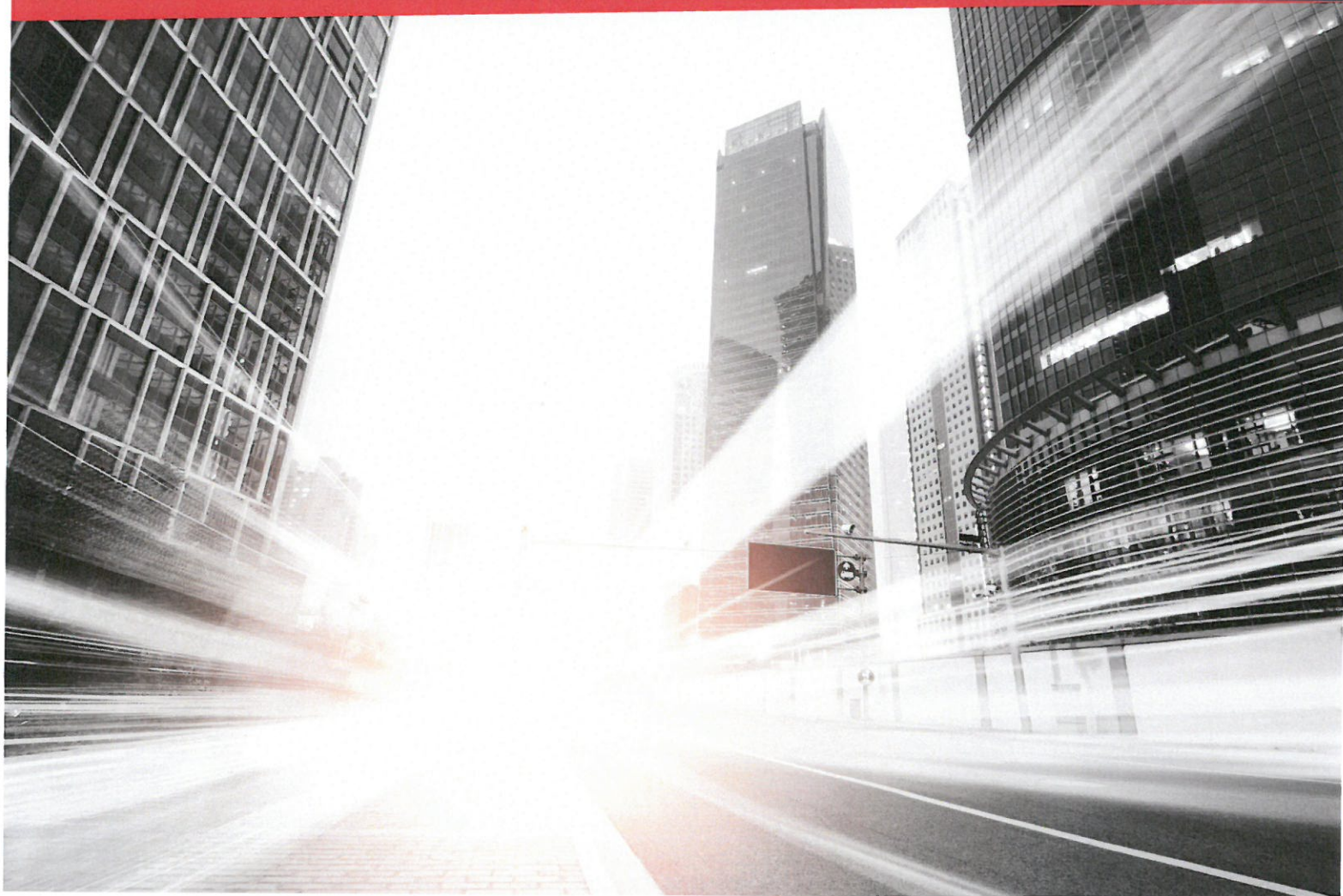


# Report and Recommendation Regarding Retiree Life Insurance



Prepared for:

**The City of Racine**

**December, 8<sup>th</sup> 2014**

Presented by:

**Rae Anne Beaudry** / Executive Vice President

Raeanne.beaudry@thehortongroup.com

Phone: 262-347-2606

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For the last two years, the City of Racine has desired to eliminate City liability for the promised/vested benefit for Retiree Life Insurance.

The current benefit of either \$1,000 or \$3,000 (depending upon year of retirement and collective bargaining agreements in place at the time of retirement) was tied to a flat benefit of \$10,000 for active employees purchased through The Hartford. The Hartford would not, nor would any carrier, under a standard life insurance purchase arrangement provide a benefit, in the amounts necessary for only retirees. Upon further consideration that makes sense as they unfortunately, create a liability that will necessitate a payout. There is little profit in a policy for only long term retirees.

The City of Racine has spent the last year researching and considering their options. At one point it was thought that they would (1) self-fund the benefit and just pay as retirees passed on. Unfortunately, that creates a bit of an administrative issue and the benefit to the family, small as it is, becomes taxable income when it is not provided through an insurance vehicle. The second option was to look to UHC, the City's medical plan administrator to see if they would administer the benefit and take it on. UHC indicated they would not.

Recently, Met Life came forward with the attached Retiree Benefit Solution Guaranteed Life Insurance Funding Account. This is a liability transfer solution that may help the City of Racine to achieve its objectives of continuing to provide a vested and promised benefit, but remove the liability from the City itself.

The City of Racine would take a list of retirees, on a date certain, (as no others can be added to the plan later) and transfer the risk of their benefit to Met Life. There will be no future cost increases.

A program like this is managed through a Reserve Account held by Met Life. A Guaranteed LIFA is a financial arrangement between the plan sponsor (The City) and Met Life. There is no individual promise made to a retiree. The arrangement is irrevocable. Once the funds are committed, the plan sponsor or trust may not recapture or transfer funds.

Provided certain requirements are met, this plan is a qualified plan and offers significant advantages to The City.

Met Life would provide The City of Racine with both a lump sum OR installment payment options. The price is quoted on a daily basis and is adjusted at the time The City decides to proceed in order to reflect changes in the current interest markets and the benefits in force and the number of retirees to be paid.

Currently, the arrangement is as follows: The City of Racine has 357 Current Retirees. If The City were to pay by one lump sum the amount would be approximately \$413,584. If The City of Racine would like to pay in installments, they would pay \$117,301 in Year 1 and an additional \$82,620 in years 2 through 5 (each). The installment program allows for approximately \$35,000 in interest payments to Met Life over the terms of the agreement, but maximum flexibility for The City of Racine to fund the options and pay the promised benefit. There will be no additional funds needed at any time. It is interesting to note that the City currently has total liability for "promises made" of \$681,000 for the 357 retirees.

The installment program available decreases the overall liability, reduces the OPEB and is less than the City would pay if they decided to self fund.

The Horton Group believes that the City of Racine could and should rely on the proposals and promises of a carrier such as Met Life. They have impeccable financials, and certainly have long term viability.

The City must fulfill three requirements to move forward:

- The City must decide on an effective date. Met Life will then provide a final proposal.
- The City must make the first premium payment in its entirety before the plan can be "bound."
- The City must draft, sign and send a Draft Commitment Letter to Met Life for Met Life Guaranteed LIFA. (NOTE: We have attached a draft for the City's Corporation Counsel to consider).

A contract will then be provided to The City of Racine.

The Horton Group recommends that The City of Racine accept this offer and proposal by Met Life. We will facilitate all items necessary to keep this moving and to reduce the City's OPEB and other liability for vested benefits. We believe this type of contract insures this to the best advantage of the City and the Retirees and their beneficiaries. Additionally, Met Life is a recognized and financially sound carrier.

If you have questions please feel free to contact the undersigned.

RESPECTFULLY SUBMITTED:



RAE ANNE BEAUDRY  
Executive Vice President/Consultant  
The Horton Group

Enclosures