



Retiree Benefit Solutions
Guaranteed Life Insurance Funding Account

Proposal
for

City of Racine, Wisconsin

October 13, 2014

Metropolitan Life Insurance Company
New York, NY 10010
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THE RETIREE BENEFITS CHALLENGE: CERTAIN TAX EXEMPT PLANS

Demographic and structural changes in today's marketplace have increased awareness in the benefits community of the financial dynamics involved in providing retirement benefits, such as group term life insurance. These changes have included:

Dynamics Affecting Retiree Benefits Include:

- *More retirees*
- *Retirees living longer*
- *Increased retiree financial concerns*
- *Budgetary and cash flow concerns*
- *Pressures to strengthen financial statements*

- ◆ **Increased number of retirees relative to active plan participants**
- ◆ **Rising costs of providing benefits which continue into retirement as retirees are generally living longer**
- ◆ **General and growing concern at the participant level for financial security throughout retirement**
- ◆ **Pressures to maintain strong bond ratings for access to capital**
- ◆ **Organizational downsizings, as well financial pressures, have added to changing patterns of retirement and job changing**
- ◆ **Cash flow pressures for plan sponsors and welfare benefit trusts have created the need for longer term, cost effective benefit financing strategies**

While these factors have been an issue for many years, accounting changes required by the Financial Accounting Standards Board (FASB) in the early 1990's, and more recently by the Governmental Accounting Standards Board (GASB) Statements 43 & 45, focused attention to the situation. These accounting changes highlighted the need to develop strategies to control long-term costs and make these valuable retiree benefits more secure.

In many cases the financial risk and plan administration associated with providing **retiree group term life insurance benefits** have become a more significant burden. Changes in the marketplace - shifting workforce demographics, budget constraints, and staff downsizings - often result in complex or multiple plan designs, which may be more costly to manage and administer. In addition, with the growing demand for healthy cash flows and strong balance sheets in the future for plan sponsors, it may make sense to consider an approach that transfers some or all of the liabilities associated with their retiree group term life insurance plan. A liability transfer strategy limits exposure to mortality, expense and investment risks and caps out of pocket costs.

MetLife's **Guaranteed Life Insurance Funding Account (Guaranteed LIFA)** is a liability transfer solution that may help a sponsoring organization achieve some or all of its objectives. The Guaranteed LIFA product provides a flexible way to balance retiree benefit needs with financial needs, as it effectively controls the plan sponsor's cost for retiree group term life insurance while offsetting balance sheet liabilities. Guaranteed LIFA **transfers** a liability on a group of specifically named retirees to MetLife and gives the sponsor a way to help assure it can continue to provide its retirees with retiree life benefits by removing the risks of future cost increases.

**The Three
Components of
Guaranteed LIFA:**

- *Group Term Life Insurance Policy*
- *Retired Lives Reserve*
- *Aggregate Stop Loss Policy*

WHAT IS A GUARANTEED LIFA?

A Guaranteed LIFA is used to transfer liabilities and risk associated with retiree group term life insurance benefits. A Guaranteed LIFA is easy to establish. This product is comprised of three parts:

- A **Group Term Life Insurance policy**, which provides for the payment of life insurance death benefits to the beneficiaries of covered retirees.
- A **Retired Lives Reserve**, which is a special insurance company reserve that holds the funds paid by the plan sponsor or trust for benefits for the covered retirees.
- An **Aggregate Stop Loss Policy**, which provides the product's financial guarantee by providing for payment to the employer for an amount sufficient to make up any shortfall between the premium required under the Group Term Life Insurance Policy and the Retired Lives Reserve.

Guaranteed LIFA is easy to establish. An amendment is added to an employer's **Group Term Life Insurance Policy** with MetLife. This amendment establishes a special **Retired Lives Reserve** called a **Life Insurance Funding Account (LIFA)**. This reserve acts as the source for each year's group term premium to cover the annual life insurance costs for eligible retirees.

MetLife's guarantee is that the plan's out-of-pocket costs will never exceed the purchase price. Our guarantee is provided through an **Aggregate Stop Loss Policy**, under which the employer or trust participates, in conjunction with the LIFA.

Should the Retired Lives Reserve prove insufficient in future years to cover the retiree plans costs, the Aggregate Stop Loss Policy provides the participating employer or trust with the amount needed each year to cover that year's retiree group term life insurance costs.

A Guaranteed LIFA is a financial arrangement between the plan sponsor and MetLife. There is no individual promise made to any particular retiree. A Guaranteed LIFA arrangement is irrevocable. Once the funds are committed, the plan sponsor or trust may not recapture or transfer funds.

Provided that certain requirements are satisfied, this arrangement should be considered a welfare benefit fund and may provide significant accounting, financial, and administrative advantages to the plan sponsor.

WHAT ARE THE ADVANTAGES OF A GUARANTEED LIFA?

A Guaranteed LIFA helps to accomplish key benefit and financial objectives:

Guaranteed LIFA

- *Effectively transfers liabilities and risk*
- *Caps future costs*
- *Eliminates administrative burdens*
- *Provides a solution for commitments made to current retirees*

- Effectively **transfers** a plan's liability on a group of specifically named retirees including the **risks - mortality, investments, and expenses** - to MetLife.
- The product is **structured to qualify as a settlement or transfer** under accounting rules.¹
- The **MetLife guarantee protects the plan sponsor** from additional future plan costs by capping out-of-pocket costs to the purchase price.
- MetLife offers both **lump sum and installment payment options (where applicable)** to accommodate a plan sponsor's specific financial situation.
- MetLife assumes coverage administration such as maintaining eligibility, claim administration and recordkeeping.
- Additional retirees may be added each year to this arrangement. To add retirees to your Guaranteed LIFA census information on the respective individuals must be provided to MetLife. MetLife will then perform an analysis of the liability and provide the cost involved with adding the individuals to the current arrangement.
- By making it possible to efficiently finance and manage future risks associated with post retirement life benefits, a Guaranteed LIFA approach increases benefit security.

WHAT ARE THE RESTRICTIONS WITH GUARANTEED LIFA?

Guaranteed LIFA contains some controls over usage and applicability. The restrictions with Guaranteed LIFA are as follows:

- The plan must be non-discriminatory.
- The group of retirees to be covered under a Guaranteed LIFA arrangement must have been covered under a group term life insurance plan while they were active employees.
- Key employees are generally not included under the Guaranteed LIFA arrangement.
- Once the Guaranteed LIFA is established, funds may not be recaptured or transferred.

Financial Flexibility

- *Guaranteed LIFA may be offered on a lump sum or an installment payment basis (where applicable)*

WHAT ARE THE PAYMENT OPTIONS WITH A GUARANTEED LIFA?

MetLife provides both **lump sum and installment payment options (where applicable)** for Guaranteed LIFA in order to meet the cashflow needs for plan sponsors. For employers that qualify, MetLife may offer financing terms of up to 10 years to accommodate the organization's cash flow needs.

¹ Plan sponsors should consult with and rely upon their own accounting advisors

WHO HANDLES ADMINISTRATION?

As part of the Guaranteed LIFA arrangement, City would transfer all current records on covered participants to MetLife. **MetLife takes over administrative and recordkeeping functions such as maintaining inforce amounts, beneficiary designations, toll free customer service and death claims adjudication for the retiree group term life insurance plans** included in the buyout. Our Recordkeeping Enrollment Services (RES) Center is a full service organization experienced in plan sponsor benefits administration and consulting. RES currently services over 1.7 million active and retired plan participants.

More specifically, MetLife provides the following level of service to support the Guaranteed LIFA:

Customer Service

- Provide direct customer service to enrollees via a toll-free number
- Answer questions regarding beneficiary, general and enrollee-specific life insurance questions
- Respond to written inquiries regarding life insurance
- Send life insurance forms to enrollees upon request
- Assist enrollees in forms completion
- Offer a Telecommunications Device for the Hearing Impaired (TDD)
- Survey callers regarding the customer service received

File Maintenance

- Input beneficiary information into database
- Store hard copy beneficiary designations, special designations, absolute assignments
- Track the date of each employee's most recent beneficiary designation

Beneficiary Processing

- Receive beneficiary, special beneficiary, and absolute assignment forms directly from the employee
- Review and process all forms as appropriate

Death Claims Preparation

- Accept notification of death directly from survivor
- Notify plan sponsor of death and verify coverage information
- Identify beneficiary(ies) and verify addresses
- Prepare and send death claim package to beneficiary(ies)
- Forward life insurance file to MetLife Group Claims Office

Survivor Assistance

Delivering The Promise (DTP) is a unique service, designed to provide beneficiaries with the support and assistance they need during an especially difficult time. It is a standard feature of all our group life plans, provided at no additional cost to your company, your employees or their beneficiaries. As part of this service, MetLife has carefully selected and trained DTP Specialists who are available to help beneficiaries deal with the details and questions that arise upon the death of a loved one. DTP Specialists can:

- Help beneficiaries identify the benefits for which they may be eligible
- Assist beneficiaries with filing claims
- Help to identify support resources and grief counseling
- Provide financial guidance in planning for current and future needs

HOW IS A GUARANTEED LIFA PRICED?

The components that are considered in the pricing of this product are interest rates, mortality, demographics, coverage amounts, and plan design.

The price for the Guaranteed LIFA is duration matched and is based on a specific investment mix that matches our analysis of the anticipated cash flows and duration of the liability underlying a specific retiree life plan. This asset and liability matching is an integral part of the guaranteed buyout structure. Pricing for this product is very sensitive to interest rates at a variety of durations as well as the yield curve characteristics in effect at the point of the quote.

The price is quoted on a daily basis and is adjusted at the time a customer decides to proceed in order to reflect changes in the current interest markets and in force. The price is the cost to transfer this liability to MetLife and includes all mortality costs, expenses and stop loss coverage.

Circular 230 Disclaimer: The information contained in this document (including attachments) concerning Federal tax issues is not intended to (and cannot) be used by anyone to avoid IRS penalties. It is intended to support the sale of MetLife insurance products. Customers should seek advice based on their particular circumstance from an independent tax advisor.

QUOTE SPECIFICATIONS AND ASSUMPTIONS – City of Racine RETIREE LIFE “BUYOUT”

The following summarizes the cost and assumptions for the Guaranteed LIFA for the City of Racine according to the most recent census provided:

Covered Group: 357 Current Retirees (based on census and plan design provided)

Total Lump Sum Deposit: \$ 413,584 deposit at issue.

We are also pleased to provide the following Installment Financing Option for the City of Racine:

Installment Schedule: \$ 117,301 in Year 1 and \$ 82,620 in Years 2-5

This group is quoted on a guaranteed issue basis for the amount of coverage specified. This amount includes the aggregate stop loss premium charge and the City of Racine will not need to provide additional funds, unless additional retirees are added to this arrangement. The product's guarantee is contingent upon all of the payments received by MetLife in accordance with the schedule above.

General Provisions

- In the event the Fund's balance is not sufficient to provide for the cost of insurance, MetLife agrees to pay City an amount sufficient to cover the annual term costs for the group specified. In the event any such payment is made to the City of Racine, it is expected that it will be used for the payment of annual term premiums. If these payments are not made, life insurance coverage will cease on the respective retirees. These supplemental payments are provided through a separate Aggregate Stop Loss contract between the City of Racine or a trustee and MetLife.
- Under Guaranteed LIFA, the policyholder may not recapture or transfer the funds.
- If the City of Racine wishes, MetLife will price and add additional retirees under the guaranteed arrangement in the future. An additional stop loss rider will be issued.

Assumptions

- We have assumed that the City of Racine is a tax exempt organization under federal tax law and that all of the contributions were exempt from tax throughout the 5-taxable year period ending with the taxable year in which the contributions are made -- and as a result not subject to tax code limits.
- We have assumed the data includes no key employees, and that all retirees were covered under a group term life plan while active employees,
- The retiree inforce aggregate life insured coverage amount is \$ 681,000 all of which can be funded through Guaranteed LIFA.
- Retiree amounts are established at the time of issue in accordance with the plan design quoted.
- Standard broker commissions of \$7,979 have been included.

The Guaranteed LIFA quote is repriced daily and will be updated to reflect current interest rates. The price is subject to final revision when a commitment is made to transfer the funds to reflect the most current interest environment. Our quote is for the retiree life liability and is based on the census of retirees and the retiree life coverage provided by the employer at the time of the quote. Prior to executing this contract, MetLife requires a final list of the specific individuals covered and the amounts involved.

Like most group life insurance policies, MetLife life insurance policies contain certain exclusions, limitations, reductions of benefits and terms under which the policy may be discontinued. For costs and complete details of the coverage, contact your MetLife representative. By making it possible to efficiently finance and manage future risks associated with post retirement life benefits, a Guaranteed LIFA approach increases benefit security.

Guaranteed Life Insurance Funding Account (GLIFA)
City of Racine

Demographics			
	Total	Fundable	Non Fundable
Number of Eligible Retirees	357	357	0
Total Inforce	\$681,000	\$681,000	\$0
Number of Key Employees			0
Inforce on Key Employees			\$0

Quote	
Premium	\$413,584

Plan Design	
Plan Description	Flat \$3000 or flat \$1000 per census
Reduction Formula	None
Quoted Plan Design Deviations	
Census Manipulation	

Plan and Underwriting Assumptions	
Valuation Date	10/3/2014
Effective Date	1/1/2015
Quote Valid Until End of Business	10/3/2014
Employee Contributions?	No
Standard Commissions	\$7,979

Additional Comments:
The price for Guaranteed LIFA can change daily. The final price will be based on current interest rates and the covered retiree life inforce in effect on the date that a client decides to proceed. Prior to proceeding with a Guaranteed LIFA contract, MetLife requires a final list of the specific individuals covered, genders, SSNs, coverage amounts, dates of birth, and dates of hire/retirement.

INTERMEDIARY AND PRODUCER COMPENSATION NOTICE

MetLife enters into arrangements concerning the sale, servicing and/or renewal of MetLife group insurance and certain other group-related products ("Products") with brokers, agents, consultants, third-party administrators, general agents, associations, and other parties that may participate in the sale, servicing and/or renewal of such Products (each an "Intermediary"). MetLife may pay your Intermediary compensation, which may include base compensation, supplemental compensation and/or a service fee. MetLife may pay compensation for the sale, servicing and/or renewal of Products, or remit compensation to an Intermediary on your behalf. Your Intermediary may also be owned by, controlled by or affiliated with another person or party, which may also be an Intermediary and who may also perform marketing and/or administration services in connection with your Products and be paid compensation by MetLife.

Base compensation, which may vary from case to case and may change if you renew your Products with MetLife, may be payable to your Intermediary as a percentage of premium or a fixed dollar amount. In addition, supplemental compensation may be payable to your Intermediary. Under MetLife's current supplemental compensation plan, the amount payable as supplemental compensation may range from 0% to 8% of premium. The supplemental compensation percentage may be based on: (1) the number of Products sold through your Intermediary during a prior one-year period; (2) the amount of premium or fees with respect to Products sold through your Intermediary during a prior one-year period; (3) the persistency percentage of Products inforce through your Intermediary during a prior one-year period; (4) premium growth during a prior one-year period; (5) a fixed percentage of the premium for Products as set by MetLife. The supplemental compensation percentage will be set by MetLife prior to the beginning of each calendar year and it may not be changed until the following calendar year. As such, the supplemental compensation percentage may vary from year to year, but will not exceed 8% under the current supplemental compensation plan.

The cost of supplemental compensation is not directly charged to the price of our Products except as an allocation of overhead expense, which is applied to all eligible group insurance products, whether or not supplemental compensation is paid in relation to a particular sale or renewal. As a result, your rates will not differ by whether or not your Intermediary receives supplemental compensation. If your Intermediary collects the premium from you in relation to your Products, your Intermediary may earn a return on such amounts. Additionally, MetLife may have a variety of other relationships with your Intermediary or its affiliates that involve the payment of compensation and benefits that may or may not be related to your relationship with MetLife (e.g., consulting or reinsurance arrangements).

More information about the eligibility criteria, limitations, payment calculations and other terms and conditions under MetLife's base compensation and supplemental compensation plans can be found on MetLife's Web site at www.metlife.com/brokercompensation. Questions regarding Intermediary compensation can be directed to ask4met@metlifeservice.com, or if you would like to speak to someone about Intermediary compensation, please call (800) ASK 4MET. In addition to the compensation paid to an Intermediary, MetLife may also pay compensation to your MetLife sales representative. Compensation paid to your MetLife sales representative is for participating in the sale, servicing, and/or renewal of Products, and the compensation paid may vary based on a number of factors including the type of Product(s) and volume of business sold. If you are the person or entity to be charged under an insurance policy or annuity contract, you may request additional information about the compensation your MetLife sales representative expects to receive as a result of the sale or concerning compensation for any alternative quotes presented, by contacting your MetLife sales representative or calling (866) 796-1800.