

The State of Delaware

Group Universal Life – Marketplace Review

SEBC Meeting

April 22, 2024

Disclaimer

Willis Towers Watson has prepared this information solely in our capacity as consultants under the terms of our engagement with you with knowledge and experience in the industry and not as legal advice. This information is exclusively for the State of Delaware's State Employee Benefits Committee to use in the management, oversight and administration of your state employee group health program. It may not be suitable for use in any other context or for any other purpose and we accept no responsibility for any such use.

Willis Towers Watson is not a law firm and therefore cannot provide legal or tax advice. This document was prepared for information purposes only and it should not be considered a substitute for specific professional advice. As such, we recommend that you discuss this document with your legal counsel and other relevant professional advisers before adopting or implementing its contents. This document is based on information available to Willis Towers Watson as of the date of delivery and does not account for subsequent developments after that date.

Willis Towers Watson shares available medical and pharmacy research and the views of our health management practitioners in our capacity as a benefits consultant. We do not practice medicine or provide medical, drug, or legal advice, and encourage our clients to consult with both their legal counsel and qualified health advisors as they consider implementing various health improvement and wellness initiatives.

This material was not prepared for use by any other party and may not address their needs, concerns or objectives. This document may not be reproduced, disclosed or distributed to any other party, whether in whole or in part, other than as agreed with you in writing, except as may be required by law.

We do not assume any responsibility, or accept any duty of care or liability to any other party who may obtain a copy of this material and any reliance placed by such party on it is entirely at their own risk.

Context for today's discussion

- The State of Delaware offers life insurance benefits through Securian Financial (formerly, Minnesota Life Insurance Company) since 2003
- Securian provides Group Universal Life (GUL) benefits, a type of permanent life insurance and Accidental Death and Dismemberment (AD&D) benefits with the option for tax-deferred cash accumulation
- GUL is available to benefit-eligible active State of Delaware and Delaware Solid Waste Authority employees. The eligible group consists of permanent full-time employees, permanent part-time employees, limited term employees, elected and appointed State Officials, and board members
- Eligible employees may purchase group term life insurance, which provides limited term protection (for example, children are eligible until age 26), for their spouses and/or children
- The State's GUL insurance is a 100% employee-pay-all plan
- Ported coverage is available for terminated and retired employees
- The last GUL RFP occurred in 2014 for an effective date of July 1, 2015

Context for today's discussion (continued)

- In 2019, as a result of the State engaging with Willis Towers Watson to evaluate Securian's renewal position for a July 1, 2020 effective date, the SEBC chose to negotiate a new 5-year GUL contract with Securian Financial instead of conducting a procurement
- At that time, only three vendors offered GUL coverage as an employer-sponsored plan (Securian, MetLife and Prudential) and had all previously participated in the 2014 GUL RFP, during which:
 - Prudential would not accept the State's required indemnification language
 - Securian's quoted rates were about 5% below the in-force rates and about 10% lower than MetLife's quote
- SEBC did not see an advantage to soliciting bids for a comparable plan plus term life with portability
 - Term life plans do not offer a cash value account
 - 10% of State GUL participants in 2019 had deposits in a cash value account (industry average = 5%)
 - A change in plan type would be disruptive (i.e., possible loss of coverage)
- Securian's performance and the prior loss ratio experience was reviewed and considered during renewal negotiations

Upcoming GUL contract expiration and options for consideration

- The State's GUL contract with Securian will expire on June 30, 2025
- Overviews of the State's current GUL benefits, their procurement/renewal history and the GUL vendor marketplace were provided to the Health Policy & Planning Subcommittee in March and April 2024
 - This included a review of current plan participation and implications for changing life insurance plan options from GUL to term life on GUL enrollees
 - Administrative considerations related to the required timeframe for procurement and implementation of a new contract, and possibly new life insurance benefits, were also discussed
 - Feedback from Subcommittee members was solicited on the SEBC's options for continuing to offer life insurance coverage:
 - Issue an RFP to capture vendor interest and to review alternative life insurance plan options
 - Request a plan renewal from Securian
- **Subcommittee member feedback:** agreement that the SEBC should move forward with a procurement for life insurance benefits but should also negotiate a 1-year contract extension with Securian to allow for sufficient time to procure, implement and communicate a life insurance benefit offering that may be different from the State's current offering (e.g., term life coverage for employees)

GUL plan experience review

- A preliminary review of the State’s GUL experience during the current contract term suggests the plan has been running more favorably than in earlier contract periods (i.e., prior to FY2021)
- The below chart summarizes total earned premium, estimated constant premium, 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 (spouse and child)
 - Grandfathered Dependent Port GUL (hired prior to 7/1/2015)
- Chart excludes the following:
 - Ported employees hired on or after 7/1/2015 – these individuals are subject to Securian’s pooled rates and total experience of Securian’s portability pool
 - Accidental Death and Dismemberment (AD&D) experience – due to the low credibility of AD&D experience, these premiums are manually rated and not included in the loss-ratio based experience review, which is a precursor to the development of a renewal offer

| Period | Total Earned Premium | Estimated Constant Premium ¹ | Total Incurred Claims | Incurred Loss Ratio (ILR) ² |
|------------------|----------------------|---|-----------------------|--|
| 7/1/20 - 6/30/21 | \$13,678,000 | \$14,581,000 | \$10,078,000 | 69.1% |
| 7/1/21 - 6/30/22 | \$14,099,000 | \$15,030,000 | \$12,972,000 | 86.3% |
| 7/1/22 - 6/30/23 | \$14,597,000 | \$15,560,000 | \$11,040,000 | 70.9% |
| Total | \$42,374,000 | \$45,171,000 | \$34,090,000 | 75.5% |

See Appendix for definitions of life insurance underwriting terminology used on this slide.

1. Constant Premium was estimated by WTW using the same Constant Premium-to-Earned Premium ratio used by Securian during the 2019 GUL renewal process. | 2. The ILR is the ratio of Total Incurred Claims to Estimated Constant Premium.

For discussion: SEBC feedback on next steps

- **Question for SEBC members:** Do you have any objections to the SBO/WTW negotiating a 1-year extension of the current contract with Securian while also beginning work to move forward with a life insurance procurement?
 - Additional details on benefit options that would be included in a life insurance procurement would be brought before the SEBC for further discussion in May or June 2024

Appendix

Definitions of life insurance underwriting terminology

- **Earned 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 in-force 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 constant premium
- **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
- **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

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