

State of California

M E M O R A N D U M

TO: PERSONNEL MANAGEMENT LIAISONS **DATE:** July 30, 2004
REFERENCE CODE: 2004-035

THIS MEMORANDUM SHOULD BE DISTRIBUTED TO:

Employee Benefit Officers
Personnel Officers
Personnel Transactions Supervisors
Personnel Transactions Staff

FROM: Department of Personnel Administration
Benefits Division

SUBJECT: Supplemental Life Insurance for Excluded employees - Demutualization
Funds Premium Holiday Information

CONTACT: Desi Rodrigues, Personnel Program Analyst
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FAX: (916) 322-3769
Email: DesiRodrigues@dpa.ca.gov

This memorandum is to provide you important information regarding the "Demutualization Funds Premium Holiday" that will be implemented **effective September 1, 2004 (August pay period)** for eligible employees currently enrolled in the Supplemental Life Insurance Program. This is similar to the Premium Holiday for the Long Term Disability Program initiated on July 1, 2004.

What are Demutualization Funds?

In recent years, a growing number of large insurance companies have converted from mutual insurance companies (owned by policyholders) to publicly held and traded stock companies through a process known as demutualization. Metropolitan Life Insurance Company's (MetLife) Board of Directors adopted a demutualization plan. The demutualization plan was approved, and subsequently approved by the New York State Superintendent of Insurance.

As a result of the approved demutualization, eligible group insurance policyholders became eligible to receive compensation in exchange for their extinguished mutual "ownership" interest in MetLife. When an insurer demutualizes, its policyholders, including employers and employees, receive a pro rata distribution of the new insurance company's stock and/or cash.

DPA received cash from MetLife for premiums paid by DPA and enrolled employees. The demutualization proceeds have been held in a special demutualization fund account by the State Treasurer's Office until the funds could be distributed accordingly. After researching several options available under IRS rules, DPA elected to refund premiums through the Premium Holiday process.

What is a Premium Holiday?

A Premium Holiday is a period of time that the employee does not have to make a payment for a covered benefit. In this case per IRS rules, a Premium Holiday will be given to all employees currently enrolled in the Supplemental Life Insurance Program, until the funds provided by the demutualization are exhausted. It is estimated that premiums will not be deducted for the months of September (August pay period), October (September pay period), November (October pay period), and December (November pay period).

DPA has been working closely with the State Controller's Office and other State agencies to provide this Premium Holiday. The employee-paid premium deduction will resume **effective January 1, 2005 (December pay period)**.

What happens to newly appointed employees?

Employees who are newly appointed to an excluded position during the Premium Holiday, will be automatically enrolled into the Basic Life Program. The Supplemental Life Insurance Program information will continue to be sent to newly appointed employees offering them the option to purchase additional coverage (Supplemental Life). Supplemental Life Enrollment forms will be reviewed by MetLife and if approved, coverage will begin with the soonest effective date based on the approval date. The Supplemental Life Insurance deduction will not show on the employee's pay warrant until January 1, 2005 (December pay period) as a result of the premium holiday.

Employees who are already eligible and did not elect Supplemental Life Insurance at the time they first became eligible will not be able to enroll in the Supplemental Life Program to take advantage of the Premium Holiday. MetLife will accept Supplemental Life Enrollment forms, review them, and if approved, the employee will be billed for the premiums during the Premium Holiday months. The Supplemental Life Insurance payroll deduction will begin January 1, 2005 (December pay period).

Will DPA communicate information about the Premium Holiday to eligible employees?

Yes. DPA and MetLife will be sending notices to the home addresses of eligible/enrolled employees on August 2, 2004. A copy of the letter to employees is attached for your review. We also encourage departments to communicate this information to eligible/enrolled employees.

If you have any questions regarding this information, please contact Desi Rodrigues, Benefits Program Analyst, at (916) 324-9400, or CALNET 454-9400.

Sincerely,

Debbie Endsley, Chief
Benefits Division

Attachment

DEPARTMENT OF PERSONNEL ADMINISTRATION**BENEFITS DIVISION**

1515 "S" STREET, NORTH BUILDING, SUITE 400

SACRAMENTO, CA 95814-7243

August 2, 2004



Dear Participant:

This letter is to provide you important information regarding your Supplemental Life Insurance Program. **Effective September 1, 2004 (August pay period)**, a Demutualization Funds "Premium Holiday" will be implemented for eligible employees currently enrolled in the Supplemental Life Insurance Program.

What are Demutualization Funds?

In recent years, a growing number of large insurance companies have converted from mutual insurance companies (owned by policyholders) to publicly held and traded stock companies through a process known as demutualization. Metropolitan Life Insurance Company's (MetLife) Board of Directors adopted a demutualization plan. The demutualization plan was approved by a vote of eligible policyholders, and was subsequently approved by the New York State Superintendent of Insurance.

As a result of this action, the Department of Personnel Administration (DPA) and certain employees/annuitants are entitled to cash/common stock. The actual entitlement is determined by MetLife based upon the premiums paid by DPA and enrolled employees/annuitants participating in the Supplemental Life Program under DPA's group "umbrella" policy with MetLife. DPA received cash/stock from MetLife for premiums paid by DPA and enrolled employees/annuitants. The demutualization proceeds have been held in a special demutualization fund account by the State Treasurer's Office until the funds could be distributed accordingly. After researching several options available under IRS rules, DPA elected to refund premiums to you through the Premium Holiday process.

What is a Premium Holiday?

A Premium Holiday means premiums for the Supplemental Life Program will not be deducted from employees' pay warrants during the months of September (August pay period), October (September pay period), November (October pay period), and December (November pay period). Rather, DPA will pay for employees' Supplemental Life Insurance premiums from the demutualization fund account. Based on current information, we anticipate **paying your premiums in-full** until December 2004. The employee-paid premium deduction will resume effective January 1, 2005 (December pay period).

Please note: Your pay warrant will not show the Supplemental Life information or deduction, but you will continue to have coverage.

If you have any questions regarding this information, please contact Desi Rodrigues, Benefits Program Analyst, at (916) 324-9400, or CALNET 454-9400.

Sincerely,

Debbie Endsley, Chief
Benefits Division