



Office of the City Manager

CONSENT CALENDAR
June 11, 2013

To: Honorable Mayor and Members of the City Council
From:  Christine Daniel, City Manager
Submitted by: David Abel, Acting Director of Human Resources
Subject: Contract: Cigna Group Insurance for Third Party Administrative Services for the Supplementary Retirement and Income Plan I Disability Benefit

RECOMMENDATION

Adopt a Resolution authorizing the City Manager to execute a contract with Cigna Group Insurance (Cigna) to provide third party administrative services for the Supplementary Retirement and Income Plan I (SRIP I) disability benefit for a total contract amount not to exceed \$183,000 for three years, from July 1, 2013, through June 30, 2016.

FISCAL IMPACTS OF RECOMMENDATION

Funding for third party administrative services for the SRIP I disability benefit is included in the Fiscal Year 2014 and Fiscal Year 2015 budget, and available from the Payroll Deduction Trust Fund; and will be included in the Fiscal Year 2016 budget from the Payroll Deduction Trust Fund.

Fiscal Year 2014	\$61,000
Fiscal Year 2015	\$61,000
Fiscal Year 2016	\$61,000
Total Expense Budget for Contract	\$183,000

Budget Code: 930-9701-410-2036

The Contract Management System (CMS) number is FM4ZT.

CURRENT SITUATION AND ITS EFFECTS

Cigna has provided administrative services, under an Administrative Services Only (ASO) agreement, for the self-insured benefit under the SRIP I disability program since July 1, 2005. Administrative services provided by Cigna include: initial and ongoing claims screening, distribution of benefits and recordkeeping, claims review for rehabilitation and Social Security assistance, and handling of any inquiries, complaints or appeals.

Cigna replaced UnumProvident as the SRIP I third party administrator at a premium rate of approximately \$5,600 per month. The City had been paying UnumProvident approximately \$9,400 per month for their administrative services, so the move to Cigna provided significant savings.

Human Resources staff worked with the City's benefits broker, Keenan & Associates, to solicit proposals from multiple carriers. Staff reviewed proposals from Cigna as well as five (5) new carriers: 1) The Hartford; 2) MetLife; 3) The Standard; 4) UNUM; and 5) Prudential.

Cigna proposed to continue to provide services for an additional three years at no premium increase. In addition, as a comprehensive combined business package, Cigna also proposed a reduction to their rates for the Basic Life and AD&D Insurance by over 40%, and reduce the rates for their Long-Term Disability insurance by over 28%. As a combined business package, Cigna's proposal would result in a total estimated savings of over \$390,000 for the term of the three combined contracts (SRIP I ASO; LTD; Basic Life and AD&D). Although both The Hartford and The Standard submitted competitive bids, the contract take-over fees charged by both (\$78,540 by The Hartford; \$87,243 by The Standard) made their overall proposals more expensive than Cigna's proposal to continue providing services for an additional three years at no premium increase.

BACKGROUND

On December 7, 2010, the City Council adopted Resolution No. 65,110-N.S. that authorized the City Manager to execute a contract with Cigna Group Insurance to provide administrative services for the self-insured benefit under the SRIP I disability program effective July 1, 2007 through June 30, 2011, for an amount not to exceed \$306,000.

On May 31, 2011, the City Council adopted Resolution No. 65,297-N.S. that authorized the City Manager to execute a contract with Cigna Group Insurance to provide administrative services for the self-insured benefit under the SRIP I disability program, increasing the contract amount by an additional \$134,000 for a total contract amount not to exceed \$440,000, and extending the term of the contract for two years for the period July 1, 2011 through June 30, 2013.

The SRIP I disability benefit became effective on January 1, 1983, and provides monthly disability benefit payments equal to 60% of the single highest year salary, prior to determination of total disability, less any disability benefits the participant receives under the Social Security Act, the California State Disability Insurance Program and worker's compensation benefits.

By 1988 it had become clear that the contributions made by active participants were insufficient to pay for the rapidly expanding cost of claims benefits. The City created a new plan, SRIP II, for all employees hired after July 21, 1988, and closed SRIP I to new enrollees. In an effort to offset some of the costs of the disability benefit, the City purchased Long Term Disability (LTD) insurance policy for the employees enrolled in SRIP I. In 2004, the City contracted for an actuarial valuation of the SRIP I disability benefit plan and found that the LTD plan was no longer a sound economic method of transferring the risk associated with the benefit. With ever-increasing benefits being paid and an ever-decreasing population from which to pay premiums, it is simply unworkable from an insurance point of view. Under Berkeley Municipal Code Section 4.36.101 et seq. (Supplementary Retirement and Income Plan I), the Investment Plans Committee (aka "SRIP Committee") is empowered to take actions in the administration of the Plan that are final and conclusive regarding its exercise of authority under the plan. On June 29, 2005, the Investment Plans Committee met and in a unanimous vote of those present (Hodgkins, Hogan, Jojola, Lui, Wiley – Yes; Brooks, Chan, Cowen, Lambert – Absent) voted to accept the proposal by Cigna Group Insurance. The City moved to the new carrier (Cigna) and dropped the LTD insurance policy.

As of April 1, 2013, there are 76 current beneficiaries receiving \$137,475 per month in disability benefits, and there are 24 active employees still eligible for the SRIP I disability benefit.

RATIONALE FOR RECOMMENDATION

The SRIP I disability benefit plan is a mandated employee benefit under the collective bargaining agreements with most non-sworn employee bargaining organizations.

ALTERNATIVE ACTIONS CONSIDERED

Other carriers were solicited for their proposals. The Hartford, and The Standard responded with the most competitive proposals. However, given the significant take-over fees included in both The Hartford and The Standard proposals, Cigna's proposal to continue providing services for an additional three years at no premium increase was determined to be the most advantageous to the City. Over the three year term of the combined contracts, the City anticipates a total estimated savings of over \$390,000.

CONTACT PERSON

David Abel, Acting Director of Human Resources, Human Resources, 981-6807

Attachments:

1. Resolution

RESOLUTION NO. ##,###-N.S.

CONTRACT: CIGNA GROUP INSURANCE FOR THIRD PARTY ADMINISTRATIVE SERVICES FOR THE SUPPLEMENTARY RETIREMENT AND INCOME PLAN I DISABILITY BENEFIT

WHEREAS, the City of Berkeley provides a SRIP I disability benefit as a mandated employee benefit under collective bargaining agreements with most non-sworn employee bargaining organizations; and

WHEREAS, the City must contract with a company which provides third party administrative services; and

WHEREAS, Cigna Group Insurance Company was selected through a competitive bidding process; and

WHEREAS, Cigna Group will provide administrative services for the self-insured benefit under the SRIP I disability program at a cost of approximately \$183,000 effective July 1, 2013 through June 30, 2016; and

WHEREAS, funds are available in the current budget under budget code 930-9701-410-2036, and the contract has been entered into the City contract database and assigned CMS No. FM4ZT.

NOW THEREFORE, BE IT RESOLVED by the Council of the City of Berkeley that the City Manager is authorized to execute a contract and any amendments with Cigna Group Insurance to provide administrative services for the self-insured benefit under the SRIP I disability program for a total contract amount not to exceed \$183,000 for the period July 1, 2013, through June 30, 2016.

BE IT FURTHER RESOLVED that a record signature copy of said contract and any amendments to be on file in the Office of the City Clerk.