



Memorandum

TO: HONORABLE MAYOR
AND CITY COUNCIL

FROM: Alex Gurza

SUBJECT: SEE BELOW

DATE: October 13, 2011

Approved

Date

10/17/11

SUBJECT: AGREEMENT WITH STANDARD INSURANCE COMPANY TO PROVIDE LIFE INSURANCE AND ACCIDENTAL DEATH & DISMEMBERMENT INSURANCE (AD&D) FOR EMPLOYEES, RETIREES, AND THEIR DEPENDENTS FOR THE PERIOD OF JANUARY 1, 2012 TO DECEMBER 31, 2016.

RECOMMENDATION

Adopt a resolution authorizing the City Manager to negotiate and execute an agreement between the City and Standard Insurance Company to provide life insurance, voluntary supplemental life insurance, dependent life insurance, and accidental death & dismemberment (AD&D) insurance to employees and retirees at a total cost not to exceed \$5,354,106 for the period of January 1, 2012 to December 31, 2016.

OUTCOME

Approval of the recommendation will provide the City's employees and retirees with quality life insurance, voluntary supplemental life insurance, dependent life insurance, and accidental death & dismemberment insurance.

EXECUTIVE SUMMARY

Staff facilitated the development of a request for proposal (RFP) process for the City's life insurance and AD&D benefit programs and proposed selection criteria in conjunction with the City's benefits consultant, Buck Consultants. The process included convening an Evaluation Committee comprised of key stakeholders to identify key issues and objectives, finalize selection criteria, develop vendor questions, interview vendors, and evaluate proposal responses.

This RFP process resulted in market researched premiums and quality benefit programs for employees and retirees, estimated annual life insurance premium reductions of \$90,480 for the City, and three year rate guarantees for the City, employees, and retirees.

In concluding that process, staff is recommending that the Council authorize the City Manager to negotiate and execute an agreement with Standard Insurance Company to provide life insurance and AD&D services for City employees and retirees.

BACKGROUND

Standard Insurance Company currently provides life insurance coverage to over 8,100 City employees and retirees at a cost of approximately \$1,120,000 in premiums in 2010-2011. Of the 8,100, approximately 5,300 are employees and 2,800 are retirees. The City offers several types of life insurance, including basic life, which includes an AD&D benefit, voluntary supplemental life, and dependent life insurance.

The City last conducted an RFP for life insurance services in 2007. At that time, the Council approved staff's recommendation to secure Standard Insurance Company as the City's vendor through June 30, 2011. A RFP process was initiated in March 2011 to review new proposals for life insurance services from quality vendors at the most competitive market rate possible. On June 21, 2011, the Council authorized the City Manager to amend the current agreements with Standard Insurance Company to extend them for an additional period of six months from July 1, 2011 to December 31, 2011.

City-paid Basic Life Insurance

Basic life insurance is a City-paid benefit provided to all full-time benefited employees. The basic life insurance program provides employees with guaranteed issue, which means that the new or newly eligible employee is automatically eligible for enrollment without being subject to underwriting approval for coverage.

Basic life insurance coverage amounts provided by the City vary by bargaining group as follows:

- \$10,000 for sworn police officers and firefighters
- \$20,000 for non-management employees
- Two times annual salary for management employees

AD&D coverage is an included benefit in the basic life insurance policy. If the participant's death is due to an accident, the AD&D provision doubles the coverage amount.

Employee-paid Additional Life and Dependent Life Insurance

Additional life insurance is offered to all full-time benefited employees on a voluntary basis and premiums for elected coverage is 100% participant paid. Coverage amounts are based on an employee's annual salary, rounded to the nearest \$1,000. Options for increased, supplemental life insurance coverage amounts vary by whether the employee is a non-management or management employee:

- Non-management employee options include one times, two times, three times, or four times the employee's annual salary in coverage.
- Management coverage options include one times or two times the employee's annual salary.
-

For all employees, coverage is guaranteed approval if the employee enrolls within 30 days of the employee's date of hire or first eligibility date and coverage elected is no greater than two times the employee's annual salary. The employee may elect coverage greater than two times the employee's annual salary or may elect to enroll or increase coverage after the initial enrollment period, however such an enrollment would require an application for benefits and medical certification to be reviewed and approved through Standard Insurance Company's underwriting process.

Dependent life insurance is also offered to employees on a voluntary basis and is 100% participant paid. An employee has the option of electing a coverage amount between \$2,000 and \$10,000, in \$2,000 increments. The cost to the employee is a flat premium rates, regardless of the number of dependents covered.

Retiree-Paid Basic Life, Additional Life and Dependent Life Insurance

Basic life insurance coverage is a voluntary benefit for City Retirees and the premium cost is 100% participant paid by the retiree. Retirees may elect basic life insurance coverage, with guaranteed issue. The coverage amount that may be elected is based on the retiree's age and former bargaining unit representation. Maximum coverage amounts are shown below.

- Basic Life Insurance for Non-management retirees:
 - Maximum \$5,000 in coverage if under age 65
 - Maximum \$2,500 in coverage if age 65 or older
- Basic Life Insurance for Management retirees:
 - Maximum \$20,000 in coverage if under age 65
 - Maximum \$10,000 in coverage if age 65 through 69
 - Maximum \$5,000 in coverage if age 70 or older

At the time of enrollment in the basic life insurance, retirees may also elect dependent life insurance coverage, with guaranteed issue, in an amount of \$1,000.

A separate, voluntary supplemental life insurance coverage option is also made available to retirees in amounts ranging from \$5,000 up to \$25,000. The rates for this voluntary supplemental life insurance are based on the retiree's age. Retirees are eligible to apply for supplemental life coverage, with guaranteed issue, up to \$10,000. If retirees want \$15,000 to \$25,000 in supplemental coverage they must apply, provide a medical certification, and be approved through Standard Insurance Company's underwriting process to obtain additional coverage.

ANALYSIS

Evaluation Committee

The RFP Evaluation Committee consisted of representatives from Human Resources, the Benefits Review Forum (BRF), Retirement Services, and the San José Retired Employees Association.

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Targeted Outreach

Staff conducted a targeted outreach to 13 known life insurance providers in addition to posting the RFP on BidSync. Interested providers were asked to price the life and AD&D programs currently offered to employees and retirees.

The City received proposals from CIGNA, Dearborn National, Hartford, ING, Liberty Mutual, MetLife, Minnesota Life, Prudential, Standard Insurance Company, and Sun Life. The remaining three companies ultimately declined to provide a quote due to the inability to offer competitive pricing and/or inability to match the current plan design.

Evaluation Criteria

The RFP used the selection criteria outlined in the following table.

Selection Criteria	Weight
• Proposal Meets Scope of Work	30%
• Fee Structure (Cost) For Active Employees	25%
• Customer Satisfaction/ Firm Reputation	15%
• Fee Structure (Cost) For Retirees	10%
• Experience of Proposer/ Expertise	10%
• Local Business Enterprise	5%
• Small Business Enterprise	5%

Evaluation and Selection

Based on the above criteria, the Evaluation Committee determined the proposals from Hartford, ING, CIGNA, Liberty Mutual, Minnesota Life, Prudential, and Sun Life were the least

competitive. These companies' proposals did not match the existing benefit levels and/or the prices quoted were higher than what other proposers were offering.

The Evaluation Committee chose to interview the three remaining proposers, MetLife, Dearborn National, and Standard Insurance Company. These three companies were better able to match current benefit offerings and provided competitive rates.

During the interviews, the Evaluation Committee clarified with each of the finalists the proposed benefits and rates. All finalists were provided an opportunity to clarify and/or correct rates to insure the proposals matched the current benefits offered to City employees. Following the finalists interviews, the Evaluation Committee met to review all final information received from the proposers following the interviews. Then, each Evaluation Committee member completed an individual score sheet. The composite scores of the Evaluation Committee are contained in the table below:

Criteria	Dearborn National	MetLife	Standard Insurance
Proposal Meets Scope Of Work – Rating Spread: 0 – 30 points	19	19	30
Fee Structure (Cost) - Rating Spread: 0 – 35 points	34	29.2	29.6
Customer Satisfaction/ Firm Reputation – Rating Spread: 0 – 15 points	11.6	13.4	15
Experience Of Proposer/Expertise – Rating Spread: 0 – 10 points	9	9.6	10
Sub-Total	73.6	71.2	84.6
Local Business Enterprise – 5 points, if qualified	0	0	0
Small Business Enterprise – 5 points, if qualified	0	0	0
Total	73.6	71.2	84.6

MetLife's reputation and experience was comparable to the other finalists and their proposal offered a three year rate guarantee. MetLife's proposal provided more favorable voluntary supplemental insurance costs for employees and retirees compared to the other two finalists, but was not the lowest cost vendor for City paid basic life insurance benefits. In the finalist interviews, MetLife agreed to include benefits not contained in the original proposal, which are currently provided to City employees and retirees, such as inclusion of suicide provisions in the voluntary life plan. MetLife was, however, unable to assist with the seamless coordination of premium waivers for employees who are on long-term leaves, which will require staff to track and monitor that employees are filing a separate application for premium waiver. The Evaluation Committee determined that the quality of account management and participant claim services were the least favorable of the three finalists. The evaluation of quality of services, coupled with the higher basic life insurance costs which would be paid by the City, resulted in the Evaluation Committee eliminating MetLife from further consideration.

Similar to MetLife, Dearborn National's reputation and experience was comparable to the other finalists and their proposal also contained a three year rate guarantee. Dearborn National's proposal also provided more favorable voluntary supplemental insurance costs for employees and retirees, but was not the lowest cost vendor for the City paid basic life insurance benefits. Dearborn National had a slightly lower rating in relation to the firm's reputation and reference checks, which raised concerns regarding claims processing issues. Similar to MetLife, Dearborn National was willing to discuss how to streamline the premium waiver benefit for employees on long-term leave to ensure these employees receive benefits, if selected as the life insurance carrier. The evaluation of quality of services, plus the higher basic life insurance costs which would be paid by the City, also resulted in the Evaluation Committee eliminating Dearborn National from further consideration.

Standard Insurance Company submitted a competitive proposal, which included a three year rate guarantee. The Standard Insurance Company proposal met the City's current plan design and was ranked as the top carrier by the Evaluation Committee for their quality of services. As the incumbent, Standard Insurance has specific experience in working with the City and its employees and retirees. Standard Insurance Company's rates overall ranked the second lowest of the three finalists, and for the basic life insurance rates, which are the rates paid by the City, were the lowest of all three finalists. The Evaluation Committee gave high marks on the quality of services provided to both the City and to participants. In selecting Standard Insurance Company, the Evaluation Committee noted that the selection preserves the benefit levels for employees and retirees and eliminates the City's cost to transition to a new vendor.

Staff recommends Standard Insurance Company's proposal based on their ability to offer comparable benefits, lowest cost basic life insurance costs, a rate guarantee for three years, employee and retiree supplemental plans offered at a reasonable, competitive cost, and quality of claims administration and customer services, which reduces staff time in administering benefits.

Key Terms of the Proposed Agreement with Standard Insurance Company

The Agreement with Standard Insurance Company will provide basic life (including AD&D coverage), voluntary supplemental life, and dependent life insurance services for all full-time benefited City employees, retirees and their dependents. The proposed rates are listed in Attachment A. The proposed rates will be guaranteed for three years and the fourth year of the contract will be based on claims experience. Standard Insurance Company provides a 10% discount when Standard is both the life insurance carrier and the long-term insurance carrier. This discount is contained in the rates shown in Attachment A. Standard Insurance Company has also provided a performance guarantee of 1% of premiums up to a maximum of \$10,000.

The term of the Agreement would be January 1, 2012 through June 30, 2016, beginning with one, six month initial term and continuing with three, one year renewal options and one, six month renewal option as outlined below:

1. Life insurance and AD&D coverage for employees, retirees, and their dependents with an initial term of six months beginning on January 1, 2012 and ending on June 30, 2012, and a total cost not to exceed \$535,411

2. Life Insurance for employees, retirees, and their dependents with an optional term of one year ending on June 30, 2013, and a total cost not to exceed \$1,070,821.
3. Life Insurance for employees, retirees, and their dependents with an optional term of one year ending on June 30, 2014, and a total cost not to exceed \$1,070,821.
4. Life Insurance for employees, retirees, and their dependents with an optional term of one year ending on June 30, 2015, and a total cost not to exceed \$1,070,821.
5. Life Insurance for employees, retirees, and their dependents with an optional term of one year ending on June 30, 2016, and a total cost not to exceed \$1,070,821.
6. Life Insurance for employees, retirees, and their dependents with an optional term of six month ending on December 31, 2016, and a total cost not to exceed \$535,411.

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).

PUBLIC OUTREACH/INTEREST

- ✓ **Criterion 1:** Requires Council action on the use of public funds equal to \$1 million or greater. **(Required: Website Posting)**
- Criterion 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)**
- Criterion 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)**

The local business community was given the opportunity to compete by posting the RFP on the BidSync website. All key stakeholders were invited to participate in the RFP process.

This recommendation was reviewed by the Benefits Review Forum on September 28, 2011.

This memorandum will be posted on the City's website for the November 1, 2011, Council Agenda.

COORDINATION

This memorandum has been coordinated with the Office of the City Attorney and City Manager's Budget Office.

COST SUMMARY/IMPLICATIONS

Attachment A compares the current costs to the proposed costs beginning January 1, 2012. Attachment A also projects the total annual cost impact for the City, employees and retirees. The projected annual costs are based on current participation and current elected insurance amounts.

The 2012 projected costs for the City paid basic life insurance, including AD&D, is \$350,510, a projected savings of \$90,480 annually. The projected cost for employee paid voluntary supplemental life and dependent supplemental life is \$387,835, a projected increase of \$30,925. The projected costs for retiree paid basic life, AD&D, dependent life, and supplemental life insurance is projected to be \$235,028, an annual increase of \$16,932.

The projected total annual cost for life insurance expenses includes estimated premiums of \$973,473, plus \$97,348 for an enrollment contingency factor of 10%, for an estimated annual cost of \$1,070,821 beginning January 1, 2012. The projected cost for the four year term of Agreement is \$4,283,284. It is anticipated that life insurance premium expenditures in 2011-2012 will remain within budgeted levels.

BUDGET REFERENCE

Fund #	Appn #	Appn. Name	Total Appn	Amt. for Contracts	Proposed 2011-2012 Budget* Page	Last Budget Action (Date, Ord. No.)
156	3224	Insurance Premiums	\$1,045,000	\$535,411	XI-11	06/21/11, 28928

* The 2011-2012 Adopted Budget was approved on June 21, 2011.

Life Insurance premium payments will vary based on enrollment, coverage elected and, for management employees, projected annual earnings.

CEQA

Not a project, PP10-066(e) Services that involve no physical changes to the environment.



Alex Gurza
Deputy City Manager

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

Attachment A: Life Insurance Premium Changes