

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: July 23, 2010
TO: Group Insurance Board
FROM: Tom Korpady, Administrator
Division of Insurance Services
SUBJECT: Acceptance of Long Term Disability Insurance Actuarial Valuation

Staff requests that the Group Insurance Board (Board) approve the Long-Term Disability Insurance Plan Actuarial Review as of December 31, 2009.

Attached, please find Deloitte's *Long Term Disability Insurance Plan 2010 Premium Development as of December 31, 2009*. Deloitte recommends continuing the premium suspension at this time. A brief summary is found on page one of this report.

Attachment

Reviewed and approved by Robert Conlin, Deputy Secretary.

Signature _____ Date 7/27/10

Board	Mtg Date	Item #
GIB	8.24.10	7A



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



Long-Term Disability
Insurance Plan
2010 Premium Development
As of December 31, 2009

Prepared By:
Timothy D. Gustafson, FSA, MAAA
Deloitte Consulting LLP

Table of Contents

I. Introduction	1
II. 2009 Experience and Highlights	2
III. Development of 2011 LTDI Premiums	3
IV. Benefits Being Paid and Reserves	4
V. Development of Reserve for Future Claims	5
Appendix 1: Assumptions	6

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 2009, development of 2011 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 \$300,549,619 and estimated liabilities of \$156,278,012. The asset balance does not include \$38,224,363 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, and on payroll information provided by Gabriel, Roeder, Smith & Company ("GRS"). 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 GRS shared the development of the LTDI numbers for December 31, 2009. 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 2011, 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. 2009 Experience and Highlights

	2009	2008	2007	2006
Beginning Balance	\$313,852,818	\$325,385,010	\$309,687,976	\$296,747,117
Closing Adjustments	(\$121,701)	\$54,049	(\$2,574,197)	(\$2,075,655)
Adjusted Beginning Balance	\$313,731,117	\$325,439,059	\$307,113,779	\$294,671,462
Revenues				
Contributions	\$0	\$0	\$0	\$0
Investment Earnings	\$12,634,570	\$10,029,343	\$37,442,701	\$28,493,846
Total	\$12,634,570	\$10,029,343	\$37,442,701	\$28,493,846
Expenses				
Paid Claims	\$23,663,985	\$20,443,753	\$17,774,253	\$12,329,911
Administrative Expenses	\$2,152,082	\$1,171,832	\$1,397,216	\$1,147,421
Total	\$25,816,067	\$21,615,585	\$19,171,469	\$13,477,332
Net Income	(\$13,181,497)	(\$11,586,242)	\$18,271,232	\$15,016,514
Ending Assets	\$300,549,620	\$313,852,817	\$325,385,011	\$309,687,976
Incurred Claims Reserve	\$156,278,012	\$138,640,973	\$135,756,290	\$108,286,975
Reserve for Future Claims (RFC)	\$144,271,608	\$175,211,844	\$189,628,721	\$201,401,001
Regular Premium (% of payroll)	0.16%	0.19%	0.20%	0.19%
RFC Adjustment	-0.16%	-0.19%	-0.20%	-0.19%
Recommended Premium Rate	None - 2011	None - 2010	None - 2009	None - 2008

RFC Adjustment as presented above reflects an adjustment such that net premium rates are not less than zero.

The funded status of the LTDI plan decreased as evidenced by the approximate \$30.9 million decrease in the RFC. The decrease in the RFC from year-end 2008 to year-end 2009 is attributable to a 4.2% decrease in the Plan's assets and a 12.7% increase in the Incurred Claims Reserve (which includes reserves for both the known and incurred but not reported claims). The increase of the Incurred Claims Reserve is partly explained by a 10.7% growth in the number of open claims and a 2.7% increase in the average net benefit per open claim from 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 RFC does not include deferred market losses of \$38.2 million in 2009 which will be smoothed into the asset balance over the next four years. The large positive RFC will enable the Plan to continue to suspend premium payments for another year.

III. Development of 2011 LTDI Premiums

Based Upon the 5-Year Adjustment of the RFC
as of December 31, 2009

	General	Executive & Elected	Protective		Total
			With Social Security	Without Social Security	
\$ in Millions					
1) Payroll	\$11,098.12	\$101.01	\$1,124.13	\$188.99	\$12,512.24
2) RFC	\$111.78	\$1.31	\$25.88	\$5.30	\$144.27
% of Active Member Payroll					
3) Regular Premium	0.14%	0.18%	0.32%	0.39%	0.16%
4) RFC Adjustment: 20% x (2)/(1)	(0.20)%	(0.26)%	(0.46)%	(0.56)%	(0.23)%
5) 2011 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

2011 Premium Recommendation:

The 2011 premium rates shown above are based upon a continuation of the 20% (5 year) adjustment to the RFC 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 RFC. 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 2012 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, 2009

	2004 & Prior	2005	2006	2007	2008	2009	Total
General & Teachers							
Number	461	149	180	191	222	165	1,368
Annual Benefit	\$6,533,156	\$1,971,860	\$2,446,897	\$2,732,498	\$2,522,911	\$2,062,310	\$18,269,631
Act. Present Value	\$35,431,295	\$13,062,764	\$16,722,806	\$18,885,677	\$21,075,823	\$17,057,759	\$122,236,125
Local Elected Official							
Number	-	-	-	-	-	-	-
Annual Benefit	\$-	\$-	\$-	\$-	\$-	\$-	\$-
Act. Present Value	\$-	\$-	\$-	\$-	\$-	\$-	\$-
Prot w/ Social Sec							
Number	2	1	4	8	3	1	19
Annual Benefit	\$9,387	\$-	\$64,527	\$145,197	\$10,869	\$2,309	\$232,289
Act. Present Value	\$133,602	\$-	\$440,351	\$1,594,726	\$91,606	\$176,035	\$2,436,319
Prot w/o Social Sec							
Number	2	-	-	-	-	-	2
Annual Benefit	\$44,330	\$-	\$-	\$-	\$-	\$-	\$44,330
Act. Present Value	\$349,966	\$-	\$-	\$-	\$-	\$-	\$349,966
Total							
Number	465	150	184	199	225	166	1,389
Annual Benefit	\$6,586,873	\$1,971,860	\$2,511,424	\$2,877,695	\$2,533,780	\$2,064,619	\$18,546,250
Act. Present Value	\$35,914,863	\$13,062,764	\$17,163,157	\$20,480,403	\$21,167,429	\$17,233,794	\$125,022,410

V. Development of Reserve for Future Claims (RFC)

December 31, 2009

LTDI Assets	<u>\$ 300,549,619</u>
Actuarial Present Value of:	
Claims in payment status as of December 31, 2009	\$ 125,022,410
Incurred but not reported claims (IBNR reserve)	<u>31,255,602</u>
<i>Total Incurred Claims Reserve</i>	<u>\$ 156,278,012</u>
Reserves for Future Claims (RFC)	<u>\$ 144,271,607</u>

The IBNR reserve amount is 25.0% of the total LTDI liability for claims in payment status. The total liability increased 12.7% from 2008. The increase is due to a growth in the number of open claims, coupled with an increase in average net benefit for open claims.

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.)



Deloitte Consulting LLP
111 S Wacker Dr
Chicago, IL 60606
United States
Tel: 312 486 2265
Fax: 312 486 2265
www.deloitte.com

About Deloitte Deloitte refers to one or more of Deloitte Touche Tohmatsu, a Swiss Verein, and its network of member firms, each of which is a legally separate and independent entity. Please see www.deloitte.com/about for a detailed description of the legal structure of Deloitte Touche Tohmatsu and its member firms. Please see www.deloitte.com/us/about for a detailed description of the legal structure of Deloitte LLP and its subsidiaries.

Copyright © 2010 Deloitte Development LLC. All rights reserved.

Member of Deloitte Touche Tohmatsu