



## Legislative Fiscal Bureau

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April 26, 2011

Joint Committee on Finance

Paper #402

### Close Enrollment in the State Life Insurance Fund (Insurance)

[LFB 2011-13 Budget Summary: Page 265, #11]

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#### CURRENT LAW

The Office of the Commissioner of Insurance administers three segregated insurance funds: the state life insurance fund (SLIF), the local government property insurance fund, and the injured patients and families compensation fund. These funds serve specific purposes as outlined in state statute.

SLIF offers life insurance policies of up to \$10,000 to Wisconsin residents. The fund is financed by premiums paid by policyholders and returns on investments held by the fund, and is not subsidized with GPR or PR (insurance fee) revenue. The fund offers five types of policies: term life insurance and four types of whole life insurance policies. Term life insurance covers a policyholder during a specified period, and pays a benefit if the policyholder dies during that period. Whole life insurance offers coverage for the policyholder's lifetime, and accumulates a cash value that is returned to the policyholder if the policy is surrendered prior to death or provided to the policyholder's beneficiary. State statutes prohibit the fund from using commissioned agents for the sale of these policies.

As of December 31, 2010, the fund had 27,421 active policies, for a total of \$209.7 million of insurance in force.

#### GOVERNOR

Prohibit SLIF from accepting applications for life insurance coverage on or after the effective date of the bill, and specify that the fund may only issue policies on the basis of applications received before the effective date of the bill. This provision would close the fund to new enrollees, but would not terminate existing policies. The administration estimates that the closure of the fund to new enrollees would decrease premium revenues to the fund by \$70,000 SEG annually.

## DISCUSSION POINTS

1. The fund was created in 1911 to provide life insurance to Wisconsin residents. The administration argues that, while SLIF was originally created to ensure that state residents had access to life insurance products, the situation no longer exists due to a range of life insurance products available in the private market.

2. Initially, individuals could purchase policies of up to \$1,000. That maximum policy amount has been changed twice, with the current maximum of \$10,000 per policyholder set in 1961. Premiums depend on the age and gender of the policyholder, the type of policy purchased, and the amount of coverage for that policy. Based on the current number of policyholders and the total insurance in force, the average coverage amount is roughly \$7,600 per policyholder.

3. Attachment 1 provides the premium schedule for SLIF coverage, by plan type and gender. The plan types shown are the four whole life insurance policies (ordinary life, twenty payment life, paid at age 65, and single premium), and the term life insurance policy (term to age 65) offered by the fund.

4. In 2010, the fund collected a total of \$1,688,900 in premiums. For calendar year 2009 (the most recent data available for the total market), premiums collected by the fund comprised 0.084% of the premiums written for the total life insurance market in Wisconsin. As shown in Table 1, total participation, insurance in force, and premiums collected have steadily declined over the past decade.

**TABLE 1**

**Participation, Premiums, and Insurance in Force, 2000–2010**  
**(\$ in Millions)**

<u>Calendar Year*</u>	<u>Number of Policies</u>	<u>Premiums Collected</u>	<u>Insurance In Force</u>
2000	30,660	\$2.55	\$227.55
2001	30,407	2.46	226.43
2002	30,173	2.36	225.36
2003	29,988	2.38	224.73
2004	29,713	2.26	223.49
2005	29,467	2.18	222.33
2006	29,046	2.09	219.89
2007	28,615	2.00	217.29
2008	28,195	1.90	214.85
2009	27,822	1.91	212.40
2010	27,421	1.69	209.75

\*Information provided as of December 31 of given year.

5. OCI maintains certain demographic information on SLIF policyholders. Table 2 shows the age distribution of policyholders at the end of 2010, and Attachment 2 shows the number

of active policies by county of residence as of April 15, 2011. Information on policyholder income is not collected, as fund premiums do not depend on income. However, based on the low cost and modest coverage provided by SLIF policies, it is possible that these policies would particularly appeal to individuals with low income.

**TABLE 2**

**Age Distribution of SLIF Policyholders (As of December 31, 2010)**

<u>Age Range</u>	<u>% of Policyholders</u>
<10 years old	3.7%
10 - 20	9.0
21 - 30	13.5
31 - 40	14.0
41 - 50	16.1
51 - 60	19.9
61 - 70	12.6
71 - 80	6.7
>80 years old	4.5

6. The fund offers policies that are not pre-need (that is, not specifically designed to fund the predetermined expenses of a funeral, cremation or burial), are not group coverage, and do not require a membership (such as coverage offered through a fraternal organization). OCI indicates that the type of policy provided by the fund is not offered in the private sector for coverage of \$10,000 or less (the current policy maximum). OCI also indicates that, based on information on domestic life insurers, coverage of the type offered by SLIF is not available from private insurers in amounts less than \$25,000 per policy. For these reasons, it does not appear that SLIF policies currently compete with policies offered by private insurance companies.

7. Under the Governor's current recommendations, new applications for coverage under the fund would cease, but individuals who currently hold SLIF policies would be able to maintain those policies. Based on past legal interpretations by OCI staff, legislative action to terminate existing policies could potentially be challenged on the grounds that current policyholders have a contractual right and a right as beneficiaries to the continuation of the fund.

8. If the Governor's recommendation is adopted, the fund would fully close at some point in the future after all current SLIF policies are redeemed. However, it is not known at this time when enrollment in SLIF would be anticipated to reach zero. OCI indicates that projecting the date of full termination of all fund policies would require additional analysis by the fund's actuary outside the scope of the current contract. However, as 12.7% of current SLIF policyholders are 20 years old or younger, the full closure of the fund would not be anticipated to occur for decades.

9. The fund's income depends upon premiums collected, interest on policy loans, and earnings on investments. State statutes require that the net profits of the fund (in excess of a specified ratio of surplus to assets) must be distributed to policyholders. The administration

estimates that the closure of the fund to new enrollees would decrease premium revenues to the fund by \$70,000 SEG annually. Without continued premium income of new policyholders, the surplus held by the fund would be anticipated to decrease over time, reducing the amount the fund is able to pay to policyholders.

10. If the Committee determines that the fund no longer serves a useful purpose, it could adopt the Governor's recommendation to close the fund to new enrollment (Alternative #1).

11. The bill would close enrollment in the fund beginning on the general effective date of the bill (the day after the publication date). The Committee could modify the Governor's recommendation to provide a period of time prior to closure during which additional Wisconsin residents could enroll in the fund, or current enrollees could increase coverage they hold under the fund (Alternative #2). Under this alternative, enrollment would be closed to the fund beginning on the first day of the twelfth month after the bill's general effective date.

12. However, in light of the unique type and amount of coverage offered by SLIF, the Committee may wish to delete the Governor's recommendation from the bill. If the Committee wishes to continue current law, it could delete these provisions (Alternative #3). Maintaining current law would increase estimated segregated premium revenue by approximately \$70,000 annually, compared to the Governor's bill, as new policyholder premium payments would continue to be paid to into the fund

13. As previously indicated, coverage of the type and amount currently offered through the fund is not available on the private market, and OCI believes that the type of coverage offered by SLIF would not overlap with that offered on the private market for coverage up to \$25,000. The Committee could delete the Governor's recommendation, and increase the maximum policy amount set in statute to \$20,000 (Alternative #4). This proposal may encourage more individuals to purchase SLIF policies with coverage limits that do not appear to be available currently. Increasing the maximum policy amount would likely increase the amount of revenue paid into the fund, but this amount would depend on the amount of coverage current and future policyholders would choose to purchase.

## **ALTERNATIVES**

1. Approve the Governor's recommendation to close enrollment in the state life insurance fund (SLIF), beginning on the effective date of the bill.

2. Modify the Governor's proposal by making this provision effective on the first day of the twelfth month after the bill's general effective date.

<b>ALT 2</b>	<b>Change to Bill</b>
	Revenue
SEG	\$70,000

3. Delete the Governor's recommendation to close SLIF enrollment.

<b>ALT 3</b>	<b>Change to Bill</b>
	Revenue
SEG	\$140,000

4. Delete Governor's recommendation to close SLIF enrollment. In addition, increase the maximum limit on SLIF policies from \$10,000 to \$20,000.

<b>ALT 4</b>	<b>Change to Bill</b>
	Revenue
SEG	\$140,000

Prepared by: Sam Austin  
Attachment



## ATTACHMENT 1

### Premium Schedule for SLIF Policies Annual Premiums per \$1,000 of Coverage

Age at Issuance	Whole Life Insurance Policies								Term Insurance	
	Ordinary Life		Twenty Payment		Paid at Age 65		Single Premium		Term to Age 65	
	Male	Female	Male	Female	Male	Female	Male	Female	Male	Female
0	\$7.37	\$6.92	\$9.38	\$8.64	\$7.45	\$7.01	\$101.39	\$91.39	-	-
1	7.45	7.00	9.52	8.78	7.54	7.10	103.13	93.10	-	-
2	7.55	7.09	9.69	8.92	7.65	7.20	105.29	95.02	-	-
3	7.66	7.18	9.86	9.08	7.77	7.29	107.69	97.11	-	-
4	7.76	7.27	10.05	9.23	7.88	7.39	110.28	99.28	-	-
5	7.87	7.36	10.23	9.39	8.00	7.49	112.97	101.51	-	-
6	8.01	7.48	10.45	9.58	8.15	7.62	115.84	103.96	-	-
7	8.15	7.60	10.67	9.76	8.31	7.75	118.76	106.45	-	-
8	8.29	7.71	10.90	9.95	8.46	7.88	121.75	108.96	-	-
9	8.43	7.83	11.13	10.14	8.62	8.00	124.80	111.52	-	-
10	8.57	7.94	11.36	10.33	8.77	8.13	127.92	114.14	-	-
11	8.75	8.09	11.64	10.56	8.97	8.30	131.40	117.06	-	-
12	8.94	8.23	11.91	10.78	9.17	8.46	134.92	120.01	-	-
13	9.12	8.37	12.19	11.01	9.37	8.62	138.46	123.01	-	-
14	9.29	8.51	12.45	11.23	9.56	8.79	142.03	126.03	-	-
15	9.45	8.65	12.71	11.46	9.75	8.95	145.54	129.08	\$6.77	\$6.19
16	9.65	8.82	13.00	11.71	9.97	9.15	149.34	132.44	6.85	6.25
17	9.84	8.99	13.28	11.97	10.20	9.35	153.12	135.86	6.92	6.31
18	10.03	9.16	13.56	12.23	10.42	9.55	156.88	139.35	6.98	6.36
19	10.22	9.33	13.85	12.49	10.65	9.75	160.70	142.89	7.05	6.41
20	10.42	9.50	14.14	12.76	10.89	9.96	164.61	146.51	7.11	6.46
21	10.65	9.70	14.46	13.06	11.16	10.21	168.82	150.47	7.18	6.53
22	10.88	9.91	14.79	13.37	11.44	10.47	173.17	154.53	7.25	6.59
23	11.12	10.12	15.12	13.68	11.73	10.73	177.64	158.69	7.32	6.66
24	11.36	10.33	15.47	14.00	12.03	11.01	182.25	162.97	7.40	6.72
25	11.61	10.55	15.82	14.32	12.34	11.29	186.98	167.35	7.47	6.78
26	11.89	10.81	16.20	14.68	12.69	11.62	192.00	172.06	7.55	6.87
27	12.18	11.07	16.59	15.05	13.07	11.96	197.13	176.89	7.63	6.95
28	12.48	11.34	16.99	15.42	13.46	12.32	202.41	181.83	7.71	7.03
29	12.79	11.61	17.41	15.81	13.87	12.69	207.88	186.90	7.80	7.11
30	13.12	11.89	17.84	16.20	14.30	13.07	213.55	192.09	7.90	7.19
31	13.49	12.22	18.32	16.63	14.80	13.52	219.60	197.66	8.01	7.32
32	13.89	12.56	18.81	17.08	15.33	14.00	225.86	203.36	8.13	7.45
33	14.29	12.91	19.32	17.53	15.89	14.50	232.33	209.20	8.26	7.58
34	14.71	13.26	19.84	18.00	16.48	15.03	239.01	215.18	8.39	7.70

Age at Issuance	Whole Life Insurance Policies								Term Insurance	
	Ordinary Life		Twenty Payment		Paid at Age 65		Single Premium		Term to Age 65	
	Male	Female	Male	Female	Male	Female	Male	Female	Male	Female
35	\$15.15	\$13.63	\$20.38	\$18.47	\$17.11	\$15.58	\$245.89	\$221.29	\$8.52	\$7.83
36	15.66	14.06	20.99	19.00	17.84	16.22	253.17	227.74	8.69	7.96
37	16.20	14.50	21.61	19.55	18.62	16.90	260.64	234.35	8.86	8.09
38	16.76	14.96	22.25	20.12	19.45	17.63	268.31	241.12	9.03	8.22
39	17.34	15.44	22.92	20.70	20.34	18.41	276.16	248.06	9.20	8.36
40	17.94	15.94	23.60	21.30	21.29	19.25	284.21	255.19	9.38	8.50
41	18.58	16.47	24.35	21.96	22.35	20.19	292.65	262.75	9.61	8.68
42	19.25	17.02	25.11	22.64	23.50	21.20	301.27	270.50	9.85	8.87
43	19.94	17.59	25.90	23.34	24.74	22.30	310.06	278.44	10.09	9.05
44	20.66	18.19	26.71	24.06	26.08	23.50	319.01	286.56	10.32	9.25
45	21.40	18.80	27.55	24.81	27.55	24.81	328.10	294.86	10.55	9.44
46	22.20	19.48	28.40	25.59	29.19	26.28	337.53	303.59	10.85	9.74
47	23.05	20.18	29.29	26.39	31.00	27.91	347.14	312.49	11.17	10.04
48	23.93	20.92	30.22	27.22	33.02	29.70	356.95	321.55	11.52	10.35
49	24.87	21.67	31.19	28.07	35.28	31.69	367.04	330.75	11.89	10.66
50	25.86	22.46	32.21	28.94	37.83	33.93	377.36	340.08	12.28	10.98
51	26.91	23.28	33.24	29.80	40.73	36.53	388.15	349.79	12.78	11.44
52	28.00	24.13	34.30	30.68	44.03	39.50	399.14	359.62	13.31	11.90
53	29.15	25.02	35.40	31.59	47.85	42.94	410.29	369.57	13.86	12.38
54	30.35	25.93	36.55	32.52	52.31	46.95	421.58	379.63	14.42	12.88
55	31.60	26.88	37.73	33.47	57.60	51.72	432.96	389.80	14.99	13.38
56	33.12	27.97	39.12	34.51	-	-	444.64	400.29	-	-
57	34.72	29.10	40.58	35.59	-	-	456.39	410.87	-	-
58	36.43	30.29	42.13	36.70	-	-	468.28	421.54	-	-
59	38.25	31.54	43.77	37.86	-	-	480.33	432.31	-	-
60	40.18	32.85	45.50	39.07	-	-	492.52	443.19	-	-
61	42.21	34.30	47.27	40.36	-	-	505.01	454.31	-	-
62	44.34	35.84	49.13	41.72	-	-	517.50	465.55	-	-
63	46.58	37.47	51.08	43.15	-	-	529.92	476.91	-	-
64	48.95	39.19	53.16	44.66	-	-	542.28	488.39	-	-
65	51.47	41.02	55.37	46.27	-	-	554.57	499.99	-	-
66	54.33	43.13	57.89	48.11	-	-	568.68	512.35	-	-
67	57.40	45.38	60.63	50.08	-	-	582.90	524.83	-	-
68	60.72	47.78	63.61	52.20	-	-	597.24	537.43	-	-
69	64.30	50.35	66.88	54.47	-	-	611.72	550.13	-	-
70	68.18	53.10	70.45	56.91	-	-	626.34	562.91	-	-
71	-	-	-	-	-	-	641.03	577.03	-	-
72	-	-	-	-	-	-	655.68	591.23	-	-
73	-	-	-	-	-	-	670.20	605.49	-	-
74	-	-	-	-	-	-	684.64	619.78	-	-
75	-	-	-	-	-	-	699.00	634.11	-	-
76	-	-	-	-	-	-	713.28	648.46	-	-
77	-	-	-	-	-	-	727.42	662.81	-	-
78	-	-	-	-	-	-	741.34	677.15	-	-
79	-	-	-	-	-	-	754.91	691.47	-	-
80	-	-	-	-	-	-	768.10	705.75	-	-

## ATTACHMENT 2

### Active SLIF Policies, by County of Residence As of April 15, 2011

<u>County</u>	<u>Number of Active Policies</u>	<u>County</u>	<u>Number of Active Policies</u>
Adams	22	Milwaukee	3,843
Ashland	34	Monroe	48
Barron	72	Oconto	60
Bayfield	44	Oneida	136
Brown	795	Outagamie	592
Buffalo	26	Ozaukee	669
Burnett	11	Pepin	9
Calumet	90	Pierce	58
Chippewa	117	Polk	49
Clark	54	Portage	227
Columbia	341	Price	24
Crawford	10	Racine	642
Dane	3,868	Richland	36
Dodge	260	Rock	388
Door	133	Rusk	25
Douglas	86	St. Croix	86
Dunn	91	Sauk	212
Eau Claire	326	Sawyer	36
Florence	8	Shawano	80
Fond Du Lac	302	Sheboygan	253
Forest	23	Taylor	9
Grant	87	Trempealeau	43
Green	104	Vernon	64
Green Lake	45	Vilas	82
Iowa	93	Walworth	216
Iron	19	Washburn	24
Jackson	29	Washington	792
Jefferson	186	Waukesha	2,917
Juneau	38	Waupaca	126
Kenosha	284	Waushara	50
Kewaunee	45	Winnebago	554
La Crosse	241	Wood	186
Lafayette	24	Resides Outside of Wisconsin/ ZIP Code Unavailable*	<u>5,937</u>
Lafayette	24		
Langlade	65		
Lincoln	108		
Manitowoc	244	<b>Total</b>	<b>27,296</b>
Marathon	368		
Marinette	88		
Marquette	40		
Menominee	2		

\*Policyholders who reside outside of Wisconsin were state residents at the time of purchase, but have subsequently moved from the state. This total includes 446 policies where the ZIP code of the policyholder is unavailable.