

TORONTO TRANSIT COMMISSION REPORT NO.

MEETING DATE: June 8, 2011

SUBJECT: PROCUREMENT AUTHORIZATION – BENEFIT PLAN CARRIER
FOR PROVISION OF EMPLOYEE AND PENSIONER BENEFITS

ACTION ITEM

RECOMMENDATION

It is recommended that the Commission approve 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 on the basis that:

- (a) the term of the contract will be for five (5) years, effective January 1, 2012 and ending December 31, 2016; and
- (b) the administration fees will be guaranteed for the entire term of the contract. The acceptance of Manulife's proposal will result in TTC expenses of approximately \$10 million in administration fees for the five (5) year contract term; and
- (c) life insurance premiums will be guaranteed for the first three (3) years of the contract; and for the remaining final two (2) years of the contract, the insurance premiums/rates and stop loss pool charges will be determined by Manulife applying appropriate weight to the TTC's own claims experience. The acceptance of Manulife's proposal will result in TTC expenses of approximately \$14 million in insurance premiums including stop-loss insurance for the five (5) year contract term; and
- (d) since this is a joint initiative between three (3) Participants (the TTC, the City of Toronto (City) and the Toronto Police Services Board (TPSB)), and Manulife's offer is contingent upon each of the three (3) Participants awarding Manulife a contract, approval is required by each Participant's Board/Commission/Council. At its meeting of May 17, 2011, City Council approved the award for the City, and the TPSB is seeking approval at its June 9, 2011 meeting.

FUNDING

Funds will be included in the 2012 and subsequent TTC Operating Budgets to cover all expenditures associated with the provision of these benefits as required.

BACKGROUND

The TTC provides a full range of benefits to approximately 12,000 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 2010 the TTC spent approximately \$73.8 million to provide these benefits.

At its meeting of June 18, 2003, the Commission approved the award of a five (5) 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.

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 Commission 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 working team consisting of City, TPSB and TTC staff was established to begin the process of exploring the potential of issuing a joint RFP for benefit services.

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, the City retained PPI Consulting Limited to provide a fairness consultant. This ensured that the entire process was carried out in a fair and transparent manner (see attached Fairness Consultant Report).

The purpose of this report is to provide the results of this joint RFP initiative (No. 9105-10-7033 issued under the City of Toronto). The City and TPSB staff has/will be reporting to their respective Councils and Boards separately (the City's Staff Report and the City's Government Management Committee's acceptance are attached for reference).

DISCUSSION

The RFP was publicly advertised on the City's website on December 20, 2010, and closed on February 11, 2011. A total of three (3) submissions (Manulife, GWL and Green Shield Canada) were received.

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 (comprised of City, TTC, and TPSB staff) would score the proposals out of 100%, and in order for a proponent to be considered for award of a contract, a score 75% or higher was required. The scoring weight assigned to each criterion was disclosed in the RFP and the evaluation criteria consisted of the following categories:

- Experience and Qualifications
- Proposed Staff and Transition Plan
- Claims Management Processes
- Disability Management Processes
- Systems and Reporting
- Financial and Underwriting

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 (75% or higher), and the lowest price proposal that met the minimum threshold score would be recommended for award.

The RFP was structured such that proponents could quote on providing benefit services for the City, or the TTC, or the TPSB or any combination thereof. Providing a combined quote for all three (3) Participants (referred to as a Group Bid) was intended to provide for

an opportunity to secure lower pricing for the Participants based on the larger volume of business for the benefit provider.

Although a proponent could bid on each Participant's requirements individually, or any combination thereof, the RFP stated that in order for a proponent to be considered for award they must quote on and perform all of the required employee/pensioner benefit plan services listed in the RFP for that given Participant(s). For instance, each Participant requires dental, health care and life insurance, therefore a proposal for only life insurance would be contrary to the RFP requirements and not acceptable.

Green Shield Canada submitted a proposal based on providing all three (3) Participants drug, health and dental benefit plans, however they did not quote on all aspects of the required services for any Participant (e.g. no life insurance etc.), therefore their offer was not in compliance with the mandatory requirements as specified in the RFP and their proposal was not considered further.

Manulife and GWL both submitted proposals for the TTC, the City and the TPSB, and unlike Green Shield Canada, Manulife and GWL offered to perform all of the required benefit services listed in the RFP.

The evaluation team proceeded to evaluate the Manulife and GWL proposals, and both firms scored above the minimum threshold of 75%. The evaluation team then proceeded to open the pricing envelopes to determine the lower priced proponent.

Manulife quoted on providing benefit services for each of the three (3) Participants separately and they also provided a Group Bid which was lower in price than the sum of the three (3) individual offers, i.e. they offered additional discounts based on a Group Bid.

GWL quoted on providing benefit services for each of the 3 Participants separately, and advised they could offer no further discounts based on a Group Bid.

The overall pricing from Manulife was lower than the pricing from GWL. However, upon further evaluation of GWL's pricing proposal it was determined their submitted pricing was not in accordance with the requirements as set out in the RFP as GWL included a statement indicating their pricing was based on the assumption that all three (3) Participants will implement and promote electronic claims submissions and GWL stated they reserve the right to adjust their pricing should all three (3) Participants not implement this requirement. The RFP stated that all three (3) Participants do not fully employ electronic claims submissions, therefore GWL's proposed mandatory electronic claims submissions requirement is contrary to the RFP and is not acceptable to the Participants. The evaluation team, along with the City's Legal department, determined that since GWL's pricing is not in accordance with the RFP requirements, GWL's proposal could not be considered for award. Therefore, Manulife submitted the only compliant proposal, and they are recommended for award.

On the basis of the current rates and projected claims utilization patterns, it is estimated that the TTC's expense for administration fees and insurance premiums would have been approximately \$38 million (\$18.5 million in administration fees and \$19.5 million in insurance premiums including stop-loss insurance) over the next five (5) year contract term (i.e. January 1, 2012 to December 31, 2016). The acceptance of Manulife's proposal will result in expenses of approximately \$24 million (\$10 million in administration fees and \$14 million in insurance premiums including stop-loss insurance), for a projected savings for the TTC of approximately \$14 million over the same five (5) year contract term, refer to Appendix A for applicable fees and projected savings.

JUSTIFICATION

This joint RFP with the TTC, the City, and the TPSB has resulted in an opportunity to achieve significant savings for all three organizations.

The award of this contract will ensure that the full range of benefits consisting of group life insurance, long term disability, AD&D, healthcare and dental, and out-of-province medical that the Commission provides to its employees and pensioners will be maintained over the next five (5) year period.

May 9, 2011
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