

GROUP LIFE INSURANCE PLAN COVERAGES
FOR STATE EMPLOYEES AND
THEIR SPOUSES AND DEPENDENTS

REPORT TO THE GROUP INSURANCE BOARD
OF THE STATE OF WISCONSIN

Submitted by
Minnesota Life Insurance Company

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PREMIUM RATES FOR THE STATE EMPLOYEE GROUP LIFE INSURANCE PLAN

Review of Recent Plan Experience

- Premiums

The premium rate structure for the plan is described in the Appendix at the end of this report. The fundamental principles of this structure were adopted by the Board on August 30, 1994.

The most recent change in premium rates occurred on March 1, 2003, when employee premium rates were reduced for basic, supplemental and additional insurance. Employer premium contribution percentages did not change, so employer premium contributions were also reduced at that time.

- Claims

Historically, claim rates have shown a steady pattern of improvements over many years. These improvements have allowed the Board to reduce premium rates frequently.

The overall claims result in 2002 was the second best in the plan's history, with only 2000 being slightly more favorable. The period 2000 through 2002 experienced the best three-year result ever.

Recommendation

Based on our analysis of recent experience, Minnesota Life recommends that employee premium contribution rates be reduced in 2004 for basic, supplemental and additional insurance.

1. Reduce employee premium rates for basic and supplemental insurance at ages 40 through 69.

Basic and Supplemental Insurance

<u>Age</u>	<u>Monthly Premium Rate per \$1,000 of Insurance</u>		<u>Percent Reduction</u>
	<u>Current</u>	<u>Proposed</u>	
Under 30	\$.05	\$.05	0%
30-34	.05	.05	0
35-39	.05	.05	0
40-44	.08	.07	13
45-49	.12	.11	8
50-54	.20	.18	10
55-59	.32	.28	13
60-64	.40	.38	5
65-69	.55	.50	9

2. Reduce employee premium rates for additional insurance at ages 40 through 69.

Additional Insurance			
Age	Monthly Premium Rate per \$1,000 of Insurance		Percent Reduction
	Current	Proposed	
Under 30	\$.06	\$.06	0%
30-34	.07	.07	0
35-39	.07	.07	0
40-44	.11	.09	18
45-49	.16	.15	6
50-54	.27	.24	11
55-59	.43	.38	12
60-64	.54	.51	6
65-69	.74	.68	8

3. Reduce employee premium rates for over age 70 additional insurance at all ages 70 and over.

Over Age 70 Additional Insurance			
Age	Monthly Premium Rate per \$1,000 of Insurance		Percent Reduction
	Current	Proposed	
70	\$1.05	\$1.00	5%
71	1.20	1.15	4
72	1.35	1.25	7
73	1.55	1.45	6
74	1.75	1.60	9
75	1.95	1.80	8
76	2.15	1.95	9
77	2.35	2.15	9
78	2.65	2.45	8
79	2.95	2.75	7
80	3.25	3.10	5
81	3.55	3.40	4
82	3.85	3.70	4
83	4.30	4.10	5
84	4.75	4.50	5
85	5.20	4.90	6
86	5.65	5.30	6
87	6.10	5.70	7
88	6.75	6.35	6
89	7.40	7.00	5

4. Continue with the current State premium contribution percentages.

<u>Coverage</u>	<u>State Premiums as Percent of Employee Premiums</u>
Basic	63%
Supplemental	35
Additional	0

Implementation

Traditionally, premium rate changes for State employees have taken effect on March 1. We recommend that the premium rate changes outlined in this report be effective on March 1, 2004.

Cost Implications

The following table shows current and proposed annual premium costs based on insurance in force on December 31, 2002. Overall, premiums decrease by 9.1%.

	<u>Current Rates</u>	<u>Proposed Rates</u>	<u>Reduction</u>	<u>% Reduction</u>
Employees	\$13,574,564	\$12,343,758	\$1,230,806	9.1%
State	<u>3,920,489</u>	<u>3,558,356</u>	<u>362,133</u>	<u>9.2%</u>
Total	\$17,495,053	\$15,902,115	\$1,592,939	9.1%

- STOP-LOSS LIMITS FOR THE STATE EMPLOYEE GROUP LIFE INSURANCE PLAN

Summary of Stop-Loss Provision

- Limits the liability of plan reserves for high claims in a policy year. Excess claims and expenses above the stop-loss limit are covered by risk reserves of Minnesota Life and the reinsurers.
- State and local government plans are separate for purposes of the stop-loss provision.
- The annual stop-loss limit for each plan is calculated by applying a table of stop-loss rates to the amounts of insurance in force.
- Stop-loss rates are determined based on recent claims experience and are set so that claims and expenses are expected to exceed the stop-loss limit in three years out of every one hundred years.

Recent Experience

The current stop-loss rates were implemented on January 1, 2003. As discussed in the first section of this report, overall claims in the years 2000 through 2002 were lower than the experience on which the current rates are based.

Recommendation

Given recent experience and consistent with the recommended employee and employer premium contribution rates for 2004, Minnesota Life recommends that stop-loss rates be changed effective January 1, 2004. The current and proposed stop-loss rates for the State plan appear in the table on the following page. Overall, the proposed rates will reduce the stop-loss limit by 7.1%.

Cost Implications

Reducing the stop-loss rates has no impact on employee cost or on the annual State premium contribution. However, reducing the stop-loss rates reduces the ultimate liability of plan reserves arising from any one policy year with very high claims.

MONTHLY STOP-LOSS RATES PER \$1,000 OF INSURANCE

<u>Attained Age</u>	<u>Stop-Loss Rate</u>		<u>Attained Age</u>	<u>Stop-Loss Rate</u>	
	<u>Current</u>	<u>Proposed</u>		<u>Current</u>	<u>Proposed</u>
17	\$.07	\$.07	59	\$.51	\$.39
18	.07	.07	60	.54	.42
19	.07	.07	61	.57	.45
20	.07	.07	62	.61	.49
21	.07	.07	63	.65	.56
22	.07	.07	64	.71	.64
23	.07	.07	65	.80	.75
24	.07	.07	66	.94	.87
25	.07	.07	67	1.09	1.05
26	.07	.07	68	1.26	1.26
27	.07	.07	69	1.54	1.54
28	.07	.07	70	1.79	1.79
29	.07	.07	71	2.04	2.04
30	.07	.07	72	2.29	2.29
31	.07	.07	73	2.57	2.57
32	.08	.08	74	2.87	2.87
33	.09	.09	75	3.11	3.09
34	.09	.09	76	3.50	3.34
35	.09	.09	77	3.79	3.66
36	.10	.10	78	4.26	3.94
37	.11	.11	79	4.70	4.26
38	.11	.11	80	5.23	4.66
39	.12	.12	81	5.71	5.20
40	.13	.12	82	6.24	5.91
41	.14	.13	83	6.94	6.94
42	.15	.14	84	7.77	7.77
43	.16	.16	85	8.45	8.45
44	.17	.18	86	9.16	9.16
45	.18	.20	87	9.99	9.99
46	.19	.23	88	10.50	10.50
47	.21	.26	89	11.23	11.23
48	.23	.27	90	12.01	12.01
49	.25	.28	91	12.79	12.79
50	.28	.29	92	13.57	13.57
51	.31	.30	93	14.35	14.35
52	.34	.32	94	15.14	15.14
53	.37	.32	95	15.97	15.97
54	.39	.32	96	17.55	17.55
55	.42	.34	97	19.32	19.32
56	.44	.35	98	45.70	45.70
57	.46	.36	99	72.85	72.85
58	.48	.38	100 and over	83.33	83.33

BENEFITS AND PREMIUMS FOR INSURED SPOUSES AND DEPENDENTS OF STATE EMPLOYEES

Recent Claims Experience

Claim rates on the State spouse and dependent plan were generally higher than the pricing target over a period of several years in the late 1990s, with claims and expenses exceeding the plan's stop-loss limit in both 1998 and 1999. Based on this claims experience, the Board in August 2000 approved an increase in the premium rate for this plan. Effective March 1, 2001, the monthly premium paid by State employees for each unit of spouse and dependent insurance increased from \$2.00 to \$2.50.

Following the high claims of 1998 and 1999, claims were significantly lower in 2000, 2001 and 2002.

A stabilization reserve is maintained to provide the plan with financial stability as claims fluctuate from year to year. The stabilization reserve balance on December 31, 2002 was \$1,081,369, an increase of over \$330,000 from the December 31, 2001 balance. This current balance is equal to approximately 85% of the plan's annual premium, well above the targeted minimum of 50%. This reserve balance will continue to increase if premiums remain at \$2.50 and current claims experience continues.

Recommendation

Based on our analysis of recent experience and the size of the stabilization reserve balance, Minnesota Life recommends that spouse and dependent premiums be reduced from \$2.50 to \$2.00 monthly for each unit of insurance. If recent claim rates continue, we expect claims and expenses to exceed premiums at the reduced rate, but by only a modest amount. The excess will be drawn from the stabilization reserve, which is large enough to provide this support for at least several years.

Implementation

We recommend that this spouse and dependent premium rate change be effective on March 1, 2004, along with the rate changes for employee life insurance recommended earlier in this report.

Cost Implications

The following table shows current and proposed annual premium costs based on insurance in force on December 31, 2002. Premiums will decrease by 20%.

	<u>Current Rates</u>	<u>Proposed Rates</u>	<u>Reduction</u>
Employees	\$1,278,450	\$1,022,760	\$255,690
State	<u>0</u>	<u>0</u>	<u>0</u>
Total	\$1,278,450	\$1,022,760	\$255,690

STOP-LOSS LIMIT FOR THE STATE SPOUSE AND DEPENDENT GROUP LIFE INSURANCE PLAN

Summary of Stop-Loss Provision

- Limits the liability of plan reserves for high claims in a policy year. Excess claims and expenses above the stop-loss limit are covered by risk reserves of Minnesota Life.
- State and local government plans are separate for purposes of the stop-loss provision.
- The annual stop-loss limit on the State plan equals 125% of policy year premium.

Recent Experience

As discussed in the preceding section of this report, we recommend a 20% reduction in premiums. These reduced premiums will be about 5% less than needed to cover claims and expenses if claims continue at recent levels. This is a reasonable result because the stabilization reserve is substantially larger than its targeted size. We expect to draw from the reserve to cover the excess claims and expenses.

The stop-loss limit is set at 125% of policy year premium under the assumption that premiums will cover claims and expenses in an average year. Thus, the stop-loss limit will be reached only when claims are significantly higher than their expected level. Because this will normally happen infrequently, Minnesota Life makes only a nominal risk charge to the plan.

With a proposed premium rate that is not expected to fully cover claims and expenses, we would expect the stop-loss limit to be exceeded more frequently. This is inconsistent with the plan's financial strategy and the formula for calculating the risk charge.

Recommendation

Based on our analysis of experience and the proposed premium rate, we recommend a temporary increase in the stop-loss limit to 130% of policy year premium. This will make the probability of exceeding the stop-loss limit generally consistent with the intended probability and with the risk charge formula. Minnesota Life will review the stop-loss limit annually with the Department of Employee Trust Funds as we review financial experience and pricing recommendations, and we will recommend future adjustments to the Group Insurance Board when appropriate to reflect changes in the pricing basis.

Submitted for Minnesota Life Insurance Company by:

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APPENDIX

SUMMARY OF BENEFIT AND PREMIUM STRUCTURE

Employee Insurance

Basic Coverage:

- Controlled by ss. 40.05 (6) (a) and 40.72 (1), Stats.
- Coverage can be continued, and the employee is liable for premium, up to age 70 (age 65 if retired). Thereafter, eligible employees receive premium-free postretirement coverage at 50% of the active coverage amount.
- Maximum employee premium, by statute, is \$0.60 per \$1,000 in coverage.
- The State pays the difference between employee premium and total premium. State premiums, which are expressed as a percentage of employee premiums, are intended to pay a portion of the cost of current coverage and to also cover the cost of future postretirement coverage. The State pays an amount equal to 63% of the employee premium.
- Premiums are established annually by the Group Insurance Board. Minnesota Life makes recommendations based on experience in the three most recent plan years.

Supplemental Coverage:

- Controlled by ss. 40.05 (6) (a) and 40.72 (10), Stats.
- Coverage can continue, and employee is liable for premium, up to age 70 (age 65 if retired). There is no postretirement benefit.
- Maximum employee premium, by statute, is \$0.60 per \$1,000 in coverage.
- The State pays the difference between employee premium and total premium. The State pays an amount equal to 35% of the employee premium.
- Premiums are established annually by the Group Insurance Board. Employee premium rates are equal to those for the basic plan.

Additional Coverage:

- Controlled by s. 40.03 (6) (b), Stats. and the life insurance contract.

- An employee may purchase one, two or three units of coverage.
- The employee pays the entire premium. There is no maximum premium. Coverage can be continued for as long as the employee remains employed (or until age 65 if retired). There is no postretirement benefit.
- Premium rates are set by the Group Insurance Board. Minnesota Life's recommendation is based on experience in the three most recent plan years.

Spouse and Dependent Insurance

- An insured employee's legal spouse and unmarried children, including stepchildren, adopted children, children in adoptive placement and legal wards, are eligible for coverage.
- A dependent child is eligible until age 19 or until age 25 if a full-time student. A physically or mentally disabled dependent may qualify beyond age 25.
- An employee may purchase either one or two units of coverage.
- Amounts of insurance per unit of coverage:

Spouse	\$10,000
Dependent Child	5,000

- Monthly premium is \$2.50 per unit of coverage. By statute, the State is not required to contribute toward premiums.
- Benefits and premiums are established by the Group Insurance Board. Minnesota Life makes recommendations based on experience in the three most recent plan years.