



STAFF REPORT ACTION REQUIRED

Procurement Authorization – Benefit Plan Carrier for Provision of Employee and Pensioner Benefits

Date:	July 11, 2016
To:	TTC Board
From:	Chief Executive Officer

Summary

The purpose of this report is to obtain authorization to award contracts to benefit plan carriers that will provide administrative and underwriting services for all TTC employee and pensioner benefit plans over an initial five year term.

Recommendations

It is recommended that the Board:

1. Authorize the award of a contract for the provision of health and dental benefits (Category A) to Green Shield Canada on the basis that:
 - a. the initial contract term is a five year period commencing January 1, 2017 and ending December 31, 2021; and
 - b. the contract will result in TTC expenses of approximately \$13,766,000 not including applicable taxes (\$15,141,000 including applicable taxes) for administration fees, premiums, and stop loss pooling charges over the initial five year contract term; and
 - c. Green Shield Canada submitted the only qualified compliant bid on this benefit category; and
 - d. since this is a joint initiative between three participants (the TTC, the City of Toronto (City) and the Toronto Police Services Board (TPSB)), Green Shield's offer is contingent upon each of the three participants awarding Green Shield a contract. The approval for the City and TPSB contracts is being sought at City Council's July 12, 2016 meeting; and
2. Authorize the award of a contract for the provision of LTD, Group Life, and AD&D benefits (Category B) to The Manufacturers Life Insurance Company (Manulife) on the basis that:
 - a. the initial contract term is a five year period commencing January 1, 2017 and ending December 31, 2021; and

- b. the contract will result in TTC expenses of approximately \$21,676,000 not including applicable taxes (\$23,786,000 including applicable taxes) for insurance premiums and administration fees, including stop-loss insurance, over the initial five year contract term; and;
 - c. Manulife submitted the only qualified compliant bid on this benefit category; and
 - d. since this is a joint initiative between three participants (the TTC, the City of Toronto (City) and the Toronto Police Services Board (TPSB)), Manulife's offer is contingent upon each of the three participants awarding Manulife a contract. The approval for the City and TPSB contracts is being sought at City Council's July 12, 2016 meeting; and
3. Delegate authority to the CEO to exercise contract extension options, which allow up to a maximum of two additional years beyond the expiration of the initial five year term for each contract, from January 1, 2022 to December 31, 2023 on the basis that:
 - a. the maximum two year extension of the Green Shield contract will result in TTC expenses estimated at \$6,828,000 not including applicable taxes (\$7,510,000 including applicable taxes) for administration fees, premiums, and stop loss pooling charges; and
 - b. the maximum two year extension of the Manulife contract will result in TTC expenses estimated at \$11,110,000 not including applicable taxes (\$12,192,000 including applicable taxes) for insurance premiums and administration fees including stop-loss insurance; and
4. Authorize the hiring of two additional temporary staff resources for the period commencing not earlier than August 1, 2016 and ending on or before December 20, 2017 for the purpose of assisting the existing two staff members responsible for transitioning to a new health and dental benefit carrier. It is estimated the additional resources will result in an expense of \$200,000 to TTC over the approximate 17 month term.

Financial Summary

Sufficient funds will be included in the 2017 and subsequent TTC Operating budgets to cover all expenditures associated with this contract, including the two temporary labour assistance resources required in 2017 to complete the transition to a new health and dental benefit carrier.

Unbudgeted temporary labour assistance is required in 2016 to prepare for the transition from the existing health and dental benefits carrier to the recommended carrier, if approved by the TTC Board. The estimated cost for the two resources is \$59,000, however, workforce gapping savings will be used to offset this unbudgeted expense.

The Chief Financial & Administration Officer has reviewed this report and agrees with the financial impact information.

Decision History

At its meeting June 18, 2003, the Board approved the award of a five year contract to Great West Life Assurance Company (GWL) for the provision of administrative and underwriting services for the TTC's healthcare, dental and out-of-province emergency medical benefit plans and to Sun Life Financial for the provision of administrative and underwriting services for the TTC's group life insurance, accidental death & dismemberment (AD&D), and long term disability plans for the period January 1, 2004 to December 31, 2008.

http://www.ttc.ca/About_the_TTC/Commission_reports_and_information/Commission_meetings/2003/Jun_18_2003/Other/Renewal_Of_Benefit_P.jsp

At its meeting of March 3, 4 and 5, 2008, Toronto 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 Agencies, Boards and Commissions (ABCs) 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.

At its September 18, 2008 meeting, the Board approved the extension of the contracts with GWL and Sun Life Financial to December 31, 2010. Subsequently, staff extended these contracts to December 31, 2011 to allow the TTC, the City and the TPSB benefit contract expiration dates to coincide with each other and to provide sufficient time to coordinate and issue a joint Request for Proposal (RFP).

A joint RFP with the TTC, the City and the TPSB as participants was undertaken to select a benefit carrier(s) to provide the required services after the common contract expiry date of December 31, 2011.

Based on the results of the joint RFP, at its June 8, 2011 meeting, the Board approved entering into a contract with The Manufacturers Life Assurance Company (Manulife) for the provision of administrative and underwriting services for all of the TTC employee and pensioner benefit plans for a five-year period effective January 1, 2012 and ending December 31, 2016.

http://www.ttc.ca/About_the_TTC/Commission_reports_and_information/Commission_meetings/2011/June_8_2011/Reports/PA_Benefit_Plan_Carr.pdf

Based on the same RFP, the City and TPSB also entered into contracts with Manulife for the same period.

Issue Background

The TTC provides a full range of benefits to approximately 13,500 active employees and their eligible spouses and dependants, as well as to approximately 6,000 pensioners. TTC's healthcare, dental care and long term disability coverage is provided on an Administrative Services Only (ASO) basis. This means that the TTC is responsible for paying the benefits carrier the cost of all benefit claims plus an administration fee for adjudicating the claims. In addition, life insurance and accidental death and dismemberment (AD&D) insurance are provided on an insured basis which means that the TTC pays insurance premiums to the benefits carrier for these benefits. The TTC and its eligible employees co-share the costs of life insurance and AD&D premiums on a 50/50 basis.

In 2015 the TTC spent approximately \$91,127,000 not including applicable taxes (\$100,046,000 including applicable taxes) to provide all healthcare, dental, life insurance, AD&D, and LTD benefits to eligible employee, dependents and pensioners. This amount includes Administrative Services Only (ASO) fees paid to TTC's benefit carrier of approximately \$1,577,000 not including applicable taxes (\$1,729,000 including applicable taxes) and insurance premiums of approximately \$3,084,000 not including applicable taxes (\$3,393,000 including applicable taxes).

Accessibility/Equity Matters

The recommendations have no accessibility or equality issues.

Comments

The joint RFP process with the City and TPSB that was used to establish the current contract with Manulife resulted in lower pricing for the TTC, City and TPSB; as such a joint RFP process was undertaken to establish the renewal contract.

Staff from the City, TPSB and TTC jointly developed the RFP and formed the evaluation team, which was charged with evaluating the proposal responses and recommending the benefit carrier(s) for the award of a contract(s).

As a result of the ongoing police investigation with the TTC benefit fraud case and need for greater control in the area of systems, fraud prevention and detection, the RFP focused the selection of a benefit carrier(s) with strong systems reporting and fraud detection processes in place, and with the ability to mirror our existing benefit plan designs. The City was responsible for issuing the RFP and acting as the main point of contact during the RFP process.

The RFP for the Provision of Administrative and Underwriting Services for Employee Benefit Plans (RFP # 9105-16-7020) was publicly advertised on the City’s website on January 11, 2016, and closed on February 16, 2016. In addition to the public advertisement, five companies were notified of the RFP, out of which four companies purchased the RFP documents from the City, and two companies submitted a proposal.

Given the size and financial impact of the joint RFP, the team determined that it would be prudent to retain a fairness monitor that would provide oversight and advice throughout the RFP process. As such, the City retained Ernst & Young Inc. to provide a fairness monitor. In addition to oversight and advice, the fairness monitor has provided an opinion that indicates the RFP process was carried out in a fair and reasonable manner (see attached Fairness Monitor Report).

The RFP divided the required benefit services into two distinct categories, one that consisted of health and dental benefit services (Category A), and the other that consisted of LTD, Group Life and AD&D benefit services (Category B). Staff designed the RFP in this manner in order to promote competition as some benefit service carriers specialize in Category A type services, while others specialize in Category B type services, while others can provide all types of benefit services.

Proponents had the option to submit offers on Category A only, or Category B only, or both A & B, however any offer had to be based on providing the services to all three participants (i.e. TTC/City/TPSB), a proponent could not submit an offer, for example, on TTC Category A only, or on any Category for only two participants.

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 RFP stated the evaluation team would score the proposals for Category A and Category B out of 100%, based on criterion that was disclosed in the RFP as follows:

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

The RFP also disclosed the weight assigned to each criterion and stated that in order for a proponent to be considered for award of a contract, an overall score of 80% or higher was required, and in addition, a minimum score of 80% was required for two specific criterion per category. Specifically, for Category A, 80% was required for System Requirements as well as Fraud Detection and Reporting, while in Category B, 80% was required for Disability Claims Management Process and Fraud Detection and Reporting.

The RFP stated the pricing envelope would only be opened and considered by the evaluation team for those proponents that scored above the minimum threshold (80% or higher overall and in the two aforesaid specific criterion), and the lowest priced proposal that met the minimum threshold score would be recommended for award.

Regarding the 80% thresholds, the RFP contained provisions that allowed the evaluation team to lower the overall threshold and the thresholds of the two specific criterion by up to 5% each in the event no proponent met the 80% minimum or if only one proponent met the 80% minimum in order to allow an additional proponent(s) to pass the minimum threshold.

Regarding health and dental (Category A), the proponents were required to provide firm pricing for the five-year term starting January 1, 2017. However, the RFP stated that the pricing for the Group Life, AD&D and the Group Life Stop Loss, would be firm for the first three years of the contract and any annual increase in the fourth and fifth year would not exceed the lesser of 10% or the annual increase in the Consumer Price Index (all items Toronto).

Two companies submitted proposals. The Manufacturers Life Insurance Company submitted a proposal on Category A and Category B, and Green Shield Canada submitted a proposal on Category A only.

The evaluation team proceeded to evaluate the Manulife and Green Shield proposals for each category. Scoring by the evaluation team was based on the proposal submissions, however as set out in the RFP, the evaluation team also reserved the right to seek clarification from a proponent(s) regarding its submission and could also request to interview a proponent(s), which could result in an adjustment to the final scores.

In Category A, Green Shield was assigned a score that exceeded the minimum 80% overall threshold and exceeded the minimum 80% threshold for the two specific criterion. Green Shield's systems, and fraud detection and reporting capabilities were robust and rated very high by the evaluation team.

In Category A, Manulife was assigned a score that did not meet the minimum of 80% for the two specific criterion. The evaluation team proceeded with the clarification and interview process; however the adjusted scores did not result in Manulife passing the minimum threshold for the two specific criterion.

Regarding the applicable provision that allowed the evaluation team to lower the minimum threshold, it was not invoked as the participants deemed it prudent to maintain

the higher standard for these critical aspects, namely, the benefit carrier's system requirements/fraud detection and reporting capabilities.

In Category B, Manulife was assigned a score that exceeded the minimum 80% overall threshold and exceeded the minimum 80% threshold for the two specific criterion.

The evaluation team then proceeded to open the pricing envelopes.

Green Shield, the only proponent for Category A that passed the minimum threshold and hence the only qualified proposal, provided pricing that is projected to result in premiums for business travel and out of country medical coverage, along with administration fees for healthcare and dental, and stop loss pooling charges in the approximate amount of \$15,141,000 (including applicable taxes) over the initial five-year contract term. Based on the current rates TTC pays, the projected premiums and administration fees over the same five year period would be approximately \$9,983,000 (including applicable taxes), which is \$5.158M less; as such the new rates result in total costs that are approximately 51.7% higher compared to the current rates.

Green Shield has not previously provided benefit services to the TTC, City or TPSB. The evaluation team checked the references Green Shield provided in its proposal. The reference checks confirmed Green Shield had performed the required services in a satisfactory manner and supported the evaluation team's assessment of Green Shield's proposal.

Manulife, the only proponent for Category B, submitted pricing that is projected to result in group life, AD&D insurance premiums, and LTD and group life stop loss administration fees of approximately \$23,786,000 (including applicable taxes) over the initial five-year contract term. The proposed rates are the same as the current rates paid by the TTC.

Since only proposals were accepted based on performing the services for all three participants (TTC/City/TSPB), each participant is required to issue its own contract to Green Shield and Manulife. At its June 13, 2016 meeting, the City's Government Management Committee adopted the City staff recommendations to enter into agreements with Green Shield Canada and Manulife. The final approval for the City and TPSB contracts is being sought at City Council's July 12, 2016 meeting.

The optional contract extensions, up to a maximum of two additional years beyond the initial five-year term will be subject to price negotiations and each company's satisfactory performance.

Due to the size and complexity of the TTC benefits plans, a significant amount of work is involved with transitioning to a new health and dental benefits carrier. In order to ensure TTC pensioners and employees experience a seamless transition to the new benefits carrier, staff must undertake preparatory work approximately six months in advance of the new contract start date. Therefore, as set out in the recommendation, in order to assist with this process, two temporary staff resources are required starting August 1, 2016; the additional labour expense will be offset by workforce gapping savings in 2016. The

temporary staff resources will also be needed in 2017 to complete the transition and integration process up to December 20, 2017, and appropriate funds will be included in the 2017 Operating budget for this work.

As only two proposals were received, staff obtained the reasoning from those companies that purchased the RFP documents from the City but did not submit a proposal. The following information was obtained:

Sun Life Financial – indicated the rate and fee guarantees were beyond Sun Life’s risk tolerance and due the size and complexity of the program it would be difficult to meet the required January 1, 2017 effective date.

Great West Life – indicated it would have a significant number of deviations and conditions that would preclude serious consideration of its bid. In addition, the implementation timelines relative to the complexity of the plan in terms of structure and underwriting basis was out of scope for GWL at this time. Further, GWL advised that the pricing necessary to be competitive compounded by the guarantee requirements and procurement RFP cycle limited GWL’s ability to not only cover all expenses and associated risk but restricted any opportunity to generate a return on the significant investment that would be required to implement the benefit plans and operate them.

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Attachment – Fairness Monitor Report

Fairness Monitor Report re: RFP 9105-16-7020 Benefits Carrier

1. Ernst & Young LLP (“**EY**”) was engaged to act as the Fairness Monitor with respect to RFP 9105-16-7020 Benefits Carrier (the “**RFP**”). We have completed our engagement to act as Fairness Monitor of the RFP with respect to the provision of a benefits carrier for the City (its agencies, boards and commissions), the TTC and the Toronto Police Services (the “**TPS**”).

Disclaimer

2. In preparing this Report, EY has been provided with and, in making comments herein, has relied upon the RFP, the Evaluation Committee’s (defined below) scoring of the bidders submissions including the clarification answers and the presentation by one of the bidders (the “**Information**”) EY has not audited, reviewed or otherwise attempted to verify the accuracy or completeness of such information and, accordingly, EY expresses no opinion or other form of assurance in respect of such information contained in this Report.

Background

3. The evaluation committee (the “**Evaluation Committee**”), consisted of nine benefit experts from the City, the TTC and TPS. In addition, there were observers from each of the City, the TTC and TPS as well as the representatives from the City’s Purchasing and Materials Management Division at each of the meetings or conference calls.
4. Bidders were invited to bid for Category A (Health and Dental Benefits), Category B (LTD, Group Life, and AD&D Benefits) or both Categories A and B. Each Category was to be evaluated separately and each prospective bidder was required to score a minimum of 80% on its technical submission for certain sections and for the proposal overall. The RFP did allow the Evaluation Committee to lower this requirement to 75% in the event that no bidders scored greater than 80% or at the sole discretion of the Evaluation Committee.
5. Any evaluation of the bids or any recommendations with respect to the evaluation of the bids by the Evaluation Committee with respect to the RFP was considered outside the scope of this engagement.

RFP Process

6. Key dates related to the bid process are as follows:
 - RFP issuance date: January 11, 2016
 - Voluntary Information Session: January 19, 2016
 - Deadline for questions: January 26, 2016
 - Submission Deadline: February 16, 2016
 - Clarification questions issued (both bidders): March 23, 2016
 - Deadline for clarification answers (both bidders): March 30, 2016
 - Presentation by Bidder 2: April 18, 2016

7. The Evaluation Committee received two bids from bidders for Category A and one bid from a bidder for Category B (this bidder “**Bidder 2**” also submitted for Category A). Clarification questions were requested from both bidders and a presentation was requested from the bidder who submitted for Category A and B.
8. EY, as the Fairness Monitor, was fully engaged in the procurement process and was in attendance in person or by conference call during the following steps:

<u>Step</u>	<u>Fair</u> <u>(Yes or No)</u>
1. Development of RFP	yes
2. Development of scoring matrix	
3. Voluntary Information Session	
4. Questions from bidders	
5. Answers provided to all bidders	
6. Clarification questions and answers	
7. Presentation Bidder 2	
8. Evaluation of Bids	Yes

9. As a result of the consensus decision of the Evaluation Committee, Bidder 2 received a score greater than the minimum 80% threshold for Category B, but not for Category A. The other bidder (“**Bidder 1**”) for Category A received a consensus score of the Evaluation Committee greater than the minimum threshold of 80%.
10. The Evaluation Committee reached a consensus decision to not lower the threshold for Bidder 2’s bid for Category A. As a result, Bidder 1 was the successful bidder for Category A and Bidder 2 was the successful bidder for Category B.
11. The Evaluation Committee then opened the financial bids and checked the references of Bidder 1 which were found to be satisfactory.
12. The process with respect to the preparation of the RFP as well as the evaluation of the bids received, of the presentation and clarification answers was in accordance with the terms of the RFP, the City’s procurement rules, and was fair and reasonable.