

REPORT
FROM



THE PERSONNEL
DEPARTMENT

TO: Personnel and Animal Welfare Committee	DATE June 11, 2015
REFERENCE:	COUNCIL FILE

SUBJECT: **Civilian Flex Benefits Program Contracts**

RECOMMENDATION:

That the City Council:

- (a) Approve granting authority within the Los Angeles Administrative Code (LAAC) for the Personnel Department to enter into contracts with terms up to five years for Flex Benefits Program service providers without additional City Council approval;
- (b) Request the Office of the City Attorney to prepare and present the necessary ordinance amending LAAC Division 10, Section 10.5 to provide authority for up to five-year term for the Flex Benefit Program service provider contracts; and
- (c) Approve and authorize the Personnel Department General Manager to execute contracts or amendments as applicable, subject to the approval of the City Attorney, incorporating the contract terms below for the following Flex Benefit Program providers contract in order to conform to a Master Procurements and Contracting Schedule as recommended by the Joint Labor-Management Benefits Committee:
 - **Delta Dental** to provide dental insurance services for the City's Civilian Modified Flexible Benefits Program from January 1, 2013 to December 31, 2016;
 - **The Standard** to provide life insurance services for the City's Civilian Modified Flexible Benefits Program from January 1, 2011 to December 31, 2017;
 - **The Standard** to provide disability insurance services for the City's Civilian Modified Flexible Benefits Program from January 1, 2011 to December 31, 2017;
 - **The Standard** to provide accidental death and dismemberment insurance services for the City's Civilian Modified Flexible Benefits Program from January 1, 2013 to December 31, 2017;
 - **WageWorks** to provide third party administrative services for the health, dependent care, and commuter tax-advantage accounts for the City's Civilian Modified Flexible Benefits Program from January 1, 2013 to December 31, 2017; and
 - **Managed Health Network** to provide employee assistance program services for the City's Civilian Modified Flexible Benefits Program from January 1, 2013 to December 31, 2017.

CHERYL PARISI, CHAIRPERSON

WENDY G. MACY, VICE-CHAIRPERSON

JOINT LABOR-MANAGEMENT BENEFITS COMMITTEE

SUMMARY:

The Personnel Department's Employee Benefits Division administers the City's Civilian Flex Benefits (Flex Benefits) Program for active City civilian employees and their qualified dependents with recommendations from the Joint Labor-Management Benefits Committee (JLMBC). The JLMBC is composed of five management and five labor representatives. The mission of the Flex Benefits Program is to promote employee health/wellness with competitive benefits at a reasonable level relative to the City's financial capacity.

The Flex Benefits Program covers approximately 24,150 employees and 32,450 dependents, offering health, dental, life, disability, employee assistance and other benefits. The Personnel Department administers a number of service provider contracts for the various benefit plans, administrative/recordkeeping services, and consulting services for the Flex Benefits Program.

At its meeting on February 5, 2015, the JLMBC adopted a series of recommendations for implementing improvements and efficiencies in procurement and contracting policies relative to administration of the Flex Program. The JLMBC is recommending that the City Council provide ongoing authority within the City of Los Angeles Administrative Code for the Personnel Department to enter into five-year contracts for Flex Benefits service provider contracts, and to adopt contract extensions for certain incumbent service providers for the purpose of conforming to a five-year procurement and contracting schedule as detailed in this report.

BACKGROUND

The Personnel Department's Employee Benefits Division administers the City's Civilian Flex Benefits (Flex) Program for active City civilian employees and their qualified dependents in coordination with the JLMBC. A staff of five professional and five clerical staff are responsible for overseeing a program that includes over 56,600 covered individuals, seven unique benefit programs, and eleven separate contracting relationships.

In January 2015 the JLMBC established an Ad Hoc Procurements and Contracts Subcommittee consisting of two management representatives (City Administrative Officer Miguel Santana and Personnel Department General Manager Wendy Macy) and two labor representatives (SEIU representative David Sanders and L.A. County Building & Construction Trades Council representative Chris Hannan) to develop recommendations for improving the procurement/contracting processes for the Flex Benefits Program. The Subcommittee developed a series of recommendations, subsequently approved by the JLMBC, which includes the following:

- (1) Developing a Master Procurements and Contracting Schedule for Flex Benefit services;
- (2) Developing a proposal for establishing ongoing authority to enter into contracts for up to five years in length with Flex Benefits services providers; and
- (3) Developing a proposal for adopting contract extensions for certain incumbent service providers for the purpose of conforming to the Master Procurements and Contracting Schedule.

A. Master Procurements and Contracting Calendar

In developing its Master Procurement and Contracting Calendar, the JLMBC identified the following proposed best practice objectives:

- (1) Procurements should be initiated approximately 18 months prior to the date that a vendor will be required to perform services such that sufficient time is available to develop the highest-quality Request for Proposal (RFP), issue as appropriate Requests for Information (RFIs) to survey the provider landscape and assess potential services, select a provider no later than six months prior to the date the vendor will be providing services, provide sufficient time for transition in the event of replacement of an incumbent, and negotiate/execute a contract in advance of the date the vendor begins providing services.
- (2) Procurements should be issued and administered on an established schedule allowing for proper planning in the development of and dedication of resources to each procurement.
- (3) The City should have the ability to procure for longer-term contracts (up to five years) than is the case generally for personal services contracts, as longer-term contracts may provide the City with the opportunity to contract for more favorable pricing and other terms, and also ensure greater flexibility in balancing priorities in the administration of the Flex Benefits Program. In addition, the Subcommittee noted that in practice the JLMBC has regularly recommended, and Council has approved, contract extensions beyond three years for most Flex service providers.

The JLMBC approved a Master Procurement and Contracting Calendar meeting these objectives (**Attachment A**) while also taking into account the current contract terms and expirations.

B. Administrative Code Authority to Enter Into 5-Year Contracts for Flex Benefit Program Service Providers

To implement the Master Procurement and Contracting Calendar, the City would need the authority to enter into five-year contracts with Flex Benefits service providers. Generally, the City of Los Angeles Administrative Code (LAAC) provides that personal services contracts be limited to three years duration. Certain exceptions to this limitation are provided for in LAAC Division 10, Section 10.5.

In order to enter into contracts with terms extending beyond three years City Council approval is required. In the past such extensions have been sought by the JLMBC and granted by Council on a per-contract and recurrent basis for most Flex service providers. The JLMBC and Personnel Department are recommending that authority to enter into five-year contracts be included within LAAC Division 10, Section 10.5 due to the specialized nature of the services provided under the Flex Benefits Program and the following potential benefits to the City:

- **Pricing and Resource Investment** - Promote more favorable pricing terms and a greater willingness on the part of vendors to invest resources into the City's programs.
- **Member Service Continuity** – Establish greater service provider continuity and limit disruption for City employees and their dependents for services (e.g. healthcare providers)

within which ongoing relationships between the user and practitioner are often a vital part of creating quality care.

- **Resource Efficiency** - Reduce the allocation of personnel resources to procurements, which allows those resources to be redirected to other vital areas requiring attention including member services, compliance, payroll/administrative processes, and communications.
- **Reducing Consulting Costs** – Reduce consulting and other administrative costs required to develop procurements, evaluate proposals and assist with developing contracts.
- **Procedural Efficiency** – Eliminate the need to process contract extensions beyond three years through Council on a per-contract basis, given that this has been a recurring pattern in the past with respect to the administration of Flex service provider contracts.

Notwithstanding these benefits, as is the case for City personal services contracts generally and Flex Program contracts specifically, each contract provides the City with the option for at-will termination in the event the City determines a compelling reason exists for terminating a contract or accelerating a new search process. The City will not be obligated to either negotiate or maintain a five-year contract if that is not determined to be in the best interests of the City. Further, longer-term contracts will not in any way diminish the review and disciplines associated with the annual rate renewal process for certain Flex services (including health and dental providers).

The JLMBC further finds that establishing this longer-term procurement and contracting schedule will allow the City to incorporate even more rigorous best practices into the annual renewal process, including expanded benchmarking reviews, such that the JLMBC can validate the provider's services relative to cost and determine whether justification for the longer-term contracting relationship continues to exist and is in the best interests of Flex Program participants.

By adopting its schedule and institutionalizing five-year contracts, the JLMBC and Personnel Department believe the following improvements can be added to the development of Flex Program procurements:

- a) **Employee Engagement Opportunities** - Flex members have important and consequential relationships with the Flex Program's various benefit plan providers. Whether they be relationships with healthcare providers, Employee Assistance Program (EAP) professionals, or other service providers, obtaining employee feedback on these programs should inform the development of procurements and decisions regarding the necessary services. By adopting this procurement schedule and institutionalizing five-year contracting opportunities, the JLMBC will be incorporating opportunities for:
 - i. *Survey/Focus Group Feedback* – Opportunities for Flex members to provide feedback via assessment tools such as surveys and focus groups as to the quality and availability of services, benefit service awareness, and other items which may impact the development of a particular provider search.
 - ii. *Advance Member Communications* – Effectively communicating upcoming procurements to Flex members to improve the transparency of and engagement with

the search process.

b) **Best Practice Review/Benchmarking/Provider Surveys** – The following types of comparative analyses assist in developing the highest quality procurements and achieving best outcomes:

- i. *Best Practice Review* - Opportunities for best practice reviews of other agencies, their providers, the design of their procurements, contractor evaluations, and other information which can assist in identifying best practices for establishing service provider relationships.
- ii. *Benchmarking* - Opportunities for benchmarking the City's Plan against other agencies relative to plan design, service and satisfaction levels, fees, etc.
- iii. *Provider Surveys* – Opportunities for issuing Requests for Information (RFIs) to survey the provider landscape for potential benefits and services to inform the development of Requests for Proposal (RFPs).

On this basis the JLMBC and General Manager Personnel Department are recommending that the City Council approve the recommendation to provide the authority to enter into five-year contracts for Flex Benefit services, and request the Office of the City Attorney to draft and return with the necessary ordinance to amend LAAC Division 10, Section 10.5.

C. Contract Extensions Required to Conform to Master Procurements and Contracting Schedule

In order to conform to the long-term procurement/contracting schedule as identified in this report, the JLMBC and Personnel Department are requesting authority to extend certain incumbent Flex Benefit service provider contracts, subject to the review and approval by the City Attorney of the necessary contract amendments. These contract extensions are summarized in **Attachment B** and include the following Flex Benefits programs:

- Dental Insurance
- Life Insurance
- Disability Insurance
- Accidental Death & Dismemberment Insurance
- Tax-Advantaged Savings Programs
- Employee Assistance Program
- Consulting Services

D. Conclusion

The recommendations contained within this report provide opportunities for the Flex Benefits Program to establish best practices and efficiencies for issuing procurements, executing contracts, engaging with Flex Program members, and benchmarking Flex Benefits service success. The JLMBC recommends that the City Council approve recommendations for long-term authority to enter into five-year contracts for Flex Benefit Program service providers and extend incumbent contracts in order to conform to the Master Procurements and Contracting Schedule established by the JLMBC.

Attachment A

PROPOSED ONGOING PROCUREMENT SCHEDULE				
	MAX TERM LENGTH	START DATE	TERM DATE	INITIATE RFP
Search Year – 2015				
CONSULTING	5	1/1/2016	12/31/2020	2/1/2015
Search Year – 2016				
HEALTH	5	1/1/2017	12/31/2021	7/1/2015
DENTAL	5	1/1/2017	12/31/2021	7/1/2015
THIRD-PARTY ADMINISTRATION	5	6/5/2017	6/4/2022	1/1/2016
Search Year – 2017				
LIFE	5	1/1/2018	12/31/2022	7/1/2016
DISABILITY	5	1/1/2018	12/31/2022	7/1/2016
AD&D	5	1/1/2018	12/31/2022	7/1/2016
FSA/DCRA	5	1/1/2018	12/31/2022	7/1/2016
EAP	5	1/1/2018	12/31/2022	7/1/2016
Search Year – 2018				
NONE	n/a	n/a	n/a	n/a
Search Year – 2019				
NONE	n/a	n/a	n/a	n/a

SUMMARY OF RECOMMENDED INCUMBENT FLEX PROVIDER CONTRACT EXTENSIONS		
Item	PROVIDER – BENEFIT PROGRAM	RECOMMENDED CITY COUNCIL ACTION
1	Delta Dental - Dental Insurance	Provide authority to extend contract for one additional year (through 12/31/16)
2	The Standard - Life Insurance	Provide authority to extend contract for two additional years (through 12/31/17)
3	The Standard – Disability Insurance	Provide authority to extend contract for two additional years (through 12/31/17)
4	The Standard – Accidental Death & Dismemberment Insurance	Provide authority to extend contract for two additional years (through 12/31/17)
5	WageWorks – Tax-Advantaged Savings Accounts	Provide authority to extend contract for two additional years (through 12/31/17)
6	Managed Health Network – Employee Assistance Program	Provide authority to extend contract for two additional years (through 12/31/17)