

CITY OF MILWAUKEE

Form CA-43

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October 25, 2002

To the Honorable Common Council
of the City of Milwaukee
City Hall, Room 205

Re: City of Milwaukee Life Insurance Contract
Common Council File No. 020953

Dear Members:

Enclosed you will find the following: a recommendation of William Mercer ("Consultant") relative to a report for a "non-participating contribution" relative to life insurance vendor selection dated October 11, 2002; a letter of recommendation from Consultant dated October 25, 2002; and a substitute resolution approving a city group life insurance contract for 2003. These materials will fill File No. 020953. This file was introduced by title only.

Common Council File No. 020517 being a substitute resolution relating to bids for group life insurance and appropriating a sum not to exceed \$25,000 from the Common Council Contingent Fund for the services of a consultant authorized and directed the Executive Director of the Employees' Retirement System and the City Attorney to retain the consulting service of William M. Mercer, Inc. in conjunction with renewal of the City's group life insurance contract to be effective for a five-year period commencing January 1, 2003. This resolution authorized the Executive Director of the ERS and City Attorney to approve specifications and the list of prospective bidders and to supervise the bidding process. It required the Executive Director of the ERS and the City Attorney to submit the written evaluation of the bidders by the Consultant, together with the recommendation as to the vendor, for consideration by the Common Council.

The resolution approved a Contingent Fund appropriation of \$25,000 to fund the Consultant's engagement. The letter accompanying the resolution indicated that there would be a need for a supplemental appropriation of \$3,000 for implementation and services by the Consultant if the recommendation required a change of vendors.

Since its inception, the City's group life plan has 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 be established to protect the carrier against adverse claim experience. After reviewing the financial experience under the City's group life plan for the period January 1, 1998 through June 30, 2002, on August 29, 2002 the Consultant recommended that there be a change in the financing of the group life plan from a participating contract to a non-participating contract effective January 1, 2003. The Consultant gave a number of reasons for the change. They include: (1) a fully-insured non-participating rate will offer maximum stability; (2) the monthly premium rates will be slightly less than participating rate as less margin will be built into the rates-per-claim fluctuation; (3) the City's participating life insurance program has been running at a deficit. The claims stabilization reserve has been fully depleted due to claims exceeding premiums.

Based on the recommendations of the Consultant, the City Attorney and Executive Director of ERS approved specifications seeking bids on a non-participating contract. The prospective bidders were asked to bid on a 5-year guaranteed premium or a 3-year guaranteed premium with an increase in the premium in the 4th and 5th year not to exceed 10%.

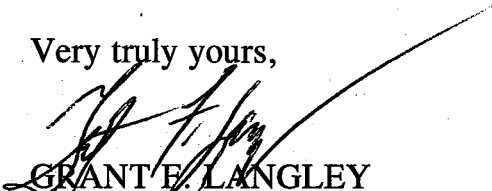
As can be seen from the attached report of the Consultant, the City has solicited life insurance bids from 15 leading carriers. Three vendors did not respond. Eight of the bids were eliminated because they were not competitive. The four finalists are Met Life, Minnesota Life, Mutual of Omaha and United Wisconsin Group the incumbent carrier. The attached report of the Consultant analyzes the proposals of the four finalists. Based on the analysis of the Consultant, the overall net costs to the City projected over 5 years for each finalist was as follows:

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Mutual of Omaha	\$13,500,000
Met Life	\$15,200,000
Minnesota Life	\$16,200,000
United Wisconsin	\$17,800,000

As can be seen from the letter of recommendation dated October 25, 2002, the Consultant is recommending that the City change carriers and select Mutual of Omaha as its carrier for the 5-year period commencing January 1, 2003. Under its proposal, Mutual of Omaha will guarantee the premiums for 3 years with a maximum increase of 10% in the fourth and fifth years possible. The total 5 year cost of Mutual of Omaha's proposal is \$1,700,000 lower than the next closest competitor, Minnesota Life, who submitted a proposal based on a 5-year guaranteed plan, and \$4,300,000 less than United Wisconsin Group, the current carrier. The total 5-year cost of \$13,500,000 for Mutual of Omaha proposal over the 5-year period compares to the total cost of \$12,100,000 over the 5-year period for the current contract.

Very truly yours,



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