

May 22, 1980

Mr. Dunbar W. Heins  
Employee Services Administrator  
Department of Personnel  
City of Sacramento  
801 Ninth Street  
Sacramento, CA 95814

Dear Dun:

This letter and its attachments will serve three purposes:

1. A review of the Group Life, AD&D, and Dependent Group Life proposals, and our summaries.
2. Presentation of the Travelers Insurance Company and Blue Cross renewals (present basis - fully insured).
3. Presentation of the Minimum Premium Plan arrangements from both Travelers and Blue Cross.

Exhibit "A", attached, sets forth the rate and retention bids by the various carriers. Our commentary and recommendations are part of this exhibit.

The Blue Cross and Travelers renewal offers are on a fully insured basis, and are also attached. The highlights of these are as follows:

The Travelers regular renewal offer is stated in a report attached to their May 20, 1980 letter to me. It calls for an estimated refund of \$143,845, and a rate increase of 7.3%, on Health Care lines. The requested increase amounts to approximately \$96,000. This kind of exchange doesn't make much sense, after you have seen what they are willing to do in their Modified Minimum Premium quotation. Travelers will waive any increase in premium, if you elect their Modified Minimum Premium Plan. It would appear that the 7.3% is a provision for a margin, plus a small inflation factor. In any event, they seem to be asking The City of Sacramento to accept the Minimum Premium Plan proposal.

The Blue Cross regular renewal offer is stated in a May 16, 1980 letter to me, transmitting the package of information and a May 14, 1980 letter, to Joan Allen. This renewal calls for an estimated increase of \$117,000, or 27.8%. The accumulated gain is deteriorating rapidly, and a switch to the Minimum Premium Program will salvage some cash flow for The City. This is a very conservative renewal, and in view of

the Minimum Premium proposal from Blue Cross, you will have a relatively easy decision to make.

The following is a summary of the various points which should be considered in a switch to a Minimum Premium Program, with Travelers, and Blue Cross:

TRAVELERS

1. The projected surplus for the 1979-80 plan year is \$143,845. This should be refunded to you, on or about October 1, 1980.
2. The Incomplete and Unreported Claim Reserve will be approximately \$300,000, at plan year-end. This amount will be released to the Bank Fund, against claims on an on-call basis. Travelers indicated that while it is unused, it will earn interest at 7%, based on their current formula. This 7% will be a credit to the retention, or expense factors, and will not be paid out.
3. If the Modified Minimum Premium Plan is selected effective July 1, 1980, the renewal will provide for a continuation of existing rates.
4. The City of Sacramento should expect to pay 10% of the anticipated Medical/Dental and Weekly Income premium, starting July 1, 1980.
5. The 90% portion of the total premium (estimated claim charges), will be drawn from the \$300,000, shown in Item No. 2 above, until it is entirely used. At that point Travelers will bill The City of Sacramento, and you will wire the specified amount to the Bank Fund, at the Hartford National Bank, in Hartford, Connecticut.
6. The City's liability is limited to 100% of the rate value.
7. This program calls for a deficit to be carried forward, if one exists, at the end of the plan year.
8. The 16th month of the plan will be used for expense adjustments in retention, if necessary.
9. The mechanics of the change from a Fully Insured plan to the Travelers Modified Minimum Premium Plan are contained in the blue folder, which I have given to you.

BLUE CROSS

1. This Minimum Premium Plan is being written on a new case basis. The surplus of \$125,149, if intact on July 1, 1980, will be transferred to the Minimum Premium Fund.
2. The Incomplete and Unreported Claim Reserve amounts to \$66,500. Any balance of this after the 18 month run-out will be transferred to the Minimum Premium Fund.
3. If the Minimum Premium Plan is selected effective July 1, 1980, the existing rates will be continued for the next 12 months (same as Travelers arrangements).
4. You will pay a fixed \$2,910 per month, (in lieu of a floating 10%) as your retention and expense charge.
5. Blue Cross draws the claim charges (the 90%) first from the transferred surplus, shown in Item No. 1 above, and then, when the balance is zero, by notifying you on the 15th of the month following the end of the previous calendar month for payment due up to the liability limit. No bank arrangement is necessary, because you are not avoiding a premium tax with Blue Cross.
6. The City's liability is limited to 100% of the rate value.
7. Deficits are carried forward, and must be made up in the future.
8. L. D. Wagon's letter of May 16, 1980, sets forth the annual expense (retention) adjusting procedure.
9. There will be no change in the present arrangements other than the fixed monthly fee, the call-up of funds to meet claim payments, and the annual experience, shown in Item No. 8, above.

The potential cash flow advantages, based on the most current numbers, to The City of Sacramento by moving to a Minimum Premium Plan and a fully Pooled Life Plan with Travelers are as follows:

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TRAVELERS

<u>Source</u>	<u>Amount</u>	<u>When</u>	<u>How</u>
Life I&U	\$ 32,000	10/1/80	To MMP Fund, or direct refund
Medical/Dental I&U Reserve	\$300,000	7/1/80	To MMP Fund
Combined Lines Surplus	\$143,845	10/1/80	To MMP Fund, or direct refund
Premium Savings Group coverages	\$ 9,600	Annual	Rate reduction

BLUE CROSS

Hospital I&U	\$ 66,500	Run-out 18 mos to 1/1/82	Balance, if any, to MP Fund
Hospital Surplus	\$125, 149	7/1/80	To MP Fund
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Total	\$676,094		

I think that this letter report and its attachments completes the assignment as you requested, and we are prepared to act at your order.

Sincerely,



John Mark Sauve  
Vice President

JMS/wlj/4.811  
Attachments

## CITY OF SACRAMENTO

EXHIBIT AGroup Life, AD&D and Dependent Life  
Rate and Retention Summary

<u>Plans/Rates</u>	<u>California Life</u>	<u>Confederation</u>	<u>Home(NY)</u>	<u>Mutual of New York</u>	<u>Provident Mutual</u>	<u>Standard Insurance</u>	<u>Travelers</u>
Life (Per \$1000) Experience Rated	\$.97	\$.97	\$.91	\$1.23	\$.90	\$.95 Basic/\$.46 Supplemental (1)	\$.83
Pooled	.95	Not Bid	.90	1.17	.89	.95 Basic/ .46 Supplemental	.82
AD&D (Pooled) (Per \$1000)	.09	.09	.085	.09	.09	.05	.085
Dependent Life (Per Unit) Experience Rated	.30	.40	.40	.27	.35	.17	.40
Pooled	.29	Not Bid	.40	.27	.35	.17	.40
Retention 1st Year	11.6%	10.6%	11.1%	8.1%	10.9%	9.3%	(2)

May 23, 1980

Notes (1) and (2) See Commentary

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Exhibit A - Continued

Carrier Selection

Seven carriers were selected to bid from over 25 available and competent to do the job. These seven were approved by Mr. Heins; the reasons for these seven being asked to offer proposals were type, location, reputation for Life product flexibility, and low net cost posture.

California Life - A California domestic Stock Company

Confederation Life - A major Canadian Underwriter

Home Life (New York) - A New York Stock Company

Mutual of New York - A New York Mutual Company

Provident Mutual - A major Non New York Eastern Company

Standard Insurance Company - A major Western Company

headquartered in Oregon

Travelers Insurance Company - A major Hartford Company,

as well as the incumbent.

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Exhibit A - Continued

Commentary:

California Life - Presented a complete proposal prior to the deadline. It is neither an improvement on the present situation, nor does it offer any innovative approaches. The company will be thanked for participating, and told that it will not be recommended.

Confederation Life - Provided a proposal in stages, the last part (the rates), on the last hour of the deadline day. Generally the offering was incomplete and very disappointing. This carrier has consistently been a low rate fully pooled bidder on a number of Northern California risks this year. They have been advised that they will not be considered.

Home Life - Offered nothing new or different. This is another disappointment; they have been told that they will not be recommended.

Mutual Of New York - We expected a high rate from this carrier, but their retention throws them out of consideration. The primary hope that Mutual Of New York had was their ability to provide an experience rated product with significantly higher interest credits than other carriers, thereby bringing retention into the 4% range. We cannot recommend Mutual Of New York, because of high cost.

Provident Mutual - Indicated that they would be willing to underwrite the program, but they have a fear of Proposition No. 9 passing, and reducing the census significantly, and thereby undermining their program. We believe that they really do not want this business on the terms set forth in the specifications. They were advised that a negative recommendation would be made with respect to their proposal.

Standard Insurance Company - Standard Insurance Company's offering appeared to be the best arrangement, but a careful review reveals otherwise. The original quotation (proposal provided) called for a rate of \$.63, and \$.60, for experience rated and pooled quotations respectively. This was based on the assumption that they would get at least a 50% increase in the Supplemental or nearly \$9,000,000 more in volume, than is presently in force. This is clearly a violation of the specifications, so we called the Standard Home Office, and talked with Chief Underwriter Pat Kaiser. She offered the rate structure shown on the summary sheet - Exhibit "A". This gives the entire savings in premium to the contributing employees, and leaves The City about where you had been. She further offered to go to the original bid, if the total volume exceeded \$25,000,000, in a re-enrollment. No middle position was available. The retention levels will also stand. This may be an effective collective bargaining tool for your people, and therefore, we present it as an alternative. The savings to the employees could be approximately \$65,000 per year. The Accidental Death & Dismemberment savings to the City would be approximately \$3,500 per year.

Travelers - Offered a complete and timely proposal. Having the advantages of incumbency, they can offer a negative retention in the first two years of an experience rated independent Life program, because of the reserve carry over. The disassociation with the Medical Plan results in a negligible increase in retention to the Health Care lines, because of the accumulated surplus and the change to the Modified Minimum Premium program. Travelers can offer a premium savings of approximately \$9,600, annually to The City on the basic coverage, and \$17,600 to the contributing employees under the Supplemental. By staying with Travelers, you would incur no cost of re-enrollment, and you can take your choice of going fully Pooled and recapture Life Reserves of approximately \$32,000, or stay experience rated and review the choice again in 1981. The rate differential is obviously insignificant.