

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: Bert Palmer, Risk Manager
DATE: August 23, 2010
SUBJECT: Group Long Term Disability (LTD) Insurance – Renewal: 01/01/2011

Background

The expiring Long Term Disability (LTD) program underwritten by MetLife is in the final year of a three (3) year rate guarantee. The expiring rate is \$0.180 per \$100 of rated payroll. The LTD program is an employer paid benefit provided as part of the school district collective bargaining agreement. 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.

2011 Group Long Term Disability (LTD) Renewal

MetLife has proposed to renew the program at the new rate of \$0.207 per \$100 of rated payroll. This is an increase of 15% or an annual premium increase of \$62,000. The estimated annual district paid premium will be \$477,266. They have agreed to guarantee the rate for two (2) years [January 1, 2011 through December 31, 2012]. The renewal increase is still 26% lower than the 2007 rate of \$0.280 per \$100 of rated payroll, and \$168,311 lower than the 2007 annual premium for the program they replaced.

Recommendation

Aon Benefit Consulting has reviewed the renewal and has found the underwriting assumptions to be within industry norms. They believe the renewal is fair and reasonable based upon our group claims experience. I have attached a copy of their recommendation letter dated August 19, 2010. Aon recommends the district accept the renewal offer as proposed.

If you have any questions, please let me know.

Attachment (2)



August 19, 2010

Mr. Bert Palmer
Director, Risk Management
Sarasota County Public Schools
1960 The Landings Blvd.
Sarasota, FL 34231

RE: 2011 LTD Renewals

Dear Mr. Palmer:

Aon Consulting has reviewed the District's 2011 MetLife LTD renewal. This process involved reviewing the financial experience of the District's LTD plan and independently assessing what a fair renewal would be. Aon performed a review of the District's experience and reviewed all assumptions used by Met Life in projecting 2011 claims and expenses. As you recall, Aon Consulting assisted the District in the marketing of the Life and LTD insurance programs for an effective date of 1/1/2008. The results of that marketing produced savings of nearly \$1.5 million for the School District over a 3-year period. Unfortunately, the new rates will generate an increase to current costs, but still below pre-2008 levels.

Aon Consulting was able to negotiate adjustments from the original Met Life 2011 renewal for the LTD Insurance. The key items that were negotiated were adjustments to the claims as follows:

- discount rate for reserves,
- termination assumptions for reserves 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.

Additionally Met Life agreed to extend the rate guarantee from a 1-year to a 2-year guarantee. The negotiated savings for the district from the original renewal were approximately \$42,000 and still over \$330,000 less than pre-2008 levels over the rate guarantee period.

Based on the negotiated rate position with MetLife, Aon Consulting recommends that Sarasota Schools accept the renewal as is for the current plan design.

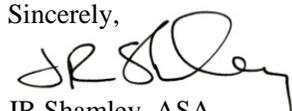
The current 2010 and renewal 2011 rates and annual premiums are as follows:

LTD Insurance

	<u>Rate / \$100</u>	<u>Annual Premium</u>	<u>\$ Change</u>	<u>Pct Change</u>
2010	0.180	\$415,000	-	-
Final 2011	0.207	\$477,000	\$62,000	15%

Rates are guaranteed for 2 years. Attached is an exhibit comparing the initial 2007 rates to the current rates with the initial and final negotiated renewal rates. Please do not hesitate to contact us with any questions.

Sincerely,



JR Shamley, ASA
Senior Vice President

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Sarasota Schools 2011 LTD Renewal Summary
(using current 2010 volumes)

LTD	2007	2008	2009	2010	2011 (Initial Renewal)	2011 Final	Change from Initial		Change from Current		Change from 2007	
							Ann \$	%	Ann \$	%	Ann \$	%
Volume (current)	\$ 19,213,611	\$ 19,213,611	\$ 19,213,611	\$ 19,213,611	\$ 19,213,611	\$ 19,213,611						
Rate	0.280	0.180	0.180	0.180	0.216	0.207						
Annual Premium	\$ 645,577	\$ 415,014	\$ 415,014	\$ 415,014	\$ 498,017	\$ 477,266	\$ (20,751)	-4%	\$ 62,252	15%	\$ (168,311)	-26%



August 18, 2010

JR Shamley
AON Consulting
7650 Courtney Campbell Causeway
Suite 1000
Tampa, FL 33607

**Re: School Board of Sarasota County
REVISED Renewal - January 1, 2011**

Dear JR,

I am pleased to present MetLife's annual renewal package for **School Board of Sarasota County**.

The package contains important information about the financial status of the plan. Included is a Technical Overview, containing the renewal rate adjustments, renewal analysis, underwriting assumptions, renewal alternatives and supporting exhibits.

After you have reviewed this information, I would be happy to provide more specifics on any of the material covered in this package.

All of us at MetLife appreciate your business. We have provided LTD to **School Board of Sarasota County** for 2 years, and we place a high value on the mutual success of our relationship.

Thank you for your trust in MetLife. I look forward to working with you in the coming year.

Sincerely,

Tom Remus

January 1, 2011
Renewal Package

for

School Board of Sarasota County

provided by

MetLife[®]

MetLife Representative

**Tom Remus
4010 W Boy Scout Boulevard, Suite 950
Tampa, FL 33607**

***Phone Number - (813) 393-5824
Fax Number - (813) 393-5833***

This renewal is for plan year, January 1, 2011 to December 31, 2011.

The information included in this renewal is proprietary to Metropolitan Life Insurance Company. It is intended for use only by School Board of Sarasota County and may not be shared with any other party without the written permission of Metropolitan Life Insurance Company.

TECHNICAL OVERVIEW

RENEWAL RATE ADJUSTMENTS

Coverage	Current Rate/Fee	Renewal Rate/Fee	Change in Rate/Fee +/- %
Long Term Disability – Fully Insured - All Full Time Appointed Staff			
• Rate 1	\$0.180/\$100	\$0.207/\$100	15.00%

LONG TERM DISABILITY

RENEWAL ANALYSIS

Long Term Disability (LTD) rates are based upon an analysis of incurred claims, adjusted premium, tolerable “expected” loss ratio and an experience credibility factor. In calculating your renewal rates for the upcoming policy year, we used the following process:

- Incurred claims for the experience period were calculated. Incurred claims represent paid claims, plus reserves, less investment credit.
- Incurred claims were then divided by the adjusted premium for the same experience period and then adjusted for trend.
- The resulting trend adjusted incurred loss ratio was compared to MetLife’s tolerable (expected) loss ratio for groups of like size.
- To the extent that the incurred loss ratio was greater than the tolerable (expected), a higher renewal rate than your current rate was determined as needed.

UNDERWRITING ASSUMPTIONS

- The LTD renewal rates are guaranteed from 01/01/2011 to 12/31/2012.
- These rates may be changed any time the current plan or contribution structure is modified.
- MetLife reserves the right to retroactively adjust rates from the effective date of any plan change.
- The rates assume that there is no change in the Sources of Other Income Benefits, including Workers’ Compensation and state disability law, by which MetLife’s benefits are reduced.

SUPPORTING EXHIBITS

Please refer to the Exhibit Section of this renewal for all supporting Exhibits.

LTD Exhibit 1 - Paid and Incurred Study

LTD Exhibit 2 - Open Claims

LTD Exhibit 3 - Key to Disability Codes

LTD EXHIBIT 1

PAID AND INCURRED STUDY

This exhibit has two primary objectives:

- To place every disability into the year in which it occurs;
- To generate the incurred loss ratio for each year.

Unlike medical insurance, the liability under an LTD policy may fluctuate a great deal depending on a variety of factors such as the initial eligibility for coverage, increased employee awareness of coverage, technological advances in an industry or occupation, and economic factors such as downsizing and mergers. By placing all liability attached to a claim in the time period during which it occurs, we may be able to discern the reason for, and if possible, the necessary correction of, such issues.

The Paid and Incurred Study consists of a number of elements. Those of most importance in the development of the experience rate are listed and defined below:

- Total Paid Claims
- Case Reserves
- IBNR (Incurred But Not Reported) Reserves
- Investment Credit
- Incurred Claims
- Paid Premium
- Adjusted Premium
- Incurred Loss Ratio (ILR)
- Trend Adjusted Incurred Loss Ratio
- Tolerable Expected Loss Ratio

Total Paid Claims: The total for claims actually paid for and attributable to specific individual.

Case Reserves: These reserves represent the majority of an LTD insurer's liability, and reflect what the insurer believes is necessary to cover the anticipated payments for the open and pending claims.

Pended claim reserves are set aside for claims incurred but still pending beyond the Incurred But Not Reported (IBNR) period. The reserves for pending claims have been estimated at \$35,000 and are based on MetLife's average open claim reserve and the probability of claim approval.

For open claims, the reserve is estimated for each claim based upon the date of disability, the age at disability, the gender of the claimant and the total remaining time of disability. These factors are then modified by:

- Morbidity: the likelihood of recovery
- Mortality: the likelihood of death
- Interest on future liability: currently credited at XX.XX%

The modification results in a reserve factor per \$100 of benefit which is used to calculate the actual open claim reserve.

Incurred But Not Reported (IBNR) Claims Reserves: Incurred but not reported (IBNR) reserves reflect the anticipated liability for claims that may already exist but have not fulfilled the elimination period or have not yet been submitted for consideration. While the bulk of this liability falls in the elimination period, the actual reporting lag causes some of the reserve to be placed in the prior reporting period.

Investment Credit (Time Value Of Money): Just as we adjust premium for changes in rate levels due to experience, we also adjust the paid claims and reserves. The investment credit (or time value of money adjustment) pushes the value of MetLife's liability back into the year incurred. This adjustment yields the present value, in the incurred year, of the future liability.

Incurred Claims: The sum of the total paid claims, the case reserves, IBNR reserves outside of the IBNR period, less the investment credit for a stated period of time.

Paid Premium: The premium actually paid for the stated period of time.

Adjusted Premium: Paid premium, as defined above, adjusted to the current rate level. The adjustment to premium accounts for all past rate changes during the stated period, except those resulting from plan revisions.

Incurred Loss Ratio: This is the ratio of incurred claims to adjusted paid premium, and is indicative of the percentage of premium needed to pay the claims during the stated period of time.

Trend Adjusted Incurred Loss Ratio: **This incorporates a trend factor into the Incurred Loss Ratio to take into consideration anticipated changes in experience.**

Tolerable Expected Loss Ratio: This represents the insurer's break even point taking into consideration retention charges.

LONG TERM DISABILITY EXHIBIT 1 – All Full Time Appointed Staff

PAID AND INCURRED STUDY

School Board of Sarasota County
Group Number # 135574
Renewal Date January 1, 2011
Long Term Disability Paid & Incurred Exhibit
 as of 04/29/2010

	5,568	5,352	5,219	10,920
Average Lives				
			Claim Lag Period*	TOTAL (w/o Claim Lag Period)
	01/01/2008	01/01/2009	01/01/2010	
Experience Period	-	-	-	
	12/31/2008	12/31/2009	04/30/2010	
Months in period	12	12	4	
Total Paid	\$113,397	\$124,636	\$0	\$238,033
Case Reserve	\$284,522	\$768,822	\$7,912	\$1,053,344
Elimination Period			3	MONTHS
IBNR		\$56,705	\$158,327	\$56,705
Investment Credit	(\$27,558)	(\$30,942)	(\$59)	(\$58,500)
Incurred Claims	\$370,361	\$919,221	\$166,180	\$1,289,582
Billed Premium	\$422,573	\$413,050	\$134,338	\$835,623
Adjusted Premium	\$422,573	\$413,050	\$134,338	\$835,623
I.L.R. Adjusted	87.600%	222.500%	123.700%	154.300%
I.L.R. (Trend Adjusted)	87.600%	222.500%	123.700%	154.300%
Tolerable Loss Ratio			0.813	
Open Claims	6	16	1	22
Open/Closed Claims	9	17	1	26
Pending Claims	0	1	0	1
Denied Claims	5	5	1	10
Monthly Indemnity Rate	\$4,262 0.180	\$17,017 0.180	\$1,068 0.180	21,279
Claim Incidence (per 1,000)	1.62	3.49		2.54
Average Net Benefit	\$710	\$1,064		\$967
Average Gross Benefit	\$2,947	\$1,791		\$2,106

* The Claim Lag Period is incomplete for incidence and claim development. Therefore, this period has been removed from the total column.

RATE CALCULATION

FINAL CREDIBILITY FACTOR	100%
EXPERIENCE RATE	0.342
MANUAL RATE	\$0.422
BLENDED RATE	0.342

LTD EXHIBIT 2 – All Full Time Appointed Staff

OPEN CLAIMS LISTING

Birthdate	Sex	Status	Disability Date	Disability code	Benefit Amt	Reg Monthly Benefit	Total Paid	Reserve
06/14/1949	F	00	12/18/2008	02	3175.65	317.57	4756.73	11297.24
06/16/1972	F	00	08/25/2008	13	2330.3	777.30	35731.8	57800.47
04/14/1976	F	03	10/14/2008	02	2066.5	0.0	6750.57	0.0
05/31/1968	F	01	10/25/2008	13	3135.4	0.0	0.0	0.0
11/16/1952	M	00	03/04/2008	08	3599.4	359.94	8464.66	27591.76
01/29/1956	F	01	01/19/2008	16	2169.35	0.0	0.0	0.0
02/25/1958	F	01	06/04/2008	02	2092.95	0.0	913.94	0.0
05/18/1961	F	00	09/19/2008	21	2745.15	1,074.15	18785.85	41691.56
03/25/1950	M	03	11/15/2008	02	1116.83	0.0	1414.65	0.0
11/29/1952	F	01	09/27/2008	15	2545.6	0.0	0.0	0.0
07/30/1959	F	00	10/25/2008	01	2742.4	1,424.40	24265.6	137882.24
05/03/1942	F	01	01/18/2008	01	2818.8	0.0	0.0	0.0
06/30/1946	F	00	07/10/2008	13	3086.2	308.62	9375.85	8259.19
04/02/1950	F	03	09/22/2008	21	1206.98	0.0	2936.98	0.0
04/01/1960	F	00	11/11/2009	02	970.94	970.94	1941.88	7263.91
06/18/1959	M	00	01/31/2009	16	1537.92	1,537.92	18455.04	38520.11
06/26/1945	F	PS	12/01/2009	10	1341.45	0.0	0.0	35000.0
02/03/1945	F	00	02/16/2009	13	1112.1	111.21	1223.31	2208.64
05/22/1949	F	01	03/28/2009	15	454.14	0.0	0.0	0.0
07/18/1949	F	01	05/08/2009	00	594.37	0.0	0.0	0.0
11/09/1956	F	00	09/11/2009	02	1973.15	1,973.15	7892.6	28750.6
06/14/1977	F	00	07/27/2009	16	2369.5	2,369.50	14217.0	123912.35
03/16/1955	M	00	07/31/2009	07	2062.08	0.00	4279.13	18319.87
12/25/1954	M	01	05/28/2009	13	1666.56	0.0	0.0	0.0
09/09/1951	M	00	10/14/2009	09	877.13	100.00	2211.19	5983.28
03/13/1949	M	00	01/28/2009	08	1614.7	0.00	3649.6	7609.59
09/19/1950	F	00	05/15/2009	08	1527.08	152.71	1967.5	10844.84
12/12/1974	F	00	01/19/2009	02	1045.91	0.00	5273.3	1578.76
05/23/1947	F	00	08/17/2009	08	3635.3	1,753.30	7270.6	62302.43
03/26/1957	F	01	08/24/2009	15	387.13	0.0	0.0	0.0
06/07/1951	F	00	05/29/2009	16	1748.9	797.90	5484.8	43972.11
06/26/1978	F	00	08/25/2009	07	2596.1	2,596.10	12980.5	269677.95
06/06/1954	M	01	01/21/2009	00	1537.92	0.0	0.0	0.0
12/29/1947	F	00	06/01/2009	13	3117.0	3,117.00	25143.8	69464.28
06/02/1960	F	00	07/15/2009	13	1159.56	1,159.56	7691.75	32039.19
04/09/1951	F	03	08/20/2009	16	2520.95	0.0	673.59	0.0
06/10/1954	F	00	10/03/2009	02	1300.8	377.80	4280.2	11373.8
09/07/1948	F	00	01/25/2010	06	1067.96	1,067.96	0.0	7912.36
06/07/1967	M	01	01/04/2010	02	1559.34	0.0	0.0	0.0

LTD EXHIBIT 3

Key to Disability Codes

First Digit		Second Digit		Third and Fourth Digits	
1	Accident	1	Occupational	01	Infective and parasitic diseases
2	Sickness	2	Non-occupational	02	Malignant neoplasms (cancer)
3	Unknown	3	Unknown	03	Benign and unspecified neoplasms
				04	Allergic, endocrine system, metabolic and nutritional diseases
				05	Diseases of the blood and blood forming organs
				06	Mental, psychoneurotic and personality disorders
				07	Diseases of the nervous system and sense organs
				08	Diseases of the circulatory system
				09	Diseases of the respiratory system
				10	Diseases of the digestive system
				11	Diseases of the genito-urinary system
				12	Diseases of the skin and cellulax tissue
				13	Diseases of the bones and organs of movement
				14	Congenital malformations
				15	Symptoms, senility and ill-defined conditions
				16	Accidents, poisoning and violence
				17	Normal pregnancy
				18	Pregnancy with complications
				19	Diseases of the heart
				20	Short term fracture
				21	24 Month Mental/Nervous

Claim Status:

00-Active
01-Declined
02-Waiting
03-Ended
04-Inactive
05-Incomplete
PS-Pending"