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Correspondence Memorandum

Date: July 25, 2019

To: Group Insurance Board

From: Tom Rasmussen, Life Insurance Plan Manager
Office of Strategic Health Policy

Subject: 2020 Wisconsin Public Employers (WPE) Group Life Insurance Rate Recommendation

The Department of Employee Trust Funds (ETF) requests the Group Insurance Board (Board) approve a premium increase for the Wisconsin State Plan effective April 1, 2020, from one of the three options presented.

ETF also requests the Board approve a premium decrease for the Wisconsin State Plan Spouse and Dependent coverage effective April 1, 2020.

Background

The Wisconsin Public Employers Group Life Insurance Program (GLIP) is a benefit provided under the Wisconsin Retirement System and is available to State of Wisconsin active employees, retirees and members of participating Wisconsin local government employers. Employees may also elect coverage for their spouse and dependent children. The GLIP is governed under Chapter 40 of the Wisconsin State Statutes, Wisconsin Administrative Code and the life insurance policy between the Board and Securian Financial Group, Inc. (Securian).

While the State and local government plans have historically been very similar in both benefits and premiums, the two plans have always been financially independent of one another. The Board has administrated a comprehensive group life insurance program for State members since January 1, 1958 and for Wisconsin local public employers who elect to participate since January 1,1960. Minnesota Life Insurance, now known as Securian, has been the insurer for these plans since their inception.

Reviewed and approved by Eileen K Mallow, Director, Office of Strategic Health Policy

Eileen K Mallow Electronically Signed 8/5/19

Board	Mtg Date	Item #
GIB	8.21.19	7B

State Plan Recommendations

Request for Premium Increase for the Wisconsin State Plan Employee Coverage
At the November 14, 2018 Board Meeting, Staff recommended introducing a premium increase for the State plan due to a multi-year downward trend of the plan's valuation (Ref. GIB | 11.14.18 | 8A). The Board authorized a 5% increase effective April 1, 2019. This was the first time premiums increased since the plans' (both State and local) 1958 inception. There was no premium recommendation or action taken on the local plan, therefore the premiums remained the same.

These recommendations were consistent with the policy of maintaining and managing the program to the 100% funding level goal for each plan. If the level falls outside of the +/-15% of the target range, ETF and Securian will develop a plan to present to the Board to bring the funding to the target level.

As stated in the Life Insurance Annual Report memo (Ref. GIB | 8.21.19 | 7A), the valuation for the State plan remains below the 100% funding level goal; 74.3% as of December 31, 2018.

Even though the valuation increased from 2017, ETF believes steps should be taken to continue to improve the valuation for the state pool. After consultation with both Securian and Milliman actuaries, ETF recommends a premium increase as the best way to improve the valuation.

All plan options presented are expected to return the plan to 100% funding status within 10 years. Although options 2 and 3 involve rate increases spread over time, if the Board were to authorize the proposed rate increase for the entire 10-year period, Securian would reduce the plan liability accordingly. This would result in a valuation that showed the plan to be at 100% funded immediately. If the Board only approves one rate increase at a time, the improvements in the plan's funding status will be reported gradually.

Decreasing plan benefits was also considered. ETF research concluded this could create legal risks for the program. Other governmental plans have not adopted benefit decreases in response to life insurance funding issues. Decreasing plan benefits would not sufficiently increase the valuation without also being accompanied by an increase in rates. ETF advises that decreasing plan benefits is not a prudent or viable option and would not resolve the valuation issue.

A premium rate increase will also increase the employer contributions by the same proportion. State contributions are a percentage of the active member contributions.

Options
Considering the facts noted, a variety of options are available to achieve the goal of increasing the valuation. The options include, but are not limited to the following:

Option 1:
An annual 5% premium increase during each of the next nine years. The monthly premium would increase $.91 for the first year and a total of $10.13 over the course of nine years for a 45-year-old individual with a $50,000 annual salary who has Basic, Supplemental and 1x Additional Coverage. The state would experience an increase in employer contributions of $200,000 the first year and a cumulative increase of $2.7 million by year nine.

Advantages
- Increase in premium would be incremental and spread evenly over a nine-year period.
- Allows rates to be easily adjusted in future years to account for experience.

Disadvantages
- Premiums would increase for both members and the state every year for the next nine years, which may negatively impact enrollment.

Option 2:
Premium increase of 12% every three years during the next 10 years (years 1,4,7 and 10). In this example, the monthly premium would increase $2.20 for the first year and a total of $10.53 over the course of 10 years for a 45-year-old member with a $50,000 annual salary who has Basic, Supplemental and 1x Additional coverage. The state would experience an increase in employer contributions of $600,000 the first year and a cumulative increase of $2.8 million by year 10.

Advantages
- Premium increases would be incremental and would not impact the state or members annually.
- Involves more modest increases than a one-time increase that could be less disruptive and have less impact on participation.
- Allows rates to be easily adjusted in future years to account for experience.

Disadvantages
- Higher 10-year aggregate fiscal impact for both the state and member than other options presented.
- State would experience an increase in annual employer contributions of $500,000 the first year and $2.8 million by year 10.

Option 3:
A one-time premium increase of 40% effective April 1, 2020. This option increases the average monthly premium by $7.35 to $25.73 for a 45-year-old member with a $50,000 annual salary who has Basic, Supplemental and 1x Additional coverage. This is the typical level of coverage for a member. The State would experience an increase in employer contributions of $1,800,000 the first year.

Advantages

- There would not be the need for future premium increase.
- Allows the valuation to reach the desired goal by the time a new Request for Proposal (RFP) is released.
- The aggregate fiscal impact over the next 10 years would be less with this option than other options considered.
- The fiscal impact for employees would be minimized since there was not an increase in health insurance premiums the past two years.

Disadvantages

- Involves a substantial increase and could impact plan participation and result in reduced revenues and increased adverse selection risk.
- The state's share of contributions would increase by $1.8 million next year.
- Has the highest aggregate State contribution of the three options presented.
- Could result in members dropping coverage because of sudden large monthly premium increase.

The following table illustrates the member premium comparison between the options for a 45-year-old with a $50,000 annual salary with basic, supplemental and 1x Additional coverage.

Employee Monthly Premium Comparison			
Age 45; $50,000 salary, basic, supp., and 1x additional coverage			
Year	5% Annual Increase	12% Increase Every Three Years	40% One-Time Increase
Current	$18.38	$18.38	$18.38
2020	$19.29	$20.58	$25.73
2021	$ 20.26	$20.58	$25.73
2022	$21.27	$20.58	$25.73
2023	$22.33	$23.05	$25.73
2024	$23.45	$23.05	$25.73
2025	$24.62	$23.05	$25.73
2026	$25.86	$25.82	$25.73
2027	$27.15	$25.82	$25.73
2028	$28.51	$25.82	$25.73
2029	$28.51	$28.91	$25.73

The following table illustrates the annual State contribution increase for each option.

Annual State Contributions ($MM)			
Year	5% Annual Increase	12% Increase Every Three Years	40% One-Time Increase
Current	$4.6	$4.6	$4.6
2020	$4.8	$5.2	$6.4
2021	$5.1	$5.2	$6.4
2022	$5.3	$5.2	$6.4
2023	$5.5	$5.8	$6.4
2024	$5.9	$5.8	$6.4
2025	$6.2	$5.8	$6.4
2026	$6.5	$6.5	$6.4
2027	$6.6	$6.5	$6.4
2028	$7.1	$6.5	$6.4
2029	$7.1	$7.2	$6.4

Request for Premium Reduction to Spouse and Dependent Coverage for the Wisconsin State Plan

Spouse and Dependent insurance for the State plan was introduced in 1981. Insured state employees may purchase life insurance for spouses and dependent children. A dependent child is eligible until age 19 or until age 25 if the dependent is a full-time student. A physically or mentally disabled dependent may qualify to continue the coverage past age 25. Premiums for this insurance are paid entirely by employees.
An insured employee may elect either one or two units of coverage. Each unit provides $10,000 of life insurance for an insured spouse and $5,000 for each insured dependent. The current monthly premium is $2.50 for each unit of coverage.

The stabilization reserve for the State plan is above the 50% target level and has been increasing over the last several years. Due to continued mortality improvement, Staff recommends a premium rate reduction from $2.50 to $2.25 per unit beginning April 1, 2020 to begin to bring the stabilization reserve down to the target level.

Year End Stabilization Reserve as Percent of Annual Premium	
Year	State
2014	30%
2015	49%
2016	56%
2017	72%
2018	93%

Local Plan Update

Local Employees

The Local plan continued its steady, modest growth. Mortality and interest experience were better than expected, resulting in a higher funding percentage. The valuation for 2018 was 115.7%. Under the Local plan, premium rates are assumed to be held constant through 2032. Even though the valuation is higher than the +/- 15 points of the funding target, it is ETF's recommendation that the Board not take any action on the Local plan employee rates. If the valuation continues to increase, ETF will come to the Board with premium recommendations next year.

Local Spouse and Dependent

The Local Plan Spouse and Dependent Stabilization reserve is above the 50% target level. The current rate is set to draw down the reserve. Due to recent positive mortality results, the reserve is not decreasing as quickly as planned. However, the current premium rate is still projected to draw down the stabilization reserve to the target level. Staff recommends no premium rate change.

Year End Stabilization Reserve as Percent of Annual Premium	
Year	Local
2014	121%
2015	127%
2016	114%
2017	117%
2018	123%

Staff will be available at the meeting to answer any questions.