LOCKTON®

MEMO

DATE: **August 30, 2010**

TO: **Vicki Robinson**
City of Las Vegas

FROM: **Tanna Prince**
Ellen Stretlien

SUBJECT: **Results of Group Life, Voluntary Life and LTD Marketing**

At the City's request, Lockton recently marketed the City's basic life/AD&D, voluntary life and long-term disability (LTD) plans. The objectives of the marketing process were to:

- Package the plans with one carrier for maximum pricing leverage and streamlined administration.
- Reduce voluntary life insurance rates.
- Hold or reduce basic life and LTD rates.

Request for proposal (RFP) documents were sent to 14 major life and disability carriers, including the three incumbents: MetLife, Sun Life and Standard. Although seven carriers submitted proposals, only the following three submitted proposals that included competitive LTD rates:

- CIGNA
- Reliance Standard
- Standard

Each carrier had to agree to take over each of the existing plans, including inforce coverage amounts and policy provisions. However, you may want to consider aligning policy provisions regarding eligibility, disability/waiver of premium, accelerated death benefits, etc. as the new plans are implemented.

The attached proposal response analysis compares rates proposed by the three finalists, summarizes annual costs for employer-funded life and LTD plans and compares voluntary life insurance premiums under the current and proposed plan at five different age bands.

Standard's proposal presents the best combination of competitive rates for employer-paid plans (basic life and AD&D and LTD) and the voluntary life insurance plan. Although Reliance Standard offers a lower LTD rate, (significantly lower, in fact than the inforce rate), they have clearly offset the LTD rate reduction by keeping the voluntary life insurance rates at their current level, which are 30% higher than voluntary rates proposed by Standard. In addition, Standard is the inforce carrier for the LTD plan, which will minimize implementation and transition activities.

Because the voluntary life insurance plan has been with another carrier for more than ten years, you may want to consider a re-enrollment process. This process will ensure updated beneficiary designations and demonstrate that each employee was informed of the open enrollment opportunity and the new, lower rates. Standard has agreed to hold the open enrollment on a one-time basis and to provide a pre-populated enrollment form for each employee. For currently enrolled employees, the enrollment forms will show the current voluntary life and/or AD&D coverage amount and the new monthly premium. For employees who are not currently enrolled, the enrollment forms will show three life insurance coverage options with corresponding premiums. Standard will collect the forms and accumulate premiums and coverage amounts in a spreadsheet that the City can use to update payroll deductions.

Proposed rates assume a November 1, 2010 effective date. Open enrollment activity should take place in late September/early October in order to separate it from health plan open enrollment in mid-October.

This evaluation of the City's group voluntary plans may also be a good opportunity to re-evaluate the value of the AFLAC program. Although there are a substantial number of employees enrolled in AFLAC policies (862 for an accident plan; 363 for cancer protection; 317 for short-term disability), the policies are over-priced and deliver questionable value. As the cost of health care benefits continues to increase, many employers are re-evaluating the value and cost of AFLAC plans. At a minimum, the City may want to reconsider payroll deductions for the AFLAC STD plan given the City's generous sick pay plan. In most cases, the combination of sick pay plus insured STD benefits replaces 100% or more of pre-disability earnings, which leads to malingering.

Please let us know if you have questions or need additional information.