TO: HONORABLE CITY COUNCIL
FROM: CITY MANAGER DEPARTMENT: HUMAN RESOURCES
DATE: SEPTEMBER 12, 2005 CMR: 374:05
SUBJECT: APPROVAL OF CONTRACT IN THE AMOUNT OF $800,000 WITH
STANDARD INSURANCE COMPANY FOR THE CITY OF PALO ALTO’S
GROUP LIFE, ACCIDENTAL DEATH AND DISMEMBERMENT (AD&D),
AND LONG TERM DISABILITY INSURANCE (LTD) PLANS

RECOMMENDATION

Staff recommends that Council:

1. Approve and authorize the Mayor to execute the attached contract with Standard
   Insurance Company in the amount of $800,000 for one year to provide group life,
   accidental death and dismemberment (AD&D), and long-term disability (LTD)
   insurance benefits.

2. Authorize the City Manager or his designee to exercise the option to renew the
   contract for the second and third years, provided Standard Insurance Company is
   responsive to the City’s needs, and the quality of its work is acceptable during the
   term of the contract.

BACKGROUND

The work to be performed under this contract is for underwriting the City’s group life, AD&D and
LTD benefits. Existing agreements with City employee bargaining units provide for maintaining
these benefits.

The last Request for Proposal (RFP) for life, AD&D and LTD underwriting was conducted in 2003.
That process resulted in eight proposals ranging from $659,628 to $986,968. After analyzing and
comparing the proposals, MetLife was awarded a one-year contract with an option to renew up to
two additional one-year terms, or through June 2006. In March 2005, the City received notice from
MetLife that the renewal rate would be increased by 42%. In addition, staff had been experiencing
poor customer service and determined there was no choice but to request new proposals for these
services to determine if the City could achieve lower claims costs and an improved level of service.
Selection Process
A Request For Proposals (RFP) was conducted with the assistance of the City’s benefits broker to obtain a life, AD&D and LTD policy at a reduced cost to the employees and the City. Proposals were sent to four insurance companies. Two proposals were received from The Standard Insurance Company and UNUM Provident. Two companies declined to respond indicating that their quote would not be competitive. The proposal received from The Standard Insurance Company was for $759,025 annually and the proposal received from Unum Provident was for $791,323 annually.

DISCUSSION
Human Resources staff reviewed the proposals with the assistance of the City’s benefits broker. Staff carefully reviewed each firm’s qualifications relative to the following criteria:

- Claims paying administration
- Knowledge of and experience in working with public agencies and the Public Employees’ Retirement System
- Customer service capabilities
- Worker’s compensation interface
- Plan administration
- Statistical reports
- Vocational rehabilitation capabilities

The Standard Insurance Company was selected because it will be able to provide claims administration services at a lower cost. Also, three years ago The Standard was the City’s administrator for life, AD & D and LTD and it demonstrated its ability to provide the high level of claims administration service required by the City. Furthermore, this change supports the Finance Committee’s recommendation for staff to bring alternatives forward on how to slow the increase of employee benefits and lessen the impact on infrastructure and other City priorities.

RESOURCE IMPACT
The life, AD&D and LTD insurance policy rates are based on the number of City employees and will be guaranteed for two years in the amount of $759,025 annually, based upon the City’s current employee population. The City of Palo Alto will save approximately $270,000 per year in premium payments. Any increase in policy rates for the third year will be based upon the first renewal loss ratio for life, AD & D and LTD. The City will be notified of renewal rates 31 days prior to the renewal effective date for the third year if an increase in premiums is required. The additional amount requested for the contract in excess of The Standard Insurance Company’s proposal is to account for any fluctuations in the number of City employees. Funds for group life, AD&D and LTD insurance are included in the 2005-2007 Adopted Budget in the General Benefits and Insurance Internal Service Fund.

POLICY IMPLICATIONS
This request does not represent a change in existing policies.
ENVIRONMENTAL REVIEW

This is not a project under the California Environmental Quality Act

ATTACHMENTS

Attachment A: Short Form Agreement
Attachment B: Exhibits to Agreement

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DEPARTMENT HEAD:

RUSS CARLSEN
Director of Human Resources

CITY MANAGER APPROVAL

EMILY HARRISON
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