



# Memorandum

**TO:** HONORABLE MAYOR  
AND CITY COUNCIL

**FROM:** Mark Danaj  
Jennifer A. Maguire

**SUBJECT:** SEE BELOW

**DATE:** October 13, 2009

Approved

Date

10/21/09

**COUNCIL DISTRICT:** N/A  
**SNI AREA:** N/A

**SUBJECT: APPROVAL OF TWO AGREEMENTS FOR CONSULTING SERVICES FOR BENEFIT PLANS AND RELATED SERVICES; APPROVAL OF ESTABLISHMENT OF ADMINISTRATIVE FEES; AND ADOPTION OF AN APPROPRIATION ORDINANCE AND FUNDING SOURCES RESOLUTION AMENDMENTS IN THE BENEFIT FUND FOR 2009-2010**

## RECOMMENDATION

- (a) Approve an agreement with Buck Consultants, LLC for consulting services for City-Paid Benefit Plans, consulting services for the Council Appointee money purchase retirement plan, and Actuarial Services for the City's self-funded dental PPO plan at a cost to the City of not to exceed \$95,000, for the period of January 1, 2010 through June 30, 2010, with options to extend the terms of the agreement through December 31, 2013 at annual costs of not to exceed \$190,000, subject to the appropriation of funds by Council.
- (b) Approve an agreement with Keenan & Associates for consulting services for Participant-Paid Voluntary Benefit Plans at a cost to the City of not to exceed \$25,000, for the period of January 1, 2010 through June 30, 2010, with options to extend the terms of the agreement through December 31, 2013, at an annual cost to the City of not to exceed \$50,000, subject to the appropriation of funds by Council.
- (c) Approve establishment of administrative fees to be paid by participants in the Participant-Paid Voluntary Benefit Plans, beginning as soon as administratively practicable, to recover the consulting costs associated with these programs and to replace current broker commissions, and authorize the Director of Human Resources to re-evaluate and adjust the fees annually as necessary to ensure that all such costs are covered by the fees.
- (d) Adopt a resolution authorizing the Director of Human Resources to approve the options to the agreements with Buck Consultants, LLC and Keenan & Associates, to extend the terms and increase the compensation payable, subject to the appropriation of funds by Council.

- (e) Adopt the following Appropriation Ordinance and Funding Sources Resolution amendments in the Benefit Fund (Fund 160) for 2009-2010;
- (1) Increase Transfers to the Benefit Fund by \$27,750.
  - (2) Decrease the appropriation to the Human Resources Department for Health Plans by \$92,250.
  - (3) Establish an appropriation to the Human Resources Department for Benefits Consultant Fee in the amount of \$120,000.

## **OUTCOME**

Approval of the recommendations will allow Employee Benefits staff in Human Resources to have access to the expertise and support necessary for all types of benefits, plan designs, and cost controls required to provide high quality and cost effective benefits to City employees, retirees and their dependents and beneficiaries.

## **EXECUTIVE SUMMARY**

Staff initiated a request for proposal (RFP) process for the City's consultant services for employee benefit plans, including City-paid plans, such as health care and welfare plans, voluntary participant-paid benefits programs, consultant services for the Council Appointee money purchase retirement plan, and actuarial services for the City's self-funded dental Preferred Provider Organization (PPO) plan. The RFP process involved convening a committee of key stakeholders to identify issues and objectives and set selection criteria.

As a result of the RFP process, staff is recommending that Council approve an agreement with Buck Consultants, LLC for consulting services for City-paid benefit plans, consulting services for the Council Appointee money purchase retirement plan, and actuarial services. Staff is also recommending that Council approve an agreement with Keenan & Associates for consulting services for participant-paid voluntary benefit plans. The recommendation also includes authority for the Director of Human Resources to exercise options to extend the terms of these agreements through December 31, 2013, subject to the appropriation of funds by the Council, and approval of establishment of administrative fees to provide cost recovery for the consultant services related to the voluntary participant-paid benefits programs.

This RFP was successful in reducing estimated consulting costs over the four year contract period for benefit plans and actuarial services by more than \$1.7 million, among employees, retirees, and the City with no reduction in service levels. The new structure for obtaining these services will also result in lower overall costs to participants in the voluntary benefits programs, even with the new administrative fees, because the new administrative fees are lower than commission rates paid to the City's current benefits consultant for voluntary benefits programs.

## **BACKGROUND**

The City currently contracts with three different consultants for services for City-paid benefit plans, participant-paid benefit plans and actuarial review services.

City-paid benefit plans are insurance plans, such as health, dental and life insurance, for which the City pays most or all of the premium cost. The current consultant for these plans is SST Benefits Consulting & Insurance Services, Inc. (SST).

Participant-paid benefit plans are insurance plans, such as long-term disability and long-term care insurance, for which participating City employees and retirees pay their own full premium costs. The current consultant for these plans is A. Francois Derendinger Insurance Agency, Inc. (Derendinger).

The City contracts with an actuarial firm to review historical claims activity and evaluate the City's dental fund rate-setting methodology in context of group experience and industry trends. The review of the funding rate is based on anticipated costs and required reserves that are necessary to keep the fund viable for the following fiscal year. The City's current consultant for actuarial services is Buck Consultants, LLC (Buck Consultants).

The money purchase retirement plan was established by Council in December 1999 under Internal Revenue Code section 401(a) as a form of deferred compensation for Council appointees. The Council Appointee money purchase retirement plan, currently administered by ICMA, allows Council to offer City-paid deferred compensation to appointees without limiting the appointees' ability to make their own voluntary contributions to the City's 457 Deferred Compensation Plan. Combined employee-paid and employer-paid contributions to 457 Plans may not exceed a certain dollar amount each year, so Council created an alternative fund for City-paid contributions so that appointees would be encouraged to voluntarily defer additional compensation to the 457 accounts to the full extent allowable under law. The Council resolution that created the 401(a) plan required the City's Employee Benefits division to over-see the plan. As plan fiduciaries, Employee Benefits staff recommend that the City hire a consultant to ensure compliance with Federal and IRS regulations for 401(a) plans; manage the City's liability exposure and fiduciary responsibility; and provide expert and cost-effective plan-oversight, including annual review of the plan's fund manager selection process and insure the quality of fund options within the portfolio. The City currently does not contract for consulting services related to the money purchase retirement plan.

The City last conducted a request for proposal process for the benefits and actuarial consulting services in fiscal year 2005-2006. The three current service contracts are scheduled to expire in 2009. Rather than issuing separate RFPs for each of these services, staff issued one RFP, to determine if the City could obtain cost savings by consolidating some or all of the benefit consultant contracts. Most benefits consultants are able to provide expertise in all types of employee benefit programs, including employer-paid health and welfare plans, voluntary participant-paid benefit programs and actuarial services.

The RFP was also designed around changing the current broker/consultant model. Currently, the City does not pay any consulting fees to the benefits consultants directly. Instead, the City's benefit program premiums include broker commissions, which are paid to the City's benefits consultants directly by the insurance carriers. Because the commissions are typically a percentage of the premium cost, as insurance premiums increase, the broker commissions also increase.

This arrangement could potentially create conflicts of interest for the benefits consultants because current consultants receive a personal financial benefit from the insurance agreements they negotiate on behalf of the City. Removing broker commissions from the insurance carriers' premium rates will result in the City's ability to directly contract for City specified services without potential conflicts of interest and will result in opportunities for the City to cap annual costs. It will also provide greater transparency for the actual costs of delivering benefit programs to City employees and retirees. By replacing broker commissions with flat administrative fees for the City's voluntary participant-paid benefit plans, participants will be able to see exactly how much they are paying for premiums and administrative costs.

The RFP for Benefits Consultant for Health and Welfare Services was issued in May 2009. The same RFP also sought proposals for consultant services for the Deferred Compensation Plan, but that consultant will be selected and approved separately by the Deferred Compensation Advisory Committee, pursuant to San Jose Municipal Code sections 3.48.060(C).

The RFP requested consultants to submit proposals on any or all of the existing contracts currently in place and to outline any discounts available if multiple services were provided. The RFP also specified that the City preferred to contract directly with the benefit consultant(s) that use a fee-for-service pay structure, rather than consultants whose fees are paid through broker commissions from the insurance carriers.

## **ANALYSIS**

### **Review Committee**

The review committee for the Benefits Consultant RFP consisted of representatives from Human Resources, bargaining units, City retirees, and Retirement Services.

### **Targeted Outreach**

The City conducted a targeted outreach to benefits consultants by posting the RFP document on the City's BidSync website in order to solicit proposals from all interested firms.

The RFP requested that responders submit separate proposals to the City for each service they were interested in contracting for. The City received proposals from the consultants shown in the tables below.

**Proposals for City-Paid Plans**

<b>Name</b>	<b>Location</b>	<b>Cost for 4-Year Contract</b>
SST Benefits Consulting	El Dorado Hills, CA	\$900,000
Buck Consultants	San Francisco, CA	\$740,000
The Segal Company	Glendale, CA	\$410,000
Keenan & Associates	San Jose, CA	\$320,000
Hay Group, Inc.	Philadelphia, PA	\$779,000
Gabriel, Roeder, Smith & Company	Irving, TX	\$510,000
Alliant Insurance Services, Inc.	San Francisco, CA	\$408,000

**Proposals for Participant-Paid Plans**

<b>Name</b>	<b>Location</b>	<b>Cost for 4-Year Contract</b>
Derendinger Insurance Agency	San Jose, CA	\$1,396,427
Buck Consultants	San Francisco, CA	\$360,000
The Segal Company	Glendale, CA	\$104,000
Keenan & Associates	San Jose, CA	\$200,000
Alliant Insurance Services, Inc.	San Francisco, CA	\$256,000

**Proposals for Actuarial Services**

<b>Name</b>	<b>Location</b>	<b>Cost for 4-Year Contract</b>
SST Benefits Consulting	El Dorado Hills, CA	\$26,000
Buck Consultants	San Francisco, CA	\$29,286
The Segal Company	Glendale, CA	\$20,000
Keenan & Associates	San Jose, CA	\$80,000
Alliant Insurance Services, Inc.	San Francisco, CA	\$36,000

**Proposals for Money Purchase Retirement Plan**

<b>Name</b>	<b>Location</b>	<b>Cost for 4-Year Contract</b>
SST Benefits Consulting	El Dorado Hills, CA	\$240,000*
Buck Consultants	San Francisco, CA	\$20,000
The Segal Company	Glendale, CA	\$140,000

\* SST's proposal for consulting services for the money purchase retirement plan was contingent on also winning the contract for the 457 Deferred Compensation Plan, and the fees shown include their cost for both services.

Evaluation Criteria

The RFP was structured to mirror the following selection criteria developed by the review committee. It was the intent of the selection committee to choose the best consultant for each service based on these selection criteria and to determine any gains in service and/or cost by consolidating contracts.

<b>Selection Criteria</b>	<b>Weight</b>
Quality	60%
Cost	20%
Customer Satisfaction & Firm Reputation	10%
Local Business Enterprise	5%
Small Business Enterprise	5%

### Initial Evaluation and Elimination

The RFP review committee evaluated the proposals received for consulting services for City-paid benefit plans, voluntary participant-paid benefit plans and the money purchase retirement plan, and actuarial services for the City's self-funded PPO dental plan. Three firms, Alliant Insurance Services; Gabriel, Roeder, Smith & Company (GRS); and Hay Group, were eliminated from further consideration for the following reasons.

Hay Group, Alliant Insurance Services, and GRS were eliminated from all further RFP selection considerations due to poor responses to key questions and the selection committee's determination that the proposals submitted did not demonstrate the proposer's ability to meet the City's scope of services required. Additionally, Alliant Insurance Services was eliminated due to concerns that Alliant included products beyond those requested in the RFP and Alliant requested changes to the City's standard contract language.

### *Consultant Selection for City-Paid Plans*

The finalists considered for the City-paid benefit plans were SST, Buck Consultants, Keenan & Associates and The Segal Company. These consultants were invited to interview with the selection committee.

After the interviews, the selection committee submitted individual rating sheets which rated the four finalists based on the selection criteria. The selection committee then discussed the rankings and the ratings for each of the proposals.

With a majority vote, the selection committee determined that Buck Consultants could provide superior consulting services for the full scope of services required at a cost below the City's current consultant costs. The recommendation to select Buck Consultants results in a savings of \$450,000 over the current consultant for consulting services for City-paid benefit plans over the four-year contract period.

### *Consultant Selection for Voluntary Participant-Paid Plans*

The finalists considered for the voluntary participant-paid benefit plans were Derendinger, Buck Consultants, Keenan & Associates and The Segal Company. These vendors were invited to interview with the selection committee.

The selection committee submitted rating sheets which rated the four finalists based on the selection criteria. Due to the extreme cost difference between Derendinger and the other consultants, over 1 million dollars over four years than the second highest cost proposer, Derendinger was removed from further consideration. The selection committee unanimously determined that Keenan & Associates could best provide the expertise required for the scope of services required at the best price. The recommendation to select Keenan & Associates results in a savings of \$1,254,000 to participants in the voluntary benefit programs over the four-year contract period.

***Consultant Selection for Actuarial Services***

The finalists for actuarial services who were invited to interview were SST, Buck Consultants, Keenan & Associates and The Segal Company.

The selection committee submitted rating sheets which rated the four finalists based on the selection criteria. The selection committee unanimously recommended Buck Consultants as providing the best overall proposal for costs, ability to fully meet the scope of services, superior reporting and references from clients.

***Consultant Selection for Money Purchase Retirement Plan***

All proposals for the money purchase retirement plan, SST, Buck Consultants and The Segal Company, were invited to interview with the selection committee.

The selection committee recommended Buck Consultants due to their low cost and superior consulting services. The cost for this service was quoted at \$5,000 per year. Due to the significant advantage to the City and necessity to ensure legal compliance and fiduciary responsibility staff recommends that a portion of the savings realized through the selection process for City-paid benefit plans be reallocated to fund a consultant to manage the 401(a) plan.

***Administrative Fees for Participant-Paid Programs***

Currently, the funding for all health and welfare consulting services for the City of San José benefit plans is collected as part of benefit plan premiums and remitted to the consultant through broker commissions, which are based on a percentage of the premiums and paid directly to the consultant by the insurance carriers.

Staff recommends changing the benefits consultant compensation arrangement to a flat, fee-for-services compensation structure in order to replace the current insurance carrier-paid commission structure. By paying the consultant a flat fee-for-service rate, City ensures the consultant's allegiance to the City of San José and avoids any potential conflicts of interest that might result from using a commission-paid broker as the City's benefits consultant. It also ensures that the scope of services of the benefits consultant agreements meets the City's needs, and it reduces costs and limits future increases to consultant costs.

In addition, this new structure provides greater funding transparency, because broker commissions will no longer be hidden in the premium costs. Because the broker commission will be removed from premium costs, this action will result in lower insurance carrier premium costs.

Staff recommends that the cost for the voluntary participant-paid benefit consultant be paid by participants through administrative fees deducted from participants' payroll and pension checks. The new administrative fees, which are significantly lower than the current broker commissions, will be deducted from participant's checks in addition to the revised lower premium (without commissions).

The following table shows the new administrative fees and the savings to employees and retirees compared to the current commission fees that are based on average premium cost.

<b>Benefit Plan</b>	<b>Average Current Fee Per Month</b>	<b>New Fee Per Month</b>	<b>Average Savings Per Month</b>
Vision Service Plan	\$0.35	\$0.14	\$0.21
EyeMed Vision Care	\$0.91	\$0.40	\$0.51
Long-Term Disability	\$4.53	\$0.67	\$3.86
Personal Accident Insurance	\$0.36	\$0.02	\$0.34
Long-Term Care	10% of premium	Approx. 1.7% of premium	8.3% of premium
Additional Life Ins. (Employees only)	\$0.52	\$0.26	\$0.26
Dependent Life Ins. (Employees only)	\$0.08	\$0.02	\$0.06
Dependent Life Ins. (Retirees only)	\$0.03	\$0.02	\$0.01
Voluntary Life Ins. (Retirees only)	\$4.09	\$0.20	\$3.89
Basic Life Ins. (Retirees only)	\$0.19	\$0.10	\$0.09

The above administrative fees will be collected in the Benefit Fund for payments made for the consulting services associated with the voluntary participant-paid benefit programs. The recommended fees reflect the amount that staff anticipate will be needed to pay all consultant expenses for voluntary benefits, taking into account potential reduction in enrollment, e.g. lay-offs, leaves of absences, non-payment of premiums. Therefore, the Director of Human Resources will re-evaluate the above fees annually and make any adjustments necessary to ensure that all consulting costs related to the voluntary participant-paid benefits will be covered by participants' administrative fee deductions.

Staff have re-negotiated insurance rates with all voluntary participant-paid benefit plans to reflect restructured premiums that will no longer contain broker commissions.

**EVALUATION AND FOLLOW-UP**

This project addresses the Human Resources' performance measure of the cost of benefits administration and operations per budgeted full-time employee. The Employee Benefits division of Human Resources ensures that the City of San José employees and retirees receive high quality and cost effective benefits by subjecting benefit plan providers to regular competitive processes (usually every four years).

**PUBLIC OUTREACH/INTEREST**

- Criterion 1:** Requires Council action on the use of public funds equal to \$1 million or greater. **(Required: Website Posting)**

- Criterion 2:** Adoption of a new or revised policy that may have implications for public health, safety, quality of life, or financial/economic vitality of the City. **(Required: E-mail and Website Posting)**
- Criterion 3:** Consideration of proposed changes to service delivery, programs, staffing that may have impacts to community services and have been identified by staff, Council or a Community group that requires special outreach. **(Required: E-mail, Website Posting, Community Meetings, Notice in appropriate newspapers)**

All key stakeholders were invited to participate in the RFP process.

This recommendation was reviewed by the Benefits Review Forum on September 23, 2009.

This memorandum is posted on the City's website for the November 3, 2009 Council Agenda.

**COORDINATION**

This memorandum has been coordinated with Retirement Services and the Office of the City Attorney.

**COST SUMMARY/IMPLICATIONS**

The total cost for the contract with Buck Consultants is estimated at \$760,000 over four years. The total cost for the contract with Keenan & Associates is estimated at \$200,000 over four years. The great majority of the contract for Keenan & Associates will be funded through employee and retiree administrative fee contributions.

The chart below summarizes the savings to the City, employees and retirees with the recommended consultant contracts.

Year	Current City-Paid Benefit Cost	Buck Consultants Consulting Service Cost	Current Participant-Paid Benefit Cost	Keenan & Associates Consulting Service Cost	Current Actuarial Services Cost	Buck Consultants Actuarial Services Cost
2010	\$297,000	\$190,000	\$363,500	\$50,000	\$7,500	\$0
2011	\$297,000	\$190,000	\$363,500	\$50,000	\$7,500	\$0
2012	\$297,000	\$190,000	\$363,500	\$50,000	\$7,500	\$0
2013	\$297,000	\$190,000	\$363,500	\$50,000	\$7,500	\$0
<b>Total</b>	<b>\$1,190,000</b>	<b>\$760,000</b>	<b>\$1,454,000</b>	<b>\$200,000</b>	<b>\$30,000</b>	<b>\$0</b>
<b>Total Savings</b>	<b>\$430,000</b>		<b>\$1,254,000</b>		<b>\$30,000</b>	

As part of the 2009-2010 Mid-Year Budget Review, it is anticipated that benefit rates, including administration fees, will be re-evaluated and adjusted to reflect projected funding needs for 2010. Anticipated savings due to reduced consultant costs will be realized as part of the January 2010 rate setting process.

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**BUDGET REFERENCE**

The table below identifies the fund and appropriations and recommended appropriation actions to fund the City-paid benefit plans, voluntary participant-paid benefit plans and actuarial services contracts recommended as part of this memo.

Fund #	Appn #	Appn. Name	Total Appn	Amt. for Contract**	Proposed Budget (Page)*	Last Budget Action (Date, Ord. No.)
<b>Current Funding Available</b>						
160	0116	Health Premiums	\$50,075,000	(\$92,250)	VIII-139	6/23/09, 28593
<b>Funding Recommended</b>						
160	TBD	Benefits Consultant Fee	0	\$120,000	N/A	N/A
160	R003	Transfers	\$61,417,500	\$27,750	VIII-139	6/23/09, 28593
<b>Total Funding for Projects</b>				\$120,000		

\* The 2009-2010 Adopted Operating Budget was approved on June 23, 2009.

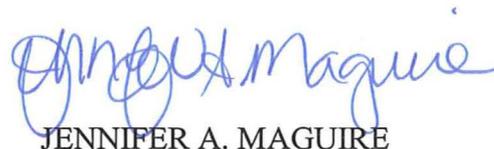
\*\* Amount for contract only includes the initial 6 months funding of the total 12 month contract costs of \$240,000 for Buck Consultants and Keenan & Associates. Per the contract agreement, funding will be encumbered annually at the start of each fiscal year.

Funding for Benefits Consultant services is currently budgeted for in the existing premium costs for benefit plans. Removing the broker commission from the premium rates will result in reduced premium costs, which will result in additional funds available in the adopted budget to fund the benefits consulting services for voluntary participant-paid benefits. Therefore, a decrease to the Health Premiums appropriation and reallocation of those funds to a new Benefit Consultant Fee appropriation is recommended. In addition, an increase in Transfers is recommended to fund the employee, including retirees, portion of the consultant contracts; funds will be transferred as needed.

**CEQA**

Not a project.

  
 MARK DANAJ  
 Director, Human Resources

  
 JENNIFER A. MAGUIRE  
 Budget Director

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I hereby certify that there will be available for appropriation in the Benefit Fund in the Fiscal Year 2009-2010 monies in excess of those heretofore appropriated there from, said excess being at least \$27,750.



JENNIFER A. MAGUIRE

Budget Director

For questions please contact Jeanne Groen, Benefits Manager, at (408) 975-1428.