

## WATERS RISK MANAGEMENT

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*Independent Risk Management and Employee Benefits Management Consulting Only – No Sales*

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November 22, 2005

To: Mr. Steve C. Varvel, Risk Manager  
City of Gainesville

From: Hayden Knowlton CPCU, ARM, AIC and Al Waters CPCU, CLU, ARM, AIC

Re: Medical Stop-Loss Insurance – Specific Excess Coverage

The City of Gainesville's specific medical stop loss insurance renews January 1, 2006.

This is a report of the City's 2005 competitive solicitation of proposals, receipt and review of the proposals, and purchase recommendations.

### BACKGROUND

The City last solicited competitive proposals for its group medical excess insurance in 2004. The current total annual cost of the specific medical stop-loss insurance is \$417,087, but could increase to a maximum of \$595,753 depending on the City's claims experience.

Specific excess insurance is designed to protect the City's self-insured medical benefits program by limiting the City's obligation for the catastrophic medical claim of an individual claimant to \$150,000.

Some self-insured medical plans also purchase aggregate excess insurance, but the City does not purchase this coverage. Aggregate excess insurance protects the overall annual claims cost for all participants and the attachment point is generally 125% of expected claims. Based on the number of employees, the cost and the terms and conditions of aggregate excess coverage, the City's decision to forego purchasing the coverage is reasonable.

### COMPETITIVE SOLICITATION

This fall Waters Risk Management, the City's independent consultants (we do not sell or broker insurance, self-insurance or administration services), prepared a Request for Proposals. The Request solicited stop-loss insurance proposals with similar coverage to the current program. Insurers were encouraged to provide proposals to multiple agents who could differentiate their proposals by offering competitive commissions.

### PROPOSAL RECEIPT

On November 17 the City received a good response to its RFP, 6 insurer proposals were submitted by two agents. Only National Benefit Resources offered a proposal through both agents. Waters Risk Management spreadsheeted the proposals and discussed the proposals with staff.

**Summary of Proposals Received (At Current \$150,000 Retention)**

	<b>Proposer</b>	<b>Minimum Cost</b>	<b>Maximum Cost</b>
Symetra Life Insurance Co.	Gallagher Benefit Svcs	\$160,731	\$535,571
National Benefit Resources	Gallagher Benefit Svcs	\$860,382	\$1,067,382
Highmark Life Insurance Co.	Gallagher Benefit Svcs	\$441,484	\$566,484
Companion Life	Gallagher Benefit Svcs	\$400,170	\$571,607
National Benefit Resources	Hilb Rogal & Hobbs	\$737,616	\$922,616
Sun Life Assurance	Hilb Rogal & Hobbs	\$533,698	\$658,698
Standard Security Life of NY	Hilb Rogal & Hobbs	\$672,070	\$672,070
Standard Security Life of NY	Hilb Rogal & Hobbs	\$513,073	\$648,073

Each of the proposals includes participation features that are tied to the City's actual experience. If the City's claims experience is good, the cost will be closer to the minimum cost.

**RETENTION OPTIONS**

Three specific retention options were requested and Symetra's proposal included:

**Symetra Retention Options**

<i>Option</i>	<i>Retention</i>	<i>Minimum Cost</i>	<i>Maximum Cost</i>
1	\$150,000 (current)	\$160,672	\$535,571
2	\$200,000	\$113,266	\$377,252
3	\$250,000	\$ 83,140	\$277,134

It appears that the \$200,000 retention option is reasonable. There is a \$47,400 lower premium for the minimum cost and a \$158,000 lower premium at the maximum cost. However, if the City experiences four claims over \$200,000 in one year the additional \$50,000 retention per claim would more than nullify the reduced premium.

**LIMITS OPTIONS**

The City's medical insurance program provides a \$5,000,000 lifetime maximum and the current stop loss insurance limit is \$1,000,000. Although the City is unlikely to incur a claim exceeding \$1,000,000, consideration should be given to transferring this risk to the insurer, due to the relatively low cost. Symetra proposed the following limits options based on the \$200,000 retention:

**Symetra Limit of Liability Options**

<i>Option</i>	<i>Limit of Liability Per Person</i>	<i>Increased Cost</i>	<i>Additional Maximum Cost</i>
1	\$1,000,000 (current)	0%	\$0
2	\$2,000,000	+3%	\$11,318
3	\$5,000,000	+5%	\$18,861

Consideration should be given to the purchase of the \$5,000,000 limit of liability.

### **PRESCRIPTION DRUG OPTIONS**

The premiums illustrated are for medical coverage without prescription drugs. Symetra proposed an additional 5% premium to include the cost of prescription drugs in the program.

### **RECOMMENDATION**

The Symetra Life Insurance proposal through Gallagher Benefit Services for renewal of the stop loss insurance appears best, but the City should negotiate a lower commission with Gallagher.

Although standard commission for stop loss insurance is 15%, Gallagher should be asked to provide an appropriate flat fee. Otherwise, the City's misfortune becomes a windfall to Gallagher.

#### **Remuneration Proposed by Gallagher Benefit Services**

	<i>Annual Premium</i>	<i>Commission</i>	<i>Total Commission</i>
Minimum	\$160,731	15%	\$24,110
Maximum	\$535,571	15%	\$80,336

**Recommendation** – Accept the Symetra Life Insurance Company proposal through Gallagher Benefit Services for renewal of the City's Specific Medical Stop Loss Insurance without prescription drugs, with the \$200,000 retention and a \$5,000,000 limit of liability, contingent on successful negotiations with Gallagher to substantially reduce the commission.

### **ALTERNATIVE RECOMMENDATION**

To foster competition among agents, the RFP states on page 14, "The City asks insurers to provide net proposals, and to entertain multiple requests from insurance agents to differentiate the proposals through variations in commissions." Unfortunately, Symetra Life Insurance Company declined to offer a net proposal to other agents.

The proposal from Hilb, Rogal & Hobbs (HRH) states they approached Symetra for a net proposal and it was denied. However, HRH's proposal states that if the City provides an Agent of Record Letter, they will resume negotiations with Symetra and will charge a flat fee of \$20,000.

#### **Remuneration Proposed by Hilb, Rogal & Hobbs Based on the \$1,000,000 limit and \$150,000 Retention Option**

	<i>Annual Premium</i>	<i>Commission</i>	<i>Total Commission</i>
Minimum	\$160,731*	Flat	\$20,000
Maximum	\$535,571*	Flat	\$20,000

\*The annual premium should be reduced by 15%, and the flat commission added in, if HRH negotiates a proposal from Symetra that is net of commissions

**Recommendation** – Provide Hilb, Rogal & Hobbs an Agent of Record Letter for Symetra Life Insurance company and accept their proposal for the City's Specific Medical Stop Loss Insurance with Symetra Life Insurance Company with the \$200,000 retention, the

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\$5,000,000 limit of liability, and a flat \$20,000 commission, contingent upon a minimum and maximum annual premium from Symetra net of commission.

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# AGENDA ITEM ROUTING SHEET

(October 17, 2005)

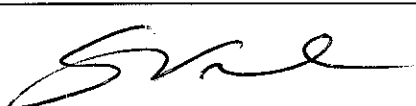
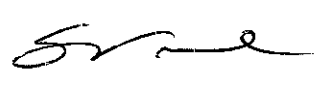

**Title:** Selection of Symetra Life Insurance Company as the Carrier for the City's Group Health Plan Specific Stop Loss Insurance (B)

<b>City Commission Meeting Date:</b>	December 12, 2005	<b>Placement: (Check/Circle)</b>	<b>Consent</b>	<b>Action</b>
<b>Time Certain:</b>		City Manager	x	
<b>Legislative Number:</b>	050710	Resolution		
<b>Special Notes or Information:</b>		Commission Committee		
		Advisory Bd/Committee		
		Public Hearing		
		Proclamation		
		Outside Agency		

## Back-Up

**Electronic Submission:** Provide one hard copy of the agenda item, backup materials, and executed signature sheet to the Agenda Coordinator.

**Non-Electronic Submission:** Include one additional scan copy (single-sided) of the non-electronic backup and 20 additional 3-hole punched double sided copies to the Agenda Coordinator.

<b>Quasi-Judicial:</b>	Yes	No x
<b>REQUIRED</b>	<b>APPROVAL</b>	<b>DATE</b>
Division: Risk Management Benefits Admin		11/2/05
Department Risk Management		11/21/05
Grant (if applicable)		
City Attorney (if applicable)		
Direct Report		11/21/05
City Manager		