

COUNCIL ACTION FORM

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

BACKGROUND:

National Insurance Services (NIS) has provided two 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, 2014 through June 30, 2017. This renewal proposal is based on the City's overall claims experience for both the Life and LTD coverages. The insurer is proposing no change to the City's LTD insurance rate, and an 11.8% increase to the City's current rate for Life Insurance and AD&D. This rate increase reflects the City's loss experience over the past five years, where the average of claims paid is 162% higher than the combined premiums paid. Both of the proposed rates are guaranteed from July 1, 2017 through July 1, 2020.

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

The NIS/Madison National proposal is to maintain the existing coverages with the new three-year rate guarantees through June 30, 2020, as summarized below:

- The rate for Basic Life insurance (with Accidental Death & Dismemberment) will increase from \$0.17 per \$1,000 of coverage per month to \$0.19. This is estimated to cost the City \$63,472 in 2017/18, an increase of \$5,770 from the budgeted amount.
- The rate for Long-Term Disability (LTD) will remain at \$0.595 per \$100 of covered payroll. This is estimated to cost the City \$127,628 in 2017/18.

The cost increase for the Life/AD&D coverage was not anticipated when the 2017/18 budget was prepared, so the budget will need to be amended at a later time to cover that expense.

It should be noted that NIS also negotiated a possible LTD premium savings of \$6,318 per year if the coverage changed to require IPERS employees to make a concurrent filing disability application with IPERS. Staff does not recommend making that change at this time, but may work with NIS to explore making that change at a later point during this three-year contract.

There are 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, 2017 through June 30, 2020.
2. Reject the National Insurance Services proposal and direct staff to seek other proposals for these coverages.

CITY 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, and the Life/AD&D rate increase is justified by the City's actual claims experience over the past five 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, 2017 through June 30, 2020.