

TO: Paul Sogin, Mayor

FROM: Brad Wirtz, HR Director
Dave Schmiedicke, Finance Director

DATE: November 22, 2016

SUBJECT: Wage Insurance, Life Insurance, and other Benefit Programs

WAGE INSURANCE:

In 1970 the City Personnel Department (since renamed as the Human Resources Department) implemented an Income Protection Program, generally referred to as wage insurance. The plan provides income to employees who miss work as a result of non-work related injuries after they have exhausted all available sick leave. The plan provides short-term (up to 3 years) and long term (3+ years) benefits at 65% of base salary, reduced by other income benefits, and there is essentially no difference between the short and long term designation in terms of benefits to the employee.

Employees make contributions to fund the plan through premium deductions that are established on an annual basis based on the amount of sick leave the employee uses in the preceding year. A chart is included in the attached documentation, but by way of example, employees using 3 or fewer sick days make no contribution and employees using more than 7 days pay 100% of the premium. For employees who make no contribution, or a reduced contribution, the remaining premium is paid by the City. In 1970, when the plan was implemented, the Personnel Department reported a reduction of 1300 days of sick leave used as a result of this premium structure. If premiums paid exceed the cost of claims and fees, the balance is added to a premium stabilization fund; if the cost of claims and fees exceed the premiums, the balance reduces the premium stabilization fund.

The annual overall cost of the program is about 1.3 million dollars.

LIFE INSURANCE:

In 1975 the City moved out of the State of Wisconsin Group Life Insurance Program and contracted with Lincoln Life Insurance Company to administer the City life insurance plan. Basic coverage provides an employee with a benefit equal to their highest annual W2 earnings rounded to the next highest thousand. Employees can purchase supplemental coverage and dependent coverage for an additional cost. Retirees who maintain premium payments until age 65 receive a guaranteed benefit at no future cost.

This plan is paid 100% by employees through premium deductions that are established annually based upon an employee's age and income. The City pays an annual administrative fee of approximately \$40,000 for this program. The plan is self-funded and administered by a third party for a retention fee based upon the number of claims filed in any given year. If premiums paid exceed the cost of claims and fees, the balance is added to a premium stabilization fund; if

the cost of claims and fees exceed the premiums, the balance reduces the premium stabilization fund.

FACTORS FOR A CONSULTANT TO EVALUATE

Other than the sale of the contract with Lincoln National to Hartford Life in 1993, the plans have not been studied or undergone any meaningful change since implementation. We would like to engage a third party to perform an actuarial evaluation and benefit comparison of these plans to other plans being implemented by similarly situated employers.

In addition, because both the wage insurance and life insurance are administered by the same third party, the City has an arrangement whereby premiums for the wage and life insurance programs are pooled into a premium stabilization fund. This has been beneficial to the City over the years in that if one plan is experiencing a shortfall, it can be offset by the premiums from the other plan. In fact, over the years, the City has enjoyed a surplus in the stabilization fund that has allowed premiums to remain unchanged until recently. Since this surplus has shrunk in recent years, forcing premium adjustments, it is important to review to see if we continue to have a good arrangement or if changes are needed.

Our wage insurance plan, with its sick leave provisions affecting benefits and premiums, is apparently unique to the City of Madison. It is largely unknown whether or not we are providing a high quality benefit at an appropriate price. Further, some employers offer arrangements whereby employees can pay a higher premium in order to avoid the requirement that they use all of their sick leave prior to eligibility. The assumption is that there may be other plan design changes that the City and our employees might be interested in implementing following the evaluation of the plan.

Given that the cost of premiums for the life insurance plan are paid entirely by employees, there is not a significant financial impact to the City budget, but we feel that it is important to ensure that we are providing a high quality benefit at an appropriate price. Also, for the first time in many years, the City was required to increase premiums in 2015 in order to offset the cost of claims.

Investing in a consultant to review our plan design and compare to other similarly-situated employers could set the stage for meaningful conversations with our employee Unions and Associations regarding plan design and the possible implementation of changes. In the alternative, it could result in recognition that our plans, although unique, provide a high value benefit with a reasonable cost structure and should continue without modification. Because the plans haven't undergone any significant evaluation since implementation, this is currently unknown. It would be premature to engage in these conversations with the Unions and Associations until we have this information.

OTHER BENEFITS:

If there is available funding following the evaluation and/or implementation costs associated with the wage and life insurance programs, there are other benefits that should be evaluated. The

457 Committee has discussed a desire to have the City's deferred compensation programs evaluated in terms of effectiveness and cost, as well as the possibility of putting the plans out for bid. If we are able to engage a third party to evaluate our benefit programs, this is another area explore and implement industry standards and best practices.