



Memorandum

TO: HONORABLE MAYOR AND
CITY COUNCIL

FROM: Mark Danaj

SUBJECT: **RECOMMENDATION FOR
CITY-PAID BENEFITS BROKER**

DATE: 09-07-05

APPROVED:

Ray Woner

DATE:

9/13/05

RECOMMENDATION

City Council approval for the City Manager to negotiate and execute an agreement with SST Benefits Consulting for employee benefits insurance broker services for the period from October 1, 2005 through September 30, 2009.

BACKGROUND

The City offers an array of benefit options for over 15,000 employees and retirees, and their dependents. These benefits can be categorized as follows:

- Benefits for which the City pays some or most of the costs (City-Paid Benefits)
- Benefits for which participants pay the entire cost (Employee-Paid Benefits)
- Benefits for which the City does not employ a broker

See Matrix of Benefits on the following page.

Currently, the City employs one broker for the benefit plans to which the City contributes and a separate broker for the benefit plans paid entirely by plan participants. This memo pertains to the City-paid benefits broker.

The City-paid benefits broker provides services to the City that assure participants will have ongoing access to high quality, nationwide, effective benefit care and coverage. The broker augments the City staff by performing services that include the following:

- ◆ Assist in managing the insurance carrier policies.
- ◆ Conduct selection processes for benefit providers in connection with contract renewals and new benefit programs.
- ◆ Analyze experience trends and existing coverage, and use this information to develop appropriate cost-saving and benefit enhancement recommendations.
- ◆ Provide customer service and assist staff and employees in problem resolution with providers, billing, advocacy for services, disputes, interpretation of services, changes, etc.

- ◆ Provide annual industry reports to assist in benchmarking the City’s plans and monitoring the City’s carriers’ performance.
- ◆ Assist with the staffing of the Benefits Review Forum (a benefits advisory committee consisting of participant representatives) and its subcommittees.
- ◆ Provide State and Federal legislation updates that may impact benefits programs.
- ◆ Assist with benefits communications specific to the needs of the City’s employees and retirees.
- ◆ Provide training in the area of benefits and compliance with new State and Federal laws, as necessary.

This scope of services would require a broad range of quantitative and qualitative selection criteria.

MATRIX OF BENEFITS PROVIDED BY CITY OF SAN JOSE

	ACTIVE EMPLOYEES	RETIREES
PLANS WITH CITY CONTRIBUTIONS	<u>Plan/Participants</u>	
	Health 6316	Health 3028
	Dental 5572	Dental 3334
	Life 6060	Life 2388
PLANS PAID BY PARTICIPANTS ONLY	Long-Term Care 114	Long-Term Care 30
	Long-Term Disability 3235	Accidental Death 1310
	Accidental Death 2991	Vision 826
	Vision 2695	
PLANS MANAGED BY THE CITY (NO BROKER)	Employee Assistance Program 6274	
	Medical Reimbursement Account 380	
	Dependent Care Assistance Plan 164	

A request for proposals (RFP) for broker services was conducted for the purpose of due diligence. A selection committee was formed through the Benefits Review Forum, the City’s benefits advisory body. The committee included representatives of the City bargaining units, retirees and other key stakeholders, and was staffed by the Employee Services Department.

ANALYSIS

Selection Criteria

In preparation for the City-paid Benefits RFP, the committee identified and agreed upon the following selection criteria used for the initial screening phase as well as the finalist interview phase:

Primary Selection Criteria

- ◆ Customer Service—Evidence of high customer service standards and performance for past and current clients, and, prospectively, for the City's account.
- ◆ Compensation—Price within an acceptable range of the current costs and commensurate with services offered.
- ◆ Relevant Experience—Comparable clients in the public sector in terms of plan participation, complexity of benefit programs and labor-management dynamics.
- ◆ Qualifications—Technical knowledge and expertise to service the City's account.
- ◆ Attendance at the mandatory Pre-Proposal Conference.
- ◆ Submission of signed Mandatory Requirement and Certification of Compliance Form.

Secondary Selection Criteria

- ◆ Administration—Administrative systems and capacities to service the City's account.
- ◆ References—Past and current references that indicate the likelihood of success in the City's account.
- ◆ Ancillary Services—Services beyond those described in the City's scope of services that would benefit the City and the plan participants.
- ◆ Transition Plan—Effective and realistic plan for a smooth transition from the incumbent broker.

Though price was one of the key criteria for this RFP, other qualitative and quantitative criteria were important in the final decision-making process.

Providers' Proposals

The RFP was distributed on January 25, 2005, through direct-mail solicitation letters and through BidLine, the City's on-line site for posting RFPs. A mandatory pre-proposal conference was held on February 10. The submission deadline was March 1, 2005.

The City received 11 proposals from the following companies:

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|---------------------------|-----------------------|
| ◆ Aon Consulting | ◆ Hilb, Rogal & Hobbs |
| ◆ ABD Insurance Services | ◆ Mellon |
| ◆ Calco Insurance Brokers | ◆ Mercer |

- ◆ Dickerson Employee Benefits
- ◆ Driver Alliant
- ◆ Paragon Consulting
- ◆ SST Benefits Consulting
- ◆ Willis

On March 22, the selection committee reviewed and assessed all of the proposals, and developed lists of strengths and weaknesses for each proposal according to the pre-determined selection criteria. Proposals were screened and ranked according to the primary criteria, which included compensation, customer service, qualifications and relevant experience. The top five firms were invited for finalist interviews on April 26 and 28. These finalist firms included:

- ◆ Aon
- ◆ Driver Alliant
- ◆ Mercer
- ◆ Paragon
- ◆ SST Benefits Consulting

Interviews

The interview process continued to use the same pre-determined selection criteria. In addition to the primary criteria, the secondary criteria of administration, ancillary services, transition plan and references were incorporated into this phase of the evaluation process.

The interview format was to recognize each proposer's strengths, identify the weaknesses from the perspective of the selection committee, and allow each proposer to describe how the weaknesses would be addressed.

Below are highlights of the interview outcomes. The comments are inclusive of each proposer's initial proposal and the improvements identified through the interviews.

Aon	<ul style="list-style-type: none">◆ The four-year compensation proposal of \$252,000 was significantly lower than all other competitors. The next lowest proposal was \$600,000.◆ The committee was concerned that the compensation proposal reflected an under-estimation of the workload associated with the City's account.◆ The proposed scope of services, including their ancillary services, was complete and full-featured.◆ The selection committee was extremely concerned about the perception and reality of associating with a company with recent multi-million dollar settlements in multiple states related to their insurance business practices.
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Driver Alliant	<ul style="list-style-type: none"> ◆ The four-year compensation proposal of \$720,000 was competitive. ◆ The proposed scope of services, including their ancillary services, was complete and full-featured. ◆ This company has substantial public sector experience that would be relevant to working with the City of San Jose. ◆ The representatives were well received by the committee members in terms of their interpersonal and communication skills.
Mercer	<ul style="list-style-type: none"> ◆ The four-year compensation proposal was the most expensive at \$860,000. ◆ The proposed scope of services, including their ancillary services, was complete and full-featured. ◆ The selection committee was extremely concerned about the perception and reality of associating with a company with recent multi-million dollar settlements in multiple states related to insurance business practices.
Paragon	<ul style="list-style-type: none"> ◆ The four-year compensation proposal of \$600,000 was competitive. ◆ The committee had concerns about the volume of Paragon's experience with comparable clients. Their other public sector clients did not appear to have a similar level of size, scope and complexity as the City of San Jose.
SST Benefits Consulting	<ul style="list-style-type: none"> ◆ SST Benefits is the incumbent broker. No transition plan is needed for SST Benefits Consulting as the incumbent. ◆ The four-year compensation proposal of \$728,000 was competitive. ◆ SST's prior work with the City has been well-received overall, and the current stakeholders are familiar and relatively comfortable with SST Benefits. ◆ Though SST's initial proposed scope of services was more limited than those of the large-company competitors, SST has committed to expanding their scope of services through performance guarantees. ◆ SST was the only local and small business among the finalists.

SUMMARY

The selection committee recommends that the City retain SST Benefits Consulting as its City-paid benefits broker for the following reasons:

- ◆ SST Benefits Consulting has a ten-year track record of providing value-added services to the City and has consistently demonstrated the flexibility and competence to address a variety of issues on behalf of the City and plan participants.
- ◆ SST represents a known quantity and a high level of comfort among staff and employee/retiree customers.
- ◆ SST was the only local and small business among the finalists.
- ◆ SST's compensation proposal of \$728,000 was reasonable and competitive. The rate of compensation is lower than the previous rate, saving the City \$140,000 per year.
- ◆ Since some of the elements of the new scope of services will be new for SST, the City will enter into a two-year agreement with two one-year renewable options to ensure an adequate review of performance.

Employee Services thanks the following individuals for their invaluable assistance and participation in the RFP process:

- ◆ Vilcia Rodriguez, Environmental Services
- ◆ Sue Bradford-Moore, Retiree
- ◆ Linda Charfauros, Public Works
- ◆ David DeLong, Employee Services
- ◆ Chuck Gebhardt, Department of Transportation, Union Representative
- ◆ Kirk Pennington, Department of Transportation, Union Representative
- ◆ Deborah Powell, Office of the City Manager, Union Representative
- ◆ Jeff Rickets, Police Department, Union Representative

OUTCOME

Council approval of this recommendation will enable SST Benefits Consulting to represent the interests of the City in managing the City-paid employee benefit plans.

PUBLIC OUTREACH

Not applicable.

COORDINATION

This RFP process was coordinated with the Benefits Review Forum, the City Manager's Budget Office and the Office of the City Attorney.

COST IMPLICATION

The annual compensation of about \$182,000 over the next four years is a reduction from the 2004-05 compensation of about \$274,000. This is a savings of \$92,000 for each of the next four years. The compensation will be incorporated into the premiums paid for health and life insurance. This method of compensation is standard practice in the insurance industry, and does not require an appropriation.

The rate of \$182,000 per year represents less than 0.3% of the City's premium costs.

CEQA

Not a project.


MARK DANAJ
Director of Employee Services