TO: HONORABLE CITY COUNCIL
FROM: CITY MANAGER DEPARTMENT: HUMAN RESOURCES
DATE: DECEMBER 15, 2008 CMR: 476:08

REPORT TYPE: CONSENT CALENDAR

SUBJECT: Approval of a Contract with Life Insurance Company of North America for Underwriting of the City of Palo Alto’s Group Life, Accidental Death and Dismemberment (AD&D), and Long Term Disability Insurance (LTD) Plans for Up to Three Years in an Amount of $707,545 Per Year for a Total Not to Exceed Amount of $2,122,635

RECOMMENDATION

Staff recommends that Council:

1. Approve and authorize the City Manager or his designee to execute the attached contract with Life Insurance Company of North America (LINA) in the amount of $707,545 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 Life Insurance Company of North America (LINA) 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 underwriting the Life, AD&D and LTD insurance policies was conducted in 2005. That process resulted in two proposals ranging from $759,025 to $791,323 in annual cost. Staff selected The Standard Insurance Company due to its proven excellent level of service.

2008 Selection Process

This year, a Request For Proposals (RFP) was conducted with the assistance of the City’s benefits broker to obtain a group 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 LINA. The proposal received from The Standard Insurance Company was for $719,833 annually and the proposal received from LINA was for $707,545 annually. Although City staff was pleased with the services provided by The Standard, their rates were not as cost effective as the annual premium offered by LINA.

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
- Workers’ compensation interface
- Plan administration
- Statistical reports
- Vocational rehabilitation capabilities

LINA was selected because it will be able to provide claims administration services at a lower cost and was highly recommended by local California public agencies. Finally, although this contract reflects no change in the level of benefits previously provided, staff involved all of the unions and employee groups, communicated the change in administrators and offered them the opportunity to participate in the selection process.

RESOURCE IMPACT

The group life, AD&D and LTD insurance policy rates are based on the number of City employees and will be $707,545 annually, based upon the City’s current employee population. That rate will remain the same if the City opts to extend the contract for the second and/or third year. The City of Palo Alto will save approximately $246,000 in
premium payments over the three-year contract period compared to rates being paid currently to The Standard Insurance Company. Funds for group life, AD&D and LTD insurance are included in the 2008-2009 Adopted Budget in the General Benefits and Insurance Internal Service Fund.

**POLICY IMPLICATIONS**

This request supports the Finance Committee’s recommendation for staff to bring alternatives forward on how to slow the increasing cost of employee benefits and lessen the impact on other City priorities.

**ENVIRONMENTAL REVIEW**

This is not a project requiring review under the California Environmental Quality Act

**ATTACHMENTS**

A: Agreement  
B: Exhibits to Agreement

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