



STATE OF WISCONSIN
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CORRESPONDENCE MEMORANDUM

DATE: August 11, 2008
TO: Group Insurance Board
FROM: Betty Wittmann, Manager
Optional Insurance Plans and Audits
SUBJECT: EPIC Dental, Excess Medical, and Accidental Death & Dismemberment (AD&D)
Plan Special Enrollment, Benefit and Rate Increase Proposal

Recommendation:

Staff recommends approval of a request for increased Dental and AD&D benefits along with a premium rate increase from EPIC Life Insurance Company (EPIC).

Background:

The EPIC Dental, Excess Medical and AD&D Insurance plan is an optional plan that has been approved by the Board for premium payment by payroll deduction under Wis. Stats. § 20.921 (1)(a) 3., and § ETF10.20, Wis. Admin. Code. Plans are reviewed under the *Board's Guidelines for Optional Group Insurance Plans Seeking Group Insurance Board Approval for Payroll Deduction Authorization*. This plan has been offered by EPIC since 1994.

Overall utilization of the EPIC plan has been steady for the last three years with over 90% of the reported claims coming from the dental portion of the plan.

Discussion:

EPIC is proposing a rate increase to take effect January 1, 2009 and run through December 31, 2010. EPIC has requested overall rate increases of 23.9% for annuitants and 29.5% for active employees. The increase consists of 86.5% for increased benefits and 13.5% for overall cost increases. The summary of the proposed rates begins on page 2 of the attached Deloitte memo.

EPIC has indicated it will conduct an open enrollment for all state employees this fall. This is in response to requests from payroll representatives and participants. The proposal provides a description of the open enrollment which will also include a benefit increase for the AD&D and the Dental Plan. However, the proposal does not change the Excess Medical plan.

The AD&D benefit currently offers a full employee benefit of \$5,000 and a partial benefit of \$2,500. EPIC is proposing to double the benefits to a full employee benefit of \$10,000 and a partial benefit of \$5,000 for non-annuitants only, with no change to the annuitants' AD&D benefit.

Reviewed and approved by Tom Korpady, Division of Insurance Services.

Signature _____

Date _____

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The Dental benefit currently has a \$200 deductible for major dental services followed by 50% coverage of the next \$1,500. EPIC is proposing to lower the deductible to \$75 along with increasing the maximum full benefit from \$750 to \$1000 per year.

EPIC's open enrollment will provide an opportunity for those who did not enroll when first eligible, along with those who have previously dropped the plan. For these enrollees, the dental benefits will be capped at \$500 and \$750 respectively for the first two years, with full benefits starting in the 3rd year and no orthodontic coverage available during the first 24 months. The purpose of these benefit reductions is to ensure that current subscribers will not have to subsidize late enrollees.

Deloitte Consulting reviewed the EPIC proposal and a copy of its full analysis is attached. EPIC's original proposal used a rate methodology for the AD&D, Excess Medical and Dental plans separately. Consistent with the rate increase proposed several years ago, the loss ratio was 72%. Our guidelines require a 75% loss ratio unless the higher retention is justified. In Deloitte's review, it was determined the 72% loss ratio continues to be reasonable based on the low level of premiums associated with these plans compared to the industry standard. However, due to EPIC's reported loss ratio around 65% for the last two years it was requested that they combine the claims experience for the three plans to determine the final proposed rate increase.

In its conclusion, Deloitte Consulting states that the rate increases are in line with current industry trends and are reasonable. Further, the benefit restructuring for late enrollees provides adequate assurance that the adverse experience caused by selection bias will be controlled. Based on the review by staff and the Board's actuary, we recommend accepting the EPIC proposal.

Department staff will be at the August 26, 2008, Board meeting to answer any questions you may have.