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May 12, 2016

Ms. Eileen K. Mallow
Deputy Director
Office of Strategic Health Policy
Wisconsin Department of Employee Trust Funds
Madison, WI 53707

RE: Zurich American Insurance Company Proposal
Group Accident Insurance Review

Dear Eileen:

Thank you for contacting Milliman for assistance in the review of a group accident insurance proposal provided by Zurich American Insurance Company (Zurich) for the Wisconsin Department of Employee Trust Funds (ETF). The purpose of this letter is to provide you with a review of the reasonableness of this proposal. We have not been asked to consider whether this proposal is more or less competitive than existing coverages or other coverages that may be available in the market, and we have formed no opinion on that issue.

Based on the plan design and premium rates included in the proposal, as well as the benefit descriptions included in the sample certificate form, we were able to perform a review of Zurich's proposed group accident insurance plan for ETF. A summary of our review is provided below.

Summary Findings

Overall, the plan design offered by Zurich is reasonable and in line with other carriers in the market. The rates were developed in a manner that complies with ETF's requirement for a 75% loss ratio, and Zurich has indicated that it will review the experience following the end of the initial three-year rate guarantee period and make adjustments as needed to premiums and benefits in order to satisfy this requirement. The underwriting guidelines also appear to comply with ETF requirements.

Detailed Findings

Plan Design

Our review of the various plan features included in Zurich's offering are provided below.

- Benefit amounts – Zurich has proposed maximum benefit amounts of \$500,000 for employees, \$300,000 for spouses and domestic partners and \$50,000 for dependent children. These amounts are subject to other limits. For instance, the employee coverage may not exceed a multiple of base salary, and the spouse and child coverage may not exceed a stated percentage of the employee coverage. We believe these are reasonable limits consistent with industry practices.
- Benefit triggers – Zurich has included most or all of the benefits we have seen in this market and we do not believe they are lacking any key benefits.
- Product features – Zurich offers their accident product as strictly guaranteed issue with no waiting period (except as specified by ETF). This is common in the accident insurance market.
- Benefit reduction – For employees only, AD&D coverage reduces to 65% at age 70, 45% at age 75, 30% at age 80, and 15% age 85. Zurich's offering with an AD&D benefit reduction is consistent with our experience in the market and less restrictive than some carriers in that it does not apply to coverage for spouses.

Premium Review

Zurich's proposal included a copy of the actuarial memorandum that they filed with state insurance departments when the product was originally developed. This memorandum stated that the anticipated loss ratio for the product was 50%. The filed rates, however, allowed the company flexibility to quote premiums with higher loss ratios when necessary and appropriate.

We asked Zurich to verify that the specific proposal they prepared for ETF used premium rates with an anticipated loss ratio of 75%. They provided us with an actuarial certification to that effect, which we have attached to this letter.

We also asked Zurich to discuss the manner in which they would monitor this loss ratio and make any necessary premium or benefit adjustments in the future. They provided the following response in a May 3, 2016 email: "Monitoring experience is executed on an annual basis. Since a single year does not represent a trend, each three year window we will review the experience and adjust the rates or benefits appropriately to address the projected loss ratio of 75%." We believe this is an acceptable rating approach that satisfies ETF requirements.

Underwriting Review

Section A.5.C of the ETF Guidelines for offering optional insurance plans provides several requirements insurers must satisfy related to enrollment, eligibility, and underwriting requirements. Since the initial proposal materials from Zurich were not clear on whether these requirements were satisfied, we asked them to confirm they met the requirements. They provided the following response in a May 3, 2016 email: “The proposal & Specimen satisfies each of the enrollment requirements in Section 5C of the ETF Guidelines, including open enrollments (annual), and coverage is available for newly eligible employees within the 30 days of first becoming eligible. Also Employees and dependents can enroll in the plan due to HIPPA [sic] qualifying events.”

Validation with Guidelines for Offering Optional Insurance Plans

It is our understanding that ETF validates whether or not optional insurance proposals meet most of the Insurer Requirements listed in Item 5 of the Guidelines for Offering Optional Insurance Plans. As part of our review, we have focused on the following sections of those requirements, each of which we have validated. We have not formed an opinion on the other requirements.

B. Premiums

1. Insurers must maintain a minimum annual claim/premium ratio of 75% or submit actuarial data to justify a ratio below 75%, subject to approval by the Board. **Validated**

C. Enrollment

1. The open enrollment period for Optional Insurance Plans aligns with the It's Your Choice Open Enrollment period. Visit the ETF website for the dates of the next scheduled open enrollment period. <http://www.etf.wi.gov/>
Validated
2. Insurers must allow for an open enrollment period every two years, at a minimum. **Validated**
3. Insurers may impose waiting periods for certain services upon enrollment, if approved by the Board. **Validated**
4. Newly-eligible employees shall be afforded an opportunity to enroll, provided application is made within 30 days of first becoming eligible.
Validated
5. An insurer must allow an eligible employee and his/her eligible dependents to enroll without restrictions due to a HIPAA qualifying event, such as loss of other comparable coverage, marriage, birth or adoption.
Validated
6. Insurers must offer enrollment to annuitants, unless the proposal can demonstrate negative impacts on premium rates, or substantial constraints for continuing to administer the plan if annuitants are included.
Validated

D. Group Plans Required

1. An Optional Insurance Plan must be a group insurance plan; not individual policies marketed as a group plan. **Validated**
2. For rating purposes, the “group” consists of all eligible employees, their spouses, domestic partners, and other dependents, and retiring members within limits proposed by the insured. **Validated**

Methodology and Data Sources

In preparing our review, we relied on the following information received on April 12, 2016.

- “Cover Letter 4 1 2016 PM.cbm.pdf”, containing a cover letter to the Department
- “Specimen 3 16 2016 PM.pdf”, containing a sample certificate form
- “VAD&D Proposal State of Wisconsin 4 1 16.pdf”, containing a benefit summary and proposed premium rates
- “GPA Actuarial Memorandum” containing an actuarial certification of the originally filed rates
- “State of WI – actuarial certification.cbm.pdf”, containing an actuarial certification of the 75% loss ratio used in the proposed rates for ETF.
- A May 3, 2016 email from Patrick Murray at Zurich with answers to specific questions posed by Milliman. ETF staff was copied on this email.
- The State of Wisconsin Department of Employee Trust Funds’ Correspondence Memorandum dated February 8, 2016 containing revisions to “Guidelines for Offering Optional Insurance Plans”:
<http://etf.wi.gov/boards/agenda-items-2016/qib0217/item7b.pdf>

Use of Work Product

Milliman has prepared this letter for the specific purpose of providing you with a draft review of the proposed group accident insurance plan you received from Zurich. This letter should not be used for any other purpose. Milliman's work is prepared solely for the use and benefit of the Wisconsin Department of Employee Trust Funds (ETF) in accordance with its statutory and regulatory requirements. Milliman recognizes that materials it delivers to ETF may be public records subject to disclosure to third parties, however, Milliman does not intend to benefit and assumes no duty or liability to any third parties who receive Milliman's work and may include disclaimer language on its work product so stating. ETF agrees not to remove any such disclaimer language from Milliman's work. To the extent that Milliman's work is not subject to disclosure under applicable public records laws, ETF agrees that it shall not disclose Milliman's work product to third parties without Milliman's prior written consent; provided, however, that ETF may distribute Milliman's work to (i) its professional service providers who are subject to a duty of confidentiality and who agree to not use Milliman's work product for any purpose other than to provide services to ETF, or (ii) any applicable regulatory or governmental agency, as required.

In order to provide the information requested by ETF, we have constructed several projection models. Differences between our amounts and actual amounts depend on the extent to which future experience conforms to the assumptions made for this analysis. It is nearly certain that actual experience will not conform exactly to the assumptions used in this analysis. Actual amounts will differ from projected amounts to the extent that the actual benefits and experience deviates from expected benefits and experience.

In performing this analysis, we relied on data and other information provided by ETF and Zurich (e.g., the Zurich proposal and sample certificate form, along with various email correspondence). We have not audited or verified this data and other information. If the underlying data or information is inaccurate or incomplete, the results of our analysis may likewise be inaccurate or incomplete. We performed a limited review of the data used directly in our analysis for reasonableness and consistency and have not found material defects in the data. If there are material defects in the data, it is possible that they would be uncovered by a detailed, systematic review and comparison of the data to search for data values that are questionable or for relationships that are materially inconsistent. Such a review was beyond the scope of our assignment.

I, Daniel D. Skwire, am a Consulting Actuary for Milliman. I am a member of the American Academy of Actuaries and I meet the Qualification Standards of the American Academy of Actuaries to render the actuarial opinion contained herein.

Next Steps

Eileen, please review the attached information and let me know if it is consistent with your expectations. If you have any questions, please contact me at (207) 771-1203 or dan.skwire@milliman.com.

Sincerely,



Daniel D. Skwire, FSA, MAAA
Principal & Consulting Actuary