

State of Wisconsin



Local Income Continuation Insurance Plan Actuarial Review as of December 31, 2010

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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 2010, an estimate of the Plan's liability as of December 31, 2010, 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 \$30.4 million and estimated liabilities of \$4.0 million. The asset balance does not include \$1.9 million in deferred market losses which will be smoothed in over the next four years. We note that the deferred market losses listed here and as used in our financial projections are draft amounts provided by ETF due to the timing of our reports and the finalization of the deferred amounts.

In 2010, plan assets increased by 8.4%, while estimated liabilities increased 4.0%. This resulted in the plan's annual net fund balance increasing from 632% of liabilities in 2009 to 663% of liabilities in 2010. As a result of the increase in funded status of the plan, we are recommending an indefinite waiver of premiums on the plan effective beginning in 2012, with reinstatement when necessary pending the annual review of the plan's funded status.

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. 2010 Experience Review

Fund Balance

During 2010, the fund balance increased from \$28,097,196 to \$30,457,781. Total revenues were \$3,273,533 with paid claims and administrative expenses totaling \$901,111. These components are shown in the following table along with figures for the previous three years for comparison purposes. The Net Ending Balance does not include \$1.9 million in deferred market losses which will be smoothed in over the next four years.

	2010	2009	2008	2007
Beginning Balance	28,097,196	25,871,414	24,150,025	20,919,663
Closing Adjustments	(11,837)	47,498	(27,755)	(25,656)
Adjusted Beginning Balance	28,085,359	25,918,912	24,122,270	20,894,007
Revenues				
Contributions	1,898,818	1,839,354	1,716,186	1,602,545
Investment Earnings	1,374,714	1,114,527	778,089	2,644,345
Total	3,273,533	2,953,881	2,494,275	4,246,890
Expenses				
Paid Claims	764,408	644,811	594,077	828,881
Administrative Expenses	136,702	130,787	151,054	161,991
Total	901,111	775,597	745,131	990,872
Net Income	2,372,422	2,178,284	1,749,144	3,256,018
Ending Balance	30,457,781	28,097,196	25,871,414	24,150,025
Estimated Liability	3,992,238	3,840,102	3,886,827	3,822,315
Net Fund Balance	26,465,543	24,257,094	21,984,587	20,327,710
Investment Earnings/Mean Ending Balance	4.8%	4.2%	3.2%	12.5%

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
2010	15	\$ 2,381	40	\$ 2,377	55	\$ 2,378
2009	7	1,477	30	1,887	37	1,809
2008	4	1,107	2	1,627	6	1,280
2007	0	-	0	-	0	-
2006	3	966	1	56	4	739
2005	6	334	1	248	7	322
2004	5	847	0	-	5	847
2003	3	1,190	0	-	3	1,190
2002	2	1,014	0	-	2	1,014
2001	0	-	0	-	0	-
2000	2	489	0	-	2	489
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
Total	50	\$ 1,355	74	\$ 2,098	124	\$ 1,798

The following table shows the claim count and average net benefit amount for open, closed and total claims, respectively, as of December 31, 2010, and each of the nine prior plan year ends.

Claims By Valuation Date

Plan Year	Open Claims		Closed Claims		All Claims	
	Number	Average Net Benefit	Number	Average Net Benefit	Number	Average Net Benefit
2010	50	\$ 1,355	74	\$ 2,098	124	\$ 1,798
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

III. Estimated Liability as of December 31, 2010

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 of Wisconsin's own termination experience. These factors represent the present value of future payments, at 7.2% interest, to a disabled person with a monthly benefit of \$1.00. The Employee Trust Funds Board reduced the investment return assumption relied upon by the Wisconsin Retirement System ("WRS") from 7.8% to 7.2%. As a result, the valuation interest rate was reduced from 7.8% to 7.2%. For consistency, and at the direction of ETF personnel, the valuation interest rate is tied to the WRS valuation rate; therefore a 7.2% discount rate was used in the December 31, 2010, 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, 2010. The age at disablement, duration of disability and benefit end date, based on the maximum allowable duration of benefits under the plan, 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 2010 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, 2010, 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, an estimate of the additional liability for claims incurred but not reported as of the valuation date is necessary.

Besides the waiting period, delays in the reporting and processing of claims normally occur. From the Plan's own experience, we observed that approximately 16% 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, 2010, for the Local Income Continuation Insurance program is \$3,992,238, developed as follows:

Reported Claim Liability	\$3,246,203
<u>\$75 Supplement</u>	<u>21,532</u>
Total Reported Liability	3,267,735
<u>Incurred But Not Reported Liability</u>	<u>724,502</u>
Total Liability	\$3,992,238

This total liability is 4.0% greater than the liability determined as of December 31, 2009. The increase can be attributed primarily to the change in the composition and characteristics of the average claimant in the open claim cohort, as well as a reduction in the valuation interest rate.

Exhibit 2 contains a breakdown of the \$3,267,735 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 \$30,457,781 and estimated liabilities of \$3,992,238 which produces a net fund balance of \$26,465,543.

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.

Maintaining a large funding balance in excess of estimated liabilities, perhaps 200% in excess, is prudent.

The excess now represents 663% of the estimated liabilities. The following table shows the net fund balance as a percentage of the estimated liability by year. The table demonstrates the fluctuating, although consistently sufficient, excess funding from year to year.

	2010	2009	2008	2007	2006	2005
Assets	30,457,781	28,097,196	25,871,414	24,150,025	20,919,663	18,604,406
Estimated Liability	3,992,238	3,840,102	3,886,827	3,822,315	4,307,964	3,669,243
Net Fund Balance	26,465,543	24,257,094	21,984,587	20,327,710	16,611,699	14,935,163
Percentage	663%	632%	566%	532%	386%	407%

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.

Historically, the investment earnings of the plan have been large enough to fund the paid claims and administrative expenses of the plan. As a result, the assets of the plan have increased over time. Due to the continued growth in the funded status of the plan, we are recommending an indefinite waiver of premium with reinstatement when necessary pending the annual review of the plan's funded status.

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 of Wisconsin'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 — 7.2% per year.

Contingency Margins — None.

Exhibit 2

Reported Claim Liability by Year of Disability

Open Claims as of December 31, 2010 ¹								
Year of Disability	Count	Gross Benefit	Offset Amount	Net Benefit	Estimated Liability	75 Supp	Ave. Benefit	Est'd Liability
2010	15	\$ 41,625	\$ 5,916	\$ 35,709	\$ 848,762	\$ 21,532	\$ 2,381	\$ 870,294
2009	7	24,525	14,184	10,341	599,767		1,477	599,767
2008	4	12,363	7,934	4,429	223,670		1,107	223,670
2006	3	7,350	4,451	2,899	301,023		966	301,023
2005	6	13,450	11,443	2,007	141,969		334	141,969
2004	5	12,375	8,138	4,237	397,764		847	397,764
2003	3	8,906	5,336	3,571	366,714		1,190	366,714
2002	2	3,150	1,121	2,029	151,594		1,014	151,594
2000	2	4,275	3,297	978	106,751		489	106,751
1997	1	1,942	950	992	103,777		992	103,777
1996	1	525	362	163	3,836		163	3,836
1993	1	833	444	389	576		389	576
Total	50	\$131,319	\$63,575	\$67,743	\$3,246,203	\$21,532	\$ 1,355	\$3,267,735

¹Open Claims presented by year of disability. For certain disability years (e.g. 2007, 1999, etc.), no claims remained open as of December 31, 2010.



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