

Memorandum

TO: HONORABLE MAYOR
AND CITY COUNCIL

FROM: Jennifer Schembri

**SUBJECT: STANDARD INSURANCE
LONG TERM DISABILITY
RETURN OF PDA FUNDS
TO EMPLOYEES**

DATE: August 1, 2019

Approved

D. D. SyL

Date

8/2/19

INFORMATION

On October 1, 1976, the City entered into a Long-Term Disability (LTD) Insurance Group Policy Agreement with the Standard Insurance Company (Standard). LTD is a voluntary insurance benefit for employees and does not require any contributions from the City. This policy had a return of premium option whereby Standard agreed to refund 80% of the total premiums paid into the plan after ten years minus any claims paid. The City made the decision in 1978 to discontinue the return of premium option. A Premium Deposit Account (PDA) was created and remaining balance of premium payments from participating employees was deposited, along with interest and dividends declared under the policy in accordance with the provisions of the Agreement.

Because PDA funds consist of only employee contributions and interest, California Insurance Code requires that when possible, refunds should be returned to such employees or used towards their benefits. In this case, Standard is unable to identify the names of the employees who contributed since it was a group plan and the cost of claims and premiums were pooled together. Due to the length of time that has passed, the City is also unable to identify the names of employees who contributed. Therefore, the PDA funds must be distributed to active employees currently enrolled in an LTD Plan administered by the City.

Based on the foregoing, Human Resources recently coordinated the withdrawal of the balance of approximately \$531,000 from the PDA for distribution to employees participating in the voluntary LTD insurance benefit. Approximately 2,633 active employees who are enrolled in the 30-day or the 60-day LTD plan offered by the City at the time of the payout, will receive a one-time, lump sum payment that is proportional to the amount of their premiums paid in 2019 for

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their current Standard LTD policy. This taxable payment, which will include accrued interest, will be provided via employees' paychecks on August 30, 2019. An email notification will be sent to these employees on August 26, 2019.

/s/

JENNIFER SCHEMBRI

Director of Human Resources and

Director of Employee Relations

If you have any questions please contact Emily Hendon, Benefits Division Manager at 408-975-1448.