I. Administrative Requirements

Administrative responsibilities are currently divided among the Department of Employee Trust Funds, the Insurer, and participating employers. Individual local employers and state agencies are responsible for initial eligibility determinations, enrollments, collection and remittance of premiums, annual update of premium/coverage amounts, and submission of requests for premium waivers.

A. General Administrative Requirements - ***Insurer***

1. Processes new enrollments, including verification of eligibility and coverage amount, requests corrections if necessary, and notifies employer and the Department of effective date and amount of coverage.

2. Underwrites late enrollments, including requests to add coverage. Communicates results to the employer, the employee, and the Department.

3. Determines fact of coverage and certifies amount of coverage and other required information as delegated by the Department when an insured individual retires. Works closely with Department staff and employers to manage and coordinate premium collection and coverage issues related to the transition from active to retiree status.

4. Administers and pays claims for life, living benefits and AD&D insurance. As delegated by the Department, the Insurer receives notice of claim and is responsible for verifying enrollment, coverage, amount of insurance and beneficiary using the Department's records. The Insurer provides all service pertaining to the investigation, approval, or disapproval of claims, makes claims payment to the beneficiary(ies), and notifies the Department as to the disposition of each claim.

5. Identifies unpaid claims for which no beneficiary is found and makes every reasonable effort to locate beneficiaries including the use of locating services. Provides a list of unclaimed life insurance policies to the Department to be posted to the Department's internet site with periodic updates as claims are paid or additional unclaimed policies are identified.

6. Approves or disapproves medical evidence when an insured applies for a Living Benefit; pays approved benefit and maintains record of remaining death benefit, if any.

7. Administers the Life to Health/Long Term Care Program. This program permits retirees to use the present value of their life insurance to pay premiums for Department- sponsored health or long-term care insurance plans. The Insurer determines the present value, remits monthly health insurance premiums to the Department and works with the Department staff to assure that health insurance coverage is properly continued. For long-term care, the Insurer is responsible for remitting monthly long-term care premiums to the long-term care provider, working with the long-term care provider(s) to assure that the proper amount of premium is remitted, tracking the balance of the subscribers account, notifying the subscriber of the

remaining balance annually, and assisting in the transition to another premium source when the account is depleted.

8. Approves or disapproves employee's medical evidence when an employee requests a waiver of premiums due to disability. Follows up annually on medical condition of persons whose premiums have been waived due to disability. (Those approved for a Department-administered permanent disability benefit are exempt from follow-up).

9. Maintains a billing and membership system for local government employers. The current system contains complete life insurance information, billing and payment information for approximately 82,775 insured employees of 630 local government units. Employers are billed monthly for premiums, either via paper bill or electronically, as requested by the employer. Administers back-charges, refunds, and late payment penalties, as necessary.

10. Maintains a premium remittance and reporting system for State agencies, in lieu of direct billing. The payroll processing centers send the Insurer a monthly file with premium deduction information by agency and sub-agency. The Insurer reconciles premium reports for each state agency, researches discrepancies, and sends discrepancy reports to agencies, as required. As many as 92 separate remittance/discrepancy reports (includes about 43 agencies and subagencies) may be processed each month. The Insurer maintains membership information for about 28,000 State employees on the Central payroll system, UW Hospital and Clinics payroll system and the Wisconsin Housing and Economic Development Authority (WHEDA) payroll system. Two large payroll systems, the University of Wisconsin and the Legislature, do no currently report premiums to the Insurer.

11. Maintains membership and billing information for over 29,000 insured WRS retirees (both state and local).

12. Conducts an annual renewal census for State and local employers to update coverage and premium information for each insured employee.

13. Provides the Department with updated premium amounts for annuitants (under age 65) who have life insurance premiums deducted from their annuities. The Department currently updates the annuity deductions manually, so to assure that the premium deduction amounts are accurate, the Insurer performs an annual comparison of the Insurer's premium and coverage records with the Department's records. The Insurer works with the Department to correct any errors.

14. On an annual or semi-annual basis, direct-bills certain retirees and other former employees who cannot pay group insurance premiums by deduction from WRS annuity.

15. Provides individual policies for persons eligible to convert group coverage upon termination of employment; prints and maintains a supply of conversion brochures for distribution to eligible employees; processes conversion applications; bills for premiums.

16. Provides counsel and defense on contested claims. In addition, the Insurer works with the Department Counsel on all legal matters associated with the Plan.

17. Comments on proposed legislation, administrative code changes, contract changes, and Department or GIB recommendations.

18. Works with the Department and other state agencies to communicate benefits through bulletins, brochures, benefits fairs and other appropriate channels.

19. Prints and delivers enrollment applications (approximately 35,000 per year), evidence of insurability applications (approximately 15,000 per year) and brochures (approximately 30,000 per year) and other selected forms for the program.

20. Provides local employers with on-line access to their employee's insurance information. Provides authorized Department staff with on-line access to all employee coverage records.

21. Maintains a Madison claims and service office. (Note: The GIB has historically preferred a local Madison claims and service office. However, the Insurer is not required to establish such an office in order to submit a proposal.)

22. Provides hardware and software necessary for it's staff to access WEBS (Wisconsin Employee Benefits System) records, imaging system, etc. and ensures that staff are trained to use this system to obtain employment, salary, and related information on insured employees. (See Section I.B.1&2 of this Appendix C.)

23. Makes service calls to participating local governments to keep them informed on plan procedures and to review current questions.

24. In consultation with the Department, develops and implements a plan for offering the plan to non-participating local government employers, including visits, mailings, and customized reports to inform the employers of plan features and changes, requirements, and estimated costs.

25. Confers frequently in person or by telephone with the Department to review current questions on program operations, claims, and unusual problems.

26. Insurer provides the following reports to the Department:

    a. A monthly report for Life to Health or Long Term Care conversions.

    b. An annual Policy Year Report to the GIB. A draft of this report is due to the Department no later than 180 days after the close of the contract year. A sample of this report is provided in Appendix F.

    c. Annual recommendations on the next year's premium rates to the Department for its concurrence and then to the GIB for its approval.

d. A quarterly report on performance standards.

e. Actuarial and administrative studies on the feasibility and/or cost of proposed legislative or procedural changes, as requested. Such reports are requested several times per year.

B. General Administrative Responsibilities - *Department of Employee Trust Funds*

The Department:

1. Maintains all participant and employer records of the Wisconsin Retirement System. These records are accessible as necessary to the Insurer through the following systems:

   a. WEBS (Wisconsin Employee Benefits System) is an on-line data system which is maintained by the Department. The operating system, maintained by the Wisconsin Department of Electronic Government (DEG), is IBM's OS/390 V.2.Rel.6. The Relational Database Management System used is IBM's DB2 Version 7.1 for OS/390. WEBS contains extensive information on employment and salary history of WRS participating employees and inactives, address information for WRS monthly annuitants, and summary information on WRS participating employers. It does not include individual insurance coverage information.

   b. Step2000/Workflow--The Department maintains imaged records for approximately 500,660 current employees, inactives, and annuitants and for over 1,302 current and former participating WRS employers. The participant files contain original insurance applications, beneficiary designations, and other items pertaining to participants' insurance coverage. These files are used by the Department and the Insurer's staff when a claim arises or the employee retires, changes employers, etc. Final determination of a participant's insurance status often depends on the Department record. The basic workflow system called Step 2000 is used by the Department staff and made available to the Insurer to complete their job duties on-line, respond to member inquiries, and analyze the flow of work in order to improve the service provided to its participants.

   c. EOS—The Enterprise Output Solution (EOS) is the on-line annuitant ledger that contains the history of monthly WRS payments.

   d. WiSMART—The Wisconsin Management Reporting Tool (WiSMART) is a multi-purpose accounting program maintained by the State Department of Administration and used by the Department for a variety of reasons, including to track and management overpayments.

2. Makes available to the Insurer on-line electronic access to the Department's WEBS (Wisconsin Employee Benefit System), Step 2000/Visual Info (imaging system), WiSMART (Wisconsin Accounts Receivable). This access will be through the Wisconsin Department of Administration (DOA) mainframe located in Madison, Wisconsin. The operation of this access is subject to the standards of DOA. A Trusted Partnership Computer Agreement may be necessary. Access will be

through, at a minimum, a T-1 connection to the Internet. Connection will be made via Citrix Metaframe using Department/DOA resources.

a. Computers will require the following minimums to be able to access and use these systems:

Pentium processor - minimum 350 Mhz
124 KB RAM (minimum)
Monitor/Video - 21" monitor must support 1600 x 1200 resolution
Printer - sufficient memory to print graphics
Windows 95 or above
T-1 or better connection to the Internet

b. The cost for this is approximately $800 per computer and is to be included in the administrative charge.

3. Accepts, validates, and maintains all beneficiary designations and provides proper beneficiary information to the Insurer at time of claim.

4. Deducts premiums from annuities of insured retirees under age 65 and remits to Insurer.

5. In consultation with the Insurer, revises all forms, employer manuals, and brochures as needed. Prints and distributes employer manuals and selected forms.

6. Counsels employees and retirees on their benefits under the group life insurance program.

7. Counsels employers interested in participating in the plan; approves new employers; responds to routine and unusual employer questions about plan provisions and requirements.

8. Acts as staff to the GIB, making recommendations on plan changes, contract amendments, administrative rules, extraordinary plan expenditures, and similar matters.

9. Publishes official notice of premium rates, statutory or contract changes, policy and procedures pertaining to the program via the *Employer Bulletin* a newsletter that is sent to all participating employers. Publishes information for plan participants in its *Trust Fund News*, a newsletter that is send to all WRS participants.

10. Determines application of statute, administrative code, and contract regarding the fact of coverage, whether an employee is entitled to enroll or to continue coverage after termination of employment, and similar matters.

11. Reviews and grants or denies requests from employers for enrollment of employees based on employer error.

12. Administers the appeal process by which interested parties may contest the Department's determinations related to the program. These appeals are ultimately decided by the GIB.

13. Handles collection of premium from approximately 43 State agencies and remits premium via wire transfer to the Insurer.

14. Provides the Insurer with an annual report in electronic format of State employees' insurance coverage. This report is provided to the Insurer for actuarial and statistical purposes.

15. Provides the Insurer with prior-year salary information in electronic format for each employee of participating local government units. This report is prepared annually in March and will permit the Insurer to perform most up-dates to local government unit billing and coverage records electronically. Prior year salary information for State employees on the Insurer's premium remittance and reporting system are provided to the Insurer by the payroll processing centers (Central Payroll, University Hospital and Clinics, payroll and WHEDA payroll.)

C. Performance Standards and Penalties

The Insurer will meet or exceed the performance standards detailed below.

1. Performance Standards

   The Insurer shall:

   a. Pay 95% of all death and dismemberment claims within 14 calendar days after receipt of all necessary proof.

   b. Mail 99% of all initial requests for death certificates, verification of beneficiary forms, medical evidence of dismemberment or loss of use forms, and any other required documentation within 14 calendar days of receipt of Notice of Death (ET-6301) and other documentation from the Department.

   c. Approve or reject 99% of all applications for open enrollment (other than deferred applications) within 14 calendar days after receipt of the completed application.

   d. Approve or request additional information deemed necessary for making an underwriting decision on 99% of all applications requiring evidence of insurability within 14 calendar days after receipt of the completed application.

   e. Make a final disposition of 99% of all evidence of insurability applications (with notification mailed to the applicant) within 14 calendar days after receipt of all necessary information.

   f. Requests additional information for 99% of new waiver of premium due to disability claims within 14 days of receipt of claim.

g. Make final disposition of 75% of new waiver of premium disability claims other than those included in item F above within 30 calendar days after receipt of all necessary information.

h. Make final disposition of 85% of continuing waiver of premium disability claims within 30 calendar days after receipt of all necessary information.

i. Include 95% of all Life to Health applications, amendments and cancellations received by the fifth day of a month in the remittance due on the twentieth day of the same month.

2. Penalties

a. The Insurer will meet or exceed the above-mentioned performance standards. For each standard not achieved during the policy year, the Insurer will be assessed a penalty of 1% of expense charge components A through F as set forth in Exhibit D of the Administrative Agreement found in Appendix F., up to a maximum of 5% of the total of such expense charge components.

b. Penalties identified for noncompliance of performance standards shall be assessed at the close of the policy year based on the annual performance results.

c. The Department, at its discretion, may waive any penalty.

d. Penalty amounts assessed shall be accompanied by documentation from the Department identifying the specific area of noncompliance.

II. Future Enhancements

The changes listed below are seen at this time as necessary or desirable for the efficient operation of the Program and the integration of the Program into the Department's changing information environment. This list of future developments is not exhaustive, nor will every change listed actually occur in the form now envisaged. This list represents the Department's current expectations about the near future.

A. An electronic billing and membership information system for University of Wisconsin and Legislative employees is urgently needed. Such systems may not be identical to the systems in place for local employees and State payroll processing centers, but must accommodate both the needs of state agency payroll personnel and program requirements for accurate and complete membership and premium payment information. This project it dependent upon payroll systems upgrades which will allow them to report premium and coverage amounts as required by the Department.

B. Provide on-line access for participants to view their coverage and premium information, as well as on-line enrollment for coverage. This may be through the Insurer’s system, or in concert with a comprehensive employee benefit system implemented by the Department.

C. Assist the Department with implementation of new initiatives introduced through new legislation or contract amendment. Initiatives may include, but not be limited to, optional post-retirement coverage for annuitants over the age of 65; allowing employees to enroll for coverage immediately upon hire rather than after six month WRS employment; allowing changes in amount of insurance if employee has an eligible change in status; revising employer participation requirements for employers that have multiple union contracts.

The information in this appendix provides a description of the funding arrangement currently used for the State and Local Government Plans. It is expected that potential proposers will propose on the funding arrangement. Other funding may be accepted by the GIB, but the current funding arrangement will be the basis of the GIB's evaluation.

I. Stop-Loss Provision

A.1 General Description

a. The stop-loss provision limits the liability of the plan for claims and expense charges in any one policy year.

b. Stop-loss factors as described below are determined annually based on recent plan experience. Through 1994, the premium rates for State and local government plans were determined on a combined basis. Similarly, the stop-loss factors were determined on a combined basis. Beginning in 1995, the premium rates and stop-loss factors are determined independently for the State and local government plans.

c. The stop-loss provisions of the State and local government plans are separate for financial experience.

A.2 State Plan

a. Stop-loss provision applies to:

    i. Pre-retirement and post-retirement insurance for employees on a combined basis.

    ii. Spouse and dependent insurance on an independent basis.

b. The financial agreement includes a table of age by age stop-loss factors for employee insurance. These factors are multiplied by the insurance in force at each age to determine the stop-loss limit. The stop-loss factors are intended to generate a stop-loss limit equal to approximately 125% of expected claims.

c. The stop-loss limit for the spouse and dependent insurance plan equals 125% of policy year premium.

d. A loss in a policy year occurs when death claims plus accidental death claims plus pooled claim charges plus living benefit claims plus increase in waiver of premium disability claim reserves during the year plus conversion charges plus company expense and risk charges (excludes State administrative expense) and state premium taxes exceed the stop-loss limit(s).

e. Such losses are deemed catastrophic and are charged against the Insurer rather than the plan.

A.3 Local Government Plan

a. Stop-loss provision applies to:

i. Pre-retirement and post-retirement insurance for employees on a combined basis.

ii. Spouse and dependent insurance on an independent basis.

b. The financial agreement includes a table of age by age stop-loss factors for employee insurance. These factors are multiplied by the insurance in force at each age to determine the stop-loss limit. The stop-loss factors are intended to generate a stop-loss limit equal to approximately 125% of expected claims.

c. Effective January 1, 2003, the stop-loss limit for the spouse and dependent insurance plan equals 145% of policy year premium.

d. A loss in a policy year occurs when death claims plus accidental death claims plus pooled claim charges plus living benefit claims plus increase in waiver of premium disability claim reserves during the year plus conversion charges plus company expense and risk charges (excludes State administrative expense) and state premium taxes exceed the stop-loss limit(s).

e. Such losses are deemed catastrophic and are charged against the Insurer rather than the plan.

B. Reinsurance Arrangements

B.1 Currently, 2.4% of employee insurance under both the State and local government plans is reinsured through a carrier domiciled in Wisconsin per request of the GIB.

B.2 Both active and retired employee coverage is reinsured including the pooling of large insurance amounts and the stop-loss arrangement.

B.3 The cost of reinsurance is passed on to the plan. The cost has consisted of two elements: a reinsurance expense charge and an extra risk charge. The extra risk charge was to enable the reinsurer, whose participation in the plans began in 1990, to accumulate an appropriate risk reserve. The 2001 charges were as follows:

	State	Local
Reinsurance Expense Charge	$5,323	$4,517
Extra Risk Charge	5,322	4,503
Total Reinsurance Cost	$10,645	$9,020

Since January 1, 2003, Sentry Life Insurance Company has been the only company participating in the reinsurance:

Beginning with the 2003 policy year, the cost of reinsurance will consist only of the reinsurance expense charge.

B.4 Proposing Insurers should indicate the cost of reinsuring 2.4% of the employee coverage including the stop-loss provision for the contract commencing on January 1, 2004.

B.5 The decision of whether or not to require reinsurance will be made by the GIB independent of this rebidding process.

B.6 There is no reinsurance on the spouse and dependent plans.

C.1 State Plan Stop-Loss Experience

Policy Year	Employees Stop-Loss		Spouses and Dependents Stop-Loss	
	Limit	Charges	Limit	Charges
1992	$15,089,348	$12,590,057	$1,015,073	$1,047,147[1]
1993	15,398,710	13,838,406	1,043,181	704,769
1994	16,278,787	14,602,158	1,071,754	883,437
1995	17,439,514	15,338,327	1,095,485	1,132,969[2]
1996	18,390,402	15,429,209	1,099,007	794,398
1997	20,758,647	12,337,032	1,102,447	907,061
1998	23,020,860	19,240,183	1,122,769	1,154,164[3]
1999	23,269,341	20,072,884	1,137,393	1,210,411[4]
2000	25,208,914	17,704,574	1,201,825	949,575
2001	27,449,699	19,820,850	1,483,490	1,054,609

[1] 1992 charges plus additional 1992 claims reported in 1993, 1995, and 1998 resulted in total catastrophic loss credits to the plan of $76,496.

[2] 1995 charges plus additional 1995 claims reported in 1996 resulted in total catastrophic loss credits to the plan of $37,881.

[3] 1998 charges plus additional 1998 claims reported in 2000 resulted in total catastrophic loss credits to the plan of $84,067.

[4] 1999 charges plus additional 1999 claims reported in 2000 resulted in total catastrophic loss credits to the plan of $114,902.

C.2 Local Government Plan Stop-Loss Experience

Policy Year	Employees Stop-Loss		Spouses and Dependents Stop-Loss	
	Limit	Charges	Limit	Charges
1992	$8,928,977	$7,039,148	$1,366,115	$1,156,303
1993	9,297,964	8,092,702	1,421,997	1,081,148
1994	9,965,937	9,163,558	1,467,769	1,226,696
1995	10,954,688	9,922,512	1,512,685	1,195,655
1996	12,036,442	9,297,740	1,973,118	1,259,755
1997	13,415,818	10,010,479	2,395,066	1,286,209
1998	14,774,061	13,838,004	2,416,590	1,289,565
1999	15,365,123	13,426,374	2,405,074	1,541.551
2000	16,917,151	14,296,290	2,104,658	1,720,446
2001	18,457,598	16,890,781	1,734,168	1,591,457

II. Post-Retirement Insurance

A. State Plan

A.1 No premiums are collected from the employee after the insurance reduction age. Deposits accumulated under the plan from total premium contributions for employees under the insurance reduction age are the source of funds for continuing insurance on a term basis after the insurance reduction age.

A.2 The post-retirement fund is accumulated under the following funding goals:

a. The funding of the post-retirement insurance should be on a current basis for each generation of employees. Past service liabilities which arose from initiating the plan and from a change in the post-retirement insurance should be amortized over a reasonable period of time by margins in future contributions.

b. The present value of post-retirement insurance for retired lives should be funded as soon as possible and should be maintained at a fully funded level (this goal has already been met).

A.3 The determination of the employee and employer premium contributions for pre-retirement insurance is based on separate calculations for the State and local government plans that take into account the funding goals.

A.4 These calculations involve assumptions of growth of the employee groups, salary increases, employee turnover and assumed interest such that the level of employee and employer contributions, subject to the assumptions, will remain constant for many years. Minor corrections may be made on the basis of actual experience.

A.5 The post-retirement funds are held by the Insurer, but the funds are fully vested with the State and all interest credits on the funds accrue to the State.

A.6 The sufficiency of the funds to maintain the post-retirement insurance is the responsibility of the GIB. The Insurer does not guarantee the sufficiency of the funds nor their rate of accumulation.

B. Local Government Plan

Separate post-retirement funds for the local government plan are established in the same manner as the State post-retirement funds.

III. Experience Rating Basis

A. General Description

A.1 Premium rates are established annually by the GIB. The Insurer makes recommendations based on recent claims experience of the plan.

A.2 Through 1994, premium rates were established for the State and local government plans together. Rates for basic and supplemental coverages were determined based on their combined experience, while rates for the additional coverage were determined separately.

A.3 Beginning in 1995, the premium rates are established independently for the State and local government plans.

A.4 Under the State plan, the State contributes toward the cost of current year term insurance on the basic and supplemental coverages. The employee premium rates for these two coverages are equal. Premium rates for additional insurance are established separately based on experience of that coverage. Employees pay the entire premiums.

A.5 Under the local government plan, Employers are not required to contribute toward the cost of current year term insurance on any coverage. Employee premium rates for all three coverages are equal at all ages under 70.

B. State Plan

B.1 The basic, supplemental and additional plans are combined for experience rating.

B.2 Currently, the annual experience accounting is performed separately for the pre-retirement insurance and for the post-retirement insurance. All employee premium contributions and a portion of the employer premium contributions are intended to cover the cost of pre-retirement insurance. The remainder of the employer premium contributions is intended to fund the future cost of post-retirement insurance.

a. For the pre-retirement insurance, employee premium contributions are cleared immediately as premium. Employer contributions are deposited immediately in the funds held for post-retirement insurance to be withdrawn if needed for the pre-retirement insurance. Employee premium contributions are reduced by death, disability, living benefit and accidental death claims, pooled claim charges, conversion charges, company expense and risk charges, State administrative expense, and charges for state premium taxes and federal income taxes. The net amount is increased by current year interest credits. The balance remaining is the dividend and is added to the contingent liability reserve.

b. Employer contributions which are intended to fund the cost of post-retirement insurance are deposited immediately in the funds held for post-retirement insurance.

c. For the post-retirement insurance, the premium charged against the contingent liability reserve is the amount necessary to support the cost of the insurance on a term basis. This cost of insurance includes the amount of the post-retirement death claims, pooled claims charges, company expense charges, and state premium taxes. The contingent liability reserve is decreased by this premium and is increased by the interest credited to the fund and the dividends from the experience of the pre-retirement plan.

B.3 Beginning in 2003, the claim liability of the plan is limited by pooling insurance amounts in excess of the specified pooling level. The pooling level for life insurance is $500,000. The pooling level for accidental death and dismemberment insurance is $500,000. There are currently no post retirement insurance amounts at this level, therefore, the pooling has not been applied to those coverages. Appendix F includes the pooled volume as of December 31, 2002.

Current estimated annual pooling charges based on December 21, 2001 census data:

	State	**Local**
Expected Pooled Claims	$101,800	$11,100
Risk Charge	9,100	1,000
Total Pool Charge	**$110,900**	**$12,100**

B.4 The stop-loss provision described in Appendix D Section I, Part A.2 places an aggregate limit on claim charges.

B.5 The spouse and dependent plan is separate for experience rating.

a. Premiums are reduced by death and living benefit claims, conversion charges, expense and risk charges, state administrative expenses, and charges for state premium taxes and federal income taxes. The total is increased by current year interest credits. The balance remaining is added to a stabilization reserve.

b. The stop-loss provision described in Appendix D, Section I, Part A.2 places an aggregate limit on claim charges.

C. Local Government Plan

C.1. The local government plan is completely separate from the State plan for financial experience.

C.2 The basic, supplemental and additional plans are combined for experience rating.

C.3 Currently, the annual experience accounting is performed separately for the pre-retirement insurance and for the post-retirement insurance. All employee premium contributions are intended to cover the cost of pre-retirement insurance. Employer premium contributions are intended to fund the future cost of post-retirement insurance. (Some local government Employers may pay all or a portion of the employee premium contributions. These payments are handled the same as employee contributions.)

a. For the pre-retirement insurance, employee premium contributions are cleared immediately as premium. Employer contributions are deposited immediately in the funds held for post-retirement insurance to be withdrawn if needed for the pre-retirement insurance.

   Employee premium contributions are reduced by death, disability, living benefit and accidental death claims, pooled claim charges, conversion charges, company expense and risk charges, state administrative expenses, and charges for state premium taxes and federal income taxes. The net amount is increased by current year interest credits. The balance remaining is the dividend and is added to the contingent liability reserve.

b. Employer contributions which are intended to fund the cost of post-retirement insurance are deposited immediately in the funds held for post-retirement insurance.

c. For the post-retirement insurance, the premium charged against the contingent liability reserve is the amount necessary to support the cost of the insurance on a term basis. This cost of insurance includes the amount of the post-retirement death claims, pooled claim charges, company expense charges, and state premium taxes. The contingent liability reserve is decreased by this premium and is increased by the interest credited to the fund and the dividends from the experience of the pre-retirement plan.

d. This plan is subject to potential anti-selection and volatility as new Employers enter the plan and provide initial guaranteed enrollment to employees.

C.4 Beginning in 2003, the claim liability of the plan is limited by pooling insurance amounts in excess of the specified pooling level. The pooling level for life insurance is $500,000. The pooling level for accidental death and dismemberment insurance is $500,000. There are currently no post retirement insurance amounts at this level, therefore, the pooling has not been applied to those coverages. Appendix F includes the pooled volume as of December 31, 2002.

Current estimated annual pooling charges based on December 21, 2001 census data:

	State	**Local**
Expected Pooled Claims	$101,800	$11,100
Risk Charge	9,100	1,000
Total Pool Charge	**$110,900**	**$12,100**

C.5 The stop-loss provision described in Appendix D, Section I, Part A.3 places an aggregate limit on claim charges.

C.6 The spouse and dependent plan is separate for experience rating.

a. Premiums are reduced by death and living benefit claims, conversion charges, expense and risk charges, state administrative expenses, and charges for state premium taxes and federal income taxes. The total is increased by current year interest credits. The balance remaining is added to a stabilization reserve.

b. The stop-loss provision described in Appendix D, Section I, Part A.3 places an aggregate limit on claim charges.

c. This plan is subject to potential anti-selection and volatility as new Employers enter the plan and provide initial guaranteed enrollment to employees.

IV. Disability Claim Reserves

A. Purpose

A.1 Premiums are waived for disabled employees satisfying the policy's definition of total disability. (See Section 6 of policy.)

The full amount of insurance is maintained for a continuously disabled employee until the insurance reduction age, which is the later of the 65th birthday or termination of employment but in no event beyond the 70th birthday.

A.2 The Insurer is liable for payment of death benefits for disabled employees. If a local government employer leaves the plan, the disabled employees of that employer remain with the plan.

A.3 The Insurer establishes and holds disability claims reserves.

B. Reserve Determination

B.1 The Reserve is calculated annually based upon a table of reserve factors as specified in agreement with the Insurer.

B.2 If a disabled employee recovers, the claim reserve for that employee is released and credited to the plan.

B.3 If a disabled employee dies, the reserve is released and credited to the plan, and the amount of the death claim is charged to the plan.

B.4 Reserves are released and credited to the plan for all disabled employees who reach the insurance reduction age. At that time, the employees are assumed to retire, the normal insurance reduction schedule is implemented, and the responsibility for future claim liability is shifted to the contingent liability reserve and premium deposit fund.

C. The total disability claim reserves held at the ends of recent years have been:

Policy Year	State Plan	Local Government Plan
1999	$11,761,031	$9,357,113
2000	12,475,222	10,443,382
2001	13,787,341	12,313,190

V. Premium Contributions

A. State Plan

A.1 Historically, employee premium rates have been intended to pay the full cost of current year insurance under the basic and additional coverages, and to pay a portion of the cost of current year insurance under the supplemental coverage. The State premium contributions have been intended to accumulate the funds for future post-retirement insurance under the basic coverage and to pay the remaining portion of current year supplemental coverage.

A.2 Effective March 1, 1995, the State's premium contributions were reallocated so that the State now pays a portion of the current year costs for both basic and supplemental coverages, as well as continuing to accumulate the funds for future post-retirement basic coverage. As part of this change, employee premium rates for basic and supplemental insurance coverages were made equal at all ages under 60. At ages 60-69, a five-year transition equalized the rates for the two coverages.

A.3 Premium rates for basic, supplemental and additional insurance coverages are shown in the following tables. In the tables for basic and supplemental coverages, there are two columns of rates:

Employee - These are the premium rates paid by employees.

Total - These rates are the total of the employee and employer premium contributions.

The tables also show the employer premium contribution rates expressed as percentages of the employee premium rates. You will observe that the "Total" rates are equal to the "employee" rates increased by the percentages shown.

		STATE PLAN MONTHLY PREMIUMS PER $1,000 OF INSURANCE											
		Jan. 99 - Feb. 99		Mar. 99 - Feb. 00		Mar. 00 - Feb. 01		Mar. 01 - Feb.02		Mar. 02 - Feb. 03		Proposed March 2003	
	Attained Age	**Employee**	**Total**	**Employee**	**Total**	**Employee**	**Total**	**Employee**	**Total**	**Employee**	**Total**	**Current**	**Proposed**
	Under 30	$.05	$.0815	$.05	$.0815	$.05	$.0815	$.05	$.0815	$.05	$.0815	$.05	$.05
	30 - 34	.05	.0815	.05	.0815	.05	.0815	.05	.0815	.05	.0815	.05	.05
	35 - 39	.05	.0815	.05	.0815	.05	.0815	.05	.0815	.05	.0815	.05	.05
BASIC	40 - 44	.10	.1630	.09	.1467	.09	.1467	.09	.1467	.09	.1467	.09	.08
	45 - 49	.14	.2282	.13	.2119	.13	.2119	.13	.2119	.13	.2119	.13	.12
	50 - 54	.22	.3586	.20	.3260	.20	.3260	.20	.3260	.20	.3260	.20	.20
	55 - 59	.39	.6357	.36	.5868	.36	.5868	.36	.5868	.36	.5868	.36	.32
	60 - 64	.52	.8476	.44	.7172	.44	.7172	.44	.7172	.44	.7172	.44	.40
	65 - 69	.59	.9617	.59	.9617	.59	.9617	.59	.9617	.59	.9617	.59	.55
Employer Premium as Percent of Employee Premium			63%		63%		63%		63%		63%		
	Under 30	$.05	$.0675	$.05	$.0675	$.05	$.0675	$.05	$.0675	$.05	$.0675	$.06	$.06
	30 - 34	.05	.0675	.05	.0675	.05	.0675	.05	.0675	.05	.0675	.07	.07
	35 - 39	.05	.0675	.05	.0675	.05	.0675	.05	.0675	.05	.0675	.07	.07
SUPPLEMENTAL	40 - 44	.10	.1350	.09	.1215	.09	.1215	.09	.1215	.09	.1215	.12	.11
	45 - 49	.14	.1890	.13	.1755	.13	.1755	.13	.1755	.13	.1755	.18	.16
	50 - 54	.22	.2970	.20	.2700	.20	.2700	.20	.2700	.20	.2700	.27	.27
	55 - 59	.39	.5265	.36	.4860	.36	.4860	.36	.4860	.36	.4860	.48	.43
	60 - 64	.52	.7020	.44	.5940	.44	.5940	.44	.5940	.44	.5940	.59	.54
	65 - 69	.55	.7425	.59	.7965	.59	.7965	.59	.7965	.59	.7965	.80	.74
Employer Premium as Percent of Employee Premium			35%		35%		35%		35%		35%		

NOTE: Only the employee share of premiums is collected from annuitants. The employer does not pay a premium contribution for annuitants.

STATE PLAN
MONTHLY PREMIUMS PER $1,000 OF INSURANCE

	Attained Age	Jan. 99 - Feb. 99 Employee	Mar. 99 - Feb. 00 Employee	Mar. 00 - Feb. 01 Employee	Mar. 01 - Feb. 02 Employee	Mar. 02 - Feb. 03 Employee	Proposed March 2003 Employee
	Under 30	$.07	$.06	$.06	$.06	$.06	$0.06
	30 - 34	.08	.07	.07	.07	.07	.07
	35 - 39	.08	.07	.07	.07	.07	.07
ADDITIONAL[1]	40 - 44	.13	.12	.12	.12	.12	.11
	45 - 49	.20	.18	.18	.18	.18	.16
	50 - 54	.31	.27	.27	.27	.27	.27
	55 - 59	.53	.48	.48	.48	.48	.43
	60 - 64	.80	.59	.59	.59	.59	.54
	65 - 69	1.10	.80	.80	.80	.80	.74

Rates at Ages 70 and Over							
	Jan. 1999 – Feb. 1999	**Mar. 1999 – Feb. 2003**	**Proposed March 2003**		**Jan. 1999 – Feb. 1999**	**Mar. 1999 – Feb. 2003**	**Proposed March 2003**
Attained Age	Employee	Employee	Employee	**Attained Age**	Employee	Employee	Employee
70	$1.60	$1.25	$1.05	**80**	$4.40	$4.15	$3.25
71	1.80	1.50	1.20	**81**	4.85	4.60	3.55
72	2.00	1.75	1.35	**82**	5.35	5.10	3.85
73	2.20	2.00	1.55	**83**	5.85	5.60	4.30
74	2.45	2.25	1.75	**84**	6.40	6.15	4.75
75	2.70	2.50	1.95	**85**	6.95	6.75	5.20
76	2.95	2.75	2.15	**86**	7.55	7.40	5.65
77	3.25	3.05	2.35	**87**	8.15	8.10	6.10
78	3.60	3.40	2.65	**88**	8.85	8.80	6.75
79	4.00	3.75	2.95	**89**	9.65	9.60	7.40

(1) Employees pay the entire premium for additional insurance.

B. Local Government Plan

B.1 Historically, employee premium rates have been intended to pay the full cost of current year insurance under the basic and additional coverages, and to pay a portion of the cost of current year insurance under the supplemental coverage. Employer premium contributions have been intended to accumulate the funds for future post-retirement insurance under the basic coverage and to pay the remaining portion of current year supplemental coverage.

B.2 Prior to July 1, 1995, a local government employer which offered supplemental insurance to its employees was required to pay at least 20% of the premium for this coverage. Employee premiums could not exceed 80% of the total premiums. Effective July 1, 1995, this requirement was eliminated. An employer is no longer required to contribute toward the cost of supplemental insurance.

B.3 Effective April 1, 1995, the employee premium rates for all three coverages—basic, supplemental and additional—were made equal.

B.4 Premium rates for basic, supplemental and additional insurance coverages are shown in the tables at the end of the section in the same format used for the State plan rate tables.

LOCAL GOVERNMENT PLAN
MONTHLY PREMIUMS PER $1,000 OF INSURANCE

		Jan. 99 - Jun. 99			Jul. 99 – Feb. 00			Mar. 00 – Feb. 01			Mar. 01 – Feb. 02			Mar. 02 – Feb. 03		
	Attained Age	**Employee**	**Total [1]**		**Employee**	**Total [1]**		**Employee**	**Total [1]**		**Employee**	**Total [1]**		**Employee**	**Total [1]**	
	Under 30	$.06	$.072	$.090	$.05	$.060	$.075	$.05	$.060	$.075	$.05	$.060	$.075	$.05	$.060	$.075
	30 - 34	.06	.072	.090	.06	.072	.090	.06	.072	.090	.06	.072	.090	.06	.072	.090
	35 - 39	.07	.084	.105	.07	.084	.105	.07	.084	.105	.07	.084	.105	.07	.084	.105
BASIC[1]	40 - 44	.10	.120	.150	.10	.120	.150	.10	.120	.150	.10	.120	.150	.10	.120	.150
	45 - 49	.17	.204	.255	.16	.192	.240	.16	.192	.240	.16	.192	.240	.16	.192	.240
	50 - 54	.31	.372	.465	.30	.360	.450	.30	.360	.450	.30	.360	.450	.30	.360	.450
	55 - 59	.53	.636	.795	.48	.576	.720	.48	.576	.720	.48	.576	.720	.48	.576	.720
	60 - 64	.60	.720	.900	.53	.636	.795	.53	.636	.795	.53	.636	.795	.53	.636	.795
	65 - 69	.60	.720	.900	.60	.720	.900	.60	.720	.900	.60	.720	.900	.60	.720	.900
Employer Premium as Percent of Employee Premium			20%	50%		20%	50%		20%	50%		20%	50%		20%	50%
	Under 30	$.06	$.06		$.05	$.05		$.05	$.05		$.05	$.05		$.05	$.05	
	30 - 34	.06	.06		.06	.06		.06	.06		.06	.06		.06	.06	
	35 - 39	.07	.07		.07	.07		.07	.07		.07	.07		.07	.07	
SUPPLEMENTAL	40 - 44	.10	.10		.10	.10		.10	.10		.10	.10		.10	.10	
	45 - 49	.17	.17		.16	.16		.16	.16		.16	.16		.16	.16	
	50 - 54	.31	.31		.30	.30		.30	.30		.30	.30		.30	.30	
	55 - 59	.53	.53		.48	.48		.48	.48		.48	.48		.48	.48	
	60 - 64	.60	.60		.53	.53		.53	.53		.53	.53		.53	.53	
	65 - 69	.60	.60		.60	.60		.60	.60		.60	.60		.60	.60	
Employer Premium as Percent of Employee Premium			0%			0%			0%			0%			0%	

(1) The two “Total” columns for basic insurance represent the rates for the 25% post-retirement benefit and for the 50% post-retirement benefit, respectively.

NOTE: Only the employee share of premiums is collected from annuitants. The employer does not pay a premium contribution for annuitants.

LOCAL GOVERNMENT PLAN
MONTHLY PREMIUMS PER $1,000 OF INSURANCE

		Jan. 99 - Jun. 99	Jul. 99 – Feb. 00	Mar. 00 – Feb. 01	Mar 01 – Feb. 02	Mar. 02 – Feb. 03
	Attained Age	**Employee**	**Employee**	**Employee**	**Employee**	**Employee**
	Under 30	$.06	$.05	$.05	$.05	$.05
	30 – 34	.06	.06	.06	.06	.06
	35 - 39	.07	.07	.07	.07	.07
ADDITIONAL(1)	40 - 44	.10	.10	.10	.10	.10
	45 - 49	.17	.16	.16	.16	.16
	50 - 54	.31	.30	.30	.30	.30
	55 - 59	.53	.48	.48	.48	.48
	60 - 64	.60	.53	.53	.53	.53
	65 - 69	.60	.60	.60	.60	.60

Rates at Ages 70 and Over

	Jan. 99 – Jun. 99	Jul. 99 – Jun. 03	July 2003		Jan. 99 – Jun. 99	Jul. 99 – Jun. 03	July 2003
Attained Age	**Employee**			**Attained Age**	**Employee**		
70	1.60	1.25	1.05	**80**	4.40	4.15	3.25
71	1.80	1.50	1.20	**81**	4.85	4.60	3.55
72	2.00	1.75	1.35	**82**	5.35	5.10	3.85
73	2.20	2.00	1.55	**83**	5.85	5.60	4.30
74	2.45	2.25	1.75	**84**	6.40	6.15	4.75
75	2.70	2.50	1.95	**85**	6.95	6.75	5.20
76	2.95	2.75	2.15	**86**	7.55	7.40	5.65
77	3.25	3.05	2.35	**87**	8.15	8.10	6.10
78	3.60	3.40	2.65	**88**	8.85	8.80	6.75
79	4.00	3.75	2.95	**89**	9.65	9.60	7.40

(1) Employees pay the entire premium for additional insurance.

VI. Termination Provisions

A. Liabilities Retained by Insurer

A.1 The Insurer retains liability for life insurance for all retired employees beyond the retirement benefit age on date of termination.

A.2 The Insurer retains liability for life insurance for all disabled employees under retirement benefit age on date of termination. This liability includes the post-retirement benefit on basic insurance coverage.

B. Allocation of Plan Reserves

B.1 Post-retirement reserves for employee insurance and stabilization reserves for spouse and dependent insurance are combined.

B.2 The Insurer retains sufficient reserves to fund retained liabilities described in item A above.

B.3 Remaining unallocated reserve is repaid to the GIB in installments as described in item D below.

C. Experience Accounting for Retained Reserves

C.1 The GIB and the Insurer will agree upon one of the following bases for determining the actuarial assumptions for retained reserves:

a. Assumptions agreed upon by the GIB, the GIB's independent actuary and the Insurer.

b. Assumptions determined by the Insurer.

C.2 Experience among retired and disabled employees will be analyzed annually, including claims, expense charges, interest credits and charges, and changes in required reserves.

C.3 If credits exceed charges, the excess will be paid to the GIB as a dividend.

C.4 If charges exceed credits:

a. If actuarial assumptions were agreed upon by the GIB, the GIB's independent actuary and the Insurer, then the GIB will pay the excess to the Insurer as a premium.

b. If the Insurer determined the actuarial assumptions, then the excess will be carried forward with interest as a deficit to be recovered in future years.

D. Distribution of Unallocated Reserve

D.1 Unallocated reserve will be paid to the GIB in 84 monthly payments plus a final payment.

D.2 Each monthly payment will reflect investment cash flow including principal and interest payments.