

COUNCIL ACTION FORM

SUBJECT: RENEWAL OF GROUP LIFE AND LONG-TERM DISABILITY INSURANCE COVERAGES

BACKGROUND:

National Insurance Services (NIS) has provided two important benefits for City employees since 2003. These are Group Life insurance (including Accidental Death & Dismemberment, or AD&D), and Long Term Disability (LTD) insurance. NIS is the administrator for a group program which covers numerous government and school system accounts. The Life and LTD insurance policies are provided through Madison National Life Insurance Company.

These two policy renewals (Life/AD&D and LTD Insurance) were last approved by the City Council for three-year terms beginning July 1, 2012 through June 30, 2015. On February 21, 2014, the City received an “early” three-year proposal from NIS for our consideration for the period from July 1, 2014 through June 30, 2017. This proposal is based on the City’s overall favorable claims experience for both the Life and LTD coverages. The insurer is offering a reduction of our LTD insurance rate by 15.1%, to maintain our current Life Insurance rate. Both rates are guaranteed from July 1, 2014 through June 30, 2017.

The incumbent insurance company, Madison National Life, has provided outstanding claims service; and NIS, in their capacity as group administrator, has continued to provide excellent billing and administrative support services.

The NIS/Madison National proposal is to maintain the existing coverages, with the new three-year rate guarantees, through June 30, 2017, as summarized below:

- Maintain the existing rate for Basic Life insurance (with Accidental Death & Dismemberment) of \$0.20 per \$1,000 of coverage per month. It should be noted that in 2012 this rate was reduced 15.3%, from \$0.236 to \$0.20.
- Reduce the rate for Long-Term Disability (LTD) from \$0.595 per \$100 of covered payroll to \$0.505. This represents a 15.1% or \$21,651 reduction in LTD premiums.

The overall effect for the two Madison National coverages amounts to a 10.7% decrease in total annual premiums, from \$201,899 to \$180,248. The table below details these savings:

Premium Detail of Proposed Life and LTD Rates <i>(ANNUAL COSTS based on current payroll estimates)</i>			
Guarantee Dates	Life/AD&D Annual	LTD Annual	Combined Annual
7/1/2012 – 6/30/2015	\$ 58,764	\$143,135	\$201,899
7/1/2014 – 6/30/2017 (new)	\$ 58,764	\$121,484	\$180,248
Annual Savings	\$ -	\$ 21,651	\$ 21,651
Per Cent Reduction	0.0%	15.1%	10.7%

There are some significant reasons why these policies are not regularly subjected to competitive marketing. These include the following:

- As participants in the group program administered by NIS, the City is part of a group of 1,566 public sector organizations, with over 550,000 insured lives in 20 states. This helps ensure competitive and stable rates over the long term.
- The independent broker who placed the City with this group program has advised staff that the NIS program is competitive with other alternatives currently available in the insurance marketplace.
- Changing insurers involves re-enrollment of all employees, requiring significant administrative staff effort and employee time.

ALTERNATIVES:

1. Accept the proposal from National Insurance Services for continuing the current group life and long-term disability policies with the guaranteed rates specified above for the new three-year period July 1, 2014 through June 30, 2017.
2. Reject the National Insurance Services proposal and direct staff to seek other proposals for these coverages.

MANAGER’S RECOMMENDED ACTION:

Under the current group administrator, the City has had an excellent service history and track record of rate reductions and guarantees given in response to favorable claims experience. The rates for these coverages continue to be competitive, with a net reduction of 10.7% for the next three years.

Therefore, it is the recommendation of the City Manager that the City Council adopt Alternative No. 1, thereby accepting the proposal from National Insurance Services to continue the current benefits for group life, accidental death and long-term disability insurance for a new three year term with the guaranteed rates specified above for the period July 1, 2014 through June 30, 2017.