

The State of Wisconsin Employee Trust Funds Board



Section 40.65
Duty Disability Plan
Actuarial Review
As of December 31, 2008

Table of Contents

I. Overview	1
II. 2008 Experience Review	2
III. Estimated Liability as of December 31, 2008	4
IV. Analysis of Funding Levels	6
Exhibit 1: Section 40.65 Duty Disability Benefit Summary	7
Exhibit 2: Valuation Assumptions	8
Exhibit 3: Liability Summary by Year of Incurral	9
Exhibit 4: Rate Schedule – Present and Proposed	10

I. Overview

The purpose of this report is to summarize our review of the Section 40.65 Duty Disability Plan. Included is a brief review of the Plan's experience during 2008, an estimate of the State'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 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 Duty Disability Plan has assets of \$355.4 million and estimated liabilities of \$382.3 million as of December 31, 2008. The accrued funding shortfall is \$26.8 million, which represents about 2.1% of the \$1,284 million in covered payroll. This is a 3.0% decrease to the shortfall as a percentage of covered pay roll from last year. The asset balance does not include \$74.5 million in deferred market losses which will be recognized over the next four years.

If experience continues at recent levels, the present premium level will be sufficient to eliminate the accrued funding shortfall by the end of 2009. Therefore, no premium increase is recommended at this time.

The remainder of this report summarizes the review in more detail. A number of assumptions have been made in estimating the State's liability. Such assumptions are described throughout the report and summarized in Exhibit 2.

II. 2008 Experience Review

Fund Balance

During 2008, the fund balance increased from \$321,640,407 to \$355,410,538. Investment earnings (which, consistent with past ETF practice, reflect the deferral of recognition of actual earnings over a five year period) were \$10,506,007 with paid claims and administrative expenses totaling \$27,545,578. These components are shown in the following table along with figures for the prior ten years for comparison purposes.

Year	Contributions	Benefits		Admin Charge	Interest Credit (Charge)	Ending Balance	Average Contrib Rate
		Benefits Annual	% Increase				
1998	26,205,796	15,484,812	7.3%	235,334	4,795,610	47,912,039	3.69%
1999	26,585,142	16,802,277	8.5%	612,691	7,020,204	66,102,416	3.36%
2000	32,188,231	18,337,714	9.1%	153,551	7,273,165	87,072,547	3.76%
2001	35,120,406	19,857,704	8.3%	290,919	10,127,493 ¹	112,171,824	3.84%
2002	36,662,252	21,592,121	8.7%	349,523	9,696,940 ²	136,589,372	3.83%
2003	39,308,775	22,984,246	6.4%	460,353	10,925,975 ³	163,379,523	3.87%
2004	40,776,886	23,176,779	0.8%	338,041	13,960,608 ⁴	194,602,196	3.84%
2005	42,076,545	24,185,758	4.4%	302,193	13,187,206 ⁵	225,377,997	3.86%
2006	44,573,058	26,091,024	7.9%	318,381	22,681,739 ⁶	266,223,389	3.87%
2007	47,765,354	26,198,090	0.4%	236,623	34,086,377 ⁷	321,640,407	3.94%
2008	50,574,350	27,125,051	3.5%	420,527	10,741,359 ⁸	355,410,538	3.94%

¹ Includes a \$5,601,954 adjustment for 1999 Wisconsin Act 11.

² Includes a \$3,838,988 adjustment for understated interest during 2002 (including Wisconsin Act 11).

³ Includes a \$215,444 adjustment for understated interest during 2003 (including Wisconsin Act 11).

⁴ Includes a \$63,179 adjustment for understated interest during 2004 (including Wisconsin Act 11).

⁵ Includes a \$31,517 adjustment for overstated interest during 2005 (including Wisconsin Act 11).

⁶ Includes a \$473,544 adjustment for overstated interest during 2006 (including Wisconsin Act 11).

⁷ Includes a \$351,103 adjustment for overstated interest during 2007 (including Wisconsin Act 11).

⁸ Includes a \$235,352 adjustment for understated interest during 2008 (including Wisconsin Act 11).

As of December 31, 2008, there were 925 claims in payment status with annual benefits totaling \$26,782,455. 871 of the claims were for disabled participants and 54 were for beneficiaries. The number of claims and total benefits being paid increased over last year from 902 and \$25,806,128 respectively. The following table shows annual benefits as a dollar amount and as a percentage of payroll by recipient type.

	Claims in Payment Status		
	No.	Annual \$	% of Payroll
Disabled Participants	871	\$25,881,457	2.02%
Survivor Beneficiaries	54	\$900,997	0.07%
Total	925	\$26,782,455	2.09%

III. Estimated Liability as of December 31, 2008

The liability for outstanding claims under the Duty Disability Plan was estimated in two parts - reported claims and incurred claims not yet in pay status. The following paragraphs summarize the methods used and results.

Claims in Pay Status

The total liability for claims in payment status as of December 31, 2008, \$346 million, is approximately \$12 million greater than the liability as of December 31, 2007.

Incurred Claims Not Yet in Pay Status

A review of recent claims data showed lags in the time between when claims are incurred and when they are reported and reach pay status. The incurred but not reported (IBNR) liability for December 31, 2008, \$36 million, was developed by relying on a historical claims database provided by the State. The current IBNR methodology reflects the distribution of the lag between the qualifying date and the subsequent approval date of past Duty claims. A projection of the count of claims incurred but not yet reported to the State as of December 31, 2008, was applied to an average liability per approved claim to determine the IBNR. Additionally, a 10% load for conservatism was added. The projected count of claims incurred but not yet reported to ETF included an additional three claims which were approved in 2008, but, due to the timing of their qualifying date, data necessary to value their liability as a reported claim was unavailable. As a result, these approved claims were included in the IBNR liability.

Results

The total estimated liability as of December 31, 2008, for the Duty Disability plan is \$382,251,612, and developed as follows:

Annual Benefits Before Offsets	\$ 44,798,592
Offsets	
Social Security	3,981,756
Unemployment Compensation	0
Worker's Compensation	566,113
WRS Benefits	
- Separation	945,222
- Disability	5,727,287
- Normal Retirement	6,946,227
Earnings	725,799
Total Offsets*	18,892,406
Adjustment for Offsets Greater than Base Benefit	876,269
Net Offsets*	18,016,137
Annual benefits after offsets (ABAO)*	26,782,455
Present value of ABAO being paid	346,472,612
Reserve for incurred but not paid claims	35,779,000
Total	\$ 382,251,612

*Subtotals may not tie to the sum of items due to rounding.

Total net offsets are 40.2% of gross benefits before offsets.

IV. Analysis of Funding Levels

Financial Progress

As of December 31, 2008, the payout rate from this plan decreased to 2.15% of covered payroll (slightly down from 2.18% a year ago). Pertinent elements of the present financial picture include:

- During 2008 benefit reserves to pay claims increased from \$321.6 million to \$355.4 million.
- The contribution rate schedule in effect (see Exhibit 4) will generate approximately 3.94% of covered payroll. This rate appears to be sufficient to achieve a fully reserved status by the end of 2009. These calculations assume that the group size stabilizes at about its current level, as follows:

Provision for annual incurred claims*	2.15%
Amortization of accrued shortfall	<u>1.79%</u>
Total	3.94%

* Includes (Benefit Payments + Expenses) as a % of covered payroll as indicated in ETF Trust Statement.

Recent funding practice has been to limit the period of amortization of the shortfall to approximately 30 years. A projection of plan experience suggests that the current rate schedule will fund the existing shortfall in a shorter period of time. In 1998, the Board approved a rate increase of approximately .22% of payroll. It still appears that the new contribution level is sufficient for at least one more year. Therefore, we do not recommend a contribution increase at this time.

Exhibit 1: Section 40.65 Duty Disability Benefit Summary

Section 40.65 Duty Disability benefits for protective occupation participants were added in 1982. Benefits are summarized below:

Eligibility. Duty-related injury or disease that is likely to be permanent, which causes a protective occupation participant to retire, accept reduced pay or light duty assignment, or in some cases, that impairs promotional opportunities.

Amount. 80% of salary (75% if partially disabled and not a State Employee), less the following offsets:

- Social Security
- Unemployment Compensation
- Worker's Compensation
- Any other WRS benefit
- All earnings from the employer under which the disability occurred
- A percent of other earnings as follows:
 - 1/3 of earnings less than 40% of monthly salary
 - 1/2 of earnings between 40% and 80% of monthly salary
 - 2/3 of earnings over 80% of monthly salary

Survivor Benefits.

- All survivor benefits are offset by any Chapter 102 death benefits
- Pre-5/3/88:
 - 1/3 of the participant's monthly salary at time of death to surviving spouse, plus
 - \$15/month to each unmarried child under the age of 18
 - Not to exceed 65% of participant's monthly salary at time of death
 - State employees are included
- Post-5/3/88:
 - 1/2 of the participants monthly salary at time of death to surviving spouse, less other income sources that are based on the participant's earnings record
 - 1/10 of the participant's monthly salary at time of death to each unmarried child under the age of 18
 - Not to exceed 70% of participant's monthly salary at time of death
 - State employees are not included (with the exception of cancer presumptive)
- Cancer Presumptive Law:
 - 70% of the participant's monthly salary at time of death to surviving spouse, less other income sources that are based on the participant's earnings record
 - 1/10 of the participant's monthly salary at time of death to the guardian of any minor child, as long as there is no surviving spouse
 - There is no maximum

Annual Increases.

- To age 60: In accordance with WRS salary index.
- After age 60: In accordance with WRS dividend increases (as long as the claimant is not also receiving a disability retirement benefit.)

Contributions. Vary by experience.

Exhibit 2: Valuation Assumptions

Mortality: Wisconsin Projected Experience Table - 93; 98% of male mortality and 97% of female mortality.

Set Forward: 3 years for males only.

Recovery: None.

Sex: All disabled recipients are assumed to be male; all beneficiary recipients are assumed to be female.

Benefit Form: Life annuity for unmarried disabled recipients and all beneficiaries; 50% joint and survivor annuity for married disabled recipients.

Interest: 4.8% (which approximates a 7.8% valuation rate with 3.0% annual benefit increases). The valuation rate was changed for the December 31, 2004, valuation to match the WRS interest rate. The WRS interest rate was reduced from 8.0% to 7.8% as of February 1, 2004.

IBNR Loading: 10% margin for conservatism

Exhibit 3: Liability Summary by Year of Incurral

Benefits Being Paid and Reported Claim Liability by Year of Incurral

Year Incurred	Number Valued	No Benefit Payable	Total	Annual Benefit	% of Payroll	Actuarial Liabilities
2008	9	2	11	\$ 343,130	0.03%	\$ 5,119,746
2007	20	2	22	679,968	0.05%	10,652,127
2006	22	2	24	532,028	0.04%	7,730,694
2005	32	1	33	967,798	0.08%	15,196,806
2004	33	3	36	1,200,685	0.09%	17,928,495
2003	24	2	26	695,501	0.05%	10,556,752
2002	34	1	35	1,153,276	0.09%	16,991,798
2001	26	0	26	864,534	0.07%	12,904,046
2000	20	3	23	528,838	0.04%	7,803,459
1999	29	1	30	1,051,886	0.08%	15,571,665
1998	39	2	41	1,231,835	0.10%	17,187,243
1997	25	3	28	772,707	0.06%	11,028,267
1996	21	1	22	698,196	0.05%	9,456,586
1995	30	3	33	966,096	0.08%	12,977,531
1994	30	2	32	1,074,071	0.08%	13,984,295
1993	45	7	52	1,343,972	0.10%	17,569,183
1992	52	5	57	1,482,842	0.12%	19,122,365
1991	44	8	52	1,053,299	0.08%	12,841,144
1990	37	8	45	998,139	0.08%	12,626,781
1989	54	7	61	1,491,622	0.12%	17,370,493
1988	51	4	55	1,618,349	0.13%	18,679,796
1987	39	2	41	1,219,596	0.09%	13,642,762
1986	39	4	43	1,493,821	0.12%	15,551,033
1985	40	3	43	1,377,264	0.11%	14,347,606
1984	29	0	29	1,029,090	0.08%	10,931,350
1983	15	0	15	515,828	0.04%	4,719,360
1982	9	0	9	361,896	0.03%	3,511,278
1979	1	0	1	36,186	0.00%	469,949
Total	849	76	925	\$ 26,782,455	2.09%	\$ 346,472,612

Exhibit 4: Rate Schedule – Present and Proposed

December 31, 2008 Valuation

% of Covered Payroll	Applicable To
1.9	Groups with claims payout during the prior year of less than or equal to 0.5% of payroll.
2.4	Groups with one claim in which the payout during the prior year exceeded 0.5% of payroll, and groups with two or more claims in which the payout was more than 0.5% but less than 1.0% of payroll.
3.6	Groups with two or more claims in which the payout during the prior year was more than 1.0% but less than 2.0% of payroll.
5.4	Groups with two or more claims in which the payout during the prior year was more than 2.0% and less than 3.0% of payroll.
6.6	Groups with two or more claims in which the payout exceeded 3.0% but was less than 6.6% of payroll during the prior year.
6.6 + ½ of claims over 6.6%	Groups with two or more claims in which the payout exceeded 6.6% of payroll during the prior year.



Deloitte Consulting LLP
111 S. Wacker Drive
Chicago, IL 60606-4301
United States
Tel: 312 486 2265
Fax: 312 247 2265
www.deloitte.com

About Deloitte

Deloitte refers to one or more of Deloitte Touche Tohmatsu, a Swiss Verein, and its network of member firms, each of which is a legally separate and independent entity. Please see www.deloitte.com/about for a detailed description of the legal structure of Deloitte Touche Tohmatsu and its member firms. Please see www.deloitte.com/us/about for a detailed description of the legal structure of Deloitte LLP and its subsidiaries.

Copyright © 2009 Deloitte Development LLC. All rights reserved.

Member of Deloitte Touche Tohmatsu