

LRB – FISCAL REVIEW SECTION ANALYSIS

OCTOBER 30, 2002

ITEM 9, FILE 020953

FINANCE & PERSONNEL COMMITTEE

JAMES CARROLL

File #020891 is a resolution approving a city group life insurance contract for 2003 through 2007 and appropriating \$3,000 from the Common Council Contingent Fund for the services of the City's consultant in connection with implementation of the agreement.

Background

1. The City provides life insurance benefits for eligible employees, as determined through collective bargaining and legislation. The City contracts with a life insurance carrier for the coverage, and funds annual premiums through a special purpose account. The contracts are for five-year periods; the current contract expires on December 31, 2002.
2. On August 1, 2002, the Common Council adopted a substitute resolution (File #020953) authorizing the expenditure of up to \$25,000 from the Common Council Contingent Fund for the services of a consultant to assist the ERS and the City Attorney in the Group Life contract process.
3. The City's group life plan has been contracted on a participating basis with life insurance vendors. Since the City was to some degree self-insured under these previous contracts, the contract required reserves to be established to protect the carrier against adverse claim experience. After reviewing the City's financial experience (1/1/98 through 6/30/02), the consultant recommended that there be a change to a non-participating contract effective January 1, 2003.
4. The City solicited bids from 15 carriers for the new group life insurance contract. Three carriers did not respond. Eight bids were eliminated because they were not competitive. The four finalists were MetLife, Minnesota Life, Mutual of Omaha and United Wisconsin Group, the incumbent carrier.

Discussion

1. The consultant (Mercer) is recommending that the City change carriers and select Mutual of Omaha as its carrier for the five-year period commencing January 1, 2003.
2. The consultant's recommendation indicates Mutual of Omaha is an A rated carrier by A.M Best and their 5-year premium costs are approximately \$1.8 million lower than the next best bid.
3. According to the consultant's recommendation, MetLife and Minnesota Life also submitted competitive bids. Both are A rated carriers. However, their 5-

year quoted rates would result in 5-year City life insurance costs that would be higher than Mutual of Omaha by \$1.8 million and \$2.5 million respectively.

4. Mutual of Omaha will guarantee the premiums for 3 years with a maximum increase of 10% in the fourth and fifth years possible.

Fiscal Impact

1. The resolution appropriates \$3,000 from the Common Council Contingent Fund for the services of the City's consultant in connection with implementation of the agreement. Because a new carrier is being recommended, ERS will need the consultant's assistance in the transition from one carrier to another. This transition was not anticipated when the original request for Common Council Contingent Funds was made.
2. The file approves a group life insurance contract for 2003-2007 at an estimated cost of \$13,465,000. The estimated annual cost for 2003 through 2005 is \$2,589,423. The carrier can exercise a 10% increase 2006 through 2007 at an estimated annual cost of \$2,843,365.
3. The 2003 Proposed Budget includes \$3,305,000 for the Group Life Insurance SPA. ERS had anticipated the need to restore the Life Insurance reserve account in the original budget request (See Background #3). If the recommended contract is approved, the required funding for the SPA will be \$2,590,000, a \$715,000 reduction from the proposed budget.

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