

TORONTO TRANSIT COMMISSION REPORT NO.

MEETING DATE: September 18, 2008

SUBJECT: PROCUREMENT AUTHORIZATION – PURCHASE ORDER
AMENDMENT FOR THE BENEFIT PLANS CARRIERS FOR
EMPLOYEES AND PENSIONERS

ACTION ITEM

RECOMMENDATION

It is recommended that the Commission approve the issuance of Purchase Order Amendments:

1. to Great-West Life Assurance Company (GWL) to increase the total upset limit amount by \$4,400,000 to a total revised amount of \$11,400,000 for the provision of administrative and adjudication services for the healthcare, dental and out-of-province emergency medical plans and extend the contract from December 31, 2008 to December 31, 2010;
2. to Sun Life Assurance Company of Canada (Sun Life) to increase the total upset limit amount by \$1,200,000 to a total revised amount of \$3,550,000 for the provision of administrative and adjudication services for the group life, accidental death & dismemberment and long term disability plans and extend the contract from December 31, 2008 to December 31, 2010.

FUNDING

Funds will be included in the 2009 and subsequent TTC Operating Budgets to cover all expenditures associated with these benefits as required.

Both GWL and Sun Life were requested to provide quotations based on a two year extension of their contracts. GWL confirmed that their rates will remain unchanged over the two year period. Sun Life's increases to rates are consistent with increases in the market as confirmed by Mercer (Canada) Limited (Mercer) (for example, their flat dollar rates for claim processing have increased marginally by 2.5% for inflation purposes).

Mercer's analysis of the quotations submitted concluded that both carriers have provided quotes that are overall competitive relative to the rates of other similar large organizations.

BACKGROUND

At its meeting of June 18, 2003, the Commission approved the award of 5-year contracts to GWL for the provision of administrative and adjudication services for the TTC's healthcare and dental and out-of-province emergency medical plans in the upset limit of \$7,000,000 and to Sun Life for the provision of administrative and adjudication services for the group life, accidental death & dismemberment and long term disability plans in the upset limit of \$2,350,000 for the period of January 1, 2004 to December 31, 2008.

DISCUSSION

Due to the complexity of the renewal of the benefit contracts, the Commission retained the services of Mercer to assist with the development of the Request For Proposal (RFP) and the evaluation process. Mercer's scope of work also included a review of the Commission's current benefit underwriting arrangements. In doing so, Mercer identified a number of issues and suggested some changes that would improve the various benefit underwriting arrangements, pooling levels and premium rates. However, while in the initial stage of preparing for the RFP, it was determined that it was not in the Commission's best interest to proceed with the RFP at this time for various reasons as detailed below.

As the Commission is considering implementing the majority of changes suggested by Mercers, these changes would be facilitated in a more efficient fashion using the current carriers who know and understand the Commission's history, benefit design plans and underwriting arrangements.

In addition, the Commission has been approached by the city to potentially conduct a benefit carrier RFP collectively in an effort to achieve economies of scale. The City's current benefit carrier contract will expire at the end of 2010. Extending the Commission's current contracts (which expire on December 31, 2008) by two years will bring the expiration dates for the two contracts (the City's and the Commission's) in line with each other.

Furthermore, given that the Commission is proceeding through interest arbitration, an extension will allow the time to properly manage and administer any changes in benefits resulting from the arbitration award.

Based on current expenditure levels, the review of carrier quotations as well as anticipated increases for workforce levels, utilization and inflation, the administration costs associated with providing administrative and adjudication services for the healthcare, dental and out-of-province plans are estimated to be approximately \$4,400,000 over the next two years.

Based on current expenditure levels, the review of carrier quotations as well as anticipated benefit improvements from the interest arbitration process and anticipated increases for workforce levels and inflation, the administration costs associated with providing

administrative and adjudication services for the group life, accidental death & dismemberment and long term disability plans are estimated to be approximately \$1,200,000 over the next two years.

The upset limits include the applicable provincial and federal taxes currently in effect on the administration charges. It should be noted that the actual costs of claims and related taxes are funded separately in each year as required.

JUSTIFICATION

A two year contract term extension to GWL and Sun Life will ensure that the full range of benefits consisting of healthcare and dental, group life insurance, accidental death & dismemberment, long term disability, and out-of-province medical coverage that the Commission provides to its employees and pensioners will not only be maintained in a financially competitive manner, but will also allow the Commission to finalize and implement any changes resulting from the arbitration award, to make required changes to benefit underwriting arrangements, and to prepare for a potential joint RFP with the city in 2010 in order to achieve some economies of scale.

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