

# The State of Delaware

Group Universal Life Benefit

SEBC Health Policy & Planning Subcommittee Meeting

May 20, 2024

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# Context for today's discussion

- The State's Group Universal Life (GUL) contract with Securian will expire on June 30, 2025
- An overview of the background on the GUL program, the upcoming options for GUL renewal/procurement and an overview of the GUL vendor marketplace was presented to the SEBC in April 2024
- The following Subcommittee member feedback was also shared with the SEBC:
  - Recommendation that the SEBC should move forward with a procurement for life insurance benefits
  - In the interim, 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)

# Context for today's discussion (continued)

- SEBC agreed with this Subcommittee's feedback and directed SBO/WTW to move forward with negotiating a 1-year extension of the current contract with Securian while also beginning work to move forward with a life insurance procurement
- SBO has requested a 1-year contract extension from Securian, which is due to respond with its proposed pricing today
- Today's discussion will begin to explore additional details on benefit options that would be included in a life insurance procurement, as well as further discussing the member impact of changing this benefit
- Outcomes from today's discussion will be shared with the SEBC for further discussion in May or June 2024

# Questions for consideration: life insurance RFP

- What life insurance plan design will be requested for employees, pensioners and eligible dependents?
- How does the pool of potential bidders change if the SEBC were to solicit proposals for a different type of life insurance (not GUL) in an RFP?
- What would the impact be on current GUL plan participants if the SEBC changed the life insurance benefit offered, in general and in certain circumstances, such as:
  - Plan participants who have taken loans or cash withdrawals against the GUL cash value account?
  - Plan participants who have developed medical conditions after they submitted evidence of insurability (“proof of good health”)?

# Typical plan provisions: Group Universal Life vs. Group Term Life

- Chart below provides a general comparison of the key differences between group universal life insurance and group term life insurance
- Note: these are general provisions and not specific to the State of Delaware’s life insurance benefits

Product Feature	Group Universal Life	Group Term Life
Cash Value	Yes, via “side fund” that allows tax-deferred earnings on investments	No
Administration	Carrier or TPA	Typically self-administered
Billing Rates	1-year and/or 5-year age bands	5-year age bands most common
Imputed Income	No	If rates straddle Table 1
Dependents	Available via policy rider <ul style="list-style-type: none"> <li>• Term for Children</li> <li>• UL or Term for Spouse/DP</li> </ul>	Separate line of coverage
Retirees	Via Portability to age 95 or 99	Employer’s discretion
Portability	Standard	Employer’s discretion
Conversion	Varies by scenario and carrier	State-mandated
Loans	Yes, via side fund	No
Paid-Up Life	Yes, via side fund	No
Prevalence*	6.4% of employers offer	90% of employers offer
Median plan design*	Up to 8x annual earnings	Up to 5 x annual earnings

\*Per Willis Towers Watson’s Benefit Data Source database

# Life insurance plan design considerations

- In light of the SEBC's desire to evaluate a broader set of life insurance options, consider structuring the requested scope of services within the RFP to require bidders to quote on either or both of the following options:
  - Current life insurance plan (GUL for employees, term life for spouses and children)
  - An alternative life insurance plan design offering term life insurance for employees, spouses and children
    - The term life insurance offered to employees could be designed to include the same coverage level options (i.e., 1-6x base annual salary) that exist under the current GUL plan
    - Accidental death & dismemberment (AD&D) coverage could also be included and matching the life coverage level, as it is under the State's plan currently
    - Following slide compares the State's current life benefit to term life insurance benchmarks
- Structuring the RFP requested scope of services in this manner would allow the SEBC to evaluate pricing and plan alternatives across two different types of employee life insurance benefits with the potential for a larger pool of bidders
- This approach to the requested scope of services would need to be reviewed with the SEBC's legal counsel to ensure it is compliance with any procurement requirements in the Delaware Code

# Life insurance plan design benchmarking

Participant Type and Current SOD Offering	Current SOD Plan Design	Other Notes about SOD Plan	Benchmark Data and Trends
<b>Employee GUL and accidental death and dismemberment (AD&amp;D)</b> Employee-paid	1-6x base annual salary Maximum coverage: \$350,000 AD&D benefit matches the GUL amount	Total coverage amount will be rounded to the next higher \$10,000 Proof of good health is required for all selections made outside of the 90-day initial eligibility period, as well as 4-6x base annual salary selections <sup>1</sup> AD&D terminates at age 70 Includes cash value account Upon separation from employment or retirement, plan participants can retain their current life coverage at a higher premium cost	Term life insurance – prevalence <sup>2</sup> of employers offering: <ul style="list-style-type: none"> <li>• 99.5% offer employees basic term life (employer subsidized, usually 1x base annual salary)</li> <li>• 93.5% offer voluntary employee term life (employee-paid)</li> </ul> Voluntary employee term life: 1-6x base annual salary, though some employers increasing to 8x Median <sup>2</sup> highest multiple of pay: 6x Median <sup>2</sup> max coverage: \$1,000,000 (when not combined with basic, employer-subsidized term life coverage) No cash value account associated with term life insurance AD&D benefit typically mirrors the life benefit (basic + voluntary)
<b>Spouse term life</b> Employee-paid	\$10,000 or \$20,000	Employees can also be insured as a spouse if both are benefit eligible active employees	Spouse term life – prevalence <sup>2</sup> of employers offering: 99.3% 88.7% of employers offer coverage as a fixed dollar amount Median <sup>2</sup> highest fixed dollar amount: \$150,000
<b>Child term life</b> Employee-paid	\$10,000 or \$20,000 per child	Subject to age limitations (under age 19 or under 24 if full-time student) If both parents are benefit eligible active employees, each may elect child coverage	Child term life – prevalence <sup>2</sup> of employers offering: 99.5% 95.7% of employers offer coverage as a fixed dollar amount Median <sup>2</sup> highest fixed dollar amount: \$10,000

1. 90-day eligibility begins on the first day of employment in a benefit eligible position.
2. Source: WTW Benefits Data Source database.



# Life insurance carrier marketplace

- **Refresher:** Outside of Securian, MetLife and Prudential, there are no other major life insurance carriers that currently offer GUL
- Life insurance carriers that offer term life insurance include, but are not limited to, the following:
  - The Hartford
  - Lincoln Financial
  - MetLife
  - New York Life
  - Prudential
  - Securian
  - Voya Financial

# Member considerations

- What would the impact be on current GUL plan participants if the SEBC changed the life insurance benefit offered, in general and in certain circumstances, such as:
  - Plan participants who have taken loans or cash withdrawals against the GUL cash value account?
    - Plan participants would need to repay loan amounts prior to termination date of the GUL plan
  - Plan participants who have developed medical conditions after they submitted evidence of insurability (“proof of good health”)?
    - If the life insurance offering changes from GUL to term life, it is possible that plan participants would need to go through the evidence of insurability process again; this requirement may vary from vendor to vendor
    - The evidence of insurability process for the Securian GUL plan requires the employee to answer three questions about their health history and provide their height and weight. Based on the employee’s answers, Securian may require additional information, such as completion of a more detailed medical questionnaire and/or medical records from the employee’s doctor
    - RFP should include questions to bidders about this potential requirement to complete the evidence of insurability process in the event of a change from GUL to term life, along with what each bidder’s evidence of insurability process entails

# Next steps

- Further discussion with the Health Policy & Planning Subcommittee about this topic will continue in June
- WTW will incorporate Subcommittee member feedback from today's meeting into future materials for discussion