



# Memorandum

**TO:** HONORABLE MAYOR  
AND CITY COUNCIL

**FROM:** Mark Danaj

**SUBJECT:** SEE BELOW

**DATE:** 05-14-09

Approved

*Christine J. Shippey*

Date

*6/12/09*

**SUBJECT: APPROVAL OF A RESOLUTION TO NEGOTIATE AND EXECUTE AN AGREEMENT WITH PRUDENTIAL INSURANCE COMPANY OF AMERICA FOR A GROUP PLAN TO MAKE LONG-TERM CARE INSURANCE SERVICES AVAILABLE TO CITY OF SAN JOSÉ EMPLOYEES, RETIREES AND THEIR DEPENDENTS/BENEFICIARIES AND AN AGREEMENT WITH METLIFE FOR AN INDIVIDUAL POLICY PLAN TO MAKE CERTAIN LONG-TERM CARE INSURANCE SERVICES AVAILABLE TO CITY OF AN JOSÉ RETIREES AND THEIR BENEFICIARIES.**

## RECOMMENDATION

Adoption of a resolution authorizing the City Manager to negotiate and execute an agreement with Prudential Insurance Company of America for a group plan to make voluntary long-term care (LTC) insurance services available to City of San Jose Employees, Retirees and their dependents/beneficiaries for the period of July 1, 2009 through June 30, 2013, and to negotiate and execute an agreement with MetLife for an individual policy plan to make voluntary California Partnership Long-Term Care (CPLTC) insurance services available to City of San Jose retirees and their beneficiaries for the period of July 1, 2009 through June 30, 2013. The Prudential group plan agreement also contains an option to renew contracts with no additional increase in rates for two additional years, through June 30, 2015.

## OUTCOME

Approval of the recommendation will allow the City Manager to negotiate and execute agreements to provide voluntary LTC insurance services to City employees, retirees and their dependents/beneficiaries.

## EXECUTIVE SUMMARY

Staff facilitated a request for proposal (RFP) process for the City's LTC services. This involved convening a committee of key stakeholders to identify issues and objectives and set selection criteria. In concluding that process, staff is recommending that Council authorize the City Manager

to negotiate and execute a group health agreement with Prudential to provide voluntary LTC insurance services to City employees, retirees and their dependents/beneficiaries and to negotiate and execute an individual policy plan agreement with MetLife to provide alternative CPLTC insurance services to City retirees and their beneficiaries.

This RFP was a success for several reasons, including the enhancement of features and coverage limits in the group plan offered by Prudential, and a rate guarantee by Prudential for coverage elected by active employees, retirees and dependents through 2015. The rate guarantee covers a four year agreement with two one-year renewal options. The RFP results also allow the City to offer retirees an alternative individual policy plan option through MetLife that provides retirees with an exemption to certain state requirements related to retirement assets through the CPLTC program explained below. Overall, no reduction to current benefit levels was experienced.

## **BACKGROUND**

The City currently maintains a single LTC group plan with multiple options available in order to provide employees and retirees with distinct choices for their LTC plan. The City's current voluntary LTC insurance plan, underwritten by Prudential, covers policy-holders' expenses related to nursing home care, residential care facilities, community and home based care and is designed to help alleviate the financial burdens of policy-holders who suffer the need to utilize such services.

Under the City's existing LTC group plan agreement with Prudential, employees and retirees can choose between six different coverage levels with the option of adding two different optional plan features. All full-time or part-time benefited employees who are actively at work are eligible to enroll in the City's LTC plan. In addition, an eligible employee's spouse or domestic partner, parents, parents-in-law, grandparents, or grandparents-in-law are eligible for LTC insurance under the City's group policy. Eligible retirees and their beneficiaries also have access to this coverage.

One of the positive attributes of the current plan is the payroll deduction capability for the retired member portion of the population. Additionally, Prudential's current group plan is "guaranteed renewable" for current City LTC plan policy-holders, and the plan is "guarantee issue" for newly hired employees, so long as enrollment is completed within 90 days from date of hire. ("Guaranteed renewable" and "guarantee issue" will be described more fully below.)

The City last conducted a request for proposals (RFP) for a group plan for LTC insurance services in 2000. In March of 2001 the City of San José first offered a voluntary LTC insurance group plan, underwritten by Prudential. This plan, still in effect, is 100% employee- and retiree-paid and is offered to the City's 10,300 employees, and retirees, including their eligible family members. The City's current agreement with Prudential expires June 30, 2011. This agreement will be terminated upon execution of the new agreement.

In addition to soliciting RFP responses from general LTC group plan providers, the City was interested in seeking responses from providers who participate in the California Partnership for Long-Term Care (CPLTC) program, an alternative option that is attractive under California State law for MediCal. Under California Senate Bill 483 (SB 483), the CPLTC program offers protections from certain provisions in California law that would otherwise require participants to spend down

their equity and other retirement assets. However, not all LTC group plan providers are participants in the CPLTC program.

In August 2008, the Employee Benefits Division of Human Resources began the process to issue a request for proposals (RFP) for ongoing voluntary LTC insurance services from “group plan” providers as well as “individual policy plans” providers.

A “group plan” allows for “case transfers” from the City’s existing group plan and allows policy-holders in the existing plan to avoid applying for a new policy under their new age (which would likely result in increased premiums for the policy-holder). A group plan also provides “guarantee issue” to all newly eligible City employees. Guarantee issue is valuable because it allows newly hired employees with pre-existing medical conditions who would otherwise be declined coverage to gain access to LTC insurance coverage.

In an “individual policy plan,” the provider contracts directly with the employee or retiree at a guaranteed rate, but the group plan advantages described above are not available. Retired members may use payroll deduction to make their premium payments under either an individual policy plan or a group plan.

## ANALYSIS

### Review Committee

The LTC request for proposal (RFP) review committee consisted of representatives from Human Resources, labor associations, City retirees, Retirement Services and the City’s employee-paid benefits broker, Derendinger Insurance Agency.

City staff facilitated the stakeholder input process. Derendinger Insurance Agency drafted the request for proposal (RFP) document and facilitated the solicitation and proposal evaluation process, securing responses to the review committee’s questions and issues regarding finalist proposals.

### Targeted Outreach

The City and broker conducted a targeted outreach to LTC providers by sending request for proposal (RFP) announcements via direct contact to industry vendors supplying services to California. Interested carriers were asked to price the current level of benefits and offer benefit level increases and/or plan enhancements and associated costs.

The City received proposals from four LTC vendors; Prudential, MetLife, Genworth, and New York Life. Only Prudential submitted a proposal that met the specifications of the RFP. Prudential does not participate in the CPLTC program. MetLife, Genworth and New York Life participate in the CPLTC program, but these providers only bid on the opportunity to offer individual policy plans.

### Evaluation Criteria

The request for proposal (RFP) was structured to mirror the following primary and secondary selection criteria developed by the review committee.

<b>Primary Criteria</b>	<b>Secondary Criteria</b>
<ul style="list-style-type: none"><li>• Match Current Benefits</li><li>• Premium Rate Structure</li><li>• Level Of Participant Disruption</li><li>• Underwriting History</li><li>• Case Transfer And Takeover Provisions</li></ul>	<ul style="list-style-type: none"><li>• Quality of Coverage And Service Capabilities</li><li>• Service Standards And Performance Guarantees</li><li>• Education And Enrollment Strategies</li><li>• References</li><li>• Rate Guarantee Period</li></ul>

### Evaluation and Selection

As described above, no provider offered the City of San José a true group plan that also participated in the CPLTC program. Only Prudential offered a true group LTC plan, but the plan did not participate in the CPLTC program.

The RFP review committee evaluated the proposers with CPLTC individual policy plans to determine whether any of the CPLTC proposers would offer discounts and modified underwriting for their individual policies since the individual policy plans do not provide guarantee issue. Programs evaluated for the CPLTC included Genworth, MetLife, and New York Life.

Prudential, MetLife, Genworth, and New York Life were invited to interview with the review committee. These providers were the only providers to submit RFP responses.

After conducting finalist interviews with all participants, the RFP review committee noted that Genworth's premiums were higher than MetLife's quoted premium structure for CPLTC. Genworth also refused to offer a discounted structure if their plan was offered alongside another provider's plan. Additionally, Genworth's plan only extended benefits to possessions of the United States, which is a limiting factor for participants that may seek long-term care services outside of this country. Based on the above factors and the fact that Genworth did not have a true group plan, the company was eliminated from further consideration.

New York Life's proposal and final interview responses were also determined to be uncompetitive. While New York Life did agree to allow the City to offer its CPLTC plan alongside other providers' plans, their pricing structure for the CPLTC was higher than MetLife's quoted prices. In addition, after a comparison of the final offers and statements made during the interview process, it was determined that New York Life had a slower claims turnaround time than its competitors and had the most conservative underwriting requirements, which may lead to a higher rate of denial for applications for coverage. When all responses and facts were taken into consideration by the committee, it was determined that New York Life was uncompetitive and the company was eliminated from further consideration.

Both Prudential and MetLife were selected as the most competitive proposers.

*Prudential's Proposal for LTC Insurance Services Group Plan*

Prudential was unmatched in its offering of a true group plan that provides "case transfer" for current policy-holders and "guarantee issue" for newly eligible active employees. In addition, Prudential rates are lower than the rates of proposing providers who participate in the CPLTC program.

Prudential's new group plan proposal for voluntary LTC insurance services contained several benefit enhancements when compared to the existing Prudential plan. Enhancements included expanded eligibility for domestic partners and adult children, a 6-year rate guarantee, improved home care benefits, a plan option with a shorter benefit waiting period, as well as expanded international coverage and in-force coverage provisions. Participants in the existing plan will have the opportunity to add the Auto Inflation option at their original "application age" as well as increasing the Daily Benefit Maximum from the current \$200 per day to include choices for \$225 and \$300 per day.

Given Prudential's competitive cost proposal, their excellent performance as the incumbent provider and the desire to avoid significant participant disruption, staff recommends Prudential Insurance as the continuing long-term care provider for City employees and retirees.

Prudential would not allow their group LTC plan to be offered to active employees alongside a non-group plan from another carrier because the competing non-group plan would not provide "guarantee issue" to all new employees. Prudential was willing to offer their group plan to retirees alongside a non-group plan, however, because both plans would require health statements from all applicants in this population prior to acceptance.

*MetLife's Proposal for a CPLTC Individual Policy Plan*

In order to ensure that City employees and retirees have access to low-cost group plan LTC insurance services while making CPLTC insurance services to those City retirees who prefer that alternative, staff chose to offer Prudential's LTC group plan to all eligible City employees and retirees and their dependents/beneficiaries and to offer a CPLTC individual policy plan to retirees and beneficiaries only.

Of the CPLTC providers who responded to the RFP, MetLife offered the best price value, and both MetLife and Prudential agreed to allow the City to offer their LTC insurance services side-by-side to City retirees. MetLife was also the only CPLTC provider offering modified underwriting for retirees. Modified underwriting allows applicants to answer fewer health questions to determine coverage eligibility, which increases enrollment opportunities for the City's retiree population.

Active employees who wish to purchase individual CPLTC policies may still do so in the marketplace with very similar terms to those offered to the City of San José by CPLTC providers through this RFP.

After consideration of all available information and responses to the request for proposal (RFP), staff recommends MetLife as the provider of CPLTC policies for retirees through MetLife's individual policy plan, while retaining Prudential as the provider of the City's LTC group plan for City employees, retirees and their dependents/beneficiaries.

## EVALUATION AND FOLLOW-UP

This project addresses the Human Resources' performance measure of the cost of benefits administration and operations per budgeted full-time employee. The Employee Benefits division of Human Resources ensures that the City of San José employees and retirees receive high quality and cost effective benefits by subjecting benefit plan providers to regular competitive processes (usually every four years).

## POLICY ALTERNATIVES

*Alternative #1: Offer only California Partnership plans to both City employees and retirees.*

**Pros:** California Senate Bill 483 (SB483) grants special protection to CPLTC policyholders, which exempts them from the real estate equity rule under Deficit Reduction Act of 2005. The State of California has formally endorsed the CPLTC program for California employers, and City employee association representatives and retirees have been asking the City to offer a CPLTC plan.

**Cons:** The CPLTC individual policy plans lack the group insurance structure that allows the City to offer a group plan with a "case transfer" for Prudential's current LTC insurance policy-holders. Without a case transfer, current insured members cannot transfer their original "application age," so they would either have to keep their existing policy or apply for a new policy paying rates associated with their current "application age" versus their original "application age." This would require many participants to pay a higher premium for coverage. In addition, the City would lose the ability to offer a plan with guarantee issue to newly eligible employees, which would prevent some employees from gaining this valuable coverage.

**Reason for not recommending:** The selection committee determined that offering only a CPLTC plan would be detrimental to the City's current LTC insurance policy-holders as well as potential participants. The loss of guarantee issue for new employees who would otherwise be declined coverage coupled with Prudential's lower rates under a group plan and the option for retirees to purchase a CPLTC plan on an individual basis was enough for the selection committee to decide against offering only a CPLTC plan.

## PUBLIC OUTREACH/INTEREST

- Criteria 1:** Requires Council action on the use of public funds equal to \$1 million or greater; **(Required: Website Posting)**
- Criteria 2:** Adoption of a new or revised policy that may have implications for public health, safety, quality of life, or financial/economic vitality of the City. **(Required: E-mail and Website Posting)**
- Criteria 3:** Consideration of proposed changes to service delivery, programs, staffing that may have impacts to community services and have been identified by staff, Council or a Community group that requires special outreach. **(Required: E-mail, Website Posting, Community Meetings, Notice in appropriate newspapers)**

June 1, 2009

Subject: Long Term Care Insurance Services

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All key stakeholders were invited to participate in the RFP process.

This recommendation was reviewed by the Benefits Review Forum on January 28, 2009 and April 22, 2009.

This memorandum is posted on the City's website for the June 23, 2009 Council Agenda.

**COORDINATION**

This memorandum has been coordinated with Retirement Services and the Office of the City Attorney.

**COST SUMMARY/IMPLICATIONS**

The total cost for this contract is estimated at \$4,000,000 over four years. The premiums are 100% employee- and retiree-funded and will not impact or require the use of City funds.

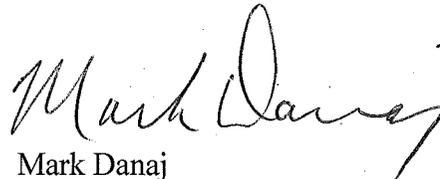
**BUDGET REFERENCE**

Fund #	Appn #	Appn. Name	RC #	Total Appn	Amt. for Contract	Adopted Budget (Page)	Last Budget Action (Date, Ord. No.)
N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A

A budget reference does not apply to this contract, as premium costs are fully funded by participants. Not-to-exceed contract amounts are not applicable. Long-term care premium payments will vary based on actual enrollment. The annual contract cost is estimated to be \$1,000,000.

**CEQA**

Not a project.



Mark Danaj  
Director, Human Resources Department

For questions please contact Jeanne Groen, Benefits Manager, at (408) 975-1428.