**Appendix 3**

**Background Information**

1. **Overview**

The Program offers group life insurance to current Employees and Retired Employees of State government and participating local public Employers. Under Wisconsin Statutes, [Chapter 40](https://docs.legis.wisconsin.gov/statutes/statutes/40), the statutory authority to contract for group insurance benefits for State and local government Employees resides in the Group Insurance Board (Board). The Board has administered a comprehensive group life insurance program for State Employees since January 1, 1958 and for Wisconsin local Employers who elect to participate since January 1, 1960. The Board selects a life insurance company to underwrite the life insurance benefits for Employees. Minnesota Life Insurance Company, d.b.a. Securian Financial, has been the insurer for these plans since their inception.

While the State and local government plans have historically been very similar in both benefits and premiums, the two plans have always been financially independent of each other. Additionally, while the State acts as one employer under the plan for State Employees, the local government plan currently includes over 743 separate and independent participating Employers, each with its own circumstances and needs.

**II. Historical Development and Statutory Authority**

1. **Basic Insurance**

Basic insurance coverage, authorized by Wis. Stat. § [40.72(1)](https://docs.legis.wisconsin.gov/statutes/statutes/40/VI/72/1), is equal to an employee’s annual earnings for the prior calendar year (as reported to WRS) rounded to the next highest thousand dollars. Wis. Stat. § [40.05(6)(a)](https://docs.legis.wisconsin.gov/statutes/statutes/40/I/05/6) of the Wisconsin Statutes limits the premium rate for an employee to no more than sixty cents ($.60) monthly for each one thousand ($1,000) of insurance. For the State Plan, employees and employers share the premium cost of Basic insurance. For the Local Plan, Employees pay the full cost of the Basic Insurance coverage and Employers pay a separate Employer contribution that is used to fund the Post-Retirement Insurance benefit. Basic Insurance coverage also includes a Post-Retirement Insurance benefit in a reduced amount for both the State Plan and Local Plan.

1. **Accidental Death and Dismemberment (AD&D)**

AD&D coverage was added to the Basic Plan in 1969. AD&D benefits vary depending on the covered loss, and are equal to either 25%, 50%, or 100% of the sum of the Employee’s life insurance benefits under the Basic Plan, Supplemental Plan, and Additional Insurance Plan. Unlike Basic Plan life insurance, AD&D coverage terminates on the earlier of the date the Employee reaches the life insurance reduction age and age 70.

1. **Aviation AD&D**

Aviation AD&D coverage was added in 2010. The benefit covers accidental death and dismemberment when the insured is a pilot, crew member, or passenger on an aircraft owned, operated, or leased by the employer and being used for business of the employer.

1. **Supplemental Insurance**

Supplemental insurance, authorized by Wis. Stat. § [40.72(10)](https://docs.legis.wisconsin.gov/statutes/statutes/40/VI/72/10) was added to the State plan in 1974 and the local plan in 1984. State Employees and the State share the premium cost of the pre-retirement insurance. Prior to 1995, local Employers were required to pay an amount equal to at least 20% of the total premium for Supplemental Plan insurance coverage. Effective July 1, 1995, local Employers are not required to contribute towards the premiums for Supplemental Plan insurance.

1. **Additional Insurance**

Additional Insurance was added via an insurance policy rider to the State Plan and Local Plan in 1984. There are no statutory limits on premium rates for this insurance and Employees must pay the entire premium cost. There is no post-retirement benefit; however, an Employee who continues in active employment beyond age seventy (70) may continue this coverage by continuing to pay premiums.

In 1998, two more units of Additional Insurance coverage (for a total of three) were made available to State Employees and to local Employees whose Employer files a governing body resolution to offer the coverage. Employees may elect one, two or three levels of Additional Insurance coverage. Each level of Additional Insurance is equal to 100% of the Employee’s previous calendar year earnings rounded to the next higher one thousand dollars ($1,000).

1. **Spouse and Dependent Coverage**

Spouse and Dependent coverage, available to active Employees under age seventy (70), was first offered to State Employees in 1981 and local Employers in 1983. The amount of coverage at that time was $5,000 for an insured Spouse and $2,500 for each Dependent child. In 1988, a second optional unit of coverage was introduced, allowing an Employee to double the amounts of insurance by paying an additional monthly premium.

The Spouse and Dependent Plan benefits and premiums for the State Plan and Local Plan were identical for several years. Through the early 90’s, the financial experience of the State Plan and Local Plan fluctuated creating the need to introduce differences in benefit levels and premiums. Effective July 1, 1996, the coverage for both the State Plan and Local Plan became the same, $10,000 per unit for Spouse and $5,000 per unit for each Dependent, however, premiums are different under the State Plan and Local Plan.

1. **Innovative Benefits**
2. **Living Benefit**

In 1992, a living benefit rider was added to both the State Plan and Local Plan. The living benefit provision allows an insured Employee, Retiree Employee, Spouse or Dependent to receive the proceeds of their life insurance coverage while still living if certain medical criteria are met.

1. **Life to Health or Long-Term Care Option**

This option, authorized by [Wis. Stat. § 40.72(4r)](https://docs.legis.wisconsin.gov/statutes/statutes/40/VI/72), enables persons insured at the post-retirement amount under the plan to convert the present value of that coverage to pay premiums for health or long-term care insurance plans offered under [Subchapter IV of Wis. Stat. Chapter 40](https://docs.legis.wisconsin.gov/statutes/statutes/40/VI/72). [Wis. Admin. Code § ETF 60.60](https://docs.legis.wisconsin.gov/code/admin_code/etf/60/III/60), effective in 1995, establishes procedures to implement this statute.

1. **Disability Waiver of Premium Benefit**

This benefit provides for continued coverage without further payment of premiums for an Employee who becomes totally disabled while insured under the policy and prior to attaining age seventy (70).

**IV. Premiums**

1. **Premium Structure Until 1995**

Premiums are established annually by the Board, based on the recommendations of the insurer. Historically, Employee premium rates were designed to cover the cost of current coverages for active Employees (i.e. pre-retirement insurance). Employer premium contributions were designed to fund the cost of post-retirement insurance, calculated as a percentage of active Employee premiums.

As premium rates were reduced in the Basic Plan and Supplemental Plan, the effect of the Employer subsidy of the premium rates became more evident. Premium rates in the Supplemental Plan were substantially below the Basic Plan rates, even though all insured Employees must enroll in the Basic Plan in order to be eligible for Supplemental Plan coverage. The rate disparity was due to the Employer subsidy structure put in place when the Supplemental Plan was instituted in 1974.

1. **Current Premium Structure**

In 1995, changes in the premium structure were implemented in both the State Plan and Local Plan. These changes were intended to simplify the plans for both the Employer and the Employees, and to recognize differences in enrollment, coverage options, and claim experience between the Local Plan and State Plan. In both plans, the changes simplified the plans for both Employers and Employees and increased its attractiveness to Employees. The following is a summary of the changes.

**1.** **Separate experience rating for State Plan and Local Plan**.

 The Local Plan and the State Plan are now experience-rated separately. In the past, portions of the two plans were experience-rated together. Because the Employee demographics and the claim experience from the two plans can be very different, the former approach created funding issues. The plans were deemed large and stable enough to be rated independently.

**2. State Employer subsidy shifted back to Basic Plan.**

 A change in the premium rate structure was implemented in the State Plan to reallocate Employer contributions and to equalize the premium rates in the Basic Plan and Supplemental Plan for each age category. The State reduced its premium contribution toward Supplemental Plan insurance to approximately 35% of employee premium and increased its contributions toward Basic insurance to approximately 63% of employee premium. At the same time, Employee premiums for Basic Plan insurance were reduced while Employee premiums for Supplemental Plan insurance were increased. Effectively, the State began paying a portion of the cost of pre-retirement Basic Plan insurance coverage, which was previously funded entirely through Employee premiums.

**3. Simplification of premium schedule for Local plan.**

 The premium schedule for the Local Plan was simplified in 1995 by setting Employee premium rates for Supplemental Plan and Additional Insurance coverages equal to the Basic Plan premium rates. The Employer’s contributions for Basic Plan coverage that features a 50% reduction in benefits at age 66 became 40% of Employee contributions. For the Basic plan that features a benefit reduction of 25% at age 67, the Employer contribution became 20% of the Employee’s contribution.

**4. Local plan employers not required to contribute to Supplemental coverage.**

 Prior to 1995, local government Employers were required to contribute toward the cost of Supplemental Plan coverage. Very few local Employers elected the Supplemental Plan, due to the required Employer contribution which precluded collective bargaining on this benefit. Employers now have the option of offering levels of coverage more than the Basic Plan without increasing their fringe benefit cost.

**5. State Plan Premium Increases**

 In August 2019, the Board authorized a series of annual 5% rate increases to the State Plan Basic Insurance, Supplemental Plan Insurance, and Additional Insurance beginning in 2020 through 2029. See RFP FORM I – Cost Proposal Workbook for a schedule of premium rates effective April 1, 2020. State Plan Spouse and Dependent Insurance rates were decreased. Local Plan rates were not impacted by the rate changes.

**C. Changes to Funding Arrangements**

Beginning with the 2008 policy year, the experience calculation for both the State Plan and the Local Plan is split between active Employees and Retired Employees.

See RFP Appendix 7 – Funding Arrangements for the current funding arrangements.

In August 2019, the Board approved simplifying the Program management and financial reporting by reducing the number of reserve accounts held by the insurer to support the Program.

As of December 31, 2018, the Premium Deposit Fund (PDF) for Actives was transferred to the Retiree PDF, and the Active PDF was closed. This action did not affect the overall funding of the Program; however, it resulted in a higher level of Assets dedicated to the Post-Retirement Insurance plan.

The State Contingent Liability Reserve (CLR), which had a zero balance, was also closed and the Local CLR will be closed after the funds have been depleted.

1. **Additional Resources**

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| Wisconsin Public Employers Group Life Insurance Program information, fact sheet, forms and brochures | <https://etf.wi.gov/benefits/benefits-provided-etf/life-insurance> |
| 2018 Policy Year Report  | <https://etf.wi.gov/boards/groupinsurance/2019/08/21/item7a/direct> |
| The Wisconsin Public Employers Group Life Insurance Program Brochure Rev. 12/2019 | <https://etf.wi.gov/publications/et2101/direct> |
| Also see RFP Section 1.3 – Additional Background Information |