

October 22, 2002

Mr. Geoff Apgar
Group Sales Manager
Mutual of Omaha
One Westbrook Corporate Center
Suite 800
Westchester, IL 60154

VIA ELECTRONIC MAIL

Subject:

City of Milwaukee Life Insurance Bid: Outstanding Issues

Dear Mr. Apgar:

We met with representatives of the City of Milwaukee on Friday, October 18, 2002 to review the finalist's bids for the City's life insurance program. Mutual of Omaha is currently one of the finalists the City is considering.

The City has asked us to get written clarifications and commitment on a number of specific items. Before addressing some specific issues, let me first outline some general objectives of the City of Milwaukee so that the specific questions can be considered in the proper context.

Background and Environment

The City's objective is to have competitive and budgeted life insurance costs over a five-year period. Due to the City's approval process, a high priority is placed on avoiding unexpected increases in life premiums. The "potential" 10% increase in 2006 under Mutual of Omaha's "acceptable" response if certain conditions are met is not problematic since it can be budgeted upfront. However, unexpected increases due to other reasons over the five-year period would be problematic and the City would like to minimize the probability of the selected carrier enacting an off-cycle increase.

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Specific Issues

1. Volume Changes

Mutual of Omaha currently reserves the right to change rates if volumes change $\pm 10\%$. The city requests that this threshold be raised to at least $\pm 15\%$ ($\pm 20\%$ is preferred). Also, if such a threshold is exceeded, the City requests a cap be placed on the magnitude of a rate increase and that sufficient notice of 120 days be granted.

Mutual of Omaha's response:

Volume Changes - We agree to a + 15% size variance. Please remember that this applies to the whole group and not just the active population. This is in favor of the city as the retiree population would not be impacted by a reduction in active employees other than to see the retiree population potentially grow with those who are laid off and eligible for retiree benefits. The 15% variance should be a very safe level of protection for the City of Milwaukee Life Insurance plan.

2. Premium Waiver

If the City decides to change carriers, it will be mandatory that the new carrier cover all eligible participants, including those not actively-at-work, except those that have been or will be accepted by UWG under Waiver of Premium.

We have prepared the attached Exhibit 1 which should address the various scenarios and the availability of census data.

Please confirm that Mutual of Omaha agrees with the coverage requirements in Exhibit 1. If not, please specify which categories warrant the non-confirmation and identify any data Mutual of Omaha would require or revisions to your proposal would be required to make this acceptable.

Please note that these coverage provisions have been in place for a long time. Thus, the 10 years of experience provided in the Request for Proposal already reflects the presence of these coverage continuation rules.

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Mutual of Omaha's response:

Premium Waiver - We are in agreement with points A, B, C and E of Exhibit 1. With respect to point D, we feel that the waiver should be submitted to UWG and the new carrier responsibility would be the same as point C with the clarification that if denied by UWG, then the new carrier will accept coverage if the disabled elects coverage under the retiree benefits and has paid premium from the first day and there is not a lapse in coverage.

3. Conversion Charges

Conversions have been rare (about five conversions) over the last 10 years.

Does the \$65/\$1,000 charge represent an additional out-of-pocket cost to the City, or is this just included in experience for purposes of analyzing rates requirements for 2008 through 2012?

Mutual of Omaha's response:

Conversion Charges - The conversion charge is included as a separate charge to the experience. This means that there is not a separate billing for this that would impact budgeting for the city. It would be an incurred claim to the plan considered at renewal. The current plan has a \$75 charge and ours is less at \$65.

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4. Potential Future Benefit Changes

As you know, the City's life benefits are provided pursuant to numerous collective bargaining agreements. The amount of "free" coverage (i.e., paid for by the City) is quite varied, and the enhanced supplemental life program is currently only available to selected groups.

During the period 2003 through 2007, there will undoubtedly be a variety of benefit changes to the life program as a result of collective bargaining. In some instances, it is conceivable that an independent arbitrator could simply dictate a benefit change for a selected group.

Recalling that the City's objective is to avoid off-cycle rate increases, the City desires that the selected carrier identify, up-front and to the extent possible, the threshold at which a benefit change would require an off-cycle rate increase.

It is expected that the majority of potential future benefit changes would be to the new carriers benefit, such as:

- A. If a bargaining group is able to increase the "free" amount of insurance (should improve participation)
- B. If the age-based enhanced supplemental life program is rolled out to additional groups
- C. If maximum life amounts are increased (within reason)

In the situations above, we would suspect that Mutual of Omaha would welcome such changes, and no rate changes or prior notification would be required.

However, there always remains the possibility of benefit changes that would not be beneficial to the new carrier, such as:

- D. If the amount of "free" insurance declined for a group
- E. If the current .21/\$1,000 employee contribution increased significantly (could hurt participation)

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The City requires the new carrier to confirm that rate increases will not be enacted off-cycle due to benefit changes for a group or groups that would be considered “immaterial” in the context of the size of the City’s life program.

The City is requesting Mutual of Omaha to identify the types and scope of benefit changes that would reach a “material” nature, i.e., identify the threshold at which the increased risk to Mutual of Omaha would require an off-cycle rate increase. In addition, Mutual of Omaha must agree to a 120-day advance notice of rate increases in the event the “threshold” is exceeded.

More specifically, please outline the process that the city and its labor negotiators would have to go through to obtain Mutual of Omaha’s approval of any proposed change. Would it be necessary for the city and/or its labor negotiators to submit written proposals to Mutual of Omaha to confirm the rating impact?

For your response, it may be helpful to consider three situations in which benefits could change:

- i. Planning process for negotiations – the City may need the rating impact of a specific change known prior to negotiations commencing. There would perhaps be 30 days lead time for Mutual of Omaha to provide the rating impact, if any.
- ii. In the midst of collective bargaining – at the negotiating table, the City would need to have prompt responses to proposals raised. Twenty-four hour turnaround or immediate access to underwriting support may be needed.
- iii. Arbitrator’s decisions – it would not be possible to elicit Mutual of Omaha’s pricing input. However, the City would like to have assurance that decisions that change benefits but do not increase risk to Mutual of Omaha, or is of an immaterial nature or applies to a sufficiently small group that off-cycle rate increases can be avoided.

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Mutual of Omaha's response:

Potential Benefit Changes - We agree with Mercer's outline of situations that would not require a rate change (A, B and C) and those that may require a rate change (D and E). With respect to item C we would want to be specific on increases to the maximum, and who the increase applied to. Obviously, increasing benefits on retirees would not be beneficial to Mutual of Omaha and may require a rate change.

However, we agree that the rate changes will be considered in the context of the entire group rather than the impact on the specific segment that has the benefit change. Therefore, we will not seek rate changes that are immaterial in the scope of the entire group.

Further, we are agreeable to providing a 120 day notification for rate changes. However it is our understanding that we will be able to recover the full value of the rate change as if the rate change occurred at the time of the change. As an example, say that a 5% rate increase is needed. Looking at this on an annual basis, and deferring the rate change 120 days, we would need a 7.5% rate increase for 8 months to get the same premium annually as a 5% increase for 12 months. Upon termination we reserve the right to recover the remaining value of rate changes that had been deferred.

We are prepared to provide access to underwriting as needed. In an effort to enhance our ability to respond to benefit change requests we would like to request that a complete census be provided annually so we would have a reference to use when pricing benefit changes.

5. In the event that the city finds Mutual of Omaha's proposal (and answers to the above items) acceptable, the City would like to promptly begin implementation meetings, which could occur as soon as November 1. Please acknowledge that Mutual of Omaha could quickly assemble their implementation team and meet with City representatives.

Mutual of Omaha's response:

We are in absolute agreement that a prompt transition meeting take place. Our transition team is ready to settle on a date and to begin.

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We appreciate your immediate attention to the items outlined above.

Sincerely,

Joseph P. Rohde, FSA

JPR/bt/KPM:BMP

Enclosure

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City of Milwaukee

Waiver of Premium Requirements

	Category	Approval/Denial	Disableds Election	New Carrier Responsibility	Census
A	Approved Waiver of Premium (WOP) by UWG	Approved by UWG		New carrier must accept coverage at age 65 under the retiree benefits	List included in Request for Proposal (RFP)
B	Disabled who have applied for WOP (pending)	If approved by UWG		New carrier must accept coverage at age 65 under the retiree benefits	RFP included two pending claims
		If denied for WOP by UWG	If disabled elects to continue coverage under the retiree benefits	New carrier must accept coverage at January 1, 2003 under the retiree benefits	
			If disabled elects to not participate in retiree benefits (i.e., will not pay .50/\$1,000)	New carrier can exclude	
C	Disableds who became or become disabled on or before December 31, 2002 and apply for WOP to UWG after 180 days of disability but before 365 days	If approved by UWG		New carrier must accept coverage at age 65 under the retiree benefits	
		If denied for WOP by UWG	If disabled elects to continue coverage under the retiree benefits	New carrier must accept coverage at January 1, 2003 under the retiree benefits	RFP included those known at time of RFP as retirees
			If disabled elects to not participate in retiree benefits (i.e., will not pay .50/\$1,000)	New carrier can exclude	

	Category	Approval/Denial	Disableds Election	New Carrier Responsibility	Census
D	Disableds who became or become disabled on or before December 31, 2002 but apply for WOP to UWG after 365 days of disability, or never apply for WOP	UWG would deny WOP	If disabled elects to continue coverage under the retiree benefits (i.e., pays the .50/\$1,000)	New carrier must accept coverage as of January 1, 2003 under the retiree benefits	RFP included those known at time of RFP as retirees
			If disabled elects to not participate in retiree benefits (i.e., will not pay .50/\$1,000)	New carrier can exclude	
E	Disableds who became disabled on or after January 1, 2003 and apply for WOP to new carrier after 180 days of disability but before 365 days	If approved by new carrier		New carrier must continue coverage, without premiums, until age 65	Unknown
		If denied for WOP by new carrier	If disabled elects to continue coverage under the retiree benefits	New carrier must continue coverage but premiums would be paid to new carrier	
			If disabled elects to not participate in retiree benefits (i.e., will not pay .50/\$1,000)	New carrier can exclude	