

Council Meeting of
October 23, 2012

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

Members of the City Council:

SUBJECT: City Manager – Approve selection of provider and Life/Accidental Death & Dismemberment and disability insurance.

Expenditure: \$542,566 per year

RECOMMENDATION

Recommendation of the City Manager that the City Council:

- 1) Approve the selection of Reliance Standard to provide Life/Accidental Death and Dismemberment (AD&D), and Disability Insurance to employees at the rates of \$0.125 cents per \$1,000 of group term Life/AD&D benefit, \$0.598 cents per \$100 of payroll for Short Term Disability (STD), and \$0.350 cents per \$100 of payroll for Long Term Disability (LTD) for a total expenditure of \$542,566 per year, for a three-year period beginning January 1, 2013 through December 31, 2015; and
- 2) Approve a (binder) payment of \$47,413 to guarantee these rates.

Funding

Funding is available in the operating budget in each department.

BACKGROUND

The City provides Term Life/AD&D (Accidental Death and Dismemberment) and disability insurance coverage to City employees eligible for benefits. The current rates for the Life/AD&D, and disability insurance programs will expire on December 31, 2012. Therefore, Human Resources staff worked with Wells Fargo Insurance Services, the City's benefits broker, to obtain proposals for plan year

2013. Thirteen carriers were invited to offer proposals, in addition to the current carrier, Standard Insurance (Attachment A). Seven declined to quote and three were not competitive. The three carriers providing the lowest cost quotes, Reliance Standard, Lincoln Financial and Cigna, were invited to participate in interviews. Staff conducted an analysis of the proposals from the three competitive proponents along with the current carrier.

ANALYSIS

The proposals were reviewed and considered in light of several critical factors:

- 1) Overall cost and financial strength (Attachment B).
- 2) Comparability of policy provisions/benefits for each line of coverage.
- 3) General and claim administration processes.
- 4) References.

Attachment B summarizes the overall cost of the proposals assessed and the financial ratings for each carrier. Reliance Standard and Lincoln Financial offered the most advantageous cost proposals over a three-year period.

The detailed quotes by line of coverage submitted by all four carriers, Reliance Standard, Lincoln Financial, Cigna and Standard Insurance are shown on attachments C, D and E.

All carriers offered comparable policy provisions/benefits for all lines of coverage Life/AD&D (Attachment F), STD (attachment G), and LTD (Attachment H).

Reliance Standard proposed rates that would provide a 13% combined annual savings of \$77,751 per year. Reliance Standard has limited experience with public agencies of comparable size to the City and would require additional support from City staff upon implementation. For this reason, it is estimated that the actual savings Reliance would render are reduced to \$69,503 during the first year of the agreement. This carrier received outstanding references (Attachment I).

Lincoln Financial proposed rates that would provide a 4% combined annual savings of \$24,242 per year. Lincoln Financial would offer a moderate advantage during implementation as the City has had prior experience with this carrier, and staff was satisfied with the services Lincoln provided in the past. This carrier also received outstanding references (Attachment J).

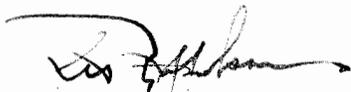
Cigna's proposed rates would result in a one-year savings of \$39,824 and 0% savings in the second and third year of the agreement. Standard Insurance submitted renewal quotes that represent a 26% overall cost increase.

A summary of the strengths of Reliance Standard and Lincoln Financial is included in attachment K as the two top finalists.

LeRoy J. Jackson
City Manager

By 
Leyta O. Fuentes
Human Resources Manager

CONCUR:


LeRoy J. Jackson
City Manager

Attachments:

- A) Carriers Requested to Quote
- B) Life & Disability Annual Cost Summary
- C) Basic Life and AD&D Financial Comparison
- D) STD Financial Comparison
- E) LTD Financial Comparison
- F) Basic Life and AD&D Benefit Comparison
- G) STD Benefit Comparison
- H) LTD Benefit Comparison
- I) Carrier References – Reliance Standard
- J) Carrier References- Lincoln Financial
- K) Carrier Pros and Cons

Carriers Requested to Quote



Carriers	Responses
Aetna	Quoted; Not Competitive
Anthem Blue Cross	Declined
Cigna	Quoted; Shown In Presentation
Guardian	Declined
MetLife	Quoted; Not Competitive
Mutual of Omaha	Declined
Lincoln	Quoted; Shown In Presentation
Principal	Quoted; Not Competitive
Prudential	Declined
Reliance Standard	Quoted; Shown In Presentation
Standard	In-force
Sunlife	Declined
United Healthcare	Declined
Unum	Declined

Life & Disability Annual Cost Summary



	Current Annual Premium (2018)	Current Annual Premium (2019)	Projected Annual Premium (2020)	Projected Annual Premium (2021)	Projected Annual Premium (2022)
Basic EE & Dep. Life Insurance & AD&D	\$108,340	\$142,344	\$136,018	\$102,804	\$98,850
Short Term Disability	\$311,989	\$361,250	\$303,075	\$302,606	\$280,555
Long Term Disability	\$199,988	\$279,704	\$181,807	\$190,665	\$163,161
Total Annual Cost	\$620,317	\$783,298	\$620,900	\$596,075	\$542,566
\$ Change to Current		\$162,981	\$583	-\$24,242	-\$77,751
% Change to Current		26%	0%	-4%	-13%
Premium Holiday (One-time)		\$0	\$40,407	\$0	\$0
Net Savings first year		\$0	-\$39,824	-\$24,242	-\$77,751
Rate Guarantee		2 years	3 years	3 years	3 years
Moody's Investors		A2 "Strong"	A2 "Strong"	A3 "Strong"	
Standard & Poor's		A "Strong"	AA-"Very Strong"	A "Strong"	
A.M. Best		A "Excellent"	A+ "Superior"	A "Excellent"	

* Note : If selected CIGNA will grant a one month premium holiday on the disability coverages that would equate to \$40,407 and yield an overall savings of 6% (\$39,824) compared to current overall cost .

Basic Life & AD&D Financial Comparison



Basic Life and AD&D	Current Standard Rate	Proposed Standard Rate	Proposed Rate	Proposed Rate	Proposed Rate
Employee Life Rate (Per \$1,000)	\$0.117	\$0.160	\$0.150	\$0.110	\$0.105
Employee Life Monthly Volume	\$65,900,000	\$65,900,000	\$65,900,000	\$65,900,000	\$65,900,000
AD&D Rate (Per \$1,000)	\$0.020	\$0.020	\$0.022	\$0.020	\$0.020
AD&D Monthly Volume	\$65,900,000	\$65,900,000	\$65,900,000	\$65,900,000	\$65,900,000
EE Life + AD&D Rate (Per \$1,000)	\$0.137	\$0.180	\$0.172	\$0.130	\$0.125
Monthly Cost	\$9,028	\$11,862	\$11,335	\$8,567	\$8,238
Total Annual Cost	\$108,340	\$142,344	\$136,018	\$102,804	\$98,850
\$ Change to Current		\$34,004	\$27,678	-\$5,536	-\$9,490
% Change to Current		31.4%	25.5%	-5.1%	-8.8%
Rate Guarantee		2 years	3 years	3 years	3 years

STD Financial Comparison



Short-Term Disability	Current Standard Rates	2012 Standard Rates	Proposed 0 form	Proposed 1 form	Proposed Reticular
STD Rate per \$100 of covered payroll	\$0.665	\$0.770	\$0.646	\$0.645	\$0.598
Covered Payroll	\$3,909,636	\$3,909,636	\$3,909,636	\$3,909,636	\$3,909,636
Monthly Cost	\$25,999	\$30,104	\$25,256	\$25,217	\$23,380
Total Annual Cost	\$311,989	\$361,250	\$303,075	\$302,606	\$280,555
\$ Annual Change to Current		\$49,261	-\$8,914	-\$9,383	-\$31,433
% Annual Change to Current		16%	-3%	-3%	-10%
Rate Guarantee		2 years	3 years	3 years	3 years

LTD Financial Comparison



Long Term Disability	Current Standard Rates	2013 Standard Rates	Proposed Class 1	Proposed Lincoln	Proposed Deferral
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LTD Rate per \$100 of covered payroll \$0.429 \$0.600 \$0.390 \$0.409 \$0.350

Covered Payroll \$3,884,775 \$3,884,775 \$3,884,775 \$3,884,775 \$3,884,775

Monthly Cost \$16,666 \$23,309 \$15,151 \$15,889 \$13,597

Total Annual Cost \$199,988 \$279,704 \$181,807 \$190,665 \$163,161

\$ Annual Change to Current \$79,716 -\$18,181 -\$9,323 -\$36,828

% Annual Change to Current 40% -9% -5% -18%

Rate Guarantee 2 years 3 years 3 years 3 years

* Note : If selected CIGNA will grant a one month premium holiday on the disability coverages that would equate to \$40,407 and yield an overall savings of 6% (\$39,824) compared to current overall cost .

Basic Life & AD&D Benefit Comparison



Benefit Amount	Benefit amount reduced at age 70 by 35% and 75 by 50%		
	Class 1 and 3: \$50K Class 2: \$100K Class 4: \$200K	Class 1 and 3: \$50K Class 2: \$100K Class 4: \$200K	Class 1 and 3: \$50K Class 2: \$100K Class 4: \$200K
Age Reduction	Benefit amount reduced at age 70 by 35% and 75 by 50%	Benefit amount reduced at age 70 by 35% and 75 by 50%	Benefit amount reduced at age 70 by 35% and 75 by 50%
Accelerated Death Benefit	80% up to \$500K	80% up to \$500K	80% up to \$500K
Waiver of Premium	Included	Included	Included
Conversion	Included	Included	Included
Portability	Included	Included	Included
Dismemberment Schedule	<ul style="list-style-type: none"> a. Life 100% b. One hand or one foot 50% c. Slight in one eye, speech, or hearing in both ears 50% d. Two or more of the Losses listed in b. and c. 100% e. Thumb and index finger of the same hand 25% f. Quadriplegia 100% g. Hemiplegia - 50% h. Paraplegia - 50% 	<ul style="list-style-type: none"> a. Life 100% b. One hand or one foot 50% c. Slight in one eye, speech, or hearing in both ears 50% d. Two or more of the Losses listed in b. and c. 100% e. Thumb and index finger of the same hand 25% f. Quadriplegia 100% g. Hemiplegia - 50% h. Paraplegia - 75% 	<ul style="list-style-type: none"> a. Life 100% b. One hand or one foot 50% c. Slight in one eye, speech, or hearing in both ears 50% d. Two or more of the Losses listed in b. and c. 100% e. Thumb and index finger of the same hand 25% f. Quadriplegia 100% g. Hemiplegia - 50% h. Paraplegia - 50%
Seathbelt Benefit	Lesser of \$50K or the AD&D Insurance benefit	\$50K	Lesser of \$50K or the AD&D Insurance benefit
Airbag Benefit	Lesser of \$10K or the AD&D Insurance benefit	\$10K	Lesser of \$10K or the AD&D Insurance benefit
Higher Education Benefit	\$5K per year up to \$20K	25% up to \$20K	\$5K (must occur outside of 150 miles from home or work)
Reparation	5K or 10%	Unlimited Benefit	\$250K
Other Provisions	<ul style="list-style-type: none"> Child Care Benefit - 5K/year up to 10K Career Adjustment Benefits - \$5000 up to 10K Occupational Assault Benefit - 50% or \$25K Public Transportation Benefit - \$200K or 100% Travel Assistance 	<ul style="list-style-type: none"> Child Care Benefit - 25% up to 10K Common Accident - \$50K Occupational Assault Benefit - \$12,500 ID Theft; Will Preparation; Healthy Rewards; Cignassurance, 	<ul style="list-style-type: none"> Travel Assistance Included. Beneficiary Connect Included. Child Care - 5K/year up to \$10K. Spouse Training Benefit - 5% up to \$10K Come Benefit - 5% Commar Carrier - Double the AD&D benefit amount Critical Illness Benefit - 10% up to \$100K No Exclusions

STD Benefit Comparison



City of New York	Police	Fire	Police	Fire
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Eligibility
 Benefit entitled employees working at least 20 hours each week
 Sworn Police (PA), Police Lieut (PL), Safety Mgmt (MS) and Fire Safety (FA) excluded
 Benefit entitled employees working at least 20 hours each week
 Sworn Police (PA), Police Lieut (PL), Safety Mgmt (MS) and Fire Safety (FA) excluded
 Benefit entitled employees working 20 hours or more per week
 Sworn Police (PA), Police Lieut (PL), Safety Mgmt (MS) and Fire Safety (FA) excluded

Eligibility Waiting Period
 1st of the month following 6 months of continuous service
 1st of the month following 6 months of continuous service
 1st of the month following 6 months of continuous service
 1st of the month following 6 months of continuous service

Coverage for Occupational Losses?
 No
 No
 No
 No

Definition of Earnings
 Gross income including sick pay, vacation pay, annual or personal leave pay or other salary continuation earned or accrued while working and cont'ds to deferred comp plans. Does not include commission, bonuses, overtime pay or extra compensation.
 Employee's annual wages or salary, excluding extra compensation
 Basic pre-disability earnings including commission excluding overtime pay and bonuses
 Employee's gross weekly salary, excluding commissions, bonuses, overtime pay and any other compensation

Integration with Sick Leave
 100% sick leave integration
 100% sick leave integration
 100% sick leave integration
 100% sick leave integration

Weekly Benefit Percentage
 66 2/3%
 66 2/3%
 66 2/3%
 66 2/3%

Maximum Benefit
 \$1,500
 \$1,500
 \$1,500
 \$1,500

Minimum Benefit
 \$25
 \$25
 \$25
 \$25

Definition of Disability
 Own Occupation or at least a 20% loss in PDE
 Own Occupation or at least a 20% loss in PDE
 Own Occupation and at least a 20% loss in PDE
 Own Occupation - No Loss Required

Elimination Period
 14 days
 14 days
 14 days
 14 days

Benefit Duration
 180 days or on the date LTD benefits become payable
 26 weeks
 26 weeks
 24 weeks

Temporary Recovery/ Recurrent Disability
 30 days
 30 days
 34 days
 30 days

Return to Work Incentive
 Allows up to 100% income replacement
 Allows up to 100% income replacement
 Allows up to 100% income replacement
 Allows up to 100% income replacement



STD Benefit Comparison

Continued

OTHER FEATURES	State of Michigan Social Security and CalPERS	City of Detroit Social Security and CalPERS	Proprietary Social Security and CalPERS	Proprietary Social Security and CalPERS
Offsets	Social Security and CalPERS	Social Security and CalPERS	Social Security and CalPERS	Social Security and CalPERS
Worksite Modification	Workplace possibility - benefit covers workplace modification at no cost to the insurer	Benefit included at no expense to the employer	Not Included	Not Included
Other Features	N/A	N/A	Discretion Benefit - 8 weeks Survivor Benefit - 3 weeks	HD Health - Full Recovery Travel Assist

This is merely a summary of benefits for comparison purposes only. Plan details are determined by individual carriers

LTD Benefit Comparison



	General Employees Police Officers	General Employees Firefighters	General Employees Sanitation Workers	General Employees Maintenance
Eligibility	Benefit entitled employees working at least 20 hours each week <i>Sworn Police (PA), Police Lieut (PL), Safety Mgmt (MS) and Fire Safety (FA) excluded</i>	Benefit entitled employees working at least 20 hours each week <i>Sworn Police (PA), Police Lieut (PL), Safety Mgmt (MS) and Fire Safety (FA) excluded</i>	Benefit entitled employees working at least 20 hours each week <i>Sworn Police (PA), Police Lieut (PL), Safety Mgmt (MS) and Fire Safety (FA) excluded</i>	Benefit entitled employees working at least 20 hours each week <i>Sworn Police (PA), Police Lieut (PL), Safety Mgmt (MS) and Fire Safety (FA) excluded</i>
Eligibility Waiting Period	1st of the month following 12 months of continuous service	1st of the month following 12 months of continuous service	1st of the month following 12 months of continuous service	1st of the month following 12 months of continuous service
Coverage for Occupational Losses?	Occupational and non-occupational	Occupational and non-occupational	Occupational and non-occupational	Occupational and non-occupational
Definition of Earnings	Gross income including sick pay, vacation pay, annual or personal leave pay or other salary continuation earned or accrued while working and contrib. to deferred comp plans. Does not include commission, bonuses, overtime pay or extra compensation.	Employee's annual wages or salary, excluding extra compensation	Pre-disability earnings immediately preceding the date of disability. Includes commissions and excludes bonuses, overtime pay or extra compensation.	Basic monthly earnings excluding bonuses, overtime and commissions. No earnings test.
Monthly Benefit Percentage	66 2/3%	66 2/3%	66 2/3% + 10% Progressive Income Benefit	66 2/3%
Maximum Benefit	\$6,500	\$6,500	\$6,500	\$6,500
Minimum Benefit	\$100 or 10% of gross LTD benefit	\$100 or 10% of gross LTD benefit	\$100 or 10% of gross LTD benefit	\$100
Definition of Disability	2 year Own Occupation or at least a 20% loss in PDE; Any Occ thereafter	2 year Own Occupation or at least a 20% loss in PDE; Any Occ thereafter	2 year Own Occupation or at least a 20% loss in PDE; Any Occ thereafter	2 year Own Occupation or at least a 20% loss in PDE; Any Occ thereafter
Integration with Sick Leave	100% backdoor integration	100% backdoor integration	100% backdoor integration	100% backdoor integration
Partial Disability	Included	Included	Included	Included
Elimination Period	180 days	180 days	180 days - Zero day residual	180 days

LTD Benefit Comparison

Continued



Benefit Category	Michigan	Program	Program	Program
LTD Rehabilitation Benefits				
Managed Rehabilitation Benefits - Provides various incentives to participate in a vocational rehabilitation plan and a disciplined approach to motivate claimant	May pay for family care expenses, job related expenses, job search expenses	Program may pay for medical, education, moving or family care expenses. No expense caps exist in the contract.	Program offers job modification, retraining and job replacement	1. Vocational Rehabilitation Assistance 2. Social Security Assistance Program 3. Job Search Assistance 4. Educational Expenses
Return to Work Benefit	Allows up to 100% income replacement 1st 12 months, then benefits reduced by 50% of work earnings	Allows up to 100% income replacement 1st 24 months	Allows up to 99% income replacement up to 24 months and 85% thereafter	Allows up to 100% replacement for the first 12 or 24 months, then benefits reduced by 50% of work earnings

Note: SSNRA: Social Security Normal Retirement Age

This is merely a summary of benefits for comparison purposes only. Plan details are determined by individual carriers

Carrier References

Reliance Standard

List of References

Customer Name	Customer Location	# Employees	Coverages
City of Orange	City of Orange	490	Group Life and AD&D Voluntary Life Voluntary AD&D Long Term Disability
City of Newport Beach	City of Newport Beach	725	Group Life and AD&D Voluntary Life
City of Santa Paula	City of Santa Paula	100	Long Term Disability Voluntary Life Voluntary AD&D
City of Fillmore	City of Fillmore	30	Group Life and AD&D Long Term Disability Group Dental
City of Palos Verdes Estates	City of Palos Verdes Estates	50	Group Life and AD&D Short Term Disability Long Term Disability

Carrier References Lincoln

List of References

Customer Name	Customer Location	# Employees	Coverages
County of Riverside	Riverside, CA	12,600	Life/AD&D and Voluntary Life
City of Garden Grove	Garden Grove, CA	586	Life/AD&D and Voluntary Life
City of Visalia	Visalia, CA	533	Life/AD&D, LTD and Voluntary Life
City of McAllen	McAllen, TX	2,250	Life/AD&D, STD, LTD and Voluntary Life
City of Huntsville	Huntsville, AL	2,181	Life/AD&D, STD, LTD and Voluntary Life

Carrier Pros and Cons

Carriers	Pros	Cons
<p>Reliance Standard</p>	<p>The lowest cost option - \$77,751/year savings</p> <p>Financial strength/stability: strong to excellent rating</p> <p>Backed by Tokyo Marine (Parent Company)</p> <p>Short implementation timeline</p> <p>References were outstanding</p>	<p>Lack of experience with large municipalities comparable size to the city</p> <p>Data feed required for telephonic claims intake (Additional administrative set up)</p> <p>Online claims intake is not an option (Potentially additional HR staff support needed)</p> <p>Claims Processing Center is located in Philadelphia, PA</p>
<p>Lincoln Financial</p>	<p>Second lowest cost option - \$24,242/year savings</p> <p>Financial strength/stability: strong to superior rating</p> <p>Previous history with the City (satisfactory with the city)</p> <p>Telephonic, online and paper claims intake (Flexibility of claim intake)</p> <p>Acceptable implementation timeline</p> <p>References were outstanding</p>	<p>Experience with large municipalities comparable size to the city is outside of CA for STD/LTD</p> <p>Claims Processing Center is located in Nebraska</p>

