



STAFF REPORT ACTION REQUIRED

Request for Proposal 9105-16-7020 for the Provision of Administrative and Underwriting Services for Employee Benefit Plans

Date:	June 2, 2016
To:	Government Management Committee
From:	Treasurer Director, Purchasing and Materials Management Division
Wards:	All
Reference Number:	P:\2016\Internal Services\PPEB\gm16008ppeb (AFS23085)

SUMMARY

The purpose of this report is to provide information on the results of a Request for Proposal (RFP) No. 9105-16-7020 for the provision of administrative and underwriting services for employee benefit plans for the City of Toronto, (including Public Health) and the Agencies and Corporations included in its benefits administration. The Agencies and Corporations 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; and
- Community Centres and Arenas.

This report requests authority to enter into agreements with the recommended proponents:

- Green Shield Canada – Category A Services: Extended Health Care (EHC) and Dental Benefits
- The Manufacturers Life Insurance Company (Manulife) – Category B Services: Group Life Insurance, Accidental Death & Dismemberment (AD&D) Insurance and Long Term Disability (LTD) Administration/Insurance Benefits

The City partnered with Toronto Police Services Board (TPSB) and the Toronto Transit Commission (TTC) ("Participants") in the issuance of a joint RFP for the provision of benefit plan administration and underwriting services. The RFP focused on the selection of a benefits carrier(s) with strong systems, reporting and fraud detection processes in place, and with the ability to mirror our existing benefit plan designs. The recommended proponents' submissions met all mandatory technical requirements as outlined in the RFP. This report provides an overview of the joint process and the estimated cost impact for all Participants.

The recommendations and costs provided in the Financial Impacts section will focus on agreements to administer the benefit plans for the City of Toronto and the relevant Agencies and Corporations over the five year term of the contract and two (2), one year extension options. The agreement will result in City expenses of approximately \$128.94 million net of all taxes and HST for administration fees, premiums and stop loss pooling charges over the initial five year contract term; and \$57.18 million net of all taxes and HST for administration fees, premiums and stop loss pooling charges in the event both option years are exercised.

Staff of the TTC and TPSB will be reporting to their Board separately on the RFP and the impacts of their agreements.

RECOMMENDATIONS

The Treasurer and Director, Purchasing and Materials Management Division, recommend that:

1. City Council grant authority to the Treasurer to negotiate and enter into an agreement with Green Shield Canada for the provision of Category A Services – Extended Health Care and Dental Benefits; having met all requirements as it applies to the specific Category of Service within the RFP, for the provision of the administrative and underwriting services for employee benefits plans on the basis that:
 - (a) the initial term of the agreements will be for five years, effective January 1, 2017 and ending December 31, 2021;
 - (b) the administration fees will be guaranteed for the entire term of the agreements;
 - (c) the agreement will result in City expenses of approximately \$35.24 million net of all taxes (\$38.18 million net of HST recoveries) for administration fees, premiums and stop loss pooling charges over the initial five year contract; and
 - (d) Green Shield Canada submitted the only qualified bid which met all the mandatory components within this benefit category.

2. City Council grant authority to the Treasurer to negotiate and enter into an agreement with The Manufacturers Life Insurance Company (Manulife) for the provision of Category B Services - Group Life Insurance, Accidental Death & Dismemberment Insurance and Long Term Disability Administration/Insurance Benefits; having met all requirements as it applies to the specific Category of Service within the RFP, for the provision of the administrative and underwriting services for employee benefits plans on the basis that:
 - (a) the initial term of the agreements will be for five years, effective January 1, 2017 and ending December 31, 2021;
 - (b) the administration fees will be guaranteed for the entire term of the agreements;
 - (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;
 - (d) the agreement will result in City expenses of approximately \$84.5 million net of all taxes (\$90.77 million (net of HST recoveries) for insurance premiums, administration fees, and stop loss pooling charges over the initial five year contract; and

3. City Council grant authority to the Treasurer to exercise the options to extend for up to two (2) additional separate one (1) year extensions, from January 1, 2022 to December 31, 2023 on the basis that:
 - (a) the maximum two year extension of the Green Shield agreement will result in expenses of approximately \$16.29 million net of all taxes (\$17.63 million net of HST recoveries) for administration fees, premiums and stop loss pooling charges; and
 - (b) the maximum two year extension of the Manulife agreement will result in expenses of approximately \$36.7 million net of taxes (\$39.54 million net of HST applicable taxes) for administration fees, premiums and stop loss pooling charges.

Financial Impact

The City spent approximately \$242,847,110 million in 2015 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 \$3,389,355 million and insurance premiums of approximately \$14,992,696 million.

On the basis of the new rates and the current claims utilization patterns, the total estimated potential contract award identified in this report including all option years for the City is \$188,490,963 including all applicable taxes and charges. The total potential cost to the City including all option years is \$186,122,912 net of HST recoveries.

Funding in the amount of \$24,370,229 net of HST recoveries for these benefits will be included in the respective Programs' 2017 Operating Budgets for active employees and through the employee's benefits reserve for retired employee. Annual increases from 2018-2021 will be provided for in the respective Programs' Operating Budgets.

The cost of the administration fees, premiums and stop loss pooling charges in 2017 of \$24,370,229 (net of HST recoveries) represents an increase of \$2,302,205 over 2016 ASO admin., pooling, and Insured premiums of \$22,068,023 (after taxes and HST recoveries). This annual increase of \$2,302,205 will represent a budget pressure in 2017.

Funding details for the City are provided in the table below (all amounts net of HST recoveries):

Year (January 1 – December 31)	Green Shield Canada	Manulife		Total
	EHC/Dental: ASO Fee and Out of Country Pooling	LTD: ASO Fee	Insured Premium	
2017	\$7,040,948	\$1,529,128	\$15,800,153	\$24,370,229
2018	\$7,319,236	\$1,529,128	\$16,116,156	\$24,964,520
2019	\$7,615,685	\$1,529,128	\$16,438,479	\$25,583,292
2020*	\$7,931,502	\$1,529,128	\$17,060,972	\$26,521,602
2021*	\$8,267,972	\$1,529,128	\$17,707,811	\$27,504,912
Five Year Total	\$38,175,343	\$90,769,211		\$128,944,554
2022 - Optional Year 1*	\$8,626,469	\$1,529,128	\$18,061,967	\$28,217,565
2023 - Optional Year 2*	\$9,008,458	\$1,529,128	\$18,423,207	\$28,960,793
Total Optional Years	\$17,634,928	\$39,543,430		\$57,178,358
Total Award		\$130,312,6421		\$186,122,912

*These costs assume an estimated 2% CPI increase for basic life for year 4 and 5 of the contract and for each optional renewal year.

In addition, the TPSB will experience an estimated \$5,118,257 increase net of all taxes (\$5,620,129 after applicable taxes) over the five (5) year period (\$ 1,124,026 after applicable taxes in 2017) and the TTC will experience an estimated \$4,689,173 net of all taxes (\$5,158,090 after applicable taxes) over the five (5) year period (\$1,031,618 after applicable taxes in 2017).

The following is a summary of the estimated cost impact for 2017 as compared to 2016 for the City, TPSB and TTC combined.

Participant	Estimated Employee Benefit Costs Net of HST Recoveries - Million -												
	EHC/Dental			LTD			Insured Premiums			Total			
	2016	2017	Impact	2016	2017	Impact	2016	2017	Impact	2016	2017	Impact	%
City	\$191.31	\$205.18	\$13.87	\$47.30	\$47.30	\$0.00	\$15.54	\$15.80	\$0.26	\$254.15	\$268.28	\$14.13	5.56%
TPSB	\$47.65	\$51.60	\$3.95	\$0.29	\$0.30	\$0.01	\$06.98	\$8.35	\$1.37	\$54.92	\$60.25	\$05.33	9.71%
TTC	\$91.88	\$98.61	\$06.73	\$10.03	\$10.47	\$0.44	\$06.96	\$7.37	\$0.41	\$108.86	\$116.44	\$07.58	6.96%
Total	\$330.84	\$355.39	\$24.55	\$57.62	\$58.06	\$0.45	\$29.48	\$31.52	\$02.04	\$417.93	\$444.97	\$27.04	6.47%

The Deputy City Manager & 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>

City Council, at its meeting of May 17, 18 and 19, 2011, approved report GM3.8 Request for Proposal 9105-10-7033 – Provision of Administration and Underwriting Services for Employee Benefit Plans and adopted this item on May 17, 2011 without amendments and without debate. Following is a link to the report and decision document:
<http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2011.GM3.8>

City Council, at its meeting on November 3 and 4, 2015, adopted AU4.1, Management of the City's Long-Term Disability Benefits Phase One: Improving City Management to Address Growing Trends in Long-Term Disability Benefits. Following is a link to the report and decision document:
<http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2015.AU4.1>

ISSUE BACKGROUND

The City and the Agencies and Corporations 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 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 25,601 active employees and 9,979 retirees in accordance with the applicable collective agreements and Council-approved policies. The current benefit carrier for the entire suite of benefits for the City of Toronto is Manulife.

In 2015, the City and its agencies spent approximately \$242.85 million (net of HST Recoveries) to provide these benefits.

The Toronto Police Service Board (TPSB) 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's entire suite of benefits is Manulife.

In 2015, the TPSB spent approximately \$51.9 million (after applicable taxes) to provide these benefits.

The Toronto Transit Commission (TTC) 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 carrier, 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 carrier for the TTC is Manulife.

In 2015, the TTC spent approximately \$102.6 million (after applicable taxes) to provide these benefits.

Joint RFP Process

In 2010, the City, the TTC and TPSB undertook the first joint RFP for the provision of administrative and underwriting services for employee benefit plans which resulted in the three (3) Participants awarding the contract for all benefit services to Manulife for the five (5)

year period from January 1, 2012 to December 31, 2016. The City, TTC and TPSB conducted this joint RFP based on an Auditor General recommendation from 2008.

In 2015, the City, TPSB and TTC once again embarked on the issuance of a joint RFP for the provision of administrative and underwriting services for employee benefit plans for the 2017 to 2021 period. The resulting RFP, which was released on January 11, 2016, included enhanced requirements from the prior RFP, specifically as it relates to systems, fraud detection controls and reporting, disability management processes, which included the recommendations outlined within the Auditor General's Report AU4.1 – Management of the City's Long-Term Disability Benefits Phase One: Improving City Management to Address Growing Trends in Long-Term Disability Benefits.

COMMENTS

City staff established a working team with TPSB and TTC staff to begin the process of issuing a joint Request for Proposals (RFP) for benefits services in 2015. The intent was to award a joint RFP with sufficient time to transition to a new provider, if required, by the expiry of the existing agreements in December 31, 2016.

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 in July 2015, and a contract awarded to Ernst and Young LLP 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 indicating the RFP process was carried out in accordance with the RFP, the City's procurement rules, and was fair and reasonable. A copy of the Fairness Consultant's report is included as Attachment 1.

RFP Structure

The 2016 RFP (9105-16-7020) was structured differently than the previous RFP in 2010. In the 2010 RFP, the intent was to select one proponent to provide administrative and underwriting services for all employee benefits and would be the single provider for all benefit services (Health, Dental and Insured benefits).

The 2016 RFP was broken into two categories of benefits services, Category A Services - Health and Dental Benefits, and Category B - LTD, Group Life and AD&D Benefits. This structure was put in place as a means to promote competition and broaden the pool of competitive bids as it would allow proponents to submit a proposal for either Category A, Category B or for both Category A and Category B. In the 2010 RFP process only two (2) companies submitted bids.

The RFP stated the Category A and Category B requirements would be evaluated separately and the RFP utilized a two-envelope system whereby proponents were required to submit their proposal pricing in one envelope, and in a separate envelope submit their technical

proposal/methodology to carry out the work along with information to demonstrate their experience and qualifications based on the requirements as set out in the RFP.

The selection process set out in the RFP explained that the technical proposal had to meet an overall score of 80%, and had to meet subcategory technical thresholds of 80% in order for the cost of services envelopes to be opened and evaluated.

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

Category A*	Category B*
Executive Summary and Operations Profile	Executive Summary and Operations Profile
Experience and Qualifications	Experience and Qualifications
Proposed Staff Team and Resources	Proposed Staff Team and Resources
Health and Dental Claims Management Process	Disability Claims Management Process**
System Requirements**	System Requirements
Fraud Detection and Reporting**	Fraud Detection and Reporting**
Financial and Underwriting	Financial and Underwriting
Value Added Services	Value Added Services

*Overall technical threshold of 80%

**Subcategory threshold of 80%

The additional subcategory thresholds of 80% for System Requirements, Disability Management Process and Fraud Detection and Reporting were identified as a significant priority for all the Participants and, as recommended by the Auditor General in AU4.1, were added to ensure that the resulting short listed proponent(s) had robust processes in the key technical areas of system requirements, and fraud detection and reporting.

Once a Proposal met the overall technical threshold of 80% and the two subcategory technical thresholds of 80% for each Category, then the RFP provided that, upon opening the cost of services envelopes, the lowest cost proposal would be recommended for award. In addition, as recommended by the Auditor General, the RFP was developed to request alternate pricing for the administration fees that could include percentage based, fixed rates, or a blended pricing model.

The RFP also included an additional clause that allowed the Participants, at their discretion, to lower any of the technical thresholds by up to 5% in the situation where only one Proponent passed the technical thresholds. This clause was intended to allow for more competition, if the Participants wished to exercise it.

RFP Process and Results

The Request for Proposal No. 9105-16-7020 was issued by the Purchasing and Materials Management (PMMD) on January 11, 2016, and was available for download in PDF on the City's internet website. In addition, five (5) companies were notified of the RFP and four (4) companies purchased the RFP documents from the City. The closing date for submissions was originally posted as February 12, 2016 and subsequently extended to February 16, 2016.

A voluntary proponent's meeting was held at City Hall on January 22, 2016, to allow interested proponents to ask questions in regard to the RFP and the procurement process. Four (4) companies attended the meeting.

A total of two (2) submissions (The Manufacturers Life Assurance Company and Green Shield Canada) were received by PMMD for Category A Services - Health and Dental Benefits.

Only one (1) submission (The Manufacturers Life Assurance Company) was received by PMMD for Category B - Services LTD, Group Life and AD&D Benefits.

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

An evaluation and selection committee was established with seven members (four from the City, two from the TPSB and three from the TTC). The technical proposals from Manulife (Category A and B Services) and Green Shield Canada (Category A Services) 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.

Of the two submissions received for Category A Services, only one proponent, Green Shield Canada, met all the minimum mandatory technical threshold requirements.

The second proponent, Manulife, met the overall mandatory technical threshold requirement for this category but failed on the mandatory technical threshold requirements for the two subcategories. A determination on whether to invoke clause 4.3.3(b) of the RFP was put forth by the members of evaluation team from City, TPSB and TTC to the executive team from each of the Participants. The Fairness Consultant advice/opinion was also solicited. Overall it was determined that the importance of the higher technical thresholds, which put more weight on items like fraud detection and reporting, was considered to be more important than lowering the technical thresholds to allow for more competition.

The Cost of Services envelopes were opened for Green Shield Canada for Category A and Manulife for Category B. Although, the Proponents were given the ability to propose administrative fees in different ways, both of the proponents only provided percentage based pricing for the administration fee.

Cost Impact of the RFP Results

Category A Services - Cost Impact by the City, TPSB and TTC

Green Shield Canada's proposal will increase costs for the City, TPSB and TTC as follows over the 5 year contract period:

Estimated Cost Increase (Category A) Net of HST Recoveries – January 1, 2017 to December 31, 2021

-Millions-

Organization	Estimated Increase (over 5 years)	Estimated 2017 Increase
City of Toronto	\$10.07	\$2.01
Toronto Police Services Board (TPSB)	\$5.62*	\$1.12
Toronto Transit Commission (TTC)	\$5.16	\$1.03
Total	\$20.84	\$4.16

*Note: TPSB estimated increase would be offset by employee/retiree co-pays of approximately \$0.41

Category B Services - Cost Impact by the City, TPSB and TTC

Manulife's proposal will only result in very minimal increase in costs for the City, TPSB and TTC as follows:

Estimated Cost Increase (Category B) After Taxes – January 1, 2017 to December 31, 2021

-Millions-

Organization	Estimated Increase (over 5 years)	Estimated 2017 Increase
City of Toronto	\$0.61	\$0.12
Toronto Police Services Board (TPSB)	\$0.54	\$0.12
Toronto Transit Commission (TTC)	Unchanged	
Total	\$1.15	\$0.23

As a result, the following Proponents are being recommend for award:

1. Category A Services - Health and Dental Benefits

Green Shield Canada's technical proposal met the minimum technical thresholds and as it is the only remaining eligible proponent.

2. Category B Services - LTD, Group Life and AD&D Benefits

Manulife was the only proponent in this category and their Proposal met the minimum technical thresholds.

The Fair Wage Office has reported that the recommended firms have indicated that they reviewed and understand the Fair Wage Policy and Labour Trades requirements and have agreed to comply fully.

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

Next Steps

Transition – Category A Services

Transition plans of Category A services to the recommended proponent, Green Shield Canada, will commence immediately following Council approval. Due to the length of the RFP process the transition period has been significantly reduced.

Transition – Category B Services

Manulife, is the existing benefits provider for the City of Toronto's Category B Services, as such, there will be no transition requirement for these benefits. However, it should be noted that the City has been working with Manulife over the last eight (8) months, and will continue over the coming months, to address the recommendations identified in the Auditor General's report and approved by City Council on November 3, 2015.

In addition, Council should be aware that the Auditor General will be submitting a Phase 2 report on the City's LTD Program at an upcoming Audit Committee meeting. This report will likely also identify a number of issues and recommendations to enhance the administration and oversight of the City's LTD Program and Manulife's administration. Staff from both the City and Manulife have met with staff from the Auditor General's office to review preliminary findings and recommendation and have already begun to implement policy and procedure changes to address the recommendations. Staff are confident that the remaining recommendations will be addressed through policy and procedure changes and through negotiations of the LTD contract for the new five (5) year period.

CONTACT

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SIGNATURE

Michael Pacholok
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ATTACHMENTS

Attachment 1 – Fairness Monitor