



The State of Delaware

Life and AD&D Renewal Analysis & Recommendations

September 23, 2019

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Today's Agenda

- Background
- Project Overview
- Life Insurance Experience
- Preliminary Renewal Analysis
- Negotiated Renewal Results
- Proposed Plan Designs & Enrollment Options
- Proposed Recommendations
- Conclusions & Next Steps
- Appendix

Background

- The State of Delaware (“the State”) has partnered with Securian Financial (“Securian”, a.k.a. Minnesota Life) to offer life insurance benefits since 10/1/2002
 - Prior to 2003, the State offered a Term Life insurance benefit
 - Effective 10/1/2002, the SEBC approved a change in life insurance carriers
 - Securian’s bid for takeover of the life insurance benefit was substantially lower than the incumbent underwriter, MetLife
 - Between 10/1/2002 and 12/31/2002, Securian took over administration of the State’s Term Life policy
 - Participants paid the same MetLife premiums during this time
 - Rather than changing employee contributions mid-year, Securian deposited the difference between the employee contributions and Securian’s lower rates into a Premium Deposit Account (PDA) to support participants who were eligible for waiver of premium (e.g., participants on LTD), which was exhausted in 2013
 - Effective 1/1/2014, premiums for disabled individuals were absorbed and funded through active employee premiums, as approved by the State Employee Benefits Committee (SEBC)
 - Effective 1/1/2003, the Term Life policy was discontinued and Group Universal Life (GUL) was implemented

Background

(Continued)

- The following provisions are key drivers of the State's historical trend and plan design restructuring
 - Waiver of Premium
 - The Waiver of Premium provision extends coverage to individuals who become disabled while employed, during which time premium is waived.
 - A non-insured waiver of premium benefit means that the insurer is not creating reserves for individuals to cover the cost of disabled employees; this type of waiver of premium arrangement implies that all disabled individuals will remain the liability of the employer, even if the vendor contract was terminated
 - An insured waiver of premium benefit means that the insurer is creating reserves for individuals to cover the cost of disabled employees; this type of waiver of premium arrangement implies that all disabled individuals will remain the liability of the carrier; even if the vendor contract was terminated
 - Portability
 - Portability is a form of premium-pay Continuation which provides terminated employees the option of maintaining their active coverage; when employees port coverage, standardly they are no longer a part of an employer's group plan and move onto the carrier's pool of port experience & rates
 - Standardly 100% of the employee benefit is ported and no liability remains with the employer

Background

(Continued)

- Prior to 7/1/2015, the State's GUL contract included the following non-standard provisions:
 - A non-insured waiver of premium benefit
 - Disabled employees remained as the State's liability
 - An option to port coverage
 - Ported individuals (i.e., terminated employment with the State) had the ability to remain on the State's coverage by keeping 50% of the insurance amount in force prior to their employment separation
 - Ported individuals also had the opportunity to convert the remaining 50% of coverage into an individual policy with Securian, based on current age
- An experience review found that the Ported group's claims-to-premium ratio was trending much worse than the active population at 126%
 - At 12/31/2013, the State's total claims to premium ratio was 77.9%; had the Ported population been excluded, this ratio would have decreased to 62%

Background

(Continued)

- Effective 7/1/2015, the GUL plan was restructured to address challenges posed by the previously mentioned provisions
 - Insured waiver of premium
 - All individuals disabled on or after 7/1/2015 were put on an insured waiver of premium, becoming Securian's liability
 - Individuals disabled prior to 7/1/2015 remained on the uninsured waiver of premium
 - Port option
 - Employees hired on or before 7/1/2015 maintain their current structure and can port 50% of insurance and convert the remaining 50% of coverage to Securian's individual rates based on age
 - This represents the "Grandfathered Ported" population
 - Employees hired on or after 7/1/2015 can port 100% of insurance coverage to Securian's pooled rate based on current age (i.e., the "non-grandfathered port population")
- Both plan design changes shifted the liability of disabled and ported employees from the State to Securian

Background

(Continued)

- The current Life and AD&D rate guarantee expires on 6/30/2020
 - During the 2015 RFP when Securian retained the business, a 3-year rate guarantee was established (7/1/2015 – 6/30/2018) with rate caps/adjustments for the 7/1/2018 – 6/30/2020 timeframe based on loss ratios
 - Note that the following increases went into effect at 7/1/2018 due to plan performance
 - Active GUL: +6.3%
 - Grandfathered Port GUL: +12.2%
 - Active Dependent Term Life: +6.6%
 - Grandfathered Dependent Port Term Life: +6.6%
 - Accidental Death and Dismemberment (AD&D): no change

Project Overview

- The State engaged Willis Towers Watson to evaluate Securian's renewal position for an effective date of 7/1/2020, including the following lines of business
 - Active Group Universal Life (GUL)
 - Grandfathered Port GUL (hired prior to 7/1/2015; experience stays within employer plan)
 - Active Dependent Term Life (inclusive of Spouse & Child)
 - Grandfathered Dependent Port Term Life (hired prior to 7/1/2015; experience stays within employer plan)
 - Accidental Death and Dismemberment (AD&D)
 - Employee over the age of 70 are not eligible for this coverage
- Ported employees hired on or after 7/1/2015 were not addressed in this renewal negotiation as they are not included in the State's experience
 - These individuals are subject to Securian's pooled rates and total pooled experience

Life Insurance Experience

- The below chart summarizes total premium (on a paid and constant basis), total incurred claims and incurred loss ratio inclusive of:
 - Active Group GUL
 - Grandfathered Port GUL (hired prior to 7/1/2015)
 - Active Dependent Term Life
 - Grandfathered Dependent Port GUL (hired prior to 7/1/2015)

Period	Estimated Paid Premium	Constant Premium	Total Incurred Claims	Incurred Loss Ratio (ILR) ¹
7/1/2015 - 6/30/2016	\$10,191,000	\$10,864,000	\$8,555,000	78.7%
7/1/2016 - 6/30/2017	\$10,631,000	\$11,332,000	\$11,462,000	101.1%
7/1/2017 - 6/30/2018	\$11,029,000	\$11,756,000	\$11,150,000	94.8%
7/1/2018 - 3/31/2019	\$9,329,000	\$9,329,000	\$9,585,000	102.7%
Total	\$41,180,000	\$43,281,000	\$40,752,000	94.2%

- Securian elected to evaluate only those years since the restructuring of the waiver of premium and portability provision at 7/1/2015

1. The ILR is the ratio of Total Incurred Claims to Constant Premium

Preliminary Renewal Analysis

- The following is a summary of the 7/1/2020 renewal development for all renewing lines of business, based on the 7/1/2015 – 3/31/2019 plan year periods
 - Life renewal rates are developed using experience with 100% credibility, however AD&D is manually rated due to the low credibility of AD&D experience
 - Manual Rating is a carrier's best projection of the cost to insure a particular group of individuals based on industry, location/area, demographics, and plan design
 - The Required Rate Change is calculated as $(\text{Incurred Loss Ratio} / \text{Target Loss Ratio}) - 1$
- Securian believes that the reserves of the Waiver of Premium provision (implemented at 7/1/2015) have had an overstated negative impact on the State's loss ratio, therefore despite a required aggregate premium increase of 10.5%, Securian has proposed an as-is renewal
 - Waiver of Premium reserves were established as of 7/1/2015 as a result of the Waiver of Premium restructuring summarized in the Background section
 - Securian expects that as the Waiver of Premium block matures, the experience will stabilize and bring down the overall loss ratio

Program	Constant Premium	Total Incurred Claims	Incurred Loss Ratio	Target Loss Ratio	Required Rate Change	Initial Renewal
Active GUL	\$24,092,000	\$20,500,000	85.1%	85.2%	-.01%	0%
Grandfathered Port GUL	\$17,515,000	\$17,686,000	101.0%	85.2%	18.5%	0%
Active Dependent Term Life	\$1,274,000	\$1,420,000	111.5%	90.2%	23.6%	0%
Grandfathered Port Dependent GUL Life	\$401,000	\$1,145,000	285.5%	90.2%	216.3%	0%
AD&D ¹	\$2,129,000	\$512,000	24.0%	N/A	N/A	0%
Total	\$45,411,000	\$41,263,000	90.9%	85.5%¹	10.5%¹	0%

1. AD&D is not included in the loss-ratio based renewal development as it is manually rated

Negotiated Renewal Results

Financial Analysis

- Following our preliminary results discussion, Willis Towers Watson engaged in renewal negotiations with Securian
 - The chart below illustrates the aggregate impact of the newly negotiated renewal position, which is inclusive of a 5-year rate guarantee
 - The original renewal offered a 3-year rate guarantee with no increases to any of the coverages
 - The State opted for no increase to the Active GUL coverage and for a 5% increase to the Grandfathered Port GUL, Active Dependent Term Life, and Grandfathered Port Dependent Term Life populations, in order to incrementally correct the ILRs¹ of these populations
 - There will be no rate impact to the Port GUL (hired on/after 7/1/2015; included in Securian port pool) as this population is subject to Securian port rates

Coverage	Current Premium	Initial Renewal	Negotiated Renewal	% Difference
Active GUL	\$6,717,000	\$6,717,000	\$6,717,000	0%
Grandfathered Port GUL	\$5,205,000	\$5,205,000	\$5,466,000	+5%
Active Dependent Term Life	\$352,000	\$352,000	\$369,000	+5%
Grandfathered Port Dependent Term Life	\$119,000	\$119,000	\$125,000	+5%
Total Life	\$12,393,000	\$12,393,000	\$12,677,000	+2.3%

1. The ILR is the ratio of Total Incurred Claims to Constant Premium

Negotiated Renewal Results

Impact to Grandfathered GUL Ported Population

- The chart below illustrates the financial impact to the Grandfathered Ported Population
 - Note that the premium below is based on the average benefit amount of \$75,000

Illustrative example – based on \$75,000 average benefit amount

Grandfathered Port GUL								
Age Band	Current Rate	Final Negotiated Renewal Rate	Net Difference	Volume (in 000s)	Current Annual Premium	Final Renewal Rate Annual Premium	Variance (\$)	Variance (%)
50-54	\$0.256	\$0.269	\$0.013	\$75	\$230	\$242	\$12	5%
55-59	\$0.416	\$0.437	\$0.021	\$75	\$374	\$393	\$19	5%
60-64	\$0.661	\$0.694	\$0.033	\$75	\$595	\$625	\$30	5%
65-69	\$1.173	\$1.232	\$0.059	\$75	\$1,056	\$1,109	\$53	5%
70-74	\$2.121	\$2.227	\$0.106	\$75	\$1,909	\$2,004	\$95	5%
75-79	\$3.283	\$3.447	\$0.164	\$75	\$2,955	\$3,102	\$147	5%
80-84	\$5.032	\$5.284	\$0.252	\$75	\$4,529	\$4,756	\$227	5%

Proposed Plan Designs & Enrollment Options

- In addition to extending the rate guarantee for 5 years, Securian has offered the following enhancements to the Life programs

Provision	Current State	Proposed Enhancement	Commentary
Active Employee Life Coverage (GUL)	1x to 6x Basic Annual Earnings (BAE) to a maximum of \$350,000	1x to 8x BAE to a maximum of \$500,000	A \$500,000 maximum aligns more closely with industry standard, while the increased increment is top-quartile and above industry standard (5x)
Spouse Life Coverage (Term Life)	Option 1: \$10,000 Option 2: \$20,000	<ul style="list-style-type: none"> Add 3rd coverage option of \$30,000 Change to \$100,000 maximum benefit, with multiple coverage options up to the maximum 	<ul style="list-style-type: none"> \$30,000 option would cost \$12.74 per employee per month A \$100,000 Spouse Maximum benefit is top-quartile and above industry standard (\$50,000), but would require changing to an age-banded step-rate structure to accommodate the multiple coverage options
Child Life Coverage (Term Life)	Option 1: \$10,000 Option 2: \$20,000	None	N/A

- Securian has also offered two enrollment options:

Option	Enrollment	Parameters	Commentary
Option 1	One-time special enrollment	<ul style="list-style-type: none"> Late entrants, <i>not previously declined</i>, may increase coverage up to the current Guarantee Issue (GI) limit of the lesser of 3x BAE or \$200,000 without Evidence of Insurability (EOI) Current enrollees <i>not previously declined</i> may increase one level up to the GI limit without EOI 	The parameters of this enrollment allows for individuals to reassess their coverage and potentially substantially increase coverage (up to 3x) during one enrollment; however, employees will be subject to the GI for all future elections
Option 2	Annual Enrollment	<ul style="list-style-type: none"> Active employees, <i>not previously declined</i>, covered may increase coverage one level up to the GI Limit of 3x BAE or \$200,000 without EOI This applies to both current participants as well as those enrolling for the first time 	An Annual Enrollment gives employees the opportunity to reassess their coverage on an annual basis within the parameters of the GI, and treats the entire population on an equal basis

Proposed Recommendations

- The following represents a list of the renewal components which Willis Towers Watson and the SBO recommend and on which the SEBC will need to vote:

Recommendation	Rationale
<p>5-year rate guarantee option:</p> <ul style="list-style-type: none"> ■ Hold active Employee Life rates flat ■ Increase active Dependent Life rates +5% ■ Increase Grandfathered Ported GUL Employee Life rates +5% ■ Increase Grandfathered Ported Dependent Life rates +5% 	<ul style="list-style-type: none"> ■ Results in longer period of time that rates are guaranteed (5 years, vs. 3 years in original renewal offer) ■ Mitigates impact of the rate increase warranted by the plan's experience <ul style="list-style-type: none"> ■ While original 3-year renewal reflected no increase in rates, the plan's experience warranted an aggregate premium increase of 10.5% ■ There is no guarantee that the plan's experience over three years will stabilize to the extent that this increase would not be warranted ■ By accepting a moderate rate increase now, the State would mitigate the potential for a higher increase in the future, assuming no changes to the plan's experience over that time
<p>No changes to current plan designs:</p> <ul style="list-style-type: none"> ■ Active Employee Life Coverage (GUL) – 1x to 6x BAE to a maximum of \$350,000 ■ Spouse Life Coverage (Term Life) – 2 options: \$10,000 or \$20,000 ■ Child Life Coverage (Term Life) – 2 options: \$10,000 or \$20,000 	<ul style="list-style-type: none"> ■ SBO has not heard feedback from employees about GUL coverage being too low ■ Employees would pay more for higher spouse coverage options (\$30,000 or up to maximum of \$100,000) ■ Changing spouse life coverage to a maximum of \$100,000 would also require system changes
<p>Enrollment Option 2 – Annual Enrollment</p>	<ul style="list-style-type: none"> ■ Provision is available every year, whereas Enrollment Option 1 is a one-time offer ■ Has potential to benefit more plan participants than Enrollment Option 1

Conclusions and Next Steps

- The SEBC will vote on the recommendations summarized in the previous slide on 9/23/2019
- Willis Towers Watson to finalize the renewal
 - Securian to confirm their acceptance of the terms of the renewal
 - Willis Towers Watson to facilitate a final renewal letter for the State
 - The State to sign the renewal letter

Appendix

Experience by Class

Active GUL & Active Dependent Term Life

Active GUL				
Plan Year	Paid Premium	Constant Premium	Incurred Claims	ILR
7/1/2015 - 6/30/2016	\$5,973,000	\$6,368,000	\$4,383,000	69.8%
7/1/2016 - 6/30/2017	\$6,006,000	\$6,402,000	\$6,365,000	99.4%
7/1/2017 - 6/30/2018	\$5,915,000	\$6,305,000	\$5,328,000	84.5%
7/1/2018 - 3/31/2019	\$5,017,000	\$5,017,000	\$4,424,000	88.2%
Total	\$22,911,000	\$24,092,000	\$20,500,000	85.1%

Active Dependent Term Life				
Plan Year	Paid Premium	Constant Premium	Incurred Claims	ILR
7/1/2015 - 6/30/2016	\$330,000	\$352,000	\$400,000	113.6%
7/1/2016 - 6/30/2017	\$320,000	\$341,000	\$489,000	143.4%
7/1/2017 - 6/30/2018	\$306,000	\$326,000	\$324,000	99.4%
7/1/2018 - 3/31/2019	\$255,000	\$255,000	\$208,000	81.6%
Total	\$1,211,000	\$1,274,000	\$1,420,000	111.5%

Experience by Class

Grandfathered Port GUL & Grandfathered Port Dependent Term Life

Grandfathered Port GUL				
Plan Year	Paid Premium	Constant Premium	Incurred Claims	ILR
7/1/2015 - 6/30/2016	\$3,797,000	\$4,048,000	\$3,440,000	85.0%
7/1/2016 - 6/30/2017	\$4,207,000	\$4,485,000	\$4,368,000	97.4%
7/1/2017 - 6/30/2018	\$4,702,000	\$5,012,000	\$5,205,000	103.9%
7/1/2018 - 3/31/2019	\$3,970,000	\$3,970,000	\$4,674,000	117.7%
Total	\$16,676,000	\$17,515,000	\$17,686,000	101.0%

Grandfathered Port Dependent Term Life				
Plan Year	Paid Premium	Constant Premium	Incurred Claims	ILR
7/1/2015 - 6/30/2016	\$91,000	\$97,000	\$332,000	342.3%
7/1/2016 - 6/30/2017	\$98,000	\$104,000	\$241,000	231.7%
7/1/2017 - 6/30/2018	\$106,000	\$113,000	\$293,000	259.3%
7/1/2018 - 3/31/2019	\$87,000	\$87,000	\$279,000	320.7%
Total	\$382,000	\$401,000	\$1,145,000	285.5%

Active Rates and Rate History

Per \$1,000 (Spouse and Child Rates are Per Employee Per Month)

Coverage	Prior Rates 7/2015 – 6/2018	Current Rates 7/2018 – 6/2020	Initial Renewal Rates ¹ (GUL + AD&D) 7/2020 – 6/2025	Negotiated Renewal	% Difference
Under 30	\$0.028	\$0.030	\$0.052	\$0.052	0%
30-34	\$0.037	\$0.039	\$0.061	\$0.061	0%
35-39	\$0.055	\$0.059	\$0.081	\$0.081	0%
40-44	\$0.074	\$0.079	\$0.101	\$0.101	0%
45-49	\$0.120	\$0.128	\$0.150	\$0.150	0%
50-54	\$0.222	\$0.237	\$0.259	\$0.259	0%
55-59	\$0.360	\$0.384	\$0.406	\$0.406	0%
60-64	\$0.572	\$0.610	\$0.632	\$0.632	0%
65-69	\$1.015	\$1.082	\$1.104	\$1.104	0%
70-74	\$1.837	\$1.958	\$1.958	\$1.958	0%
75-79	\$2.843	\$3.031	\$3.031	\$3.031	0%
80-84	\$4.357	\$4.645	\$4.645	\$4.645	0%
85	\$4.449	\$4.743	\$4.743	\$4.743	0%
86	\$4.763	\$5.077	\$5.077	\$5.077	0%
87	\$5.113	\$5.450	\$5.450	\$5.450	0%
88	\$5.483	\$5.845	\$5.845	\$5.845	0%
89	\$5.889	\$6.278	\$6.278	\$6.278	0%
90	\$6.323	\$6.740	\$6.740	\$6.740	0%
91	\$6.830	\$7.281	\$7.281	\$7.281	0%
92	\$7.393	\$7.881	\$7.881	\$7.881	0%
93	\$8.067	\$8.599	\$8.599	\$8.599	0%
94	\$8.852	\$9.436	\$9.436	\$9.436	0%
95	\$10.088	\$10.754	\$10.754	\$10.754	0%
96	\$12.119	\$12.919	\$12.919	\$12.919	0%
97	\$15.608	\$16.638	\$16.638	\$16.638	0%
98	\$21.543	\$22.965	\$22.965	\$22.965	0%
99	\$23.140	\$24.667	\$24.667	\$24.667	0%
Spouse Life - \$10,000	\$3.080	\$3.280	\$3.280	\$3.450	+5%
Spouse Life - \$20,000	\$7.050	\$7.520	\$7.520	\$7.900	+5%
Child Life - \$10,000	\$1.160	\$1.240	\$1.240	\$1.300	+5%
Child Life - \$20,000	N/A	\$2.480	\$2.480	\$2.600	+5%

1. AD&D is not included after age 70+

Grandfathered Port Rates and Rate History

Per \$1,000 (Spouse and Child Rates are Per Employee Per Month)

Coverage	Prior Rates 7/2015 – 6/2018	Current Rates 7/2018 – 6/2020	Initial Renewal Rates ¹ (GUL + AD&D) 7/2020 – 6/2025	Negotiated Renewal	% Difference
Under 30	\$0.030	\$0.032	\$0.054	\$0.034	5%
30-34	\$0.040	\$0.043	\$0.065	\$0.045	5%
35-39	\$0.060	\$0.064	\$0.086	\$0.067	5%
40-44	\$0.080	\$0.085	\$0.107	\$0.089	5%
45-49	\$0.130	\$0.139	\$0.161	\$0.146	5%
50-54	\$0.240	\$0.256	\$0.278	\$0.269	5%
55-59	\$0.390	\$0.416	\$0.438	\$0.437	5%
60-64	\$0.620	\$0.661	\$0.683	\$0.694	5%
65-69	\$1.100	\$1.173	\$1.195	\$1.232	5%
70-74	\$1.990	\$2.121	\$2.121	\$2.227	5%
75-79	\$3.080	\$3.283	\$3.283	\$3.447	5%
80-84	\$4.720	\$5.032	\$5.032	\$5.284	5%
85	\$4.820	\$5.138	\$5.138	\$5.395	5%
86	\$5.160	\$5.501	\$5.501	\$5.776	5%
87	\$5.540	\$5.906	\$5.906	\$6.201	5%
88	\$5.940	\$6.332	\$6.332	\$6.649	5%
89	\$6.380	\$6.801	\$6.801	\$7.141	5%
90	\$6.850	\$7.302	\$7.302	\$7.667	5%
91	\$7.400	\$7.888	\$7.888	\$8.282	5%
92	\$8.010	\$8.539	\$8.539	\$8.966	5%
93	\$8.740	\$9.317	\$9.317	\$9.783	5%
94	\$9.590	\$10.223	\$10.223	\$10.734	5%
95	\$10.930	\$11.651	\$11.651	\$12.234	5%
96	\$13.130	\$13.997	\$13.997	\$14.6397	5%
97	\$16.910	\$18.026	\$18.026	\$18.927	5%
98	\$23.340	\$24.880	\$24.880	\$26.124	5%
99	\$25.070	\$26.725	\$26.725	\$28.061	5%
Spouse Life - \$10,000	\$3.080	\$3.280	\$3.280	\$3.450	5%
Spouse Life - \$20,000	\$7.050	\$7.520	\$7.520	\$7.900	5%
Child Life - \$10,000	\$1.160	\$1.240	\$1.240	\$1.300	5%
Child Life - \$20,000	N/A	\$2.480	\$2.480	\$2.600	5%

1. Voluntary AD&D is not included after age 70+

Life Definitions, Pricing, and Methodology

- **Paid premium** is the actual premium paid for a specific policy during the specified experience period
- **Constant premium** is the adjustment to actual paid premium to assume that the current rate had been in effect for the entire evaluation period
 - Allows an Underwriter to evaluate the plan experience and determine if the Inforce rate would be adequate to support the program on a prospective basis (going forward)
- **Incurred claims** are the total claim payments incurred during the analyzed experience periods based on date of notification¹
 - Active GUL Total Incurred Claims include changes in Waiver Reserves (i.e., individuals who are disabled and remain eligible through the Waiver of Premium provisions; changes can occur when individuals are newly disabled, recover, or upon death) and Pending Claims
- **Incurred loss ratio** is the ratio of incurred claims to premium
- **Tolerable loss ratio** is the percentage of gross annual premium intended to pay claims (calculated as 100% - expenses and profit)
- **Credibility** is the degree of belief that the account's experience represents the normal, expected loss experience of the account. It is the viability of a group's past claim experience as a predictor of future losses

1. Securian practice is to post claims between February – December based on the date Securian is notified of the claim; claims for which they are notified in January are based on Death of Death in order to ensure that the claim is posted to the correct year.