



# Memorandum

**TO:** HONORABLE MAYOR  
AND CITY COUNCIL

**FROM:** Julie Edmonds-Mares

**SUBJECT:** SEE BELOW

**DATE:** October 16, 2017

Approved

*D. D. S. L.*

Date

*10/27/17*

**SUBJECT: APPROVAL OF EMPLOYEE BENEFIT INSURANCE AGREEMENTS  
WITH STANDARD INSURANCE COMPANY AND LIFE INSURANCE  
COMPANY OF NORTH AMERICA, AN AFFILIATED CIGNA COMPANY**

## RECOMMENDATION

Adopt a resolution authorizing the City Manager to:

1. Negotiate and execute an agreement between the City and Standard Insurance Company to provide group basic life and accidental death & dismemberment (AD&D) insurance, supplemental life insurance, dependent life insurance, and matching accidental death & dismemberment (AD&D) insurance as applicable, to employees and retirees for the period of January 1, 2018 to December 31, 2021;
2. Negotiate and execute an agreement between the City and Standard Insurance Company to provide long-term disability (LTD) insurance to employees for the period of January 1, 2018 through December 31, 2021; and
3. Negotiate and execute an amendment to the agreement between the City and Life Insurance Company of North America, an affiliated Cigna Company, to provide voluntary accidental death and dismemberment (personal accident) insurance to employees and retirees for the period of January 1, 2018 through December 31, 2021.

## **OUTCOME**

1. Approval of the Life/AD&D insurance recommendation will provide the City's employees and retirees with quality and cost competitive group basic life and AD&D insurance, supplemental life insurance, dependent life insurance, and matching accidental death and dismemberment insurance as applicable.
2. Approval of the LTD recommendation will provide the City's employees with quality and cost competitive LTD insurance benefits.
3. Approval of the recommendation will provide the City's employees and retirees with continued access to quality and cost competitive voluntary accidental death and dismemberment (personal accident) insurance benefits.

## **EXECUTIVE SUMMARY**

Staff developed and conducted a request for proposals (RFP) in May 2017 for the City's Life/AD&D, LTD and stand-alone voluntary accidental death and dismemberment (personal accident) insurance benefit programs, and determined selection criteria, conferring with the City's benefits consultant, AON Hewitt. The RFP process included convening an Evaluation Committee comprised of key stakeholders to identify key issues and objectives, finalize selection criteria, and evaluate proposal responses. In the RFP the City asked for proposals that matched the current benefit programs and provisions and offered market competitive rates.

For these insurance benefit programs, all products, except for group basic life/AD&D for full-time benefited employees, are voluntary and 100% paid by the employee or retiree.

Staff combined the Life, LTD and voluntary AD&D benefit programs into one RFP at the recommendation of the City's benefits consultant as most insurance carriers for these benefits offer both Life and LTD and some also offer stand-alone voluntary personal accident insurance. The City currently has both Life and LTD with the same carrier, which is the optimal due to the streamlined coordination of benefits between the two product lines. The City was also interested in combining the personal accident insurance under one carrier, if possible.

This RFP process resulted in market researched premiums and quality benefit programs for employees and retirees, and with Staff's recommendations, three-year rate guarantees for Life and LTD insurance, and a two-year rate guarantee for personal accident insurance. This RFP process also resulted in no rate increase for the City-paid basic Life/AD&D, and a rate reduction for the employee paid 60-day LTD plan and no increase for the 30-day plan. Due to high utilization, coupled with not having a rate increase for the past few years, this RFP did result in a rate increase for the retiree voluntary basic Life/AD&D coverage as well as the personal accident

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insurance. Staff's recommendations provide benefits that match the current plans and provisions and are at market competitive rates.

## **BACKGROUND**

Standard Insurance Company (Standard) currently provides City-paid group basic life and AD&D insurance to full-time benefited City employees and offers retirees voluntary group basic life and AD&D insurance. Standard also offers voluntary supplemental and voluntary dependent life to employees and retirees, with matching voluntary AD&D insurance as applicable. Additionally, Standard offers two voluntary LTD insurance plans to City employees. Life Insurance Company of North America, an affiliated Cigna Company (Cigna) offers personal accident insurance to employees and retirees.

The City last conducted RFP's for Life and LTD insurance in 2011 and for personal accident insurance in 2014. At those times, the Council approved staff's recommendation to retain Standard as the City's vendor for Life and LTD and Cigna for personal accident insurance, through December 31, 2016. The Council subsequently authorized the City Manager to amend the current agreements to extend them through December 31, 2017.

### **Life Insurance**

Standard has been the provider of Life insurance products for City employees and retirees for many years.

The City provides and pays for basic Life/AD&D insurance for all full-time benefited employees. The basic life insurance provides employees with guaranteed issue, which means that a new or newly eligible employee is automatically eligible 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

All the other life insurance products are voluntary and 100% employee or retiree paid.

### **LTD Insurance**

LTD is a 100% employee-paid benefit that provides disability insurance for injuries and illnesses incurred both on and off the job. Since City employees do not pay into either Social Security or State Disability Insurance (SDI), LTD insurance is the only wage protection available to City employees for non-occupational injuries and illnesses, including pregnancy, after sick leave balances have been exhausted.

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The City currently maintains an LTD policy with two LTD benefit plans; one with a 30-day waiting period (LTD-30) and one with a 60-day waiting period (LTD-60), before disability payments begin. The LTD-60 plan has a pre-existing condition restriction that the LTD-30 plan does not have. The pre-existing condition restriction prohibits benefits payment for medical conditions that were diagnosed within three months prior to the coverage begin date under the plan for up to 12 months after the coverage begin date.

### Personal Accident Insurance

Cigna has been the provider of the City's personal accident insurance for many years. This insurance is an affordable, 100% participant-paid voluntary benefit available to benefited City employees, retirees, and their eligible family members, with coverage ranging from \$10,000 up to \$500,000. When a participant is fatally or seriously injured due to an accident, this insurance will provide money to help families cope with the loss.

## ANALYSIS

### Evaluation Committee

The RFP Evaluation Committee consisted of representatives from Human Resources, the Office of Retirement Services, and the Benefits Review Forum (BRF).

### Targeted Outreach

The RFP was posted on BidSync, and was released by the City's benefits consultant, to their proprietary program entitled Structured Portfolio Solution (SPS), which contains a preselected panel of industry leading insurance carriers. For this RFP, the top ten (10) known Life, LTD and personal accident insurance providers contacted were: Cigna, Hartford, Liberty, MetLife, Prudential, Reliance Standard, Securian, Standard Insurance, Unum, and Voya. Interested providers were asked to propose and price the benefit programs currently offered to employees and retirees.

### Proposals

The City received proposals from MetLife, New York Life, Securian, Standard Insurance Company, and Unum. The remaining companies ultimately declined to provide a quote due to their inability to offer competitive pricing and/or inability to match the current plans' design.

The Evaluation Committee deemed the proposal from New York Life non-responsive; it was not considered as the Life insurance product proposed was not what was asked for in the RFP. The four proposals considered for the requested products are shown in the following table.

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RFP Proposals Considered for Requested Products

	<b>PROVIDER</b>	<b>Proposal for Life</b>	<b>Proposal for LTD</b>	<b>Proposal for personal accident insurance</b>
1	MetLife	√	√	√
2	Securian	√		√
3	Standard	√	√	
4	Unum	√	√	

Evaluation Criteria

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

Evaluation Criteria	Weight
Proposal Responsiveness/Minimum Qualifications	Pass/Fail
Plan Offerings & Services	40%
Administration	10%
Fee Structure/Cost	30%
References/Experience of Proposer	10%
Local Business Enterprise	5%
Small Business Enterprise	5%

Evaluation and Selection

*Personal Accident Insurance*

Two proposals were received for personal accident insurance: one from MetLife and one from Securian. Securian quoted their personal accident insurance as a package deal; it is only available if the City were to select their Life and LTD insurance. The incumbent, Cigna, did not submit a proposal; however, they offered a renewal of the current Agreement.

Utilization data for the personal accident insurance was included in the RFP, which reflected an average loss ratio of over 250% over the past five years. With this sustained, extremely high loss ratio, Staff expected proposals with rate increases. MetLife proposed a 170% rate increase for the employee/retiree level and 164% increase for the family level. Securian proposed a 280% rate increase for the employee/retiree level and 257% increase for the family level. In Cigna's renewal offer, they proposed a 150% increase to both the employee/retiree and family levels, with a two-year rate guarantee.

Given that the two proposals received exceeded the renewal offer by Cigna, the Evaluation Committee decided to reject the proposals from MetLife and Securian, in favor of a renewal with

Cigna. While the percentage increase is still significant, the actual cost impact to employees and retirees ranges from an increase of \$0.15 to \$7.50 per month for the employee/retiree only level and \$0.21 to \$10.50 per month for the employee/retiree + family level, depending on the coverage level selected between \$10,000 and \$500,000.

*Life and LTD Insurance*

Based on the evaluation criteria, the Evaluation Committee reviewed the proposals submitted for Life and LTD insurance, after which each Committee member completed an individual score sheet. The composite scores of the Evaluation Committee are contained in the tables below.

Life Insurance

Evaluation Criteria	Standard	Securian	MetLife	Unum
Plan Offerings & Services Point Value 0 - 40	38.00	8.83	32.50	6.67
Administration Point Value 0 - 10	10.00	4.67	7.50	4.17
Fee Structure/Cost Point Value 0 - 30	22.33	5.17	24.17	24.67
References/Experience of Proposer Point Value 0 - 10	10.00	8.50	8.67	6.50
Local Business Enterprise Point Value 5 points, if qualified	0	0	0	0
Small Business Enterprise Point Value 5 points, if qualified	0	0	0	0
<b>Total</b>	<b>80.33</b>	<b>27.17</b>	<b>72.84</b>	<b>42.01</b>

LTD Insurance

Evaluation Criteria	Standard	MetLife	Unum
Plan Offerings & Services Point Value 0 - 40	39.50	31.00	10.00
Administration Point Value 0 - 10	10.00	7.50	4.83
Fee Structure/Cost Point Value 0 - 30	26.00	17.67	25.00
References/Experience of Proposer Point Value 0 - 10	10.00	9.00	6.83
Local Business Enterprise Point Value 5 points, if qualified	0	0	0
Small Business Enterprise Point Value 5 points, if qualified	0	0	0
<b>Total</b>	<b>85.50</b>	<b>65.17</b>	<b>46.66</b>

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A key consideration for evaluation was having the same carrier for Life and LTD insurance due to the coordination of benefits between the two plans.

For Life insurance, Standard rated highest for plan offerings and services, administration, and experience, followed by MetLife, Securian and Unum. While Unum and MetLife rated first and second for cost, Standard, in third place, was just 2.34 points lower than Unum and 1.84 points lower than MetLife. Most of Standard's proposed rates for the various coverages are either no rate increase or a rate decrease; however, there is a rate increase for the retiree-paid basic Life for each of three years (2018 through 2020). However, the actual cost impact to retirees ranges from an increase of \$0.38 per month to less than \$5.00 per month, depending on the coverage level as non-management or management. Standard rated highest in overall score for Life. For LTD, Standard rated highest among the proposers for each criterion and for overall score. Also, Standard proposed a rate reduction for the LTD-60 plan of 28%, from 0.61% to 0.44% of insured monthly earnings, resulting in cost savings for all employees enrolled in this plan.

In terms of impact to City cost for basic Life/AD&D for full-time benefited employees, Securian proposed a 17.5% increase, MetLife proposed a 1.3% increase and Standard and Unum proposed a 0% increase.

MetLife was competitive for Life and LTD, coming in second behind Standard for plan offerings and services, administration, and experience. They scored slightly above Standard for cost in Life; but, came in last for cost for LTD. MetLife scored second overall for both Life and LTD. With Standard scoring highest overall for both Life and LTD, MetLife was eliminated from further consideration.

Securian rated lowest in cost and third in other criteria for Life, and they do not offer LTD. For these reasons, the Committee decided to eliminate Securian from further consideration.

While Unum had the highest rating for cost in Life and was second in cost for LTD, they rated last in other criteria for Life and LTD. Unum's LTD plan does not cover normal pregnancy or normal childbirth, unless the disability results from a complication of pregnancy. Unum not covering normal pregnancy was a major concern, since many of the disability claims for City employees are for pregnancy. Also, the Evaluation Committee noted that many of the benefits contained in Unum's proposal would require filing for approval with the State of California and would be subject to approval before such benefits could be offered to the City. The uncertainty of State approval coupled with the concern over the ability to implement a change by January 1, 2018, and the reduction to current benefits resulted in elimination of Unum from further consideration.

Standard's proposal met the City's current plan design for both Life and LTD and was ranked as the top carrier by the Evaluation Committee. As the incumbent, Standard Insurance has specific experience working with the City and its employees and retirees. Selecting Standard preserves

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the benefit levels for employees and retirees and eliminates the City's cost to transition to a new vendor.

Staff recommends Standard's proposal based on their ability to offer current benefits, no increase to the City-paid basic life insurance costs, a rate guarantee for three years (except for retiree basic Life/AD&D), employee and retiree supplemental plans offered at a reasonable, competitive cost, and quality of claims administration and customer service.

Key Terms of the Proposed Agreement with Standard Insurance Company

The Agreement with Standard Insurance Company will provide both Life and LTD insurance from January 1, 2018 through December 31, 2021.

The proposed rates for retiree-paid basic Life/AD&D increase each year for three years. All other proposed rates will be guaranteed for three years and the fourth year of the Agreement will be based on claims experience. Attachment A contains the proposed rates for all Life insurance coverages.

LTD insurance includes both an LTD-30 and LTD-60 plan for benefited City employees. Proposed rates will be guaranteed for three years and the fourth year of the contract will be based on claims experience. LTD is a voluntary benefit, 100% paid by the employee.

1. The rate for the LTD-30 plan will remain the same as current: 1.490% of insured monthly earnings.
2. The rate for the LTD-60 plan will reduce from 0.610% to 0.440% of insured monthly earnings.

Key Terms of the Proposed Agreement with Life Insurance of North America (Cigna)

The Amendment to the Agreement with Cigna will provide voluntary (paid by the employee/retiree) personal accident insurance, and would extend the term of the current Agreement from January 1, 2018 through December 31, 2021, with rate guarantees for the first two years of the Agreement. The rates for the third and fourth years of the Agreement will be based on claims experience.

1. The rate for the employee/retiree only level will increase from \$0.010 to \$0.025 per \$1000 of coverage per month.
2. The rate for the employee/retiree + family level will increase from \$0.014 to \$0.035 per \$1000 of coverage per month.



### **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**

The local business community was given the opportunity to compete by the posting of the RFP on the BidSync website. Additionally, targeted outreach was conducted to the top ten (10) applicable insurance companies. All key stakeholders were invited to participate in the RFP process.

This recommendation was reviewed by the Benefits Review Forum on October 12, 2017.

This memorandum will be posted on the City's website for the November 7, 2017 Council Meeting.

### **COORDINATION**

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

### **COMMISSION RECOMMENDATION/INPUT**

No commission recommendation or input is associated with this action.

### **COST SUMMARY/IMPLICATIONS**

The following projected annual costs are based on 2017 participation and insurance coverage and premiums, with an added contingency factor as noted below.

#### **Long Term Disability (LTD) Insurance**

LTD Insurance is a voluntary, optional benefit. The costs are borne by the employees who choose to enroll and are not paid by the City. LTD premium payments will vary based on actual

enrollment in either the LTD-30 or LTD-60 plan. A contingency factor of 8.5% was added to each plan year's projected cost to account for increased enrollments and salaries.

1. The plan year 2018 projected cost is \$2,354,862.
2. The plan year 2019 projected cost is \$2,555,025.
3. The plan year 2020 projected cost is \$2,772,202.
4. The plan year 2021 projected cost is \$3,007,839.

The total cost for the four-year Agreement is projected to be \$10,689,928.

### Life Insurance

Life Insurance has a City-paid portion and a voluntary employee/retiree paid portion. Life premium payments will vary based on actual enrollment. For the projected costs below, a contingency factor of 2% was added to the voluntary (employee/retiree paid) portion per year. For the City-paid portion, management life insurance coverage is based on salary, so a contingency factor of 8.5% was added each year to account for increases in enrollments and salaries. The non-management life insurance coverage is a fixed amount depending upon the applicable bargaining unit's MOA, so a contingency factor of 3% was added per year to account for enrollments.

1. Life insurance and AD&D coverage for employees, retirees, and their dependents for calendar year 2018 with a total cost not to exceed \$1,306,737.
2. Life insurance and AD&D coverage for employees, retirees, and their dependents for calendar year 2019 with a total cost not to exceed \$1,386,478.
3. Life insurance and AD&D coverage for employees, retirees, and their dependents for calendar year 2020 with a total cost not to exceed \$1,462,282.
4. Life insurance and AD&D coverage for employees, retirees, and their dependents for calendar year 2021 with a total cost not to exceed \$1,527,921.

The total cost for the four-year Agreement is projected to be \$5,683,418.

### Personal Accident Insurance

Personal Accident Insurance is a voluntary, optional benefit. The costs are borne by the employees and retirees who choose to enroll and are not paid by the City. Premium payments will vary based on actual enrollment in either the employee/retiree only level or the employee/retiree + family level. A contingency factor of 3% was added to each plan year's projected cost to account for increased enrollments. Also due to the high utilization year over year, and the 150% rate increase for 2018, an additional contingency factor of 100% was added to the projected cost for year three. The rates for years three and four will be determined based on utilization.

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1. The plan year 2018 projected cost is \$555,602.
2. The plan year 2019 projected cost is \$572,270.
3. The plan year 2020 projected cost is \$1,161,708.
4. The plan year 2021 projected cost is \$1,196,559.

The total cost for the four-year Agreement is projected to be \$3,486,139.

### **BUDGET REFERENCE**

The adopted FY17-18 budget, Life Insurance Fund (156), includes \$140,000 for administration fee and \$600,000 for reimbursement from City funds, for a total of \$740,000 for the City-paid basic Life/AD&D for full-time benefited employees. There was no rate increase for this benefit; therefore, Staff is not requesting a change to the FY17-18 adopted budget. The costs for future years are subject to appropriation and will be included as part of the annual budget processes.

### **CEQA**

Not a Project, File No. PP17-003, Agreements/Contracts (New or Amended) resulting in no physical changes to the environment.

/s/

JULIE EDMONDS-MARES

Acting Director of Human Resources

For questions please contact Emily Hendon, Benefits Manager, (408) 975-1448.

**Attachment A**

**Life Insurance Rates**

**Proposed Monthly Rates per \$1,000 of Benefit (unless otherwise noted)**

<b><i>CITY COSTS</i></b>	
Employee Basic Life	\$ 0.134
Employee Basic AD&D	\$ 0.020

<b><i>RETIREE COSTS</i></b>	
Retiree Basic Life - 2018	\$ 1.550
Retiree Basic Life - 2019	\$ 1.750
Retiree Basic Life - 2020	\$ 1.900
Retiree Basic AD&D	\$ 0.020
***Retiree Dependent Life	\$ 0.480
***Cost per member, Flat \$1k	
<b>Retiree Supplemental Life</b>	
Under 40	\$ 0.290
40-49	\$ 0.320
50-54	\$ 0.500
55-59	\$ 0.790
60-64	\$ 1.210
65-69	\$ 2.230
70-74	\$ 3.830
75-79	\$ 5.700
80-82	\$ 7.750
83-85	\$ 9.640
86-88	\$ 12.700
89+	\$ 23.980

<b><i>EMPLOYEE COSTS</i></b>		<b><i>**Child Life Plan 3</i></b>	
*Employee Supplemental Life Plan 2	\$ 0.220	**Cost per member	
*Dependent Life Plan 2	\$ 0.240	Flat \$5k	\$ 1.000
*These plans are grandfathered; no longer available.		Flat \$10k	\$ 2.000
<b>Employee Supplemental Life Plan 3</b>		<b>Spouse Life Plan 3</b>	
Under 25	\$ 0.045	Under 25	\$ 0.045
25-29	\$ 0.054	25-29	\$ 0.054
30-34	\$ 0.072	30-34	\$ 0.072
35-39	\$ 0.080	35-39	\$ 0.080
40-44	\$ 0.090	40-44	\$ 0.090
45-49	\$ 0.144	45-49	\$ 0.144
50-54	\$ 0.216	50-54	\$ 0.216
55-59	\$ 0.387	55-59	\$ 0.387
60-64	\$ 0.594	60-64	\$ 0.594
65-69	\$ 1.140	65-69	\$ 1.140
70-74	\$ 1.850	70-74	\$ 1.850
75+	\$ 2.060	75+	\$ 2.060
Employee/Spouse AD&D Plan 2 & 3	\$ 0.020		

Specific plan provisions, including eligibility and requirements, are contained in the Group Policies.