



**STAFF REPORT
ACTION REQUIRED**

Administration and Underwriting Services for Employee Benefit Plans Agreement – Request for Extension

Date:	May 5, 2010
To:	Government Management Committee
From:	Treasurer
Wards:	All
Reference Number:	P:\2010\Internal Services\ppeb\gm10007ppeb (AFS11326)

SUMMARY

This report requests that Council authorize the Treasurer to execute a one-year extension of the City of Toronto's existing agreement with The Manufacturers Life Assurance Company (“Manulife Financial”) for the period January 1, 2011 to December 31, 2011 with respect to the provision of administrative and underwriting services for employee benefits plans. The extension will provide sufficient additional time for staff to formulate a sound, comprehensive joint Request for Proposals (RFP) for such services for a period commencing January 1, 2012, on behalf of the City, the Toronto Police Services Board (TPSB) and the Toronto Transit Commission (TTC).

RECOMMENDATIONS

The Treasurer recommends that:

1. City Council authorize the Treasurer to execute an agreement with Manulife Financial extending for one year from January 1, 2011 to December 31, 2011, its existing contract with respect to the provision of administrative and underwriting services for the City's employee benefits plans on the same financial and other terms and conditions.
2. City Council direct the appropriate City officials to take the necessary action to give effect to Recommendation 1.

Financial Impact

The estimated administration and insurance fees payable to Manulife Financial as a result of this one year extension is \$6.9 million. This amount is built into the benefit rates which are funded through Divisional Operating Budgets.

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

DECISION HISTORY

At its meeting held on December 5, 6 and 7, 2005, Council approved the existing five-year agreement with Manulife Financial covering the period January 1, 2006 to December 31, 2010 by its adoption of Policy and Finance Committee Report 10, Clause 15 “Request for Proposal 9105-05-7159 – Provision of Administrative and Underwriting Services for Employee Benefit Plans and Administration of the Ontario Works Dental Programs”:

<http://www.toronto.ca/legdocs/2005/agendas/council/cc051205/pof10rpt/cl015.pdf>

At its meeting held on March 3, 4 and 5, 2008 Council considered Audit Committee Report AU6.3 titled “Employee Benefits Review” and adopted a motion requesting that “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”:

<http://www.toronto.ca/legdocs/mmis/2008/au/reports/2008-02-22-au06-cr.pdf>

ISSUE BACKGROUND

In accordance with various collective agreements and Council-approved policies, the City provides benefits coverage under a number of group plans to approximately 35,000 employees and 8,000 retirees through an agreement with Manulife Financial. As the successful proponent under a 2005 Request for Proposals (RFP) process, Manulife Financial provides the necessary administrative and (where applicable) underwriting services for those plans. The agreement will expire on December 31, 2010.

The 2010 administration and insurance rates for this plan are as follows:

Administrative Fees as a % of Paid Claims

	2010
Health & Dental	2.85%
LTD	4.60%
Life	2.25%

Health-Care and Life Stop-Loss Premiums

	2010
*Health Care Single Monthly Fees	\$ 1.20
*Health Care Family Monthly Fees	\$ 2.40
Life Insurance Monthly Fees	0.25% of Premium

* Amounts by which any claim for private-duty nursing in Canada or any claim for any care outside of Canada exceeds \$25,000.

Premiums for Insured Plans

Benefit Type	Monthly premium per \$ 1,000 of coverage (ex. PST)
Life	\$0.25
AD&D-Excluding Firefighters	\$0.019
AD&D-Firefighters	\$0.019
AD&D-In Line Of Duty (Firefighters only)	\$0.075
Dependent Life (Grandparent)	\$0.45 (Flat)

The City of Toronto also provides benefits coverage to the following Agencies, Boards and Commissions (ABC's) which fall under its benefits umbrella:

- Board of Management of the Toronto Zoo
- Toronto Public Library
- Hummingbird (now "Sony") Centre for the Arts
- The Board of Governors of Exhibition Place
- Boards of Management of Community Centres and Arenas.

In 2009, the City of Toronto paid approximately \$5.9 million to Manulife Financial for the administration and underwriting of these plans.

COMMENTS

The original RFP issued and awarded in 2005 (RFP 9105-05-7159) included requirements for the Administrative and Underwriting Services for Employee Benefit Plans and Administration of the Ontario Works Dental Programs. This report is only requesting the authority to extend the existing agreement with Manulife Financial for the employee benefit plans portion. It is anticipated that a separate RFP will be issued for the Ontario Works Dental Program in the spring of 2010.

The Auditor General's report entitled "*Employee Benefits Review*", which was adopted by Council in March 2008 (see "DECISION HISTORY" above), recommended that staff review and consider the possibility of expanding the City's current benefits umbrella in order to take advantage of pooled purchasing power. Specifically, it was suggested that by including the TPSB and the TTC, the City and ABC's might benefit from lower overall costs as a result of lower administration rates charged by a benefit carrier. Consequently, staff of the Pension, Payroll & Employee Benefits Division (PPEB) and staff of the Purchasing and Materials Management Division (PMMD) began discussions with their counterparts at the TPSB and the TTC in 2009.

Given that the contracts that the TPSB and the TTC have with their own respective benefit carriers also expire on December 31, 2010, all parties agreed that it would be beneficial to proceed with the issuance of a joint RFP. However, the formulation of a joint RFP document has proven to be extremely challenging for a number of reasons including underwriting conditions, employee groups, unique requirements and the available resources within the three organizations.

Although the process is moving forward, led by PPEB staff, and there has been good cooperation from all parties, the team must exercise suitable caution and be duly diligent in ensuring that the content and evaluation methodologies are sound and appropriate. The RFP is financially significant and involves the interests of a number of stakeholders. In this regard, PPEB will be retaining the services of a Fairness Consultant to review the content of the RFP and to assist with the proposal evaluation process.

Despite the efforts that have been put forward to date, there is still considerable work required to finalize the RFP. Staff are continuing to move forward with a very aggressive schedule; however, since the joint RFP involves three organizations with different carriers, there is a high probability that there will be some change in carriers for at least one if not more of the organizations, so contingency planning must be built into the time frame.

The RFP team, consisting of representatives from each of the three organizations, is continuing to work through the complex issues. It is important that development of the joint initiative continues, including exploration of cost efficiencies that could be achieved. However, it is equally important that time is taken to ensure that the RFP is thorough and complete, as it is expected that its success will establish a framework for future joint initiatives.

To allow sufficient time for the development of a joint, comprehensive RFP incorporating the employee benefit requirements of the City, the Board of Management of the Toronto Zoo, the Toronto Public Library Board, the Board of Directors of the Sony Centre for the Arts, the Board of Governors of Exhibition Place, the Boards of Management of the City's Community Centres and Arenas, the TPSB and the TTC, staff are seeking authority to extend the existing Manulife Financial agreement for one year under the same terms and conditions as currently exist with respect to the group benefit

plans of the City and ABC's. In addition, the TPS and the TTC are requesting similar extensions through their Board and Commission.

Staff have received confirmation from Manulife Financial that it is agreeable to an extension of its existing agreement for a one-year period on the same terms.

Staff will continue developing a joint RFP with the TPSB and the TTC with targeted release of the RFP in the fall of 2010.

CONTACT

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SIGNATURE

Giuliana Carbone
Treasurer