



**Basic and Supplemental Life Insurance**

**Request for Proposal Process and Results**

July 16, 2019



**Table of Contents**

- Background..... 3
- Request for Proposal Process ..... 3
- Analysis of Responses..... 5
- Recommendation ..... 6

## BACKGROUND

The City of Milwaukee provides its employees and retirees with basic and supplemental life insurance. This program is insured via a group life term policy. Typically these policies are relatively inexpensive and simple to underwrite. The City of Milwaukee has several groups of grandfathered retirees with guaranteed life insurance for the remainder of their lives. As members age, more claims are paid and there is greater risk to the underwriting carrier. Life insurance carriers have experienced significant losses providing this benefit to City employees and retirees for many years. In 2014, the City's life insurance benefit was redesigned to mitigate future risk and control costs by limiting the amount of life insurance available to future retirees.

In order to better understand the conditions surrounding the current life insurance request for proposal (RFP) process, it's helpful to review the City's past life insurance providers and experience. Prior to January 1, 2014, The Standard was the carrier for the City's life insurance coverage for seven years.

The City conducted a RFP process in 2013 prior to The Standard's contract expiration. Although The Standard had suffered significant losses in excess of the premium it collected, Aetna offered a quote that was \$800,000 below The Standard's current terms and guaranteed the rates for three years. This prompted the City to execute a contract with Aetna from 2014 through 2016.

At the end of 2016, Aetna offered a renewal proposal that would have increased active employee rates 64.9%, retiree life insurance rates 128% and employee-paid supplemental life rates 6.1%, for an overall increase of 78.1%. Aetna's renewal quote was based on losses similar to what The Standard experienced with the City. This large increase prompted the City to execute another RFP process for a life insurance carrier beginning in 2017.

At that time, MetLife provided quotes that were \$2.5 million less than the Aetna renewal, representing an increase of only 14.6% and guaranteed the rates through December 31, 2019. As a result, the life insurance coverage was transferred from Aetna to MetLife effective January 1, 2017. Since inception of their contract, MetLife has also suffered significant losses. The poor underwriting results have been confined to City paid coverages not the supplemental coverage paid by employees. This loss trend has been consistent with multiple carriers since 2007.

MetLife's initial renewal for January 1, 2020 reported a paid loss ratio of 137% or a loss of \$3.5 million over the last 27 months. MetLife proposed an increase of \$1.6 million in the total cost of the program. As a result, the City of Milwaukee determined it was necessary to seek competitive bids for its basic group and supplemental life insurance programs.

## REQUEST FOR PROPSAL PROCESS

Willis Towers Watson worked with the Department of Employee Relations and the Employees' Retirement System to collect the necessary information and prepare a RFP. The RFP, along with the supporting information was sent to the following carriers:

1. The Hartford (quote provided)
2. Lincoln financial (declined to quote)
3. Prudential (declined to quote)

4. Reliance Standard (quote provided)
5. Securian (quote provided)
6. The Standard (quote provided)
7. UNUM (declined to quote)
8. Voya (quote provided)
9. Zurich (declined to quote)

The response to the City's RFP shows the lack of interest by several life insurance providers due to significant losses the past three carriers have experienced.

After distributing the RFP, the City established a selection committee to evaluate responses, which was comprised of the following individuals:

- Renee Joos, Department of Employee Relations
- Jennifer Zillmer, Department of Employee Relations
- Terry Siddiqui, Employees' Retirement System
- Dennis Yaccarino, Budget Office, Department of Administration

Assisting the City team were the following individuals:

- Douglas Ley, Senior Director, Willis Towers Watson
- Daniel Hennig, Associate, Willis Towers Watson
- Jill Goehrig, Associate, Willis Towers Watson

**ANALYSIS OF RESPONSES**

The following table is a summary of the current costs, proposed rates and revised quotes from the most competitive offers for the three year period commencing January 1, 2020.

	MetLife				VOYA		
	Current	Renewal	Quote	Revised Quote/Renewal	Revised 2 Quote/Renewal	Quote	Revised Quote
<b>LIFE</b>							
<b>Life (Actives) Monthly</b>	\$49,829	\$61,949	\$56,562	\$49,829	\$49,829	\$49,829	\$43,768
<b>Life (Actives) Annually</b>	\$597,944	\$743,389	\$678,747	\$597,944	\$597,944	\$597,944	\$525,221
Cost Difference (%)	--	24.3%	13.5%	0.0%	0.0%	0.0%	-12.2%
Cost Difference (\$)	--	\$145,446	\$80,803	\$0	\$0	\$0	-\$72,723
<b>Life (Retirees) Monthly</b>	\$203,967	\$328,397	\$326,812	\$326,812	\$320,052	\$327,446	\$320,052
<b>Life (Retirees) Annually</b>	\$2,447,607	\$3,940,762	\$3,921,749	\$3,921,749	\$3,840,626	\$3,929,354	\$3,840,626
Cost Difference (%)	--	61.0%	60.2%	60.2%	56.9%	60.5%	56.9%
Cost Difference (\$)	--	\$1,493,154	\$1,474,141	\$1,474,141	\$1,393,019	\$1,481,747	\$1,393,019
<b>TOTAL BASIC LIFE (ACTIVES &amp; RETIREES)</b>							
<b>Total Monthly Premium</b>	\$253,796	\$390,346	\$383,375	\$376,641	\$369,881	\$377,275	\$363,821
<b>Total Annual Premium</b>	\$3,045,551	\$4,684,151	\$4,600,495	\$4,519,692	\$4,438,570	\$4,527,297	\$4,365,847
Cost Difference (%)	--	53.8%	51.1%	48.4%	45.7%	48.7%	43.4%
Cost Difference (\$)	--	\$1,638,600	\$1,554,945	\$1,474,141	\$1,393,019	\$1,481,747	\$1,320,296
<b>VOLUNTARY LIFE</b>							
<b>Vol. Life - ACTIVES</b>	\$67,746	\$67,746	\$67,746	\$67,746	\$67,746	\$67,746	\$67,746
<b>Vol. Life - RETIREES</b>	\$58,408	\$58,408	\$58,408	\$58,408	\$58,408	\$58,408	\$58,408
<b>Vol. Dependent Life</b>	\$12,153	\$12,153	\$12,153	\$12,153	\$12,153	\$12,153	\$12,153
<b>TOTAL VOLUNTARY LIFE (ACTIVES &amp; RETIREES)</b>							
<b>Total Vol. Life Monthly Premium</b>	\$138,307	\$138,307	\$138,307	\$138,307	\$138,307	\$138,307	\$138,307
<b>Total Vol. Life Annual Premium</b>	\$1,659,681	\$1,659,681	\$1,659,681	\$1,659,681	\$1,659,681	\$1,659,681	\$1,659,681
Cost Difference (%)	--	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Cost Difference (\$)	--	\$0	\$0	\$0	\$0	\$0	\$0
<b>TOTAL BASIC &amp; VOLUNTARY LIFE (ACTIVES &amp; RETIREES)</b>							
<b>TOTAL PREMIUM</b>	<b>Current</b>	<b>Renewal</b>	<b>Quote</b>	<b>Revised Quote/Renewal</b>	<b>Revised 2 Quote/Renewal</b>	<b>VOYA</b>	<b>VOYA Revised</b>
Total Monthly	\$392,103	\$528,653	\$521,681	\$514,948	\$508,188	\$515,582	\$502,127
Total Annual	\$4,705,232	\$6,343,832	\$6,260,176	\$6,179,373	\$6,098,251	\$6,186,978	\$6,025,528
Cost Difference (%)	--	34.8%	33.0%	31.3%	29.6%	31.5%	28.1%
Cost Difference (\$)	--	\$1,638,600	\$1,554,945	\$1,474,141	\$1,393,019	\$1,481,747	\$1,320,296
<b>Rate Guarantees:</b>		<b>1 Year</b>	<b>3 Years</b>	<b>3 Years</b>	<b>3 Years</b>	<b>3 Years</b>	<b>3 Years</b>

As outlined in the above table, the total premium increase is significant even after the RFP process. In past years, carriers were willing to take a risk on group term life programs; however, the life insurance marketplace is consolidating and hardening and there has been a decline in carriers willing to take significant risk on group term life programs. This trend, coupled with significant losses City life insurance carriers have experienced since 2007, has placed the City in a position where the rate must be commensurate with the risk. While the above basic insurance life rates will result in an annual expenditure increase for the City, the rates are guaranteed for three years. Unfortunately, there are no carriers with an appetite to underwrite the risk at a lower cost when there is significant potential for loss.

As outlined above, the losses in excess of premium have been confined to the employer paid versus the employee paid supplemental coverage. The supplemental life program rates will not change and will be guaranteed for three years. Informal inquiries were made to test the interest in transferring some of the increase from the employer paid to the supplemental life program. These inquiries were met with resistance for the following reasons:

1. The employer paid portions represent almost 75% of the total premium. Significant increases in the supplemental life program would produce a much smaller reduction in the employer paid portion.
2. Carriers are concerned that if supplemental rates are increased, adverse selection would occur, which would reduce the premium collected on the supplemental life program and contribute to a deterioration of the risk profile of the supplemental life group.

### RECOMMENDATION

Current City and employee paid premiums combined are estimated to be \$4,705,232 in 2019. The negotiated annual premium with MetLife is \$6,098,251 for 2020, 2021 and 2022, representing an overall increase of 29.6% or \$1.39 million annually. Voya's quote reflects a slightly lower increase at 28.1% over current cost. The Voya savings would amount to \$72,723 per year.

Given the small difference in the two most competitive offers, the selection team recommends executing the renewal contract with MetLife effective January 1, 2020 through December 31, 2022 for the following reasons:

- MetLife is one of the largest group life insurance companies in North America and has earned high financial ratings determined by the insurance company rating agencies.
- MetLife has done a good job of providing this benefit to City employees and retirees for the last three years.
- The small difference in cost between MetLife and Voya doesn't warrant the amount of work, time and transition necessary to switch to a new life insurance carrier or the disruption it would cause to members.