



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



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

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

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	
<b>\$ in Millions</b>					
<b>1) Payroll</b>	\$11,098.12	\$101.01	\$1,124.13	\$188.99	\$12,512.24
<b>2) RFC</b>	\$111.78	\$1.31	\$25.88	\$5.30	\$144.27
<b>% of Active Member Payroll</b>					
<b>3) Regular Premium</b>	0.14%	0.18%	0.32%	0.39%	0.16%
<b>4) RFC Adjustment: 20% x (2)/(1)</b>	(0.20)%	(0.26)%	(0.46)%	(0.56)%	(0.23)%
<b>5) 2011 LTDI Rate</b>	0.00%	0.00%	0.00%	0.00%	0.00%
<b>Prior Year Rate</b>	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
<b>General &amp; Teachers</b>							
Number	461	149	180	191	222	165	<b>1,368</b>
Annual Benefit	\$6,533,156	\$1,971,860	\$2,446,897	\$2,732,498	\$2,522,911	\$2,062,310	<b>\$18,269,631</b>
Act. Present Value	\$35,431,295	\$13,062,764	\$16,722,806	\$18,885,677	\$21,075,823	\$17,057,759	<b>\$122,236,125</b>
<b>Local Elected Official</b>							
Number	-	-	-	-	-	-	-
Annual Benefit	\$-	\$-	\$-	\$-	\$-	\$-	\$-
Act. Present Value	\$-	\$-	\$-	\$-	\$-	\$-	\$-
<b>Prot w/ Social Sec</b>							
Number	2	1	4	8	3	1	<b>19</b>
Annual Benefit	\$9,387	\$-	\$64,527	\$145,197	\$10,869	\$2,309	<b>\$232,289</b>
Act. Present Value	\$133,602	\$-	\$440,351	\$1,594,726	\$91,606	\$176,035	<b>\$2,436,319</b>
<b>Prot w/o Social Sec</b>							
Number	2	-	-	-	-	-	2
Annual Benefit	\$44,330	\$-	\$-	\$-	\$-	\$-	\$44,330
Act. Present Value	\$349,966	\$-	\$-	\$-	\$-	\$-	\$349,966
<b>Total</b>							
<b>Number</b>	465	150	184	199	225	166	<b>1,389</b>
<b>Annual Benefit</b>	\$6,586,873	\$1,971,860	\$2,511,424	\$2,877,695	\$2,533,780	\$2,064,619	<b>\$18,546,250</b>
<b>Act. Present Value</b>	\$35,914,863	\$13,062,764	\$17,163,157	\$20,480,403	\$21,167,429	\$17,233,794	<b>\$125,022,410</b>

# V. Development of Reserve for Future Claims (RFC)

December 31, 2009

LTDI Assets	<u>\$ 300,549,619</u>
<b>Actuarial Present Value of:</b>	
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.)





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