



# Memorandum

TO: HONORABLE MAYOR AND  
CITY COUNCIL

FROM: Mark Danaj

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

DATE: 09-07-05

APPROVED:

*Ray Winer*

DATE:

*9/13/05*

## RECOMMENDATION

City Council approval for the City Manager to negotiate and execute an agreement with Derendinger Insurance Agency 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 paid entirely by plan participants and a separate broker for the benefit plans to which the City contributes. This memo pertains to the employee-paid benefits broker.

The employee-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
	<u>Plan/Participants</u>	<u>Plan/Participants</u>
PLANS WITH CITY CONTRIBUTIONS	Health 6316 Dental 5572 Life 6060	Health 3028 Dental 3334 Life 2388
PLANS PAID BY PARTICIPANTS ONLY	Long-Term Care 114 Long-Term Disability 3235 Accidental Death 2991 Vision 2695	Long-Term Care 30 Accidental Death 1310 Vision 826
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 employee-paid benefits broker 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 9 proposals from the following companies:

- |                               |                       |
|-------------------------------|-----------------------|
| ◆ Aon Consulting              | ◆ Hilb, Rogal & Hobbs |
| ◆ Calco Insurance Brokers     | ◆ Mellon              |
| ◆ Dickerson Employee Benefits | ◆ Marsh & McLennan    |

- ◆ Derendinger Insurance Agency
- ◆ Paragon Consulting
- ◆ Willis

On March 22, the selection committee reviewed and assessed all of the proposals on March 22, 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 four firms were invited for finalist interviews on April 26 and 28. These finalist firms included:

- ◆ Aon
- ◆ Derendinger Insurance Agency
- ◆ Hilb, Rogal & Hobbs
- ◆ Mellon

#### 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"><li>◆ The four-year compensation proposal of \$228,000 was lower than most of the competitors.</li><li>◆ The committee was concerned that the compensation proposal reflected an under-estimation of the workload associated with the City's account.</li><li>◆ The proposed scope of services, including their ancillary services, was complete and full-featured.</li><li>◆ 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.</li></ul>
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Derendinger Insurance Agency	<ul style="list-style-type: none"><li>◆ Derendinger is the incumbent broker with over 30 years in servicing the City. No transition plan is needed for the incumbent.</li><li>◆ Though the four-year compensation proposal of \$720,000 was higher among the finalists, it was competitive among all proposals that were received.</li><li>◆ Derendinger's prior work with the City has been well-received overall, and the current stakeholders are familiar and relatively comfortable with Derendinger.</li><li>◆ Though Derendinger's initial proposed scope of services was more limited than those of the large-company competitors, Derendinger has committed to expanding their scope of services through performance guarantees.</li><li>◆ Derendinger was the only local and small business among the finalists.</li></ul>
Hilb, Rogal & Hobbs	<ul style="list-style-type: none"><li>◆ The four-year compensation proposal of \$220,000 was the lowest cost proposal.</li><li>◆ HRH's references were positive in their responses.</li><li>◆ The selection committee was concerned that HRH did not appear to have experience with other client agencies that are similar to San Jose in size and dynamics.</li></ul>
Mellon	<ul style="list-style-type: none"><li>◆ Though the four-year compensation proposal of \$668,069 was higher among the finalists, it was competitive among all proposals that were received.</li><li>◆ Mellon appears to have considerable experience with other public sector clients that are similar to San Jose in size and dynamics.</li><li>◆ Mellon's references were consistently positive in their responses.</li><li>◆ Though Mellon offered the same scope of services as the incumbent, theirs is a different service delivery model, and their transition would have been disruptive to key stakeholders during a particularly heavy workplan year.</li></ul>

## **SUMMARY**

The selection committee recommends that the City retain Derendinger Insurance Agency as its employee-paid benefits broker for the following reasons:

- ◆ Derendinger has a track record of 30+ years of providing value-added services to the City and has consistently demonstrated the flexibility to address a variety of issues on behalf of the City and plan participants.
- ◆ Derendinger represents a known quantity and a high level of comfort among staff and employee/retiree customers.
- ◆ Derendinger was the only local and small business among the finalists.
- ◆ Derendinger's compensation proposal of \$720,000 was reasonable and competitive. The rate of compensation is lower than the previous rate, saving employees about \$30,000 per year.
- ◆ Since some of the elements of the new scope of services will be new for Derendinger, 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 and staff to the selection committee
- ◆ Sue Bradford-Moore, Retiree Representative
- ◆ Linda Charfauros, Public Works and subject-matter expert
- ◆ David Delong, Employee Services and subject matter expert
- ◆ Chuck Gebhardt, Department of Transportation, IBEW Representative
- ◆ Kirk Pennington, Department of Transportation, Management Employee Representative
- ◆ Deborah Powell, Office of the City Manager, CEO Representative
- ◆ Jeff Rickets, Police Department, POA Representative

## **OUTCOME**

Council approval of this recommendation will enable Derendinger Insurance Agency to represent the interests of the City in managing the employee-paid 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 \$180,000 over the next four years is a reduction from the 2004-05 compensation of about \$220,000. This is a savings of \$40,000 for each of the next four years. The compensation will be incorporated into the premiums paid for long-term disability, long-term care, accident and vision insurance. This method of compensation is standard practice in the insurance industry, and does not require an appropriation.

**CEQA**

Not a project.

  
MARK DANAJ  
Director of Employee Services