



THE CITY OF SAN DIEGO
REPORT TO THE CITY COUNCIL

DATE ISSUED: July 16, 2012

REPORT NO: 12-093

ATTENTION: City Council

SUBJECT: Approval of the Benefits Consulting, Brokerage, and Actuarial Services Contract with Buck Consultants

REQUESTED ACTION:

Approval of the Benefits Consulting, Brokerage, and Actuarial Services Contract with Buck Consultants for a three-year contract totaling \$834,000. The Scope of Services includes providing all aspects of benefits consulting relating to the City's benefit plans and actuary services for the Long Term Disability, Workers' Compensation and other post employment benefits (OPEB) plan liabilities.

STAFF RECOMMENDATION:

Approve requested actions.

SUMMARY:

The City's agreement with Buck Consultants to provide benefits consulting, brokerage, and actuarial services ends on July 31, 2012.

The current five-year contract was initiated on August 1, 2006. That contract was extended for one more year in 2011 due to the special circumstances related to the City's intensive efforts and negotiations with its bargaining groups for retiree health care reforms. Other than the long term disability and workers' compensation actuarial expenses, which were paid from those respective funds, the services under this contract were not paid directly from the City's budget. Rather, they were funded by commissions from the various insurance premiums paid to the vendors. The vendors paid these commissions to the benefits consultant who in turn provided the benefit consulting and actuarial services to the City. With no direct payment from the City to the consultant, it was determined by prior administrations, with the concurrence of the City Attorney, that entering into the contract could be done via CM-1544 (Mayoral Action). Although this is a common practice in the industry, the Mayor's staff changed the structure and funding of this contract with the FY 13 Risk Management budget and this RFP and agreement.

As a result commissions were eliminated and premiums reduced for these plans beginning in FY 13 and \$250,000 was added to the FY 13 Risk Management budget to continue providing these services. Funding it in this manner adds an additional level of transparency to the contracting process.

This amount was estimated based on previous years experience since the Request for Proposal process had not yet been completed and the actual cost was not yet known. The Long Term Disability (LTD) and Workers' Compensation actuarial valuations are funded from the respective funds. The remaining monies needed for FY 13 will be borne from the Risk Management budget. Prior years cost for these services are shown below.

<u>Fiscal Year</u>	<u>Total</u>
2008	\$314,801
2009	\$336,015
2010	\$323,193
2011	\$361,541

In accordance with the City's procurement policies, a Request for Proposal (RFP) seeking a consultant to continue providing these services was released on April 26, 2012 and sent to eight consulting firms with expertise in these areas.

The Scope of Services, summarized below, provides details of the required consulting services which are in three primary areas:

1. Benefits consulting relating to the City's benefit plans, including health, life, vision and dental insurance and compliance for the City's plans.

- To annually assist in the review, redesign and implementation of the City's benefits plans. This redesign may include, but not be limited to, consolidation of health, dental and vision plans in order to optimize plan design and benefits allotment for employees.
- To provide employee benefits advice as necessary and continually apprise the City on all federal, state, and insurance industry issues and innovations that could affect its programs.
- To advise and assist the City with compliance issues including, but not limited to: HIPAA, ERRP and Medicare Part D reimbursement process.
- To be fully knowledgeable of the Internal Revenue Service rules and guidelines applicable to the City's benefit plans and provide the City with interpretation and verification of compliance when requested.
- To serve as a resource to labor and management on any benefit negotiations.
- To review and recommend updates to the City's Plan Documents, agreements, summary plan descriptions, open enrollment materials, and other communication materials.

2. *Actuarial services for the City's benefit plans including Long Term Disability, Workers' Compensation and other post employment benefit (OPEB) plans.*

- To annually provide actuarial derived premium pricing recommendations for the City's insured health plans to ensure the premiums are accurately determined based on plan design, past and projected experience and acceptable administrative charges. The initial recommendations must be provided well in advance of negotiations between the City and Unions, typically no later than February 1. Adjusted recommendations may be required through April 15.
- To be immediately accessible and responsive to the City's request for premium calculations based on varying plan design scenarios.
- To provide an annual actuarial valuation of the City's Workers' Compensation, Long Term Disability and OPEB plans which the City Comptroller relies upon for disclosing its liabilities in the Comprehensive Annual Financial Report (CAFR).

3. *Serve as the City's broker for the benefit plans, including conducting requests for proposals and contract negotiations for such plans.*

- To have access to, and a broad knowledge base of, all insurance markets and to negotiate with insurance companies and HMOs on the City's behalf for the best terms, conditions, and pricing.
- To maintain an ongoing relationship with City personnel and selected providers acting as liaison to resolve problems between the City and providers.
- Upon direction by the City, to conduct extensive market searches complying with the City's Request for Proposal guidelines; provide analysis and recommendations for potential insurance carriers; review agreements for compliance with proposed benefits and rates; and ensure necessary City requirements are met.

The City asked proposers to provide a fixed price proposal for these services.

The RFP was sent to eight firms and three proposals were submitted to the City. The proposals were rated based upon responsiveness to the RFP; firm's past performance and capability to provide the expertise and service; staffing plan; and cost to the City. Rating of the Equal Opportunity Contracting Program (EOCP) is done by EOCP staff. The evaluations resulted in Buck Consultants receiving the highest points. Buck Consultants was the only proposer to provide a comprehensive response including all requested services without sub-contracting and without an annual cost escalator, representing a fixed cost for the term of the agreement. Buck Consultants was the lowest priced proposal when considering all requested services. The table below identifies the costs and services from the three proposers.

	Buck Consultants	Mercer	Keenan
Cost	\$278,000 for term of agreement	\$275,000 for term of agreement	Year 1 - \$293,000 Year 2 - \$299,000 Year 3 - \$305,000 Year 4 - \$311,100 Year 5 - \$317,300
Services	Provides all requested services	Did not include OPEB valuation	Provides all requested services, however subcontracts all three actuarial valuations to three different actuaries
Issues	None	Would require a separate contract for OPEB actuarial valuation (estimated cost of \$20,000 - \$25,000)	Subcontracting valuations requires release of confidential information to three different companies; additional administrative coordination

Retaining Buck Consultants allows these important and required services to continue without disruption and additionally ensures that the City's actuarial valuations for FY 2012 will be completed on schedule for inclusion with the City's FY 2012 CAFR.

FISCAL CONSIDERATIONS:

This is a three year contract for a total cost of \$834,000; \$278,000 per fiscal year, with two one year options. The funding source for FY 2013 is as follows: \$260,000, Risk Management Fund 720048; \$9,000, Long Term Disability Fund 720042; and \$9,000, Workers' Compensation Fund 720044.

PREVIOUS COUNCIL and/or COMMITTEE ACTION:

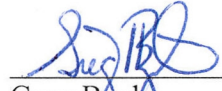
This item was heard at the Budget and Finance Committee on July 11, 2012. Per the Committee's direction, additional information is provided in this report.

COMMUNITY PARTICIPATION AND PUBLIC OUTREACH EFFORTS:

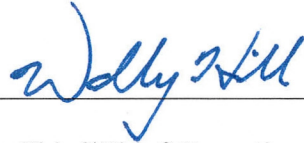
Not applicable.

KEY STAKEHOLDERS AND PROJECTED IMPACTS:

City employees.



Greg Bych
Risk Management Director



Deputy Chief/Chief Operating Officer