



Memorandum

TO: HONORABLE MAYOR
AND CITY COUNCIL

FROM: Alex Gurza

SUBJECT: SEE BELOW

DATE: April 30, 2012

Approved

Date

5/8/12

SUBJECT: AGREEMENT WITH VISION SERVICE PLAN TO PROVIDE VISION CARE INSURANCE SERVICES TO CITY OF SAN JOSE EMPLOYEES, RETIREES AND THEIR DEPENDENTS FOR THE PERIOD OF JULY 1, 2012 TO DECEMBER 31, 2015.

RECOMMENDATION

Adopt a resolution authorizing the City Manager to negotiate and execute an agreement between the City and Vision Service Plan (VSP) to provide vision care insurance services to employees, retirees and their dependents at a total cost not to exceed \$3,716,410 for the period of July 1, 2012 to December 31, 2015, subject to the appropriation of funds.

OUTCOME

Approval of the recommendation will provide the City's employees, retirees and dependents with quality vision care insurance services.

EXECUTIVE SUMMARY

Through the request for proposal (RFP) process, the City receives competitive rates for the various benefit plan programs by conducting regular competitive processes (usually every four years). Following this procedure, an RFP for the City's vision care insurance services was developed, including convening a review committee comprised of key stakeholders to identify key issues and objectives, finalizing selection criteria, developing vendor questions, interviewing vendors, and evaluating proposal responses.

In addition to vision insurance services for employees and retirees, the RFP process sought services related to participant outreach and support, ongoing plan maintenance, and administrative and other support for the City's benefits program, including:

- \$5,000 annual support for the City's Wellness initiatives
- Seminars for City employees and retirees
- Training for City benefits administration staff, and
- Written and electronic communication materials.

This RFP resulted in market researched premiums and quality benefit programs for employees and retirees as well as the following improvements:

- Reduces the total annual premium of the VSP Signature plan by approximately \$7,435 per year with a 3 ½ year rate guarantee and enhanced benefit coverage.
- Introduces VSP as the sole provider for the City's vision care insurance. This change allows the City to benefit from increased administration efficiencies through the consolidation of providers.

In concluding the RFP process, staff is recommending that City Council authorize the City Manager to negotiate and execute an agreement with VSP to provide vision care insurance services to City employees, retirees and their dependents.

BACKGROUND

The City currently has two vision plan providers, EyeMed Vision Care (EyeMed) and VSP. The following is a summary of the current vision plan benefits offered to City employees, retirees and their dependents through these two providers.

EyeMed Vision Care is currently the lower cost vision plan option and provides services to enrolled members mostly through large-scale retail operations, such as LensCrafters and PearlVision. There are two vision plan options currently available through EyeMed; a regular vision plan that includes coverage for eye examinations, and a materials-only vision plan that only provides coverage for eyewear such as glasses and contacts.

VSP provides enrolled members with a large network of mostly small-scale, private office environments.

A summary of the current vision plan benefits are shown in the table below:

	VSP Signature	EyeMed	EyeMed Materials-Only
<i>IN-NETWORK</i>			
<i>Exam</i>	\$10 co-pay	\$10 co-pay	Not covered
	Every calendar year	Every calendar year	
<i>Prescription Glasses</i>			
<i>Frame</i>	\$115 allowance	\$115 allowance	\$130 allowance
	20% off amount over allowance	20% off amount over allowance	20% off amount over allowance
	Every other calendar year	Every 12 months	Every 12 months

Lenses	Single vision, lined bifocal, and lined trifocal lenses	Single vision, bifocal, trifocal	Single vision, bifocal, trifocal
	Polycarbonate lenses for dependent children	Standard polycarbonate	Standard polycarbonate
	Standard progressive lenses \$50 co-pay	Standard progressive lenses \$65 co-pay	Standard progressive lenses \$65 co-pay
	Every calendar year	Every 12 months	Every 12 months
Contacts	\$105 allowance	\$100 allowance	\$100 allowance
	15% off contact lens exam (fitting and evaluation)	15% off charge over \$100	15% off charge over \$100
	Every calendar year	Every 12 months	Every 12 months
OUT-OF-NETWORK			
Exam	up to \$45	up to \$25	Not covered
Frame	up to \$45	up to \$60	up to \$60
Single Vision Lenses	up to \$45	up to \$35	up to \$35
Lined Bifocal Lenses	up to \$65	up to \$50	up to \$50
Lined Trifocal Lenses	up to \$85	up to \$75	up to \$75
Progressive Lenses	up to \$85	up to \$50	up to \$50
Contacts	up to \$105	up to \$85	up to \$85

In 2002, the City negotiated with the Municipal Employee’s Federation (MEF), Confidential Employee’s Organization (CEO) and Association of Maintenance Supervisory Personnel (AMSP) to pay up to \$16.00 per month towards the premium cost for vision plan coverage for full-time employees. The premium rates for employees in these bargaining units are lower than rates for employees who are not full-time employees of MEF, CEO and AMSP and are referred to as “non-voluntary.” All other employees pay the full premium cost for vision plan coverage at a higher premium rate. The premium rates for these employees are referred to as “voluntary.”

The City last conducted a request for quotations for vision care insurance services in 2008. At that time, the City Council approved staff’s recommendation to secure VSP and EyeMed as the City’s vendors through June 30, 2012. A RFP process was initiated in January 2012 to review new proposals for vision care insurance services from quality vendors at the most competitive market rate possible.

ANALYSIS

In January 2012, staff began the RFP process for vision care insurance services. Below are highlights from this process.

April 30, 2012

Subject: Agreement with Vision Service Plan

Page 4 of 9

RFP Review Committee

An RFP Review Committee (Committee) was formed, consisting of representatives from the Human Resources Department and Retirement Services Department. Members from the Benefits Review Forum (BRF) were also invited to participate in the process as members of the Committee.

City staff facilitated the stakeholder input process and drafted the RFP document. At the direction of Human Resources, Keenan and Associates (Keenan), the City's contracted benefits consultant, facilitated the solicitation and proposal evaluation process, vendor interviews and secured responses to the Committee's questions.

Targeted Outreach

The City posted the RFP document on BidSync to inform vision care insurance providers about the RFP. Interested providers were requested to submit proposals and cost quotes based on the following options that were included in the RFP document:

- Option 1: Match current plan design and funding mechanism (fully insured), sitting along side either VSP or Eye Med, but not both.
- Option 2: Matching current 3 plan offerings as one carrier.
- Option 3: Matching current 2 plan offerings, eliminating the Materials Only Plan as one carrier.

The City received proposals from the following five (5) providers:

1. Vision Service Plan – San Francisco, CA
2. EyeMed Vision Care – Mason, OH
3. Humana Vision Care Plan – Louisville, KY
4. Davis Vision – San Antonio, TX
5. Superior Vision – Rancho Cordova, CA

Evaluation Criteria

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

Description	Weight
Proposal Responsiveness	Pass/Fail
Ability to replicate the Scope of Work as defined in the RFP	50%
Fee Structure (Cost)	30%

April 30, 2012

Subject: Agreement with Vision Service Plan

Page 5 of 9

References	10%
Local Business Enterprise	5%
Small Business Enterprise	5%

Initial Evaluation and Elimination

In the initial evaluation process, Superior Vision and Davis Vision were eliminated from further consideration.

Superior Vision was not selected because they are not licensed to provide vision services in Nevada, Minnesota, and New Jersey. Superior Vision’s inability to provide vision services in these states would exclude retirees living in these states from receiving vision coverage.

Davis Vision was not selected due to a failure to offer a sufficiently sized provider network to curtail significant service disruption. Davis Vision could only match six providers from VSP’s top 25 providers list and one provider from the EyeMed’s list.

EyeMed, VSP and Humana Vision Care Plan (Humana) were selected as finalists and invited to the interview with the Committee.

Vendor Selection

During the interviews, the Committee clarified with each of the finalists the proposed benefits, rates and ability to agree to the City’s standard contract terms. All finalists were provided an opportunity to clarify and/or correct rates to ensure the proposals matched the current benefits offered to City employees and retirees. Following the finalist interviews, the Committee reviewed all final information received from the proposers. Then, each Committee member completed an individual score sheet. The composite scores of the Committee are contained in the table below:

Criteria	VSP	EyeMed	Humana
Proposal Responsiveness (Pass/Fail)	Pass	Pass	Pass
Ability to Replicate Scope of Work as Defined in RFP (50%)	24.0	16.5	13.0
Fee Structure (30%)	17.5	25.0	18.0
References (10%)	22.0	7.0	5.5
Local Business (5% each)	0.0	0.0	0.0
Small Business (5% each)	0.0	0.0	0.0
Total Score	63.5	48.5	36.5

April 30, 2012

Subject: Agreement with Vision Service Plan

Page 6 of 9

EyeMed Vision Care

EyeMed submitted the most cost competitive proposal. However, EyeMed Vision Care's proposal did not accept the City's standard contract terms and conditions as is. The requested deviations from the City's standard contract terms would create risks for the City.

Moreover, EyeMed's proposal would have vision care benefits covered by a policy from Combined Insurance Company of America (CICA). EyeMed states that it "creates, markets and administers vision care plans on behalf of itself, and on behalf of underwriters like CICA." Specifically, EyeMed "solicits insurance applications for CICA, makes its network of vision care providers available to CICA, and provides other services necessary to the administration of CICA policies." While we have been informed by EyeMed that it has a contractual relationship with CICA whereby EyeMed performs marketing and insurance benefits on behalf of CICA, CICA would not be a signatory to the contract with the City.

Based on concerns with not having a contractual relationship with CICA and the requested deviations to the City's standard contract terms, the Committee eliminated EyeMed from further consideration.

Humana Vision Care Plan

Initially, Humana provided a proposal as a sole carrier where the vendor believes they are most competitive. However, even as the sole carrier, Humana had the highest cost plan for the voluntary employee-paid plan.

At the interview, Humana provided a revised proposal as a dual-carrier. The new proposal had lower rates but also included a significant reduction in current benefits. For example, the frame allowance would be reduced from \$115 to \$45. In addition, Humana's provider network posed significant disruption to employees and retirees.

Vision Service Plan

VSP's proposal offers reduced premium cost and enhanced benefits for the current Signature plan. The premiums are guaranteed not to change for the full term of the contract period. In addition, VSP provides minimal disruption, since the majority of plan participants are enrolled in the VSP plan. The Committee unanimously recommends VSP as the sole vision plan provider with the following two plan options:

- Signature plan: the current VSP plan with enhanced benefits and lower premium rates.
- Choice plan: this plan provides benefits similar to the current EyeMed plan, including an annual allowance for frames and contact lenses.

With VSP as the incumbent and sole carrier, the City and plan participants will benefit from:

- Increased administration efficiencies compared to having dual carriers
- The addition of Costco as an in-network provider – VSP was the only finalist to offer Costco as an in-network provider. Costco has continuously been among the top out-of-network providers

April 30, 2012

Subject: Agreement with Vision Service Plan

Page 7 of 9

for City's vision plan participants over the years. This addition to the VSP network will increase coverage for members who utilize Costco as a vision service provider.

Key Terms of the Proposed Agreement with Vision Service Plan

The Agreement with VSP will provide vision care insurance services for all benefited City employees, retirees and their dependents. The proposed rates are listed in the Cost Summary/Implications section of this memo. The proposed rates will be guaranteed for three and a half (3 ½) years. VSP also provided performance standards and guarantees by placing at risk a financial penalty of 1% of quarterly administrative revenue per performance standard, up to a total annual maximum of \$100,000 for all standards combined. VSP's financial penalties include the following terms:

- Based on VSP's company-wide quarterly performance results
- Accrued quarterly and paid on an annual basis (minimum annual payment threshold is \$250)
- Assumes the City has paid all amounts due VSP within established due dates

The term of the Agreement would be from July 1, 2012 through December 31, 2015, beginning with a one-year initial term and continuing with two, one year renewals and one, six month renewal option as outlined below:

1. Vision care insurance services for employees, retirees and their dependents with an initial term of one year beginning on July 1, 2012 and ending on June 30, 2013, and a total cost not to exceed \$1,021,760.
2. Vision care insurance services for employees, retirees and their dependents with an optional term of one year ending on June 30, 2014, and a total cost not to exceed \$1,052,413.
3. Vision care insurance services for employees, retirees and their dependents with an optional term of one year ending on June 30, 2015, and a total cost not to exceed \$1,083,985.
4. Vision care insurance services for employees, retirees and their dependents with an optional term of six months ending on December 31, 2015, and a total cost not to exceed \$558,252.

Finally, VSP has agreed to the City's standard contract terms.

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)

- Criteria 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)**
- Criteria 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)**

The local business community was given the opportunity to compete by posting the RFP on the BidSync website. All key stakeholders were invited to participate in the RFP process.

This recommendation was reviewed by the BRF on April 25, 2012.

This memorandum will be posted on the City's website for the May 22, 2012 City Council Agenda.

COORDINATION

This memorandum has been coordinated with the Office of the City Attorney and City Manager's Budget Office.

COST SUMMARY/IMPLICATIONS

The following table summarizes the City's current vision plan premiums compared to VSP's final proposed rates. The proposed costs are based on current enrollment for April 2012 and compared to the current premium projected out over 12 months.

Plan/Coverage	Current Rate	New Rate	% Change	Current Enrollment	City Cost Difference	Employee Cost Difference
VSP Non-Voluntary						
Single	\$ 7.60	\$7.22	-5%	302	\$1,377.12	
Two-Party	\$ 10.82	\$10.28	-5%	320	\$2,073.60	
Family	\$ 20.00	\$19.00	-5%	332	\$3,984.00	
Total				954	\$7,434.72	
VSP Voluntary						
Single	\$ 12.44	\$ 11.82	-5%	742		\$5,520.48
Two-Party	\$ 17.74	\$ 16.85	-5%	1225		\$13,083.00
Family	\$ 31.78	\$ 30.19	-5%	505		\$9,635.40
Total				2472		\$28,238.88
EyeMed Non-Voluntary						
Single	\$ 4.08	\$7.60	86%	113	(\$4,773.12)	

HONORABLE MAYOR AND CITY COUNCIL

April 30, 2012

Subject: Agreement with Vision Service Plan

Page 9 of 9

Two-Party	\$ 7.16	\$10.82	51%	96	(\$4,216.32)	
Family	\$ 10.22	\$20.00	96%	183	(\$21,476.88)	
Total				392	(\$30,466.32)	
EyeMed Voluntary						
Single	\$ 6.38	\$ 12.44	95%	436		(\$31,705.92)
Two-Party	\$ 12.74	\$ 17.74	39%	382		(\$22,920.00)
Family	\$ 15.74	\$ 31.78	102%	267		(\$51,392.16)
Total				1085		(\$106,018.08)
Annual Cost Difference					(\$23,031.60)	(\$77,779.20)

The premium rates for the VSP plan options are projected to cost the City an additional net amount of \$23,031.60 per year and employees and retirees an additional net amount of \$77,779.20 per year for the 3 ½ year contract period. The rates for the VSP Choice plan are higher than the EyeMed plan that it is replacing. However, due to the potential risk to the City that EyeMed's deviations to the City's standard contract terms pose, the Committee does not recommend EyeMed and no other proposer was able to provide a plan that matched EyeMed's plan design with similar premium rates.

BUDGET REFERENCE

Fund #	Appn #	Appn. Name	Proposed Appn*	Amt. for Contracts	Proposed 2012-2013 Budget Page	Last Budget Action (Date, Ord. No.)
160	0130	General Employee Vision	\$230,000	\$208,000	XI - 10	N/A*

* Subject to City Council approval of the 2012-2013 Proposed Operating Budget scheduled for June 19, 2012.

Vision premium payments will vary based on actual enrollment. The contract cost for the initial one-year contract term is estimated to be \$1,021,760 for the fiscal year 2012-2013. Of this amount, the City's portion is estimated to be \$208,000. The 2012-2013 Proposed Operating Budget includes \$230,000 for General Employee Vision in the Benefit Fund to account for the City's portion of vision care insurance services. Employee and retiree contributions, which are deducted through payroll, are unbudgeted. The contract contains two, one-year renewal options and one, six-month renewal option after the initial contract term.

CEQA

Not a project, PP10-066(e) Services that involve no physical changes to the environment.



ALEX GURZA
Deputy City Manager

For questions please contact Rhonda Schmidt at (408) 975-1430.