STATE OF WISCONSIN
Department of Employee Trust Funds
David A. Stella
SECRETARY

801 W Badger Road
PO Box 7931
Madison WI 53707-7931

1-877-533-5020 (toll free)
Fax (608) 267-4549
http://etf.wi.gov

CORRESPONDENCE MEMORANDUM

DATE: February 1, 2010

TO: Group Insurance Board

FROM: Marcia Blumer, Program Manager
Division of Insurance

SUBJECT: Accidental Death and Dismemberment provisions

This memo is for Board discussion and consideration.

Attached is a memo from Paul Rudeen, Vice President and Actuary of Minnesota Life Insurance Company (MLIC), with an analysis of a proposed provision to amend the Accidental Death and Dismemberment (AD&D) benefit to cover accidental deaths when the insured is a pilot, crew member, or passenger on an aircraft owned, operated, or leased by the employer and being used for business of the employer.

MLIC reviewed information that was currently available from the Wisconsin Department of Administration, University of Wisconsin, and the UW Hospital and Clinics. While not all information was entirely complete, and assumptions regarding the risk exposure were necessary, MLIC believes that the data used was sufficient to make a reasonable cost estimate. Paul Rudeen and Bob Olafson will be available to discuss the findings and options for implementation should the Board choose to implement the amendment.

Analysis

Based on the data received, MLIC estimates that the additional annual premium necessary to cover aviation-related accidental death would be approximately $200,000 to $250,000. This is equivalent to a cost in the range of 0.9% to 1.2% of premium. The following are several examples of how this increase may affect an employee's monthly premium using a 1% premium cost increase. The calculations reflect the current premium per $1,000 of earnings, then the additional premium that would be due based on a 1% increase.

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

______________________________ ____________
Signature Date

Board	Mtg Date	Item #
GIB	2.9.10	5A

Example: Age 32, Annual Earnings of $50,000

Basic Coverage:	$.05 x 50,000 = $2.50	1% Increase = $.025
Supplemental Coverage:	$.05 x 50,000 = $2.50	1% Increase = $.025
Additional Coverage (3 units)	$.08 x 150,000 = $12.00	1% Increase =$.12

Example: Age 50, annual Earnings of $40,000

Basic Coverage:	$.18 x 40,000 = $7.20	1% Increase = $.072
Supplemental Coverage:	$.18 x 40,000 = $7.20	1% Increase = $.072
Additional Coverage (3 units)	$.27 x 120,000 = $32.40	1% Increase = $.324

The State share of premium paid for Basic and Supplemental coverage in 2009 was almost $3,100,000. An increase of 1% in premiums would increase the employer share by approximately $31,000 annually.

The total employee share of premium for Basic, Supplemental and Additional coverage in 2009 was almost $15,000,000. A 1% increase would result in approximately $150,000 of increased employee premium spread among all employees, not just those whose work requires flights on non-commercial aircraft as part of their job duties. Because this increased cost is a direct result employer-directed duties, the Board may wish to consider recommending that the total increased premium for work-related flights be added only to the employer share to cover the increased liability.

<u>Plan Background</u>

As you will recall, the total cost of the Basic and Supplemental life insurance coverage is shared by the employee and the State as the employer. The employer cost of Basic coverage for state employees is an amount equal to 63% of the premium rates paid by employees. The employer cost of Supplemental coverage is an amount equal 35% of the employee premiums. The Additional levels of employee coverage are paid fully by the employee.

A financial agreement between the GIB and MLIC sets forth the terms and conditions under which the insurer handles all assets deposited, held and disbursed under the policy. The employer premium contributions for active employees accumulate as reserve funds pay for post-retirement benefits. Dividends that arise from experience on active employees are also deposited into the reserves and the reserves are invested in the general account of MLIC. All assets attributable to the plan are trust funds that are separate and independent from MLIC assets and are for the sole use of covering the plan’s current and future liabilities.

The stop-loss provisions under the agreement limit the liability of plan reserves for high claims in a policy year. Excess claims and expenses above the stop-loss limit are covered by risk reserves of MLIC. The annual stop-loss limit for each plan is determined based on recent claims experience and are set so that claims and expenses are expected to exceed the stop-loss limit in three years out of every one hundred years.

The program's funding status is analyzed annually to ensure that the reserves plus future interest and premiums provide very strong support for paying future claims. Premium rates are established annually by the GIB based on recommendations by MLIC. These recommendations are based on the plan experience in the three most recent plan years. The plan is experience rated by age categories in five-year increments. The state and local plans experience are rated separately.

Attachment: Letter from MLIC

Minnesota Life Insurance Company
A Securian Financial Group Affiliate
400 Robert Street North
St. Paul, MN 55101-2098
www.minnesotalife.com
651.665.3500

February 1, 2010

The Group Insurance Board
801 West Badger Road
Madison, WI 53713-2526

ACCIDENTAL DEATH BENEFITS FOR AVIATION ACCIDENTS

Ladies and Gentlemen:

As you know, the life insurance contract contains an accidental death benefit provision that excludes “travel in or descent from any aircraft, except as a fare-paying passenger on a regularly scheduled commercial flight on a licensed passenger aircraft carrier.” You requested that we provide information regarding additional plan costs associated with revising the contract to pay future accidental death benefits for insured employees who die carrying out their employment duties while traveling on aircraft. This letter will outline our analysis and recommendations.

- Our suggested approach for defining this expanded benefit is to cover accidental deaths when the insured is a pilot, crew member, or passenger on an aircraft owned, operated, or leased by the employer and being used for business of the employer. This is the definition we used for our analysis.
- In order to develop pricing for this additional coverage, we reviewed risk exposure information regarding aircraft owned, operated, or leased by the State of Wisconsin. We also reviewed the life insurance exposure information for those State employees expected to be either pilots or passengers in these aircraft.
- The exposure we analyzed was in five categories: passenger transport in State-owned aircraft, DNR and State Patrol aircraft, University of Wisconsin Hospitals Organ Procurement Program, University of Wisconsin Hospitals Medflight Program, and University of Wisconsin Athletic Department travel.
- Information in all of these categories was from the respective State agencies and was provided to us by the Department of Employee Trust Funds. While not all information was entirely complete and at times we had to make assumptions regarding the exposure, we believe that the exposure data we used was sufficient to make reasonable cost estimates.
- Based on the risk exposure among State employees, we estimate that the additional annual premium necessary to cover aviation-related accidental deaths would be approximately $200,000 to $250,000. This is equivalent to a cost in the range of 0.9% to 1.2% of premium.

- The financial objective for this additional premium is to cover the expected additional claim payments so that the plan's reserve funding status will not be adversely affected. Minnesota Life will receive a portion of the additional premium as a risk charge to cover its risk under the pooling and stop-loss provisions of the plan's financial basis; the remainder of the premium will flow to the plan's reserves until needed to pay claims.
- The Group Insurance Board may wish to implement this coverage in 2010. That could be accomplished without an actual cash payment of premium, but rather by simply making a charge equal to Minnesota Life's additional risk charge in the plan’s 2010 financial experience calculation and recognizing that any claims that may occur have the potential to affect the year-end financial result. In essence, the coverage in 2010 would be paid for by the plan’s reserves.
- For 2011, the additional premium needed will be factored into the plan premium rates that will be established in 2010.
- Our approach to making this coverage available is consistent with a group approach whereby all insureds' premium rates are increased somewhat to cover the additional risk. We do not recommend attempting to provide this coverage via a “rider” or optional purchase approach. Such an approach would likely require some sort of individual insurance policy, possibly provided by a specialty carrier, and would not easily fit into the group insurance framework already in place.
- Another approach would be for the State to completely pay any additional costs associated with this expanded benefit. During the policy year 2008, the State contributed approximately $3.1 million dollars in premium payments to help cover active employee claims under the plan’s basic and supplemental layers of life coverage. The additional cost of $200,000 to $250,000 would represent an increase in that contribution of 6.5% to 8.1%.
- The analysis we performed was based solely on State agency information. We do not have any specific information available regarding local government exposure. We believe that risk exposure for local governments would likely be less than it is for the State, but it is not clear by how much. If similar coverage were added to the local plan, Minnesota Life would be comfortable with the approach of charging an equivalent premium as under the State plan until such time as good exposure information is obtained.

Respectfully Submitted,

Paul Rudeen

Paul Rudeen
Vice President and Actuary
Group Insurance
Minnesota Life Insurance Company

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