

Council Meeting of
October 11, 2011

Honorable Mayor and Members
Of the City Council
City Hall
Torrance, California

Members of the Council:

SUBJECT: Human Resources – Approve Renewal Rates for Short Term and Long Term Disability Insurance

Expenditure: \$518,698 per year for short term and long term disability insurance

RECOMMENDATION

Recommendation of the Acting Human Resources Director that the City Council approve renewal rates for Short-Term Disability (STD) at \$0.665 per \$100 of covered payroll, and Long-Term Disability (LTD) at \$0.429 per \$100 of covered payroll with the current carrier, The Standard Insurance Company, beginning January 1, 2012 until December 31, 2012; for a total expenditure of \$518,698 per year.

Funding

Funding is available in the 2011-2012 operating budget in each department.

BACKGROUND

Since January 1, 2010, The Standard Insurance Company has been the insurer providing group short-term (STD) and long term-disability (LTD) for employees, as approved by the City Council on November 10, 2009. Both policies expire on December 31, 2011; therefore, staff requested that the carrier propose renewal rates as it is necessary to maintain coverage for employees without interruption of benefits.

ANALYSIS

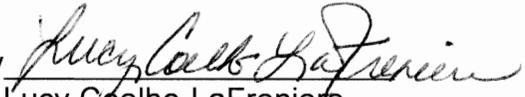
The Standard reviewed the City's claims experience for the previous 16 months, as rates are affected by the number and length of claims paid by the carrier. The

short-term disability program showed a higher utilization during 2010-11 (19 months) as compared with earlier periods in 2007-2009 (Attachment A). The Standard Insurance Company proposed renewal rates for 2012 after extended negotiations (Attachment C), at a 17.49% increase for STD from \$0.566 to \$0.665 per \$100 of covered payroll, and no increase (0%) for LTD with rates remaining at \$0.429 per \$100 of covered payroll. The additional annual cost for the short-term disability program would be \$47,069. The annual cost for STD is \$316,167 and the annual cost for LTD is \$202,531. The rates are guaranteed for one year, until December 31, 2012.

Due to the high utilization of the program, primarily short-term disability, it is unlikely that other carriers would provide more competitive rates for 2012. The final renewal rate proposed by the Standard was in-part motivated by the interest in a long-term relationship with the City. Claim experience will continue to be reviewed by staff anticipating the marketing of these policies for 2013 renewal.

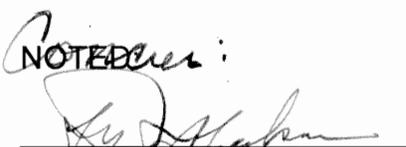
Respectfully submitted,

LEYTA O. FUENTES
HUMAN RESOURCES MANAGER

By 
Lucy Coelho-LaFreniere
Sr. Human Resources Analyst

CONCUR:


Melody Lawrence
Acting Human Resources Director


NOTED:

LeRoy J. Jackson
City Manager

Attachments:

- Attachment A – Standard STD Experience Comparison
- Attachment B – Standard STD Renewal Rates
- Attachment C – Standard STD Rate Progression

Standard - Short Term Disability Experience Comparison



Carrier	Mutual of Omaha	Standard (Current)
Reporting Period	03/2007-06/2009	01/2010-07/2011
Months Captured	30	19
Number of Claims	48	55
Claims Paid Amount	\$257,803	\$336,520
Premium Paid*	\$1,006,802	\$465,957
Loss Ratio	26%	72%

* Note: The MOO annual premium paid amount is an estimate based on the annual cost projection presented in 2009 .

Standard - Short Term Disability



Standard - Short Term Disability	# of EE's	Current 2011	Original Renewal 2012	Final Renewal 2012
Rate per \$100	824	\$0.566	\$0.675	\$0.665
Monthly Earnings		\$3,961,989	\$3,961,989	\$3,961,989
Monthly Cost		\$22,425	\$26,743	\$26,347
Annual Cost		\$269,098	\$320,921	\$316,167
\$ Change to Current			\$51,823	\$47,068
% change to Current			19.26%	17.49%

Standard -

Short Term Disability Rate Progression – Cont.



- **At the beginning of the renewal process, the renewal rate based on the STD plan experience required a 25.97% increase to \$.713/\$1,000**
- **The initial rate was reviewed by Standard’s Underwriting Department and with the goal of creating a long term relationship, they reduced the initial rate to \$.695/\$1,000, a 22.79% increase over current.**
- **Wells Fargo, the broker representing the city requested a concession to further reduce the rate to \$.675 /\$1,000 bringing it down to an overall 19.25% increase.**
- **Staff requested that Wells Fargo reach out to Standard, requesting a third review of the plan performance and renewal rate, with the goal to reduce the original renewal increase by as much as possible.**
- **Standard’s review of the City’s Short Term and Long Term Disability plan claims experience uncovered that the aforementioned plans performance worsened in the last three months requiring an increase of 33.75% to a renewal rate of \$.757/\$1,000.**
- **In the light of a worsening claims experience, Standard was only able to reduce the renewal rate by an additional 1.75% to a final rate of \$.665/\$1,000**