

**THE SCHOOL BOARD OF SARASOTA COUNTY, FLORIDA**

**FINANCIAL SERVICES DEPARTMENT**

**M\_E\_M\_O\_R\_A\_N\_D\_U\_M**

TO: Mitsi Corcoran, Chief Financial Officer

FROM: Lynn Peterson, Risk Manager

DATE: September 4, 2012

SUBJECT: Group Long Term Disability (LTD) Insurance – Renewal: 01/01/2013

**Background**

The expiring Long Term Disability (LTD) program underwritten by MetLife is in its final year of two (2) year rate guarantee. The expiring rate is \$0.207 per \$100 of rated payroll. The plan replaces 60% of the disabled employee's base salary after a 90 day elimination period or the expiration of accrued sick leave, whichever is greater.

**2013 Group Long Term Disability (LTD) Renewal**

MetLife's initial renewal proposal was a 31.4% increase to premiums due to significant loss ratio increases since 2008. The latest 13 month claim evaluation reflected a 126.64% loss ratio. Negotiations to reduce the original MetLife 2013 renewal adjustment addressed several key items such as an evaluation of open claim reserves, loss ratio comparisons and consideration for the immature experience given that the majority of the claims were within the own occupation period and prior to any social security offsets.

Final negotiations have MetLife offering two renewal options:

- 10% increase to premiums with a one year rate guarantee (\$0.228 per \$100 of rated payroll, annual increase of approximately \$45,000)
- OR
- 17% increase to premiums with a two year rate guarantee (\$0.242 per \$100 of rated payroll, annual increase of approximately \$77,000)

**Recommendation**

It is recommended that the Sarasota County School Board accept the 10% renewal with the one year rate guarantee. It is also recommended that during 2013, the District market the life and disability products with the intention of consolidating the products under a single vendor.

## Long Term Disability

- Aon Hewitt performed a review of the District's experience and reviewed all assumptions used by MetLife in projecting 2013 claims and expenses.
- **MetLife's initial renewal position was a 31.4% increase to premiums.**
- Aon Hewitt was able to negotiate adjustments from the original MetLife 2013 renewal for the LTD Insurance. The key items that were negotiated were adjustments to the claims as follows:
  - Open claim reserves held by MetLife, based on individual reserves for specific claimants where Aon Hewitt's valuation was significantly lower than MetLife's
  - Target loss ratio compared to similar sized groups
  - Consideration for the immature experience given that the majority of the claims were within the own occupation period and prior to any social security offsets.



## Long Term Disability

- After initial negotiations, MetLife proposed a 20% increase to current premiums, which was still higher than the Aon Hewitt analysis indicated.

Final negotiations lead MetLife to offer the two options below:

- 10% increase to premiums with a one year rate guarantee. Represents \$96,000 in annual savings compared to the initial renewal.
- OR -
- 17% increase to premiums with a two year rate guarantee. Represents \$64,000 in annual savings compared to the initial renewal.

- Based on the negotiated rate position with MetLife, **Aon Hewitt recommends that Sarasota Schools accept the 10% renewal with the one year guarantee.**
- For 2014, Aon Hewitt recommends marketing the life and disability products together, with the intention of consolidating the products under a single vendor.



## Long Term Disability

For your records, the current 2012 and renewal 2013 rates and annual premiums are as follows:

MetLife LTD	Current	Initial Renewal	Initial Negotiated	Final Negotiated	
				Option 1	Option 2
Rate	\$0.207	\$0.272	\$0.248	\$0.228	\$0.242
Premium	\$450,000	\$591,000	\$540,000	\$495,000	\$527,000
% Increase		31.4%	20.0%	10.0%	17.0%
\$ Increase		\$141,000	\$90,000	\$45,000	\$77,000
Rate Guarantee		1 Year	1 Year	1 Year	2 Years

Aon Negotiated Savings:  
**\$96,000**

