

The State of Wisconsin



Local Income Continuation Insurance Plan Actuarial Review as of December 31, 2008

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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 2008, an estimate of the Plan's liability as of December 31, 2008, 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 \$25,871,414 and estimated liabilities of \$3,886,827. The asset balance does not include \$5.5 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 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. 2008 Experience Review

Fund Balance

During 2008, the fund balance increased from \$24,150,025 to \$25,871,414. Total revenues were \$2,494,275, with paid claims and administrative expenses totaling \$745,131. These components are shown in the following table along with figures for the previous three years for comparison purposes.

	2008	2007	2006	2005
Beginning Balance	24,150,025	20,919,663	18,604,406	16,708,151
Closing Adjustments	(27,755)	(25,656)	(125,560)	(3,488)
Adjusted Beginning Balance	24,122,270	20,894,007	18,478,846	16,704,664
Revenues				
Contributions	1,716,186	1,602,545	1,504,430	1,397,588
Investment Earnings	778,089	2,644,345	1,857,528	1,111,424
Total	2,494,275	4,246,890	3,361,958	2,509,011
Expenses				
Paid Claims	594,077	828,881	760,539	487,853
Administrative Expenses	151,054	161,991	160,602	121,416
Total	745,131	990,872	921,141	609,269
Net Income	1,749,144	3,256,018	2,440,817	1,899,743
Ending Balance	25,871,414	24,150,025	20,919,663	18,604,406
Investment Earnings/Mean Balance	3.2%	12.5%	9.9%	6.5%

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
2008	17	\$ 2,279	36	\$ 2,519	53	\$ 2,442
2007	0	-	22	2,329	22	2,329
2006	4	625	3	879	7	734
2005	9	1,115	2	2,004	11	1,277
2004	6	934	0	-	6	934
2003	4	932	1	3,588	5	1,463
2002	2	1,089	0	-	2	1,089
2001	2	99	0	-	2	99
2000	3	394	0	-	3	394
1999	0	-	0	-	0	-
1998	0	-	0	-	0	-
1997	1	1,067	0	-	1	1,067
1996	1	238	0	-	1	238
1995	0	-	0	-	0	-
1994	0	-	0	-	0	-
1993	1	464	0	-	1	464
Total	50	\$ 1,319	64	\$ 2,377	114	\$ 1,913

The following table shows the claim count and average net benefit amount for open, closed and total claims, respectively, as of December 31, 2008. 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
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
1999	21	\$ 919	43	\$ 1,041	64	\$ 1,001

III. Estimated Liability as of December 31, 2008

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 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, 2008, 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, 2008. 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 incurring in 2008 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.

Incurred But Unreported Claims

In addition to those claims reported as of December 31, 2008, 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 25% 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, 2008 for the Local Income Continuation Insurance program is \$3,886,827, developed as follows:

Reported Claim Liability	\$3,186,208
\$75 Supplement	<u>27,445</u>
Total Reported Liability	3,213,653
Incurred But Not Reported Liability	<u>673,174</u>
Total Liability	\$3,886,827

This total liability is 2% higher than the liability determined as of December 31, 2007. The increase can be attributed to an increase in the average net benefit and a smaller decrease in the number of open claims, as shown on page 4 of this report.

Exhibit 2 contains a breakdown of the \$3,213,653 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 \$25,871,414 and estimated liabilities of \$3,886,827 which produces a net fund balance of \$21,984,587.

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 566% 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.

	2008	2007	2006	2005	2004	2003
Assets	25,871,414	24,150,025	20,919,663	18,604,406	16,708,151	14,715,244
Estimated Liability	3,886,827	3,822,315	4,307,964	3,669,243	2,584,522	2,295,121
Net Fund Balance	21,984,587	20,327,710	16,611,699	14,935,163	14,123,629	12,420,123
Percentage	566%	532%	386%	407%	546%	541%

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, 2008 ¹								
Year of Disability	Count	Gross Benefit	Offset Amount	Net Benefit	Estimated Liability	\$75 Supp.	Ave. Benefit	Est'd Liability
2008	17	\$45,625	\$ 6,881	\$38,744	\$1,033,566	\$27,445	\$ 2,279	\$1,061,011
2006	4	10,697	8,197	2,500	159,723		625	159,723
2005	9	24,090	14,052	10,038	757,955		1,115	757,955
2004	6	15,400	9,797	5,603	465,696		934	465,696
2003	4	12,230	8,503	3,727	345,492		932	345,492
2002	2	3,300	1,121	2,179	168,812		1,089	168,812
2001	2	3,413	3,214	198	618		99	618
2000	3	7,388	6,204	1,183	122,831		394	122,831
1997	1	2,017	950	1,067	111,234		1,067	111,234
1996	1	600	362	238	9,582		238	9,582
1993	1	908	444	464	10,698		464	10,698
Total	50	\$125,666	\$59,726	\$65,941	\$3,186,208	\$27,445	\$ 1,319	\$3,213,653

¹Open Claims presented by year of disability. For certain disability years (e.g. 2007, 1999, etc.), no claims remained open as of December 31, 2008.



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