

City Of Milwaukee

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Selection Team Recommendation Regarding 2014  
Contract for Basic and Supplemental Life Insurance  
for Employees and Retirees

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Willis of Wisconsin  
400 N. Executive Drive  
Suite 300  
Brookfield, WI 53005

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**EXECUTIVE SUMMARY*****What is the Recommendation of the Selection Team?***

As a result of a request for proposal (RFP) process and evaluations, the Selection Team recommends the following for the life insurance program:

Enter into a three-year contract for 2014 through 2016 with Aetna.

***Who was on the Selection Team?***

The City staff members on the Selection Team were:

- **Michael Brady** – Department of Employee Relations
- **Renee Joos** – Department of Employee Relations
- **Martin Matson** – City Comptroller
- **Terry Siddiqui** – Employee Retirement System
- **Dennis Yaccarino** – Budget Office, Department of Administration

Assisting the City team were the following individuals:

- **Clete Anderson**, Vice President, Willis of Wisconsin
- **Daniel Hennig**, Assistant Placement Specialist, Willis of Wisconsin

***How Did the Selection Team Reach This Recommendation?******Selection Process***

The City embarked on a plan to revise the life insurance benefits it provides to employees and retirees. The goals for the new life insurance program included:

- Provide a benefit that is fair to employees and retirees
- Provide a benefit that is more uniform and consistent with other employers
- City will provide a base benefit that is employer paid
- Employees will pay for supplemental benefit, and
- Control costs. If the City makes no changes the current City share of the GLI cost, \$3M, is expected to increase to \$4M in 2014 due to poor claim experience.

The current life insurance program is complex and this report will not attempt to describe all the changes, but is summarized as follows.

Today employees contribute toward the cost of both basic life and supplemental life, and must purchase the supplemental life to receive the basic life. Early (pre 65) retirees pay for their life

insurance, and the City pays the entire cost for post 65 life insurance. The employees and retirees pay a flat rate per \$1,000 of life insurance regardless of age.

Under the new plan, the City will provide a City paid basic life amount of \$50,000 to all employees and does not require the employee to purchase supplemental life insurance. Supplemental life insurance will be 100% employee paid, using age-banded rates. Current retirees will retain their current benefits. Future post 65 retirees will be provided with \$10,000 of City paid life insurance. The new program will also allow employees to purchase life insurance for spouses and children for the first time. Note that the plan changes do not apply to police and fire employees or current post 65 retirees. Employees will be able to purchase up to three times their annual salary or \$300,000, whichever is less, with no medical questions, at the open enrollment this Fall.

The life insurance program has been with Standard Life for seven years, Standard did an excellent job of administering the program, and this contract has been financially favorable to the City. Nonetheless, with the substantial change to the benefit design it was deemed prudent to obtain competitive bids.

The RFPs were e-mailed to the following carriers. Responses were received from the following:

<b>Carrier</b>	<b>Status</b>
Aetna	Quote Received
Axa Advisors (AXA Equitable Life)	Provided a Hartford Quote but Already Received Direct
CIGNA	Quote Received
Colonial Life	Declined
Hartford	Quote Received
Liberty Mutual	Declined
MetLife	Quote Received
Minnesota Life	Quote Received
New York Life	Declined
Northwestern Mutual	Declined
Prudential	Quote Received
Standard	Incumbent Quote Received
Symetra	Quote Received
UNUM	Declined

The number of declinations from carriers that typically are competitive on large group life insurance plans is indicative of the large retiree component to the City's life insurance program. Many carriers are afraid of the risk of large retiree populations.

***Analysis***

The appendices to this report illustrates the financial terms of the respective quotes.

We asked the carriers to quote a flat rate for active employee basic life and post 65 retiree basic life, age-banded rates for supplemental life for actives and retirees and a flat rate for spouse/dependent life. This rating approach most properly matches the true cost of the benefits to the respective subgroups and would encourage responses from carriers. However, we avoided requiring the way that carriers quote their rates since this approach is more likely to drive bidders away than provide a financial advantage.

The Selection Team analyzed the employer paid basic life separately from the supplemental life. The analysis is based on the new plan for all employees except police and fire employees, as well as current post 65 retirees, who would keep their existing benefits.

#### *Basic Life Insurance*

Referring to Appendix A, Basic Life Financial Analysis, applying the expected life insurance volumes to the respective carrier's rates, the carrier with the lowest annual basic life premium was Aetna, at \$2,176,936. CIGNA was second at \$2,693,920 and MetLife third at \$2,782,191. Standard Life, the incumbent life was seventh at \$3,802,654. Aetna was over \$500,000/year lower than the next lowest and was the clear choice. Note that the team confirmed that the rates quoted by all carriers would match the City's benefit proposed benefit program.

#### *Supplemental Life Insurance*

Appendix B, Supplemental Life Financial Analysis reviews the employee paid supplemental life rates. One should note that the life insurance volume amounts by age bracket, and thus the annual premium figures, are only rough estimates. No one can predict how much supplemental life insurance, and by age, City employees will purchase. Some carrier rates were steeper, starting lower at the lower ages and then increasing faster with age. Other carrier rates were flatter, starting higher but increasing more slowly. On average, using the estimated insurance volumes, Aetna's supplemental life rates would be the lowest, and fairly substantially so. Having the carrier with the lowest basic life rates also quote the lowest supplemental life rates was an obvious plus, avoiding any conflict of choosing a carrier with the lower City cost at the expense of employees paying more. One should note that the rates that most employees and early retirees will pay will be lower under the new Aetna rates.

The rates for all carriers, including Aetna, are guaranteed for three years.

#### ***Overall Financial Impact of New Program and Bidding***

With the complexity of the current program as well as all of the changes that will take place with the new life insurance program, it is difficult to pinpoint the cost impact of the new program versus the old as well as the impact of the bidding process. In broad terms, the annual net City cost (gross premium less employee and retiree contributions) in 2013 is expected to be roughly \$3 million. Because of poor claims experience the City's cost under the current benefit plan was estimated to increase to as much as \$4 million in 2014.

The City's cost in 2014 with Aetna is estimated at \$2.2 million, a reduction of \$800 from current and an even larger reduction from the estimated increase. Most of the City's cost reduction comes from reduced rates, with the remainder coming from the net result of the City no longer

contributing toward the cost of supplemental coverage and employees no longer contributing toward basic life. However, with Aetna's supplemental life rates, the majority of employees and retirees will pay less for their supplemental coverage than they do today, particularly younger employees.

***Other***

Prior to making its decision, the Selection Team conducted a phone interview with Aetna, confirming their compliance with all the requirements in the RFP as well as their ability to provide ongoing administration, communication, claims, and enrollment support. A plus of Aetna's proposal is their liberal underwriting rules regarding purchase of supplemental life insurance. For the 2014 enrollment this fall, Aetna employee will be able to elect up to 3 times annual salary, or \$300,000, whichever is less, with no restrictions (no medical information required), and in subsequent years employees will be able to add additional supplemental life with relatively liberal medical information requirements. Low rates, but with restrictive underwriting rules, would have been unacceptable.

***Conclusion***

For these reasons the Selection Team recommends placing the life insurance contract with Aetna for 2014 through 2016.