

Council Meeting of
February 27, 2007

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

Members of the City Council:

SUBJECT: Recommendation to approve the selection of Mutual of Omaha to provide life and disability insurance to employees represented by TME-AFSCME beginning March 1, 2007 through December 31, 2008.

Expenditure: \$316,874

RECOMMENDATION

The Human Resources Director recommends that the City Council approve the selection of Mutual of Omaha to provide term life and disability insurance to employees represented by TME-AFSCME at a rate of 19 cents per \$1,000 of benefit for Life, 48 cents per \$10 of benefit for Short Term Disability (STD), and 67 cents per \$100 of benefit for Long Term Disability (LTD) beginning March 1, 2007 through December 31, 2008.

Funding

Funding is available in each department's operating budget.

BACKGROUND

In 2005, the City Council approved the selection of Lincoln Financial (formerly Jefferson Pilot) to provide life and disability insurance to employees represented by TME-AFSCME, separate from the rest of the employee pool. The coverage was placed through a broker identified by TME-AFSCME at an estimated savings of \$15,602 with improved benefits including a reduced 14-day waiting period for STD coverage (Attachment A). The rates for these benefits will expire on February 28, 2007.

The proposed renewal rates for 2007 were recently submitted to the City by Lincoln Financial. The proposed rates represent a 73.3% rate increase to the STD, a 15% increase to LTD, and no increase for the Life/AD&D benefit. The combined cost increase of \$83,081 (31%) would exceed the previously achieved savings. Furthermore, the proposed rates are guaranteed for a reduced period of 11 months.

Per Council direction of January 25, 2005 (Attachment A), if costs increased for the STD benefit, the waiting period would return to 30-days to maintain coverage for employees represented by TME-AFSCME. To explore alternative options, staff requested a market survey using ABD Insurance and Financial Services, the broker handling the placement of insurance benefits for the rest of the employee pool. The marketing results show that Mutual of Omaha offered the most competitive annual pricing of \$316,874 for the combined insurance coverage for Life/AD&D, STD and LTD at the current level of benefits as compared with the proposed cost from Lincoln Financial of \$351,870. Mutual

of Omaha guaranteed rates for 22 months. A summary of the market results is shown on attachment B, and attachment C provides a summary chart comparing the benefit provisions.

ANALYSIS

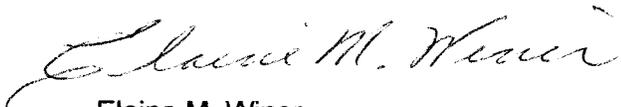
TME-AFSCME was advised that in view of the cost increases proposed by the carrier and pursuant to Council direction on January 15, 2005, they could continue coverage with Lincoln Financial reverting to a 30-day waiting period for STD. They were also offered the alternative of receiving coverage from the carrier that submitted the lowest quote (Mutual of Omaha). Under this alternative employees represented by TME-AFSCME would maintain the 14-day waiting period for STD, and the City would assume full administration for the current and future provision of these benefits (Attachment D). TME-AFSCME officers agreed to the second alternative effective March 1, 2007 (Attachment E).

Respectfully submitted,

ELAINE M. WINER
Human Resources Director


By Leyta O. Fuentes
Human Resources Manager

CONCUR:



Elaine M. Winer
Human Resources Director


LeRoy J. Jackson
City Manager

Attachments:

- A. Council Item of January 25, 2005
- B. Agreement pertaining to Certain Benefits
- C. Summary of Marketing Results
- D. Benefit Comparison Lincoln Financial Vs Mutual of Omaha
- E. Letter to TME-AFSCME on Renewal Rates and Implementation

Council Meeting of
January 25, 2005

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

Members of the City Council:

SUBJECT: Recommendation that the City Council approve the selection of Jefferson Pilot Financial to provide life and disability insurance to employees represented by TME-AFSCME beginning February 1, 2005.

Expenditure: \$258,319

RECOMMENDATION

The Human Resources Director recommends that the City Council approve the selection of Jefferson Pilot Financial to provide term life and disability insurance to employees represented by TME-AFSCME at a rate of 20 cents per \$1,000 of benefit for Life, 25 cents per \$10 of benefit for Short Term Disability (STD), and 68 cents per \$100 of benefit for Long Term Disability (LTD) beginning February 1, 2005. It is further recommended that the City Council approve a binder payment of \$21,037.23 to guarantee these rates for two years and that the savings of \$30,281 be placed on a reserve to address future rate fluctuations.

Funding

Funding is available in the 2004-05 operating budget in each department.

BACKGROUND

In 2003, Human Resources Department staff requested quotes from eight insurance carriers and confirmed that the group rates for 2004 and 2005 were competitive for life and disability insurance for the entire City employee pool. In 2004, TME-AFSCME took the initiative to seek quotes separate from the rest of employee pool and obtained attractive rates from another carrier based only on the group demographics of these employees as claim experience data had not been collected separately. Staff conducted an analysis of the proposal for Life, STD and LTD insurance provided by the carrier TME-AFSCME identified,

Jefferson Pilot Financial. A summary of the coverage provisions and staff's analysis are included in Attachment A.

ANALYSIS

During the course of communications with a representative of Jefferson Pilot, staff became aware that three items required further review. An analysis of these items follows:

1) Two year rate guarantee.

The quote for STD was guaranteed for one year only in contrast with the Life and LTD that were guaranteed for two years. This has been resolved as the carrier provided staff with a revised quote. The 2-year quote will bring the annual projected cost for STD to \$73,396 a difference of 8.7% over the original quote, and postpones the horizon for an anticipated increase that will likely result from actual claim experience to the renewal of 2007. In addition, the 2-year period will keep renewal on the same schedule as the LTD and Life insurance.

2) 30-day waiting period on Short Term Disability (STD).

The carrier initially submitted a proposal with a 30-day waiting period for TME-AFSCME employees filing STD claims. The 30-day provision is consistent with the current benefit provided to all City employees, including policies administered by the associations for public safety personnel, TPOA and TFFA. Subsequently, the carrier offered TME-AFSCME a reduced waiting period of 15 days for STD claims. The following is a summary of the favorable and unfavorable factors of implementing a 15-day waiting period for STD:

Favorable factors

- Provides a higher disability benefit to employees represented by TME-AFSCME over all other groups of employees.
- Preserves employees' sick leave banks as the disability insurance benefit would start 15 days earlier.
- The employee organization desires this provision.

Unfavorable factors

- The 15-day waiting period would bring the annual cost of the STD to \$88,075, an increase of 19.9% over the initial proposal with a 30-day waiting period. The overall savings would be severely reduced to \$15,602 with the 15-day waiting period (Attachment B) as compared with overall

savings of \$30,281 when retaining the 30-day waiting period (Attachment C). Because claim experience was not available to the carrier when quotes were issued, it is anticipated that the rate renewals will reflect a moderate to high increase. A significant reduction in the savings would not leave a prudent reserve amount for future cost fluctuations.

- Under current City Policy, an employee accumulates 72 hours of sick leave per year. Unused hours carry over from year to year and accumulate to a maximum of 500 hours. This bank of time also has a cash-out or deferred value of up to 100%.

This sick leave benefit ensures continued income during the waiting period until the insurance coverage begins. At present, the average sick leave balance is 220 hours per employee. When employees have insufficient time for the 30-day period, they can also rely on vacation leave and Catastrophic Leave Program funded by time donations from other employees. In light of this structure, the 15-day waiting period for STD would be a redundant benefit.

The Human Resources Department has been the administrator of the STD benefit for over twenty years. During this history, staff has observed that about 10% of our workforce misuses the sick leave benefit depleting the balance as soon as it is accrued. When there is an unexpected illness, these employees are not prepared and do suffer a wage loss. Often, this same group of employees file for disability coverage when a workers' compensation claim is in dispute and the outcome is pending. By reducing the 30-day waiting period to 15 days, the City will be reinforcing behavior that negatively impacts productivity and causes increased labor costs due to unplanned absences.

- Providing a reduced waiting period on STD for only one group of employees would create a perception of uneven treatment among employees.

For the above reasons, staff recommends the 30-day waiting period with a two-year rate for STD.

3) Retiree Life Insurance Coverage.

TME-AFSCME requested that Jefferson Pilot include in the proposal life insurance coverage for retired group members. The carrier's proposal provides for such coverage to dues-paying retirees at the same premium rate as for active employees. The cost of this coverage would be paid by eligible retirees after the effective date of the plan. Offering this coverage would not bear additional direct costs to the City; therefore, the only issue is the

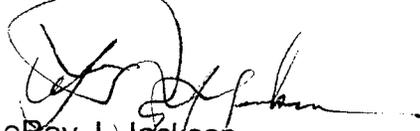
procurement, administration and premium collection from retirees. Staff has been advised by the carrier that TME-AFSCME will be responsible for all administrative activities related to this benefit. As this will be an ancillary benefit available to the employee organization through the City's master contract with Jefferson Pilot, staff recommends to go forward with the retiree Life Insurance coverage contingent upon the City Attorney's review.

Respectfully submitted,



Elaine M. Winer
Human Resources Director

CONCUR:

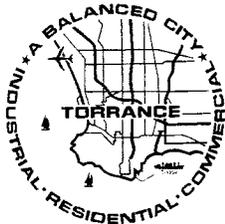


LeRoy J. Jackson
City Manager

CITY MANAGER'S NOTE: If the City Council decides to modify the policy to implement the lower 15 waiting period provisions, it is recommended that the TME-AFSCME MOU be modified with the consent of TME-AFSCME agreeing to return to the 30-day waiting period if necessary to maintain coverage or the established rate. Supplementals to this coverage would continue to be based on the City's 30-day policy.

Attachments:

- A. Analysis of Proposal by Jefferson Pilot Financial
- B. City Cost with STD at 15-day Waiting Period, 2-year Rate
- C. City Cost with STD at 30-day Waiting Period, 2-year Rate



CITY OF
TORRANCE

HUMAN RESOURCES DEPARTMENT
ELAINE M. WINER, DIRECTOR

February 21, 2007

Jeannie Moorman
President
TME-AFSCME Local 1117, AFL-CIO
P.O. Box 444
Torrance, CA
90508

LEYTA O. FUENTES
HR MANAGER, OPERATIONS

MELODY P. LAWRENCE
HR MANAGER, RECRUITMENT

RANDALL SELLERS
RISK MANAGER

PATRICIA D. UNANGST
WORKFORCE DEV. MANAGER

Re: Agreement Pertaining to Certain Insured Benefits

Dear Ms. Moorman,

Attached is a copy of the agreement executed last week in which TME-AFSCME agreed to utilize Mutual of Omaha, instead of Lincoln Financial, as the insurance carrier providing Long-Term Disability, Short-Term Disability, and Life/Accidental Death and Dismemberment Benefits beginning March 1, 2007. Mutual will also offer Supplemental Life Insurance. Also, as per our letter of February 8, 2007, the City will assume full administration for the current and all future provision of these benefits.

This agreement is subject to City Council approval. The Council Item pertaining to this matter is scheduled for the February 27, 2007 City Council Meeting.

Sincerely,


Leyta Fuentes
Human Resources Manager


Randall Sellers
Risk Manager

C: Jason Schwartz, Secretary, TME-AFSCME

February 14, 2007

Agreement Pertaining to Certain Insured Benefits

The City and the Torrance Municipal Employees – AFSCME Local 1117 hereby agree that the City will provide the following benefits for the period of March 1, 2007 through December 31, 2008:

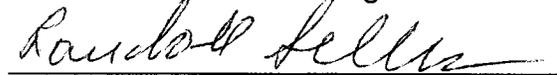
- Term Life Insurance and Accidental Death and Dismemberment Coverage in the amount of \$50,000.
- Short-Term Disability Insurance with a fourteen-day elimination (waiting) period.
- Long-Term Disability Insurance.
- Make available Voluntary Supplemental Life Insurance to employees represented by TME-AFSCME.
- Life, Accidental Death and Dismemberment, Short-Term Disability, Long-Term Disability and Voluntary Life Insurance are subject to the terms and conditions in each of the respective policies underwritten by the insurance carrier.
- Coverage provided by Mutual of Omaha and placed by ABD Insurance and Financial Services.
- City will administer all aspects of the procurement, claims submission, billing and other related duties.

HUMAN RESOURCES DEPARTMENT

TME-AFSCME

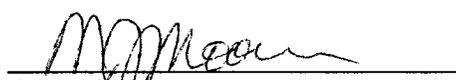

Leyta Fuentes

Human Resources Manager



Randall Sellers

Risk Manager



Jeannie Moorman

President



Jason Schwartz

Secretary



City of Torrance
 Life, LTD, STD Marketing
 Proposed Effective Date: March 1, 2007

CARRIER	AM Best RATING	STANDARD & POORS RATING	RESPONSE
Aetna	A	A	Declined - Rates Not Competitive
Cigna	A-	BBB	Quoted - Not Competitive (+15%)
Hartford	A+	AA-	Quoted - Shown in Presentation
Lincoln Financial	A+	AA	Incumbent - Shown in Presentation
MetLife	A+	A	Declined - Rates Not Competitive
Mutual of Omaha	A	AA-	Quoted - Shown in Presentation
Prudential	A+	AA-	Quoted - Shown in Presentation
Standard	A	AA-	Quoted - Not Competitive (+21%)
Sun Life	A++	AA+	Quoted - Shown in Presentation
Unum	A-	BB+	Declined - Not Competitive

AM Best: A = Excellent, A++ = Superior
 S&P: AA Rating = Very Strong, A = Stable, BBB, BB = Positive
 + or - signs show relative standing within the major rating categories

CITY OF TORRANCE (AFSCME)

	PROPOSED					
	CURRENT LINCOLN FINANCIAL	RENEWAL LINCOLN FINANCIAL	HARTFORD	MUTUAL OF OMAHA	PRUDENTIAL	SUN LIFE
ANNUAL TOTAL LIFE / AD&D	\$53,598	\$53,598	\$54,938	\$50,918	\$52,794	\$67,801
ANNUAL TOTAL STD	\$87,733	\$152,071	\$137,448	\$140,373	\$204,711	\$159,967
ANNUAL TOTAL LTD	\$127,458	\$146,201	\$126,520	\$125,583	\$91,282	\$133,831
ANNUAL TOTAL	\$268,789	\$351,870	\$318,907	\$316,874	\$348,787	\$361,599
\$ DIFFERENCE		\$83,081	\$50,118	\$48,086	\$79,998	\$92,810
% DIFFERENCE		30.9%	18.6%	17.9%	29.8%	34.5%

City of Torrance
 Life, LTD, STD Marketing
 Proposed Effective Date: March 1, 2007



BENEFIT PROVISIONS	RENEWAL	PROPOSED
	LINCOLN FINANCIAL	MUTUAL OF OMAHA
ER/EE PAID	100% ER PAID	100% ER PAID
ELIGIBILITY	Full-time AFSCME employees working at least 30 hours per week; Permanent Part-time employees working at least 20 hours per week	Full-time AFSCME employees working at least 30 hours per week; Permanent Part-time employees working at least 20 hours per week
BENEFIT AMOUNT	\$50,000	\$50,000
AGE REDUCTION	To 65% at age 70 To 50% at age 75	To 65% at age 70 To 50% at age 75
ACCELERATED DEATH BENEFIT	100% of in force coverage not to exceed \$250,000	80% of in force coverage not to exceed \$250,000
BENEFITS TERMINATE AT RETIREMENT ?	No	No
GUARANTEE ISSUE	Full Amount	Full Amount
WAIVER OF PREMIUM	Must become disabled prior to 60 6 months waiting period Terminates at Social Security Normal Retirement Age	Must become disabled prior to 60 6 months waiting period Terminates at Social Security Normal Retirement Age
CONVERSION PRIVILEGE	Yes	Yes
PORTABILITY	Yes	Yes
SPECIAL FEATURES	Coordination of waiver of premium claim	Coordination of waiver of premium claim Travel Assistance

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



BENEFIT PROVISIONS	RENEWAL	PROPOSED
	LINCOLN FINANCIAL	MUTUAL OF OMAHA
ER/EE PAID	100% ER PAID	100% ER PAID
ELIGIBILITY	Full-time AFSCME employees working at least 30 hours/week Permanent Part-time employees working at least 20 hours/week	Full-time AFSCME employees working at least 30 hours/week Permanent Part-time employees working at least 20 hours/week
BENEFIT AMOUNT	\$50,000	\$50,000
AGE REDUCTION	To 65% at age 70 To 50% at age 75	To 65% at age 70 To 50% at age 75
CHILD CARE	No	No
CAREER ADJUSTMENT	No	No
HIGHER EDUCATION	No	No
SEATBELT	Yes, lesser of \$10,000 or 10% of the amount of your AD&D benefit	Yes, lesser of \$50,000 or 10% of the amount of your AD&D benefit
AIRBAG	Yes, lesser of \$10,000 or 10% of the amount of your AD&D benefit	Yes, lesser of \$50,000 or 10% of the amount of your AD&D benefit
FELONIAS ASSAULT	No	No
EXPOSURE & DISAPPEARANCE	No	No
COMA	No	No
REPATRIATION	No	Yes, as part of Travel Assistance under Life Policy
PUBLIC TRANSPORTATION	Additional 100% of AD&D Benefit	Additional 100% of AD&D Benefit
DISMEMBERMENT SCHEDULE	Life - 100% Loss of one member (hand, foot and eye) - 50% Loss of two or more members -100%	Life - 100%; Loss of one member (hand, foot, eye, speech or hearing) -50%; Loss of two or more members-100%; Quadriplegia-100%, Triplegia-75%, Uniplegia-25%, Paraplegia-75%, Hemiplegia-50%; thumb and index finger on same hand-25%

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City of Torrance
 Life, LTD, STD Marketing
 Proposed Effective Date: March 1, 2007



BENEFIT PROVISIONS	RENEWAL	PROPOSED
	LINCOLN FINANCIAL	MUTUAL OF OMAHA
ER/EE PAID	100% Employer paid	100% Employer paid
ELIGIBILITY	All Full-time AFSCME Employees working at least 20 hours per week	All Full-time AFSCME Employees working at least 20 hours per week
BENEFIT AMOUNT	66 2/3% of monthly covered earnings	66 2/3% of monthly covered earnings
MAXIMUM BENEFIT	STD - \$1,500 / LTD - \$6,000	STD - \$1,500 / LTD - \$6,000
MINIMUM BENEFIT	STD - 10% / LTD - greater of 10% or \$100	STD - \$25 / LTD - greater of 10% or \$100
DEFINITION OF DISABILITY	2 Year Own Occ/Any Occupation	2 Year Own Occ/Any Occupation
ELIMINATION PERIOD	STD - 30 days / LTD - 180 days	thereafter earning less than 80%/80% STD 30 days / LTD - 180 days
PRE-EXISTING LIMITATION	Treatment Free/Continuously Insured 3/12 (LTD only)	Treatment Free/Continuously Insured 3/12 (LTD only)
SURVIVOR BENEFIT	3 times the Monthly LTD benefit	3 times the Monthly LTD benefit
MENTAL & NERVOUS/ DRUG & ALCOHOL MAXIMUM	24 Months per Period of Disability	24 Months Lifetime Not Combined
BENEFIT DURATION	<p>STD - 24 Weeks</p> <p>Latter of SSNRA or schedule</p> <p>LTD - 60 or younger ... To age 65 Age 60 ... 60 months Age 61 ... 48 months Age 62 ... 42 months Age 63 ... 36 months Age 64 ... 30 months Age 65 ... 24 months Age 66 ... 21 months Age 67 ... 18 months Age 68 ... 15 months Age 69 or older ... 1 year</p>	<p>STD 24 weeks</p> <p>Latter of SSNRA or schedule</p> <p>LTD - 59 or younger ... To age 65, but not less than 60 months Age 60 ... 60 months Age 61 ... 48 months Age 62 ... 42 months Age 63 ... 36 months Age 64 ... 30 months Age 65 ... 24 months Age 66 ... 21 months Age 67 ... 18 months Age 68 ... 15 months Age 69 or older ... 1 year</p>



BENEFIT PROVISIONS	RENEWAL	PROPOSED
	LINCOLN FINANCIAL	MUTUAL OF OMAHA
CONVERSION	Yes	Yes
TRIAL WORK DAYS	Equal to Elimination Period	Equal to Elimination Period
WORK INCENTIVE BENEFITS	STD	<u>STD</u>
	LTD	LTD
	Not addressed in contract	Benefits reduced by loss of income %
	Not addressed in contract	Up to 100% for 1st 12 months, then benefits reduced by 50% of work earnings
RECURRENT DISABILITIES	STD - 14 days LTD - 6 months	STD - 90 Days LTD - 6 months
OFFSETS	PERS & WC	PERS & WC
CLAIMS OFFICE	Atlanta, GA	Omaha, NE
SICK LEAVE INTEGRATION	Plan allows for employee to receive 100% of their predisability earnings between the benefit and sick pay or salary continuation	Plan allows for employee to receive 100% of their predisability earnings between the benefit and sick pay or salary continuation
SPECIAL FEATURES	<u>W2 Preparation</u> Pays city's portion of FICA <u>Worksite Modification</u> up to \$5,000	<u>W2 Preparation</u> Pays city's portion of FICA <u>Worksite Modification</u> Case by Case/No Contractual Limit <u>Enhanced Rehab:</u> Additional 5% monthly benefit

*This is merely a summary of benefits for comparison purposes only. Plan details are determined by individual carriers.
 * Bonuses, overtime and other compensation not included in monthly earnings.*

City of Torrance
 Life, LTD, STD Marketing
 Proposed Effective Date: March 1, 2007



BENEFIT PROVISIONS	RENEWAL	PROPOSED
	LINCOLN FINANCIAL	MUTUAL OF OMAHA
ER/EE	100% EE Paid	100% EE Paid
ELIGIBILITY	All Full-time AFSCME Employees working at least 20 hours per week	All Full-time AFSCME Employees working at least 20 hours per week
BENEFIT AMOUNT	City will provide information	<p>Employee</p> <p>Increments of \$10,000 to a max of \$500,000 or 5 x earnings; \$10,000 Min.</p> <p>Spouse</p> <p>An amount not to exceed 50% of the employee's supplemental life amount in \$5,000 increments to \$100,000</p> <p>Child(ren)</p> <p>\$2,000, to \$10,000 in \$1,000 increments not to exceed 50% of the employee's supplemental life amount</p>
AGE REDUCTION	City will provide information	<p>To 65% at age 70</p> <p>To 45% at age 75</p> <p>To 30% at age 80</p> <p>To 20% at age 85</p> <p>To 15% at age 90+</p>
ACCELERATED DEATH BENEFIT	City will provide information	Lesser of 80% or \$250,000
BENEFITS TERMINATE AT RETIREMENT	Yes	Yes
GUARANTEE ISSUE	City will provide information	<p>Employees \$150,000 or 5 x earnings</p> <p>Spouse \$150,000</p> <p>Child(ren) \$10,000</p>

City of Torrance
 Life, LTD, STD Marketing
 Proposed Effective Date: March 1, 2007



BENEFIT PROVISIONS	RENEWAL LINCOLN FINANCIAL	PROPOSED MUTUAL OF OMAHA
WAIVER OF PREMIUM CONVERSION PRIVILEGE PORTABILITY	Must become disabled prior to 60; 6 Month waiting period; Terminates at Social Security Normal Retirement Age City will provide information Yes Yes	Must become disabled prior to 60; 6 month waiting period; Terminates at Social Security Normal Retirement Age Yes Yes
RATES	City will provide information	Employee / Spouse (per \$10,000 of benefit) <30 - \$0.70 30-34 - \$0.80 35-39 - \$1.00 40-44 - \$1.60 45-49 - \$2.70 50-54 - \$4.40 55-59 - \$6.90 60-64 - \$10.70 65-69 - \$19.20 Spouse Coverage Terms at age 70 70-74 - \$34.40 75-79 - \$56.70 80+ - \$114.90
RATE GUARANTEE	Through 2/1/2008	Child(ren) rate = \$.20 per \$1,000 2 Years

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



CITY OF
TORRANCE

HUMAN RESOURCES DEPARTMENT
ELAINE M. WINER, DIRECTOR

LEYTA O. FUENTES
HR MANAGER, OPERATIONS

MELODY P. LAWRENCE
HR MANAGER, RECRUITMENT

RANDALL SELLERS
RISK MANAGER

PATRICIA D. UNANGST
WORKFORCE DEV. MANAGER

February 8, 2007

Jeannie Moorman
President, TME-AFSCME Local 1117
P.O. Box 444
Torrance, CA. 90508

RE: Lincoln Financial Renewal Rates and Implementation

Dear Ms. Moorman:

The City received the renewal rates from Lincoln Financial (formerly Jefferson Pilot) for the Life AD&D, Short-Term Disability (STD) and Long-Term Disability (LTD) policies covering the employees represented by TME-AFSCME MOU. Lincoln Financial reportedly sent this information to William Pajaud simultaneously.

The 2007 rates from Lincoln Financial are shown in Attachment A. Although there is no increase for the Life/AD&D benefit; there is a 73.3% rate increase for the renewal of the STD, and a 15% increase for the renewal of LTD. The STD quote is based upon a 14-day waiting period. The renewal rates are guaranteed by the carrier for 11 months and represent an additional cost of \$64,338 for STD and \$18,743 for LTD. The combined additional cost for these benefits at renewal would be \$83,081, an increase of 31% (see attachment B).

In light of this, Lincoln Financial was asked to provide quotes for STD with a 30-day waiting period. That quote is also shown in Attachment A. This represents an increase of \$29,244 from the current annual cost for this benefit (Attachment B).

When Lincoln Financial's policies went into effect in 2005, STD coverage with a 30-day waiting period was offered with an estimated savings of \$30,281. In view of the cost savings, coverage was approved with a reduced 14-day waiting period at a savings of \$15,602. Due to the 2007 STD/LTD renewal increase proposed by Lincoln Financial, the resulting costs exceed the previously achieved savings.

Per Council direction of January 25, 2005, if costs increase for the STD benefit, the waiting period would return to 30-days to maintain the coverage. (Attachments C and D are copies of the Council Item adopted on January 25, 2005 and the minutes of the Council meeting).

In order to have alternative options for the three lines of insurance, the City requested a market survey. Two carriers, Hartford and Mutual of Omaha, submitted rates significantly lower than the rates proposed by Lincoln Financial. Attachment E provides the marketing results. As the data shows, both Hartford and Mutual of Omaha are

offering coverage for STD with a 14-day waiting period at rates lower than those submitted by Lincoln Financial, and the benefit structure for all lines of coverage is comparable.

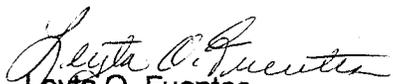
In view of the cost increases proposed by Lincoln Financial please be advised that the following will be implemented effective March 1, 2007:

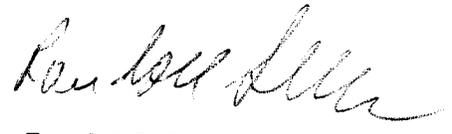
- o TME-AFSCME will continue coverage with Lincoln Financial for the three lines of coverage, Life/AD&D, LTD and revert to a 30-day waiting period for STD.

Should TME-AFSCME desire to maintain a 14-day waiting period, the City is willing to provide the Life/AD&D, LTD and STD 14-day waiting period benefits from the carrier that proposed the lowest cost (Mutual of Omaha). Under this alternative the City will assume full administration for the current and all future provision of these benefits.

The renewal of coverage must be implemented effective March 1, 2007 as the Lincoln Financial rates will expire on February 28, 2007. The City is available to meet with you on Tuesday, February 14 at 10:30 pm in the Human Resources Department, Conference Room to discuss the information provided. The renewal will be placed with Lincoln Financial at the 30-day waiting period rate to maintain benefit coverage as authorized by Council if TME does not wish to pursue discussion of the alternative option.

Sincerely,


Leyta O. Fuentes
Human Resources Manager


Randall Sellers
Risk Manager

CONCUR:


Elaine M. Winer
Human Resources Director

Attachments A-E
Jefferson Pilot Renewal Notices

C: LeRoy J. Jackson, City Manager