

Request for Proposal 9105-10-7033 – Provision of Administration and Underwriting Services for Employee Benefit Plans

Date:	April 13, 2011
To:	Government Management Committee
From:	Treasurer
Wards:	All
Reference Number:	P:\2011\Internal Services\ppeb\gm11006ppeb (AFS12657)

SUMMARY

The purpose of this report is to provide information on the results of a Request for Proposal (RFP) No. 9105-10-7033 for the provision of administrative and underwriting services for employee benefit plans for the City of Toronto and the Agencies, Boards and Commissions included in its benefits administration and to request authority to enter into agreements with the recommended proponent, The Manufacturer's Life Assurance Company (Manulife Financial).

For the first time the City partnered with Toronto Police Services Board (TPSB) and the Toronto Transit Commission (TTC) in the issuance of a joint RFP for the provision of benefit plan administration and underwriting services, and the estimated savings for all three partners based on the recommended proponent's submission as outlined in this report are significant. This report provides an overview of the joint process and estimated savings for all parties, however the recommendations and costs provided in the Financial Impacts section will focus on agreements to administer the benefits plans for the City of Toronto and the relevant ABCs. Staff of the TPSB and TTC will be reporting to their respective Boards separately.

RECOMMENDATIONS

The Treasurer recommended that:

1. Government Management Committee grant authority to enter into agreements with The Manufacturers Life Assurance Company (Manulife Financial), being the lowest cost proponent meeting the requirements of the RFP, for the provision of the administrative and underwriting services for employee benefits plans on the basis that:
 - (a) the term of the agreements will be for five years, effective January 1, 2012.
 - (b) the administration fees will be guaranteed for the entire term of the agreements and life insurance premiums will be guaranteed for the first three years.
 - (c) for the final 2 years of the agreements the insured rates and pool charges will be determined by applying appropriate weight to the claims experience under the agreements on the basis of the number of employees and the years of experience.
2. Government Management Committee forward this report to the Toronto Police Services Board and the Toronto Transit Commission for implementation of the same recommendations.

FINANCIAL IMPACT

On the basis of current rates and claims utilization patterns over the next five (5) years (2012 to 2016), the total estimated savings resulting from the recommended agreement with Manulife Financial will be:

Savings - January 1, 2012 to December 31, 2016 (City Only)

-Millions-

Year	Current Rates	New Rates	Savings
ASO Admin Fee	\$38.7	\$23.4	\$15.3
Insured Premium Rates	\$66.8	\$60.0	*\$ 6.8
Total	\$105.5	\$83.4	\$22.1

*These savings assumes no increase in rates for the last 2 years of the contract.

Funding for these benefits is contained in Programs Operating Budgets for active employees and through the employee benefits reserve for retired employees.

In addition, the TPSB will be saving an estimated \$13.7 million over the 5 year period and the TTC will be saving an estimated \$18.3 million over the 5 year period. These savings will be reported separately, to their respective Boards.

The City spent approximately \$200 million in 2010 to provide extended health care, dental, life insurance, accidental death & dismemberment, line of duty death benefits (for Fire Services only) and long term disability benefits to employees and retirees of the City and the relevant ABCs and their eligible dependents . This amount includes administrative services only (ASO) administration fees paid to the City's benefit carrier, in the amount of approximately \$5.6 million and insurance premiums of approximately \$13.6 million.

The total estimated cost of administration fees resulting from the recommended award will be \$4.7 million annually, or \$23.5 million over the five (5) year guaranteed rate contract period. The total estimated cost of providing insurance coverage, including stop-loss insurance, will be approximately \$12.01 annually or \$36.0 million for the three (3) year guaranteed rate period, and will be determined on the basis of the City's own experience, for the last two (2) years of the contract. These estimated costs are based on current trends before taxes and may fluctuate as a result of actual claims experience. In addition, the City would be responsible for the actual cost of health and dental benefit claims.

The Deputy City Manager and Chief Financial Officer has reviewed this report and agrees with the financial impact information.

DECISION HISTORY

City Council, at its meeting of March 3, 4 and 5, 2008, approved report number AU6.3 Employee Benefits Review. Following is a link to the report and decision document:
<http://www.toronto.ca/legdocs/mmis/2008/cc/decisions/2008-03-03-cc17-dd.pdf>

City Council, at its meeting of June 8 and 9, 2010, approved report number GM31.8 Administration and Underwriting Services for Employee Benefit Plans Agreement – Request for Extension. Following is a link to the report and decision document:
<http://app.toronto.ca/tmmis/viewPublishedReport.do?function=getCouncilDecisionDocumentReport&meetingId=3290>

ISSUE BACKGROUND

The City and the ABCs which fall under its benefits administration umbrella provide benefits coverage to approximately 36,000 employees and retirees as well as to their spouses and eligible dependants.

The ABCs which provide benefits to employees under the City's umbrella are as follows:

- The Board of Governors of Exhibition Place;
- Sony Centre for the Performing Arts;
- Toronto Zoo;
- Toronto Public Library;
- Community Centres and Arenas.

The City provides, through its benefits carrier, extended health care, dental care and long term disability coverage on an ASO basis. This means that the City is responsible for paying to the carrier the amounts of the benefit claims themselves plus an administration fee to the carrier for adjudicating and paying the claims. In addition, life insurance and accidental death & dismemberment insurance are provided on an insured basis which means that the City is responsible for paying the insurance premiums to the carrier in its capacity as insurer.

The benefit plans are provided to employees in accordance with the applicable collective agreements and Council-approved policies. The current benefit carrier for the City of Toronto is Manulife Financial.

In 2010, the City spent approximately \$200 million to provide these benefits.

The Toronto Police Service Board (TPSB), as an agency of the City, is responsible for the benefits coverage for the largest municipal police service in Canada, with more than 12,000 employees and retirees, as well as their eligible spouses and dependents. The TPSB provides, through its benefits carrier, extended health care, dental care and long term disability on an ASO basis. In addition, life insurance, accidental death & dismemberment insurance and some retiree benefits are provided on an insured basis. The current benefit carrier for the TPSB is Manulife Financial.

In 2010, the TPSB spent approximately \$38.8 million to provide these benefits.

The Toronto Transit Commission (TTC), as a Commission of the City which operates public transit service in the City, is responsible for benefits coverage for approximately 12,000 active employees, 6,000 retirees and their eligible spouses and dependents. The TTC provides, through its benefits carriers, extended health care, dental care and long term disability on an ASO basis. In addition, life insurance and accidental death & dismemberment insurance is provided on an insured basis. The current benefit carriers for the TTC are Great West Life Assurance Company (Great West Life) and Sun life Financial.

In 2010, the TTC spent approximately \$73.8 million to provide these benefits.

Auditor General's Report – Employee Benefits Review

At its meeting of March 3, 4 and 5, 2008, City Council adopted the recommendations of the Auditor General as outlined in a report to the Audit Committee entitled *Employee Benefits Review* which provided the following recommendation:

“The Director, Pension, Payroll and Employee Benefits, in consultation with senior management representatives of the City’s agencies, boards and commissions, review and consider the cost-effectiveness of expanding the current City of Toronto benefits umbrella to include other City of Toronto agencies, boards and commissions.”

The purpose of this recommendation was to determine if the City and its ABC's might benefit from lower overall costs due to lower administration rates charged by a single benefits carrier, as a result of the purchasing power of such a large group.

It should also be noted that the City's benefits consultant, Buck Consultants, confirmed prior to the issuance of the RFP, that the City of Toronto had very competitive rates to begin with. The City's rates were already significantly lower than those of the TPSB and TTC.

COMMENTS

City staff established a working team (team) with TPSB and TTC staff to begin the process of exploring the potential of issuing a joint Request for Proposals (RFP) for benefits services in 2009. The intent was to explore the issuance of a joint RFP once all of the existing agreements expired in December 31, 2010. Given the complexities involved in issuing a joint RFP of this nature, it was determined that in order for the team to ensure that all due diligence was followed and to allow for sufficient time to implement a switch in benefit carriers, a one-year extension of the current agreements would be required. As a result, each of the Participants sought and received authority to extend its existing agreements with its benefit plans provider(s) to December 31, 2011. For the City, Council approved a one-year extension of the current agreement with Manulife Financial at its meeting of June 8 and 9, 2010.

In addition, given the size and financial impact of the joint RFP, the team determined that it would be prudent to retain a fairness consultant to oversee the process, including the development of the RFP documentation and provision of oversight and advice. As a result, a Request for Quotations (RFQ) was issued on August 3, 2010, and a contract awarded to PPI Consulting Limited for this service. This ensured that the entire process was carried out in a fair and transparent manner and the Fairness Consultant has provided a report to that effect (Attachment 1).

RFP Process and Model:

The team decided to utilize a "two-envelope" model of RFP. This would require each proponent to make the first part of its proposal without dollar figures which would be evaluated first to determine whether it had met a minimum technical threshold score with regard to its ability to fulfil the requirements as specified in the RFP ("first envelope"). For each proponent which met the minimum technical threshold score, its separate sealed cost-of-services proposal ("second envelope") would be opened and evaluated to determine the lowest cost provider. Other models were investigated, but were determined to be riskier and more difficult to manage given the number of Participants and potential number of proposals.

In addition, the RFP required that a proponent must be able to provide all benefit services for a Participant and was structured to permit the submission of a proposal for any individual Participant or to submit a proposal for all three Participants (referred to as a "Group Bid"). The Group Bid was intended to provide an opportunity for a proponent to secure a greater volume of business by virtue of providing benefit services to all of the Participants while at

the same time offering the Participants further discounts on administration fees and premium costs.

The Request for Proposal No. 9105-10-7033 was issued by the Purchasing and Materials Management (PMMD) on December 20, 2010, and was available for download in PDF on the City's internet website. The closing date for submissions was February 11, 2011. A total of five (5) addenda were issued in response to questions sent to PMMD prior to the closing date.

A voluntary proponent's meeting was held at Metro Hall on January 14, 2011, to allow interested proponents to ask questions in regard to the RFP and the procurement process.

Results of the RFP

A total of three (3) submissions (The Manufacturers Life Assurance Company, The Great-West Life Assurance Company and Green Shield Canada) were received by PMMD.

In compliance with the RFP terms of reference, the submissions were to include a detailed technical proposal and a separate sealed envelope with a cost proposal. The first stage of the evaluation process was a pass/fail review of submissions with regard to the mandatory technical submission requirements.

A review by PMMD of the submissions determined that the technical proposal from Green Shield Canada was not in compliance with the mandatory requirements as specified in the RFP and was disqualified from further consideration.

The selection process stipulated that the technical proposal had to meet a minimum threshold of 75% in order for the cost of services envelopes to be opened and evaluated. The RFP further stipulated that upon opening the cost of services envelopes, the lowest cost proposal would be recommended for award.

The technical evaluation criteria were made up of the following main categories:

- Experience and Qualifications
- Proposed Staff and Transition Plan
- Claims Management Processes
- Disability Management Processes
- Systems and Reporting
- Financial and Underwriting

An evaluation and selection committee was established with ten members (four from the City, and three from each of the TPSB and the TTC). The technical proposals from Manulife Assurance Company and Great West Life were reviewed independently and then jointly evaluated (through consensus) by all members of the selection committee in accordance with the evaluation criteria as specified in the RFP.

As a result, it was determined that both technical proposals met the minimum technical threshold. There was also a provision in the RFP for interviews with prospective proponents, but it was determined that no interviews would be necessary in view of the completeness and clarity of the technical proposals received.

The cost-of-services envelopes were then opened and it was determined by the evaluation and selection committee that the cost proposal from Great West Life Assurance Company included an unjustified assumption concerning mandatory electronic claims submission that was not acceptable to the Participants. In addition, the assumption prevented the cost proposals from being compared equally. After consultation with representatives from Legal Services and PMMD and the fairness consultant, it was determined that Great West Life's cost proposal could not be considered for award.

In addition, after reviewing the cost of services proposals, it was determined that the cost proposal submitted by The Manufacturers Life Assurance Company was the lowest cost proposal as the rates quoted by Great West Life Assurance Company for the City's ASO fees were higher.

The Fair Wage Office has reported that the recommended firm has indicated that it reviewed and understands the Fair Wage Policy and Labour Trades requirements and has agreed to comply fully.

Proponent's scores, financial comparison and staff analysis of the evaluation results can be provided to Councillors in an in-camera presentation if so requested by Committee members.

Reduced City of Toronto Rates:

Manulife Financial has provided reduced rates for the City, TPSB and TTC. With respect to the City, the rates are as follows:

City of Toronto Administrative Fees as a % of Paid Claims

	Current Fees	New Fees
Health & Dental	2.85%	1.65%
LTD	4.60%	3.30%
Life Insurance	2.25%	1.10%

Health Care and Life Stop Loss Premiums

	Current Fees	New Fees
*Health Care Single Monthly	\$1.27	\$1.27
*Health Care Family Monthly	\$2.54	\$2.54
Life Insurance Monthly	0.25% of premium	0.25% of premium

*Amounts by which any claim for private-duty nursing in Canada or claim for emergency out of country medical exceeds \$25,000

Premiums for Insured Plans

Benefit Type	Current Monthly Premium per \$1000 of coverage	New Monthly Premium per \$1000 of coverage
Life	\$0.20	\$0.176
AD&D Excluding Firefighters	\$0.019	\$0.019
AD&D for Firefighters	\$0.019	\$0.019
AD&D Line of Duty Death	\$0.075	\$0.075
Dependent Life (Grandparented)	\$0.045 (flat)	\$0.045 (flat)

Savings Achieved by the City, TPSB and TTC:

The issuance of a joint RFP and selection of the successful proponent, Manulife Financial, will result in a significant savings for the City, TPSB and TTC. In the case of the City, Manulife Financial provided a reduction in the total fees which will result in an estimated savings of \$22.1 million, over the 5 year contract period. In the case of the TPSB, Manulife Financial provided a reduction in the total fees which will result in an estimated savings of \$13.7 million in fees over the next 5 years. In the case of the TTC, Manulife Financial provided a reduction in the total fees which will result in an estimated savings of \$18.3 million over the next 5 years.

Estimated Savings – January 1, 2012 to December 31, 2016 -Millions-

Organization	Estimated Savings (over 5 years)
City of Toronto	\$22.1
Toronto Police Services Board (TPSB)	\$13.7
Toronto Transit Commission (TTC)	\$18.3
Total	\$54.1

The purpose of issuing a joint RFP between the City, TPSB and TTC was to determine if any, or all, parties could benefit from reduced rates, through the purchasing power of a joint process. The result of the RFP has demonstrated that this can be achieved and has resulted in significant savings for all parties.

As a result, staff are recommending that each of the City, TPSB and TTC enter into an agreement with Manulife Financial for a five year period, from January 1, 2012 to December 31, 2016. Manulife Financial is the lowest cost proponent to RFP No. 9105-10-7033. The impact provides significant savings for all three organizations.

Manulife Financial is the existing benefits provider for the City of Toronto and, therefore, there will be no requirement to transition to a new benefit carrier.

CONTACT

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SIGNATURE

Giuliana Carbone

Treasurer

ATTACHMENTS

Attachment 1 – Fairness Consultant Report