (IBNR reserve)	<u>27,151,258</u>
<i>Total Incurred Claims Reserve</i>	<u>\$135,756,290</u>
Reserves for Future Claims (RFC)	<u>\$189,628,721</u>

The IBNR reserve amount is 25.0% of the total LTDI claims in payment status liability. The total liability increased 25.4% from 2006. The increase is due to a growth in the number of claims, as well as a 5.0% increase in average net benefit. The increases in open claims and liability are similar to the increases seen from 2005 to 2006.

# 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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