



# Memorandum

**TO:** HONORABLE MAYOR  
AND CITY COUNCIL

**FROM:** Jennifer Schembri

**SUBJECT:** SEE BELOW

**DATE:** November 1, 2021

Approved

Date

11/4/2021

**SUBJECT: AMENDMENT TO THE VENDOR AGREEMENT WITH STANDARD INSURANCE COMPANY FOR LONG-TERM DISABILITY (LTD) INSURANCE FOR EMPLOYEES**

## **RECOMMENDATION**

Adopt a resolution authorizing the City Manager to negotiate and execute an Amendment to the Vendor Agreement with Standard Insurance Company to provide long-term disability (LTD) insurance to employees, extending the term of the Agreement from December 31, 2021 to December 31, 2025, and increasing the not to exceed Agreement amount from \$10,689,928 to a revised not to exceed amount of \$21,141,181, subject to the appropriation of funds.

## **OUTCOME**

Approval of the recommendation will provide the City's employees with quality and cost competitive LTD insurance benefits.

## **BACKGROUND**

Standard Insurance Company has been the City's vendor providing LTD insurance for many years, with the most recent contract from January 1, 2018 through December 31, 2021, resulting from an RFP that was conducted in 2017.

The current Standard Insurance Agreement, covering calendar years 2018 through 2021, includes a not to exceed amount of \$10,689,928. This amount was determined in 2017 based on projections for LTD enrollment for the four-year term. A contingency factor of 8.5% was added to each plan year's projected cost to account for increased enrollments and salaries. The actual costs were lower than projected by \$929,106 over the four-year term.

LTD is a voluntary, 100% employee-paid benefit offered to full-time benefited employees 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.

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 City currently has both Life and LTD insurance with the same carrier, which is the optimum due to the streamlined coordination of benefits between the two product lines.

### **ANALYSIS**

Staff approached Standard Insurance Company with a request to extend the current contract for four years. Standard Insurance Company agreed to the extension under the same terms and conditions including a rate guarantee at the current rates through December 31, 2025.

Standard was ranked as the top carrier by the RFP Evaluation Committee in 2017, meeting the City's then current plan design and requirements. As the incumbent, Standard Insurance has specific experience working with the City and its employees and retirees. Extending the contract with Standard preserves the benefit levels for employees, eliminates the City's cost to transition to a new vendor, and maintains the current rates for the four-year extension.

Staff recommends extending the contract with Standard based on their ability to continue to offer current benefits with no increase to the rates for another four years and their quality of claims administration and customer service.

### **CONCLUSION**

To ensure the continued delivery of LTD insurance products, staff recommends adoption of a resolution authorizing the City Manager to negotiate and execute an Amendment to the Agreement with Standard Insurance Company extending the term through December 31, 2025.

### **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.

### **CLIMATE SMART SAN JOSE**

The recommendation in this memo has no effect on Climate Smart San José energy, water, or mobility goals.

### **PUBLIC OUTREACH**

This memorandum will be posted on the City's website for the November 16, 2021 City Council Agenda.

### **COORDINATION**

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

### **COMMISSION RECOMMENDATION/INPUT**

No commission recommendation or input is associated with this action.

### **COST SUMMARY/IMPLICATIONS**

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 4% is added to each plan year's projected cost to account for increased enrollments and salaries.

1. The plan year 2022 projected cost is \$2,679,961.
2. The plan year 2023 projected cost is \$2,787,160.
3. The plan year 2024 projected cost is \$2,898,646.
4. The plan year 2025 projected cost is \$3,014,592.

The total cost for the four-year extension to the Agreement is projected to be \$11,380,359.

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The current contract maximum compensation is \$10,689,928. However, the projected actual costs are lower by \$929,106 resulting in a lower maximum compensation of \$9,760,822. The increase in the total maximum compensation of \$10,451,253, from \$10,689,928 to \$21,141,181 is attributable to: 1) \$(929,106) due to lower than projected enrollment levels through December 31, 2021; and 2) estimated \$11,380,359 related to the four-year extension from January 1, 2022 through December 31, 2025. LTD premiums for calendar years 2022 through 2025 will continue at the 2021 rates; there will be no premium increases. Actual contract costs will vary based on enrollment and salaries and will be paid by employees.

**CEQA**

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



JENNIFER SCHEMBRI

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Director of Human Resources

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