

**LRB-RESEARCH AND ANALYSIS SECTION**  
**FINANCE AND PERSONNEL COMMITTEE**  
**APRIL 24, 2013      ITEM 16, FILE # 121686**

**File Number 121686 is a resolution approving design changes in group life insurance benefits for active general City employees and new general City retirees.**

**Background**

1. Common Council File Number 111663, adopted December 18, 2012, approved the extension of the City’s contract with Standard Insurance Company for the provision of group life insurance benefits for City employees through December 31, 2013.
2. The resolution also directed that representatives of the Department of Employee Relations, Employees’ Retirement System, City Attorney’s Office and Department of Administration – Budget and Management Division review the current life insurance benefit designs and make recommendations for future life insurance benefits to the Finance and Personnel Committee by May 15, 2013.
3. This resolution approves a new design that is recommended by the Department of Employee Relations after discussions with a workgroup of representatives of the aforementioned departments.

**Discussion**

1. The total cost to provide group life insurance to City employees and retirees with the current design is approximately \$2.9 million annually based on a single rate that is applied to both active employees and retirees of \$0.53 per \$1,000 of coverage. The Department of Employee Relations reports that the City could expect new rates of from \$0.60-\$0.70/\$1,000 with a new contract. At these rates, and utilizing the present design, the cost to the City would rise as high as \$4.1 million annually. A detailed projection broken out by employee groups is presented below.

**Annual City Cost to Provide Group Life Insurance  
Cost Projections with Current Design**

	Number	Current (\$0.53/\$1,000 Blended Rate)	Projected (\$0.65/\$1,000 Blended Rate)	Projected (\$0.70/\$1,000 Blended Rate)
General City Active	3,312	\$1,088,785	\$1,401,620	\$1,531,968
Fire Active	779	\$399,690	\$516,579	\$565,283
Police Active	1,695	\$877,213	\$1,134,485	\$1,241,681
General City Retirees (65+)	1,797	\$277,243	\$340,015	\$366,170
Fire Retirees (65+)	490	\$94,847	\$116,322	\$125,269
Police Retirees (65+)	956	\$185,667	\$227,705	\$245,221
<b>Total City Cost</b>	<b>9,029</b>	<b>\$2,923,445</b>	<b>\$3,736,725</b>	<b>\$4,075,592</b>

2. The current design of the group life insurance benefit, because it is based on a single blended rate, creates a system where younger active employee rates are higher and older retiree rates are lower than they would be if rates were age-adjusted. The Department of Employee Relations is recommending that the new design be based on

age-adjusted rates where there are separate rates for active employees and retirees. If such a rate system were created, the Department of Employee Relations reports that rates are projected to be approximately .20/\$1,000 for active employees and 1.77/\$1,000 for retired employees. Using these estimates imposed on the current design provides a truer cost picture of what it is costing the City to provide this benefit as well as the value of the benefit as shown below.

**Annual City Cost to Provide Group Life Insurance  
Comparing Designs using New Rate Structure**

	Current Design (\$0.20/\$1,000 < 65 Rate) (\$1.77/\$1,000 65+ Rate)		Proposed Design (\$0.20/\$1,000 < 65 Rate) (\$1.77/\$1,000 65+ Rate)	
	Number	Cost	Number	Cost
General City Active	3,312	\$242,436	3,748	\$449,760
Fire Active	779	\$83,796	779	\$78,240
Police Active	1,695	\$182,054	1,695	\$169,716
General City Retirees (65+)	1,797	\$925,888	NA	NA
Fire Retirees (65+)	490	\$316,753	NA	NA
Police Retirees (65+)	956	\$620,059	NA	NA
All Retirees (65+)	3,243	\$1,862,699	3,273	\$1,869,072
Total City Cost	9,029	\$2,370,986	9,495	\$2,566,788

3. The design as recommended by the Department of Employee Relations would eliminate a subsidization of supplemental rates that exists in the current design.
4. The design as recommended by the Department of Employee Relations is projected to reduce the overall cost to the City.
5. The cost of the new design with the new rates is projected to be \$120 per person per year for active employees and \$212 per person per year for retirees.

**Fiscal Impact**

1. There is no direct fiscal impact as a result of this resolution.
2. After a RFP process is completed and a vendor is selected, additional Council action will be required before the new benefit design is implemented, and a fiscal impact will be determined at that time.

Prepared by: Mary E. Turk  
LRB-Research and Analysis Section  
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Cc: Mike Brady  
Ellen Tangen  
Richard Pfaff