

# City of Biggs

City Administrator agenda item request for the next  
( X ) Regular ( ) Adjourned Regular ( ) Special Meeting

Meeting Date: September 19, 2011 6:00PM

Date: September 15, 2011  
To: Honorable Mayor and Members of the City Council  
From: City Administrator  
Subject: Employee Health Insurance Update (Discussion)

Administrator will discuss additional information recently gained about the City's effort to contain health insurance costs.

## **Background:**

A. At the August 15 meeting, Council considered several health broker and plan options, and agreed to stay with PERS for at least the next year in order to enable the PERS Blue Shield Access+ HMO to remain available to employees. Council also agreed to offer to cap City monthly premium cost at 85% of the PERS Blue Cross Select PPO (Preferred Provider Network) plan for 2012. Council further agreed to establish a health reimbursement account (HRA) and offer a Section 125 Cafeteria Plan, and authorized the administrator limited flexibility in negotiating changes to the offer.

Administrator subsequently met with HRA and Sec 125 brokers and administrators to determine costs, features and processes. Administrator met with all employees in two groups – bargaining unit and non-bargaining – to explain the health insurance offer. Council Member Sheppard assisted in the meeting with the bargaining unit. Employees were provided the 2012 plan options, plan feature summaries, premium costs, cost vs savings analysis, and links for further information.

Administrator is now following up on employee questions. Employees are considering options and developing responses. A formal and consolidated response to the City is expected by September 30. Open enrollment is Oct 4-Nov 8.

B. HRA – MidAmerica Administrative & Retirement Solutions, Inc. is preparing HRA documents for the City to establish an irrevocable trust to fund the reimbursement program on an ongoing basis. The AUL Fixed Interest Account is currently bearing approximately 3%; all funds are rolled over annually and retained as city assets. The City has much latitude in the funding level of this account. There is a negotiated \$2000 one-time set-up fee for the HRA, and maintenance fees of \$6/participant/mo. Reimbursements will be handled by Visa-issued debit card-type transactions at the point of service, with the City specifying in advance exactly what services are covered and at what rate; the card service will cost \$1.50/employee/month, payable by the City from the HRA.

C. The Sec125 cafeteria plan will be set up thru American Fidelity at no cost to the city. This program will provide employees pre-tax payment of premiums and other health expenses. Employees will also have available additional optional benefits at employee cost, paid for pre-tax. There are no minimums for employee participation.

The Council can expect to see employee agreements and plan documents for consideration and approval by October 3.

Attachment: MidAmerica plan information (two 2-page documents)

**Recommendation:**

Consider, direct staff as desired.

**Fiscal Impact:**

N/A; depends on plans selected. All options are expected to present relatively small fees more than offset by significant savings on health insurance premiums.

# AUL Fixed Interest Account



We believe that using an AUL contract as a funding vehicle for your retirement plan is a sound choice. Through the contract, you can choose from a variety of investment options covering a wide range of asset classes and risk categories, including a fixed interest option that provides a guarantee of principal and a lifetime minimum interest rate guarantee.

The Fixed Interest Account is an interest-earning investment option, backed by AUL's general account assets. AUL guarantees that interest will be credited at the declared current rate, or the minimum rate guaranteed rate in the contract, whichever is higher.

### AUL general account specifics (as of December 31, 2009):

- Average life of investment: 6.9 years
- Average duration of investment: 5.2 years
- Percentage rated below BBB: 3%

For 2011, AUL will credit interest to all amounts in the Fixed Interest Account at a rate of 3.10% unless a higher rate is declared during the year.

### Administrative cost factor

In setting an interest rate for the Fixed Interest Account, AUL takes into account the expected earnings on investments over the time period the rate will be effective and the expected operational

expenses over that time period, including but not limited to, the cost of providing administrative and recordkeeping services to its Retirement Services clients, expenses related to the acquisition of new business, the cost of capital, general overhead costs and profit. Over the last three years, the cost of providing administrative and recordkeeping services to AUL clients has averaged 0.54 percent.

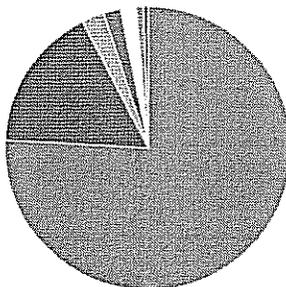
### Exposure to asset classes

AUL Fixed Interest Account investments primarily consist of a well-diversified mix of high quality bonds and commercial mortgages. Our exposure to below-investment grade bonds is approximately 4 percent, which is among the lowest in the life insurance industry. We have very little exposure in our general account to equities or alternative assets. Our owned real estate primarily consists of our corporate office in Indianapolis.

We have no exposure in the AUL general account to:

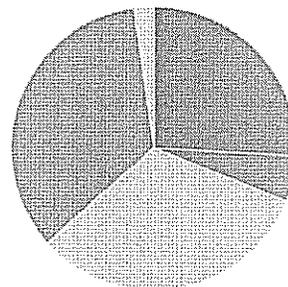
- Subprime loans
- Alt-A investments (liar loans)
- Collateralized debt obligations (CDOs)
- Fannie Mae/Freddie Mac stock
- Credit default swaps (CDSs)
- Collateralized loan obligations (CLOs)
- Structured investment vehicles (SIVs)
- Auction rate loans
- Lehman Brothers
- Washington Mutual
- AIG stock
- Wachovia stock

### Major classes of investments as of December 31, 2009



Investment classes	%
Bonds	81.6
Commercial mortgages	13.3
Policy loans	2.2
Cash/Short term	1.2
Stocks	0.8
Real estate	0.6
Other investments	0.3

### Credit quality ratings of bond as of December 31, 2009



Investment classes	%
AAA	21.2
AA	5.5
A	30.4
BBB	39.5
Below BBB	4.0

**Note:** Percentages are based on weighted book value of the bond portfolio.

Products and financial services provided by  
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In order to better understand the ratings, you should know that government-backed securities typically carry a AAA rating, and investment-grade securities carry a rating of BBB or higher. Those bonds carrying a rating of BB, or lower are considered to be below investment grade, and are commonly referred to as high-yield, or “junk” bonds.

#### **Delivering financial strength when customers need us most**

As a mutual organization, we answer to our customers, not outside shareholders or Wall Street. We take a conservative approach to financial management because we understand that protecting the money our customers entrust with us is the most important thing we do. This philosophy has served us well for 130 years, enabling us to avoid most of the problems that have been occurring in the markets.

Our investment diligence has proven successful, as we have not had a significant bond default in over five years or a delinquency in our commercial mortgage portfolio in over seven years. With our proven track record and current financial strength, AUL has no plans to change its money management philosophy.

#### **Important information**

Tax qualified retirement plans from American United Life Insurance Company® (AUL) are funded by an AUL group annuity contract. While a participant in an annuity contract may benefit from additional investment and annuity related benefits under the annuity contract, any tax deferral is provided by the plan and not the annuity contract.

A variable annuity is a long-term, tax-deferred investment designed for retirement that will fluctuate in value. It allows you to create a stream of income through a process called annuitization and also provides a variable return based on the performance of the underlying investments. A variable annuity does have limitations. Variable annuities have fees and charges that include mortality and expense, administrative fees, contract fees, and the expense of the underlying investment options.

Plus, if you're not yet 59½, you may also have to pay an additional 10 percent tax penalty on top of ordinary income taxes. You should also know that an annuity contains guarantees and protections that are subject to the issuing insurance company's ability to pay for them. But these guarantees don't apply to any variable accounts that are subject to investment risk, including possible loss of your principal.

**Registered Group Variable Annuities are sold by prospectus. Both the product prospectus and underlying fund prospectuses can be obtained from your investment professional or by writing to 433 N. Capitol Ave., Indianapolis, IN 46204, 1-877-285-3863. Before investing, carefully consider the fund's investment objectives, risks, charges and expenses. The product prospectus and underlying fund prospectus contain this and other important information. Read the prospectuses carefully before investing.**

Current and future account holdings are subject to risk and there is no assurance that the investment objective of any investment option will be achieved. Before investing, understand that variable annuities are subject to market risk, including possible loss of principal.

Group variable annuity contracts are issued by AUL and registered group variable annuity contracts are distributed by OneAmerica Securities, Inc., Member FINRA, SIPC, a Registered Investment Advisor, 433 N. Capitol Ave., Indianapolis, IN 46204, 1-877-285-3863, which is a wholly owned subsidiary of AUL.

Bond funds have the same interest rate, inflation and credit risks that are associated with the underlying bonds owned by the fund.

Investments that focus on real estate investing are sensitive to economic and business cycles, changing demographic patterns and government actions.



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## **A.M. Best Co. upgrades the financial strength rating of OneAmerica companies to A+ (Superior)**

*Issuer credit and debt ratings also receive upgrades*

### **Contact:**

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### **For Immediate Release:**

Indianapolis (May 10, 2011) – A.M. Best Co. has upgraded the financial strength rating of American United Life Insurance Company® (AUL) and its affiliates The State Life Insurance Company and Pioneer Mutual Life Insurance Company to A+ (Superior) from A (Excellent). A.M. Best also upgraded AUL's issuer credit rating to "aa-" from "a+", the issuer credit rating and senior debt rating of OneAmerica Financial Partners, Inc to "a-" from "bbb+" and the debt rating on the outstanding surplus notes of AUL to "a" from "a-". The outlook for all ratings is stable.

OneAmerica becomes only the second life insurance organization to receive a ratings upgrade to A+ (Superior) from A.M. Best since the beginning of the financial crisis in 2007.

"In everything we do, we put the best interests of our policyholders first," said Dayton H. Molendorp, chairman, president and CEO of OneAmerica. "As a mutual organization, our long-term focus enabled us to build strength and accelerate sales growth through the financial crisis."

In a statement, A.M. Best noted that "the ratings actions reflected OneAmerica's solid risk-adjusted capital position, strong consolidated top-line revenue growth and consistently favorable operating performance across its core business lines." A.M. Best went on to note that OneAmerica's investment portfolio has continued to perform significantly better than most of its peers and that "OneAmerica's mutual holding company structure facilitates a strategy focused on long-term financial strength."

"A.M. Best has recognized OneAmerica's ability to progress in an industry facing considerable headwinds," said Molendorp. "It is through consistent growth, strength and excellent performance that OneAmerica is establishing itself as an industry leader."

### **About AUL**

American United Life Insurance Company® (AUL) is the founding member of OneAmerica® and is focused on providing a strong portfolio of products for individuals, families and small businesses. AUL uses a national network of experienced professionals utilizing an extensive menu of financial products, including life insurance, annuities and employee benefit plan products. The company helps consumers prepare for tomorrow by helping to protect their financial futures.

**About OneAmerica**

OneAmerica Financial Partners, Inc., is headquartered in Indianapolis, IN. The companies of OneAmerica® can trace their solid foundations back more than 130 years in the insurance and financial services marketplace.

OneAmerica's nationwide network of companies offers a variety of products to serve the financial needs of their policyholders and other clients. These products include retirement plan products and services; individual life insurance, annuities, long-term care solutions and employee benefit plan products. The goal of OneAmerica is to blend the strengths of each company to achieve greater collective results.

The products of the OneAmerica companies are distributed through a network of employees, agents, brokers and other distribution sources that are committed to increasing value to our policyholders by helping them prepare to meet their financial goals.

Registered group variable annuities issued by AUL are distributed by OneAmerica Securities, Inc., Member FINRA, SIPC, a Registered Investment Advisor, 433 N. Capitol Ave., Indianapolis, IN 46204, 1-877-285-3863, which is a wholly owned subsidiary of AUL.

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