

# The State of Wisconsin



## Local Income Continuation Insurance Plan Actuarial Review as of December 31, 2009

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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 2009, an estimate of the Plan's liability as of December 31, 2009, 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 ("ETF"). 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 \$28,097,196 and estimated liabilities of \$3,840,102. The asset balance does not include \$3.3 million in deferred market losses which will be smoothed in over the next four years. The large net fund balance is primarily due to a valuation methodology change, which took place at December 31, 1996.

We do not recommend a change in the 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. 2009 Experience Review

### Fund Balance

During 2009, the fund balance increased from \$25,871,414 to \$28,097,196. Total revenues were \$2,953,881 with paid claims and administrative expenses totaling \$775,597. These components are shown in the following table along with figures for the previous three years for comparison purposes.

	2009	2008	2007	2006
<b>Beginning Balance</b>	25,871,414	24,150,025	20,919,663	18,604,406
Closing Adjustments	47,498	(27,755)	(25,656)	(125,560)
<b>Adjusted Beginning Balance</b>	<b>25,918,912</b>	<b>24,122,270</b>	<b>20,894,007</b>	<b>18,478,846</b>
<b>Revenues</b>				
Contributions	1,839,354	1,716,186	1,602,545	1,504,430
Investment Earnings	1,114,527	778,089	2,644,345	1,857,528
<b>Total</b>	<b>2,953,881</b>	<b>2,494,275</b>	<b>4,246,890</b>	<b>3,361,958</b>
<b>Expenses</b>				
Paid Claims	644,811	594,077	828,881	760,539
Administrative Expenses	130,787	151,054	161,991	160,602
<b>Total</b>	<b>775,597</b>	<b>745,131</b>	<b>990,872</b>	<b>921,141</b>
<b>Net Income</b>	<b>2,178,284</b>	<b>1,749,144</b>	<b>3,256,018</b>	<b>2,440,817</b>
<b>Ending Balance</b>	<b>28,097,196</b>	<b>25,871,414</b>	<b>24,150,025</b>	<b>20,919,663</b>
<b>Investment Earnings/Mean Balance</b>	<b>4.2%</b>	<b>3.2%</b>	<b>12.5%</b>	<b>9.9%</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
2009	23	\$ 2,370	28	\$ 2,700	51	\$ 2,551
2008	7	1,566	22	1,931	29	1,843
2007	0	-	0	-	0	-
2006	4	874	0	-	4	874
2005	7	322	0	-	7	322
2004	5	962	0	-	5	962
2003	4	894	0	-	4	894
2002	2	1,014	0	-	2	1,014
2001	1	-	1	180	2	90
2000	2	489	1	155	3	378
1999	0	-	0	-	0	-
1998	0	-	0	-	0	-
1997	1	992	0	-	1	992
1996	1	163	0	-	1	163
1995	0	-	0	-	0	-
1994	0	-	0	-	0	-
1993	1	389	0	-	1	389
<b>Total</b>	<b>58</b>	<b>\$ 1,451</b>	<b>52</b>	<b>\$ 2,277</b>	<b>110</b>	<b>\$ 1,842</b>

The following table shows the claim count and average net benefit amount for open, closed and total claims, respectively, as of December 31, 2009. In addition, historical claim counts and net benefit amounts for the last ten years are provided for comparison.

### Claims By Valuation Date

Plan Year	Open Claims		Closed Claims		All Claims	
	Number	Average Net Benefit	Number	Average Net Benefit	Number	Average Net Benefit
2009	58	\$ 1,451	52	\$ 2,277	110	\$ 1,842
2008	50	1,319	64	2,377	114	1,913
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

# III. Estimated Liability as of December 31, 2009

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 Wisconsin Retirement System ("WRS") valuation interest rate was reduced from 8% to 7.8% as of February 1, 2004, and has since 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, 2009, 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, 2009. 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, an additional \$75 per month is included in the normal benefit amount for the purpose of defraying medical costs. This supplemental benefit was effective January 1, 2002, for all claims in pay status. A liability was added for those claims incurred in 2009 representing the probability that claims will continue beyond the first year and the present value of the additional benefit. The liability for the \$75 supplement is already included in the liability for claims over one year in duration.

## Incurred But Unreported Claims

In addition to those claims reported as of December 31, 2009, 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 Plan's own experience, we observed that approximately 17% 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, 2009, for the Local Income Continuation Insurance program is \$3,840,102, developed as follows:

Reported Claim Liability	\$3,104,299
\$75 Supplement	<u>30,807</u>
Total Reported Liability	3,135,106
Incurred But Not Reported Liability	<u>704,996</u>
Total Liability	\$3,840,102

This total liability is 1.2% less than the liability determined as of December 31, 2008. The decrease can be attributed primarily to the change in the composition and characteristics of the average claimant in the open claim cohort.

Exhibit 2 contains a breakdown of the \$3,135,106 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 \$28,097,196 and estimated liabilities of \$3,840,102 which produces a net fund balance of \$24,257,094.

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 632% 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.

	2009	2008	2007	2006	2005	2004
<b>Assets</b>	28,097,196	25,871,414	24,150,025	20,919,663	18,604,406	16,708,151
<b>Estimated Liability</b>	3,840,102	3,886,827	3,822,315	4,307,964	3,669,243	2,584,522
<b>Net Fund Balance</b>	24,257,094	21,984,587	20,327,710	16,611,699	14,935,163	14,123,629
<b>Percentage</b>	632%	566%	532%	386%	407%	546%

The employer's premium contribution rate was reduced from .375% of covered payroll to .25% effective March 1, 2002. The \$75 Supplemental Add-on benefit was 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, 2009 <sup>1</sup>								
Year of Disability	Count	Gross Benefit	Offset Amount	Net Benefit	Estimated Liability	\$75 Supp.	Ave. Benefit	Est'd Liability
2009	23	\$ 69,375	\$ 14,868	\$ 54,507	\$ 1,024,773	\$30,807	\$ 2,370	\$1,055,580
2008	7	21,088	10,123	10,965	487,087		1,566	487,087
2006	4	9,738	6,240	3,498	313,058		874	313,058
2005	7	14,525	12,270	2,255	162,262		322	162,262
2004	5	12,375	7,567	4,808	403,152		962	403,152
2003	4	12,005	8,428	3,577	346,680		894	346,680
2002	2	3,150	1,121	2,029	151,859		1,014	151,859
2001	1	1,388	1,388	-	-		-	-
2000	2	4,275	3,297	978	104,176		489	104,176
1997	1	1,942	950	992	101,074		992	101,074
1996	1	525	362	163	5,184		163	5,184
1993	1	833	444	389	4,993		389	4,993
<b>Total</b>	<b>58</b>	<b>\$151,217</b>	<b>\$67,057</b>	<b>\$84,161</b>	<b>\$3,104,299</b>	<b>\$30,807</b>	<b>\$ 1,451</b>	<b>\$3,135,106</b>

<sup>1</sup>Open Claims presented by year of disability. For certain disability years (e.g. 2007, 1999, etc.), no claims remained open as of December 31, 2009.



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