

MERCER
Human Resource Consulting

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11 October 2002

Life Insurance Vendor Selection

City of Milwaukee

Summary Report

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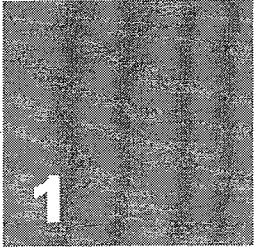
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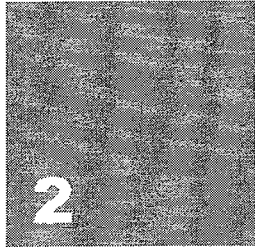
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Executive Summary

- Mercer solicited fully-insured life insurance bids from 15 leading life carriers.
- Carriers were asked to quote either:
 - Preferred: 5-year fixed guaranteed rates, or
 - Acceptable: 3-year fixed guaranteed rates, with a maximum 10% increase at year 4 under certain conditions
- Based on the response of the incumbent, United Wisconsin Group (UWG), we are recommending the City change carriers for the following reasons:
 - UWG quoted a 33% increase on average, over current rates
 - UWG's A.M. Best Rating is B+, significantly below other carriers
 - UWG's premiums over 5 years are \$4.3 million higher than the lowest bid
- Mutual of Omaha has the strongest financial bid. They are an A rated carrier with 5-year premium costs that are \$1.7 million lower than the next-best bid.

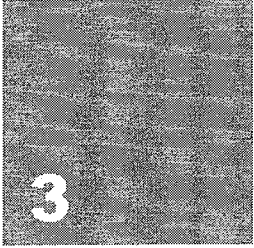


Vendor Response Summary

Bidder Summary

Vendor	Proposal Submission	Comments
Aetna	Submitted proposal	Not considered a finalist because of uncompetitive bid
Cigna	Did not submit proposal	
CAN	Submitted proposal	Not considered a finalist because of uncompetitive bid
MetLife	Submitted proposal	Finalist
Minnesota Mutual	Submitted proposal	Finalist
Mutual of Omaha	Submitted proposal	Finalist
Prudential	Submitted proposal	Not considered a finalist because of uncompetitive bid

Vendor	Proposal Submission	Comments
ING (ReliaStar)	Submitted proposal	Not considered a finalist because of uncompetitive bid
Sentry	Did not submit proposal	
Standard Insurance	Submitted proposal	Not considered a finalist because of uncompetitive bid
Unicare	Submitted proposal	Not considered a finalist because of uncompetitive bid
United Wisconsin Group (UWG)	Submitted proposal	Incumbent and finalist
UnumProvident	Submitted proposal	Not considered a finalist because of uncompetitive bid
Wausau	Did not submit proposal	
WPS/Epic Life	Submitted proposal	Not considered a finalist because of uncompetitive bid



Basis for Comparison

Basis for Comparison

Strengths and Weaknesses

	MetLife	Minnesota Life	Mutual of Omaha	United Wisconsin Group
Strengths	<ul style="list-style-type: none"> ▪ 'A+' financial rating ▪ Account management in Chicago, IL ▪ Familiar with Wisconsin government agencies—have Milwaukee County as client 	<ul style="list-style-type: none"> ▪ Proposed 5-year fixed rate quote ▪ Of bidders with a 5-year fixed rate quote, proposed the lowest rates ▪ Familiar with Wisconsin government agencies—have State of Wisconsin as client ▪ 'A++' financial rating 	<ul style="list-style-type: none"> ▪ Proposed lowest basic and supplemental 3 year quote ▪ Even if rates increase 10% at 1/1/2006, would still have the lowest aggregate 5-year cost ▪ Account management located in Chicago, IL ▪ Fewest deviations from service requirements ▪ Familiar with government agencies – have County of Will as client ▪ 'A' financial rating 	<ul style="list-style-type: none"> ▪ Incumbent ▪ Account management and service offices located in New Berlin, WI ▪ Based in Wisconsin
Weaknesses	<ul style="list-style-type: none"> ▪ Proposed 'Acceptable' 3- year rate quote: rates may increase a maximum of 10% at 1/1/2006 ▪ Have numerous rate caveats that would allow for rate modification on any date after the first policy anniversary ▪ Have more evidence of insurability requirements than other finalists (see page 9) ▪ Service offices located in Utica, NY 	<ul style="list-style-type: none"> ▪ Account management and services offices located in St. Paul, MN 	<ul style="list-style-type: none"> ▪ Proposed 'Acceptable' 3- year rate quote: rates may increase a maximum of 10% at 1/1/2006 ▪ Service offices located in Omaha, NE 	<ul style="list-style-type: none"> ▪ Proposed modified 'Acceptable' 3-year rate quote: rates may increase a maximum of 15% and loss ratio target is 85% ▪ Proposed highest basic and supplemental 3 year quote among finalists ▪ 'B+' financial rating ▪ Require evidence of insurability for coverage for Enhanced Supplemental Life coverage

Basis for Comparison

Vendor Overview

	MetLife	Minnesota Life	Mutual of Omaha	United Wisconsin Group
Account executive and location	John Cosgrove Chicago, IL	Connie Cottrill Wexford, PA	Geoff Apgar Chicago, IL	Michael Burns New Berlin, WI
Service representative	TBD Chicago, IL	Von Peterson St. Paul, MN	Gary Swain Chicago, IL	Cathy Daily New Berlin, WI
Claim office location	Utica, NY	St. Paul, MN	Omaha, NE	New Berlin, WI
Customer service location and hours	Utica, NY 7:00 A.M. – 7:00 P.M. CST, Mon. – Thurs. 7:00 A.M. – 4:00 P.M. CST, Friday	St. Paul, MN 8:00 A.M. – 6:00 P.M. CST, Mon. – Fri.	Omaha, NE 8:00 A.M. – 6:00 P.M. CST, Mon. – Fri.	New Berlin, WI 8:00 A.M. – 4:30 P.M. CST, Mon. – Fri.
Account underwriter and location	TBD Aurora, IL	Bruce Humphries St. Paul, MN	Scott Parker Omaha, NE	Scott Reichert New Berlin, WI
Senior claim representative and location	Patti Reile Utica, NY	Gregg Hammerly St. Paul, MN	Diane Quinones Omaha, NE	Judy Burmeister New Berlin, WI
City officer and location	Dennis Lyons Chicago, IL	Robert Olafson St. Paul, MN	Timothy Corrigan, Omaha, NE	Steven Klister New Berlin, WI

	MetLife	Minnesota Life	Mutual of Omaha	United Wisconsin Group
Rate guarantee	Proposed 'Acceptable' Scenario 3 year guarantee	Proposed 'Preferred' Response 5 year guarantee	Proposed "Acceptable" Scenario 3 year guarantee	Proposed modified 'Acceptable' Scenario 3-year guarantee with 15% increase in rates thereafter. Also includes 85% loss ratio clause
Rate caveats from guarantee	See footnote ¹	Lives or volume changes by +/- 10%	Lives or volume changes by +/- 10%	Lives or volume changes by +/- 10%
Rate exclusions	None (besides what is noted above in rate caveats)	Suicide exclusion; Waiver of Premium and AD&D benefits will not be honored during extraordinary circumstances (i.e. suicide, war, etc)	None (besides what is noted above in rate caveats)	None (besides what is noted above in rate caveats)
Plan Design Deviations	None	None	None	None

¹ Rates can be modified when:

- Lives or volume changes by +/- 10%;
- Financial arrangements are changed;
- Any coverages are cancelled;
- Plan designs are changed;
- A difference in demographic or geographic distribution of insured employees results from time of quote;
- A change in law requires a change in insurance provided by the policy or when classes of person eligible for insurance are added or deleted from the policy;
- The policy is amended or endorsed;
- A Policyholder's subsidiary, affiliate, division, branch or similar entity is added to or deleted from the policy for any reason;
- On any date on or after the first Policy Anniversary; can only occur once every 12 months and requires 31 days written notice;
- On any other date agreed to by MetLife and the Policyholder.

Life Insurance Vendor Selection

City of Milwaukee

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	MetLife	Minnesota Life	Mutual of Omaha	United Wisconsin Group
Incumbent status/knowledge of City of Milwaukee	Not a current vendor	Not a current vendor	Not a current vendor	Incumbent for City of Milwaukee
IBNR reserve requirements	Reserves are not separately identified with a non-retrospectively experience rated quote	Not established for death claims. 30 day waiting period before annual review. Claims after that point will be part of next plan year. Pending death claims will be reserved at full claim value. Waiver of premium reserves will equal approximately 10 months of Waiver of Premium claims	Pending death claims reserved at face value; approved waivers are reserved using Krieger Table (5% interest) and an unreported reserve equal to approximately 15% of premium is included	IBNR claims are reserved at 10% of annual premium. Krieger Tables are used to establish Premium of Waiver reserves
Cover disableds at age 65 (Waiver of Premium)	Yes	Yes	Yes	Yes
Late entrants	Must supply evidence of insurability	Must supply evidence of insurability	Must supply evidence of insurability	Must supply evidence of insurability

	MetLife	Minnesota Life	Mutual of Omaha	United Wisconsin Group
Evidence of Insurability	Required ²	None	None	Required for Enhanced Supplemental Life
Waive actively at work and dependent non-confinement	Additional data and analysis required. Rate adjustment may be needed for waived coverage	Yes	Yes	Yes
Rates quoted are guarantee issue	Yes	Yes	Yes	Only basic and supplemental coverages are guarantee issue. Applicants for enhanced supplemental must provide evidence of insurability
Will accept the City's certification of eligibility processes	Yes	Yes	Yes	Yes

² EOI will be required for contributory and voluntary plans when:

- Active employees that do not apply for coverage within 31 days of the eligibility date
- Active employees that do not apply for coverage during the first open enrollment in which they are eligible for coverage
- Active employees eligible for coverage under the prior plan but did elect to be covered under the prior plan
- Any amounts over the medical EOI limit (amounts in excess of \$500,000 combined with basic life or 1.5x - 3x salary, depending on eligible class)

EOI will be required for non-contributory plans when:

- Active employees experience a pay increase that generates a benefit for the first time that exceeds the stated medical EOI limit
- Active employees have coverage amounts at initial enrollment that exceed stated medical EOI levels (amounts in excess of \$500,000 combined with basic life or 1.5x-3x salary, depending on eligible class)
- Active employees apply for coverage after being previously denied

?

	MetLife	Minnesota Life	Mutual of Omaha	United Wisconsin Group
Conversion included in quoted rates	Yes. Policies offered are basic, supplemental and dependent coverages	Yes. Available for any individual policy except term insurance	Yes. Only policies offered are whole life	Yes. Only policies offered are whole life
Maximum conversion amount	Face amount of coverage at time of termination	No maximum	Face amount of coverage at time of termination	Face amount of coverage at time of termination
Charge per \$1,000 for conversion coverage	No additional charges to be assessed	City = \$60/\$1,000 of face amount Employee = \$0	City = \$65/\$1,000 of face amount Employee = \$0	City = \$0 Employee = based on age
Conversion underwriting requirements	EOI is not required. Dual application procedure required	EOI is not required. Only payment of initial premium	EOI is not required. No other requirements	EOI is not required. Only payment of initial premium
Portability included in quoted rates	No, can be included at additional charge (TBD)	No. 7% increase to rates if added	No. 8% increase to rates on enhanced supplemental only if added	No, can be included at additional charge (TBD)
Accelerated death benefit	50% of face amount, up to \$250,000	100% of face amount, up to \$1,000,000	50% of face amount, up to \$100,000	50% of face amount, up to \$50,000
Accelerated death benefit included in quoted rates	Yes	Yes	Yes	Yes
Provide reports for audits and accounting	Yes	Yes	Requirements to be discussed if Mutual of Omaha is chosen as winner	Yes

Life Insurance Vendor Selection

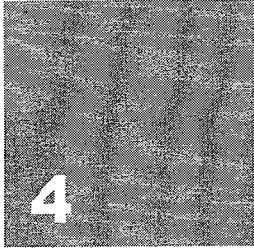
City of Milwaukee

	MetLife	Minnesota Life	Mutual of Omaha	United Wisconsin Group
Will provide detailed death claim listings	Yes	Yes	Yes	Yes
Provide monthly claim information	Yes	Yes	Yes	Yes

Basis for Comparison

References

MetLife	Minnesota Life	Mutual of Omaha	United Wisconsin Group
Milwaukee County Matthew Janes 10,377 covered employees (414) 278-4570	City of St. Paul Ron Guilfoile 2,977 covered employees (651) 266-8880	Marmon Group 35,000 covered employees (312) (845)-5389	M&I Banks Dennis Salentine 11,535 covered employees (414) 765-8321
WE Energies Keith Schwichtenberg 9,025 covered employees (414) 221-3793	City of Wichita Verl Niedens 2,525 covered employees (316) 268-4544	Motorola, Inc. 75,000 covered employees (480) 441-4761	Milwaukee County Transit Service Kathi Miller 2,084 covered employees (414) 937-3270
Quad Graphics Cheryl Tomke 11,777 covered employees (414) 566-2979	State of Wisconsin Marcia Blumer 271,926 covered employees (608) 266-2640	County of Will, Illinois 1,600 covered employees (815) 740 4634	Shopko Stores, Inc. Barbara Honesty 8,271 covered employees (902) 429-7997



Financial Comparisons

Financial Comparisons

Financial Ratings

	MetLife	Minnesota Life	Mutual of Omaha	United Wisconsin Group
A.M. Best	A+	A++	A	B+
Fitch	AA+	AA	Not Rated	Not Rated
Standard and Poor's	AA	AA+	AA-	Not Rated

Financial Comparisons

January 2003-December 2007 Cost Estimates for the City of Milwaukee

Vendors	Preferred/ Acceptable Response	Initial Rate	Average Rate	Initial Rate Guarantee for Basic and Supplemental	5 Year City Costs ²	5 Year Employee Costs	5 Year Total Costs	Additional 5 Year City Cost over Current Plan	Additional 5 Year City Cost over Lowest Proposed Bid	5 Year Enhanced Premium at Current Volume
Current (UWG) ³		0.510	0.510	5	12,062,541	N/A	N/A	N/A	N/A	N/A
United Wisconsin	Acceptable ¹	0.640	0.678	3	17,795,000	5,298,000	23,093,000	5,733,000	4,330,000	51,000
Minnesota Life	Preferred	0.630	0.630	5	16,147,000	5,298,000	21,446,000	4,085,000	2,682,000	46,000
MetLife	Acceptable	0.580	0.603	3	15,235,000	5,298,000	20,534,000	3,173,000	1,770,000	51,000
Mutual of Omaha	Acceptable	0.530	0.551	3	13,465,000	5,298,000	18,763,000	1,402,000	-	51,000

¹ Modified Acceptable Response. Rates may increase a maximum of 15%. Also includes 85% loss ratio clause.

² 10% increase assumed for remaining years' rates after guarantee

³ Reflects what costs would be over 2003-2007, if current rates stayed intact

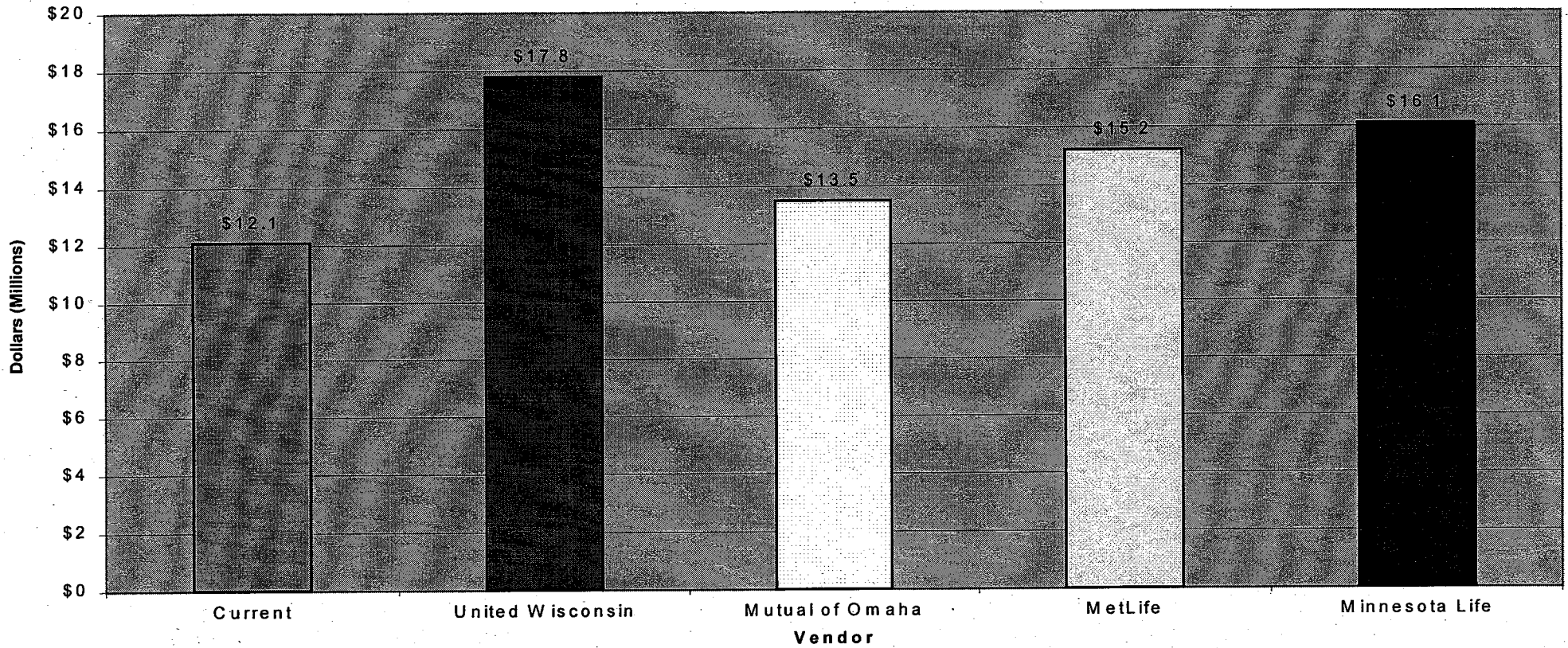
Assumptions:

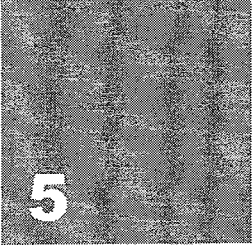
Based on current volumes

Assumes no plan design changes

Financial Comparisons

5 Year Costs to the City
(in \$ Millions)





Recommendations and Next Steps

Recommendations and Next Steps

Preliminary Recommendations

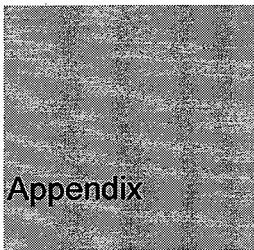
- Mutual of Omaha seems to be the best fit for the City of Milwaukee given that they have the lowest 3-year and 5-year net costs to the city for basic and supplemental coverage and have the least amount of service deviations
- Even if Mutual of Omaha increases rates the maximum 10% at 1/1/2006, the 5-year cost is still \$1.77 million lower than the next closest competitor

Other considerations

- Minnesota Life is also worthy of consideration given that they provided a competitive 5-year quote for basic and supplemental coverage
- MetLife proposed a competitive rate, however they have too many service deviations (evidence of insurability, rate caveats, etc) to be a viable offering for the City
- Although United Wisconsin Group is the incumbent and knows the City's processes, the bid provided was not competitive and would cost the City approximately \$4.33 million more over 5 years than the lowest bid

Next Steps

- Negotiate with finalists
- Select vendor
- Begin implementation



Summary of Bids for City of Milwaukee

Vendor	Preferred/ Acceptable Response	Years guaranteed for Basic and Supplemental	Initial Rate	Comments
Aetna	Acceptable	3	0.600	Rate is not competitive
CNA	Acceptable	3	0.600	Rate is not competitive
ING	Acceptable	3	0.620	Rate is not competitive
Minnesota Life	Preferred	5	0.630	Finalist
MetLife	Acceptable	3	0.580	Finalist
Mutual of Omaha	Acceptable	3	0.530	Finalist
Prudential	Preferred	5	0.648	Rate is not competitive
Prudential	Acceptable	3	0.617	Rate is not competitive
Standard	Acceptable	3	0.600	Rate is not competitive
Unicare	Preferred	5	0.675	Rate is not competitive
United Wisconsin	Preferred	5	0.770	Incumbent, 5-year rate is not competitive
United Wisconsin	Acceptable	3	0.640	Incumbent and Finalist
UNUM	Acceptable	2	0.749	Rate is not competitive
WPS/Epic Life	Acceptable	3	0.635	Rate is not competitive