

6.6 Cost Proposal Questions

6.6.1 Claim Charges

- a. Indicate your method of reserving for the following claims:
 - i. Unreported claims.
 - ii. Pending claims.
 - iii. Claims in litigation.
- b. Describe your method of reserving for waiver of premium disability claims. In particular, indicate whether you use a tabular basis for reserving, taking into account reductions in insurance at age 65 and over, or some other basis.
- c. How is your disability reserve adjusted on:
 - i. Death?
 - ii. Recovery?
 - iii. Reduction in amount of term insurance on attainment of age 65 and age 66?
- d. What is your charge to the plan for conversion on termination of employment? What plans of insurance are available through conversions?

6.6.2 Expense Charges

All of the Insurer duties stated or implied in the specifications must be covered by your retention formula. Please be very specific about any costs which will be charged on an actual basis. For example, "3% of policy year earned premium plus actual costs of printing employee booklets and marketing materials plus actual cost of annual independent audit."

- a. What commission scale will you apply to this contract?
- b. State your retention formula (excluding state premium taxes) for the State employees Plan for:
 - i. Pre-retirement insurance.
 - ii. Post-retirement insurance.
- c. State your retention formula (excluding state premium taxes) for the Local government employees Plan for:
 - i. Pre-retirement insurance.
 - ii. Post-retirement insurance.
- d. State your retention formula (excluding state premium taxes) for the State spouse and dependents plan.
- e. State your retention formula (excluding state premium taxes) for the Local government spouse and dependents plan.

6.0 Cost Proposal - Questions

- f. Changes that cause the retention formula to vary:
 - i. Describe how your retention formulas would vary with a 10% increase or decrease in claim charges.
 - ii. How do your retention formulas vary with changes in the number of employees and average amounts of insurance?
 - iii. What other changes in the plan would affect your retention formulas?
- g. State premium tax charges
 - i. What are your state premium tax charges?
 - ii. Describe the impact of the Wisconsin premium tax provision regarding dividend accumulation funds on your premium tax charges.
- h. Are your expense charges guaranteed? If so, for how long?
 - i. If you are willing to provide the 2.4% reinsurance of the employee coverage, including the stop loss provision for the contract, please indicate the charge for doing so, if it will be charged to the Plan, and how.

6.6.3 Interest Credits

- a. State the future interest rate guarantees and/or the methods that will be used to arrive at future crediting rates for reserves.
- b. Indicate your method of crediting interest on policy reserves.
- c. If you use the investment year method, provide a written description of the method. If you do not use the investment year method, describe the method used and provide a 10 year historical summary of actual returns.
- d. If you use the investment year method, please complete the grid of old and new money rates for the past 10 years. Complete the following table:

RATE AND YEAR OF CREDIT

Year of Deposit	2002	2001	2000	1999	1998	1997	1996	1995	1994	1993
2002		X	X	X	X	X	X	X	X	X
2001			X	X	X	X	X	X	X	X
2000				X	X	X	X	X	X	X
1999					X	X	X	X	X	X
1998						X	X	X	X	X
1997							X	X	X	X
1996								X	X	X
1995									X	X
1994										X
1993										

6.0 Cost Proposal - Questions

- e. Using the above investment year method of crediting interest rates, based on your actual experience, assume that you received \$1,000 of net cash flow on January 1 of each of the above ten years. Project the account balance based on the ten \$1,000 deposits as of December 31, 2002. Assume your normal investment year rates net of whatever expenses are withdrawn from those rates. Assume there are no other expenses or withdrawals from the fund.
 - f. Explain and illustrate your method of crediting interest in a year in which the reserves experience negative cash flow.
 - g. Explain how many years are maintained on the investment year grid, what happens to funds held longer than the period, and how old funds are rolled to new years.
 - h. Describe all expense factors associated with the invested assets. Classify them into two groups:
 - i. Those investment expenses which are netted out of the credited interest rate before the rate is determined.
 - ii. Those investment charges which are charged directly against the fund.
 - i. Is your interest crediting basis consistent with your interest crediting basis for similar funds held under other group life insurance policies? If not, explain.
- 6.6.4** Describe your discontinuance provisions in the event of contract termination using the following two scenarios:
- i. Assume the State will transfer the assets in 84 approximately equal payments over a seven year period. Assume the first payment will be made at termination and the remaining payments will be made in monthly-intervals. Be certain to describe the method of crediting interest during any pay out period. (See Administrative Agreement article 4.9 and Appendix D Section VI.)
 - ii. Assume the State wishes to transfer all assets in a lump sum on the date of discontinuance.
- 6.6.5** Describe in detail your method for determining dividends in the final policy year on contract termination. What parts of the calculation differ from a dividend calculation for a continuing plan?
- 6.6.6** Are your premium rates guaranteed? If so, for how long?
- 6.6.7** Are the stop-loss premium rates you would place in the policy guaranteed? If so, for how long?

6.0 Cost Proposal - Questions

- 6.6.8** Are there any additional administration fees that have not been addressed elsewhere in the RFP? If so, please explain.
- 6.6.9** Are there any implementation costs that have not been addressed elsewhere in the RFP? Do proposed costs include all current and future functions necessary for assuming administration of the WPE life insurance program as outlined in Section 4.2 and Appendix C? If not, please explain.