



STATE OF WISCONSIN
Department of Employee Trust Funds
 Robert J. Conlin
 SECRETARY

Wisconsin Department
 of Employee Trust Funds
 PO Box 7931
 Madison WI 53707-7931
 1-877-533-5020 (toll free)
 Fax 608-267-4549
 etf.wi.gov

Correspondence Memorandum

Date: January 28, 2019

To: Group Insurance Board

From: Tom Rasmussen, Life Insurance Program Manager
 Tricia Sieg, Supplemental Plans Program Manager
 Office of Strategic Health Policy
 Beth Bucaida, Contract Specialist
 Bureau of Budget, Contract Administration and Procurement

Subject: Life Insurance Request for Information (RFI) Results and Recommendations

The Department of Employee Trust Funds (ETF) requests the Group Insurance Board (Board) authorization to prepare and release a Request for Proposals (RFP) for administration of the Wisconsin Public Employers (WPE) Group Life Insurance Program (Program). The current contract for third-party administration of the Program expires on December 31, 2021.

Background

The Program is a benefit provided under the Wisconsin Retirement System (WRS). The Program is governed under Wis. Stats. §40.70 - §40.74, Wisconsin Administrative Code Chapter ETF 60, and the life insurance policy between the Board and Securian Financial Group, Inc. (Securian). The Board and Securian are the policy holders and are responsible for program oversight. ETF has overall responsibility for administration of the Program. Securian and its affiliate, Minnesota Life, underwrite and assist ETF with administration of the Program.

The Program offers group life insurance plans that provide term life insurance for State of Wisconsin employees and retirees (state plan) and local government employees and retirees (local plan) whose employer elects to participate in the plan. Employees may also insure their spouses and dependent children. While the state and local government plans have historically been very similar in both benefits and premiums, the two plans have always been financially independent of one another.

Reviewed and approved by Eileen K Mallow, Director, Office of Strategic Health Policy

Eileen K Mallow Electronically Signed 2/8/18

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As of December 31, 2018, 83,432 state employees participated in the state plan and 119,044 local government employees participated in the local plan through 746 local government employers. There were also 55,891 participants who had spouse and dependent coverage.

The Board has administered a comprehensive Program for state participants since January 1, 1958, and for local government participants of participating Wisconsin local government employers since January 1, 1960. Minnesota Life Insurance, now known as Securian, has been the insurer for these plans since inception.

ETF, through Deloitte Consulting, last released an RFP for administering the Group Life Insurance Program in 2010. Securian was awarded the contract with the original contract term of January 1, 2011, through December 31, 2015, with the option to extend the contract for an additional two, one-year terms. The Board approved a one-year extension through December 31, 2016, and subsequently approved an additional three-year extension through December 31, 2019. In November 2018, the Board approved a contract extension for the period of January 1, 2020, through December 31, 2021.

ETF has worked with Securian and Milliman, the Board's consulting actuary for the Wisconsin group life insurance and disability programs, to analyze the state group life plan valuation. In 2017, the overall average interest earnings rate on all reserve funds held for the plan was 3.15%. This result reflects a conservative investment strategy involving primarily high-grade corporate bonds. The state plan ended 2017 with an asset reserve of 68.1%, which continues a downward trend. In consideration of the declining valuation, the Board authorized a 5% premium increase to the state plan effective April 1, 2019. This was the first time in over 60 years the state plan experienced a premium increase. The local plan ended 2017 with an asset reserve of 105.6%. As a result, the local plan will not experience a premium increase.

Assets for the life insurance program are held with Securian. In accordance with the administrative agreement between the Board and Securian, earnings are calculated and credited to the life insurance plans based on the rate of return for a segment of Securian's general fund and not tied to any specific investments. The plans for active employees are fully insured by Securian and funded through employee and employer premiums. The retiree life program is supported by contributions from employees and from pre-age 65 retirees. Contributions are made through age 65 and are intended to pre-fund the cost of post-65 retiree life benefits. The funds are held by Securian in a Premium Deposit Fund (PDF), but a separate financing agreement stipulates that Securian does not guarantee that the funds in the PDF will be sufficient to fund future post-65 retiree benefits. A more detailed description of the funding arrangement is described in a memo presented to the GIB at the November 14, 2018 meeting (Ref. GIB | 11.14.18 | 8A).

If the current agreement with Securian were terminated, Securian would retain the funds necessary for paying future benefits for retirees on the termination date. Any remaining

funds would be transferred to the new administrator for employees active on the termination date.

Milliman has concluded that the funds transferred to a new administrator, should one be selected, would not be adequate to cover the full cost of retiree claims incurred after the transfer date.

RFI Summary

The Board previously approved a release of a Request for Information (RFI) to solicit information from qualified group life insurance providers that possess the resources and expertise to insure and administer the Program. The RFI was released in November 2018 with responses due January 24, 2019. One of the goals of publishing the RFI was to use the information received to develop and write the future RFP.

Number of Providers Responding

There were six providers that responded to the RFI:

- Lincoln Financial Group
- MetLife
- New York Life
- Securian Financial
- The Standard
- Unum

Company Information

All the respondents are well-known and respected national providers with a long history of experience in administering and managing large public and private sector group life insurance benefits.

Four of the six respondents identified current clients of comparable size and benefit structure to ETF's offerings. The two respondents that did not identify current clients stated they would do so during an RFP process.

All respondents identified their financial rating with AM Best, Moody's and Standard and Poor's as A or better.

Benefit Design

All respondents confirmed their understanding and ability to administer ETF's current benefit design as outlined in the RFI, except for two respondents who stated the "Life to Health or Long-Term Care" provision would require additional discussion and details before they could commit to administer those program provisions.

Recommendations of enhancements to ETF's current plan design included:

- Increasing employee, spouse and dependent coverage levels
- Offering a special enrollment campaign
- Enhancing accidental death and dismemberment (AD&D) covered losses
- Providing Human Resource (HR) support following a death of an employee (e.g. financial planning and grief counseling)
- Providing a wellness resource
- Making state and local plan coverage renewal dates consistent
- Offering an online evidence of insurability process
- Offering an employee assistance program

Some of the recommended enhancements suggested by respondents are already offered by Securian, such as: offering legal, financial and grief counseling and travel assistance.

Program Administration

All respondents confirmed with varying levels of detail their ability to administer the Program and maintain compliance with applicable laws, rules and regulations.

Experience in administering plans providing post-retirement life insurance benefits varied with the responses. All plans stated they can administer post-retirement benefits, but responses varied from requiring retirees to enroll in a term life policy following the end of employment to approval pending required underwriting. Several respondents provided details on how they currently do and can support plans with retiree benefits. Post-retiree benefits will be an issue that will need to be carefully monitored during the RFP process.

Three of the six respondents promised a "dedicated" communication specialist to work with ETF to build customized materials that meet ETF's specific needs. All plans stated they have the ability to customize design materials. One respondent stated that depending on the communication piece and amount of customization, "costs may vary." All respondents provided examples of communication materials as requested in the RFI.

All respondents described their computer and data processing systems and stated they did not anticipate limitations with files from a large data system. Several respondents discussed their capabilities to interface with employers' systems and explain their partnership with third-party administrators for data interfacing. None of the respondents identified any limitations or obstacles when interfacing with a large data system.

Customer Service

All six respondents have a sales or support office currently located in Wisconsin and two have offices currently located in Madison. Respondents were not asked to differentiate between sales and support offices in the RFI.

The RFI asked plans to identify which features are currently available on their website. A summary of their responses follows:

Member Can:	Yes	No
Securely access personal account information	4	2
Securely update personal account information	3	3
Initiate a claim online	5	1
Securely access personal claim information and status tracking	4	2
Print or request forms/applications	5	1
Send a question via encrypted e-mail	5	1
Access or request an Explanation of Benefits	3	3
Employer Can:	Yes	No
Print reports	6	0
Marketing materials - download PDF documents/applications	6	0
Add/delete plan participants	6	0
View eligibility information	6	0
Verify eligibility	6	0
Report start and end dates of a disability	1	5
Track claim payment status	6	0

Reporting and Record Keeping

Many respondents confirmed they would be able to provide most of the required reports and record keeping, with one plan requesting further clarification on the Governmental Accounting Standards Board (GASB) report and another plan requesting additional information before they could commit to administrating the requested reports, which may not be “as detailed as the current reporting.”

Several respondents further explained they can provide more detailed reports than current requirements identified in the RFI. Responses included being able to provide detailed life claims, life waiver of premium, life coverage conversion, life account experience review, point in time reporting and personalized dashboards for administrators. One respondent stated they can provide a cause of death report that would allow ETF to identify potential wellness initiatives to help improve the overall morbidity of ETF’s population.

Performance Standards and Penalties

All respondents confirmed their understanding and ability to meet performance standards. Respondents explained their internal reporting mechanisms that track necessary data elements to report performance. All six respondents confirmed they

have current clients that have performance guarantees with financial penalties for not meeting the standards.

Five of the six respondents provided a sample performance guarantee report as requested in the RFI. One respondent offered to provide a sample performance guarantee report in response to the RFP.

Pricing Methodology

All six respondents provided appropriate feedback to their pricing methodology.

Responses include the key points below:

- Long-term stability of the plan
- Expected claims
- Funding level of the post-age 65 benefit
- Incurred loss ratio
- Experience rate
- Tolerable loss ratio
- Credibility (based on life years of exposure and expected mortality)
- Historical loss ratio
- Incurred claims
- Expected paid premiums
- Retention
- Risk charge (based on the distribution of premium by coverage, offset by a credit from the cost stabilization fund)

One of the questions ETF asked in the RFI was whether the valuation (ratio of assets to liabilities) of the state plan remaining at a level of 70% would influence their desire to bid on a State of Wisconsin Request for Proposal. Most of the respondents stated they would require additional information but would be willing to work with ETF and Milliman on a mutually beneficial strategy to maintain or return the plan to a fully funded position. No respondent stated this issue would prevent them from bidding on an RFP.

Transition and Implementation

The five non-incumbent respondents stressed their commitment to a smooth transition. They highlighted the critical aspect of a smooth transition and implementation process. Each provider would assign an individual or team dedicated to the transition process. Needs assessments would take place, identification of potential barriers, timelines and action plans would also be developed. During the implementation process, ETF would remain in direct communication with the progress with regularly scheduled status calls, reports and deliverables.

Throughout the process, each respondent stated they would ask for feedback to ensure established goals and expectations were being met or exceeded. One of the

respondents provided a name of an organization of comparable size to ETF for which they had recently transitioned and implemented a life insurance benefit.

The RFP will need to address issues of transition and implementation in greater detail, especially areas of reserve handling and ownership, post-retirement benefits, computer and data processing system structure and compatibilities and pricing methodology.

Conclusions

The goal of the RFI was to solicit information from qualified group life insurance providers that possess the resources and expertise to insure and administer the WPE Group Life Insurance Program. ETF was pleased with the number of responses received. The responses will be further examined and will assist in developing future solicitations and plan specifications.

Considering the number of qualified responses, ETF feels there are enough qualified providers in the marketplace to solicit competitive and innovative bids for third-party administration of the Program. ETF requests authorization from the Board to prepare and release an RFP this fall for the administration of the Program effective January 1, 2022. Any new contract would need to begin mid-2021 to allow time for implementation.

If acceptable to the Board, ETF will proceed with the preparation and distribution of the RFP as outlined in the timetable below. The contract will be for a five-year period, January 1, 2022, through December 31, 2027, with an additional two years extension permitted. The tentative RFP timeline is as follows:

February 2019	Board approves issuing RFP for Life Insurance Program
January 2020	ETF issues RFP
April 2020	Proposals due
November 2020	RFP results reviewed by the Board and Board approves vendor to contract with for 2022
January 2021	Execute new contract
CY 2021	Transition and Implementation
January 2022	New contract begins

Staff will be at the Board meeting to answer any questions.