



CITY OF HAMILTON

CITY MANAGER'S OFFICE
Human Resources

TO: Chair and Members Audit and Administration Committee	WARD(S) AFFECTED: CITY WIDE
COMMITTEE DATE: August 14, 2013	
SUBJECT/REPORT NO: Negotiation of Agreement with Manulife Financial, Insurance Provider for City of Hamilton (HUR13010) - (City Wide)	
SUBMITTED BY: Chris Murray, City Manager	PREPARED BY: Helen Hale Tomasik, 905-546-2424 ext. 4155 Anna Filice, 905-546-2424 ext. 8910
SIGNATURE:	

RECOMMENDATION

That the Executive Director of Human Resources and the General Manager of Finance and Corporate Services, or their designates, be authorized to negotiate a 3 year agreement with Manulife Financial (in a form satisfactory to the City Solicitor) for the provision of Extended Health and Dental Insurance, Group Life Insurance, and Long-Term Disability (LTD) Services, effective September 1, 2014, with the provision of cancellation on thirty-one days' notice.

EXECUTIVE SUMMARY

The existing five year agreement with Manulife Financial expires August 31st, 2014. The City has the option to issue a new Request for Proposal (RFP) for employee benefits or can consider the option of entering into a renegotiated agreement with Manulife Financial. It is staff's recommendation that the City negotiate an additional 3 year agreement with Manulife Financial for the provision of Extended Health Care and Dental Insurance, Group Life Insurance and Long-Term Disability Benefits.

This report provides the following rationale for staff's recommendation:

- A Market Verification report recently completed by Mercer (our benefits consultant) indicates that the City of Hamilton's current rates from Manulife Financial for benefit services are very competitive.
- Manulife Financial has agreed to further negotiate these rates and provide a rate guarantee effective January 1, 2014, in the absence of an RFP.
- Deferring the RFP would enable staff to use our benefit consultant services to identify efficiencies to be considered for the next round of bargaining.
- Deferring the RFP would enable staff to adequately complete transition items related to Manulife Financials' recent system changes, including outdated policies, contracts and booklets so that adequate documentation is available to properly engage in a future RFP process.

Alternatives for Consideration – See Page 6

FINANCIAL / STAFFING / LEGAL IMPLICATIONS (for Recommendation(s) only)

Financial:

In 2012 the City of Hamilton paid Manulife Financial a total of approximately \$4,700,000 in administrative fees to handle approximately \$30,000,000 in health and dental claims, services for LTD claims, and premiums to insure the Group Life benefit program.

If staff negotiated a 3 year agreement with Manulife Financial, the City would avoid the cost of the RFP process, a conservative estimate being \$205,000. The agreement would include a 31 day cancellation period which would enable the City to cancel the agreement and issue an RFP if required prior to the 3 year period.

Manulife Financial has committed to negotiating lowered administrative expenses and a rate guarantee effective January 2014 (in accordance with the renewal schedule) in the absence of a requirement to respond to an RFP. Although the financial details of this arrangement will not be available until September, we anticipate a positive financial impact resulting from this negotiation.

Further, it would be prudent and timely to utilize our benefit consultant resources to engage Mercer in an analysis of potential opportunities for efficiencies that could be considered for the next round of collective bargaining.

Staffing:

In the absence of an RFP process, staff resources could remain dedicated to completing the necessary exercises resulting from the recent transition to the Manulife Financial electronic claims handling platform. Staff could also focus on working with our benefits consultant to identify opportunities for efficiencies.

Legal:

Not applicable

HISTORICAL BACKGROUND (Chronology of events)

An RFP for an Insurance Benefits Provider for the City of Hamilton was issued in 2004. The objective of the RFP was to obtain competitive quotations from various Providers to determine the best carrier for the City of Hamilton. In response to the RFP, the City received four proposals to provide Extended Healthcare (EHC) and Dental coverage, Group Life Insurance and Long-Term Disability (LTD) benefits. Proposals were received from Manulife Financial, Maritime Life (subsequently purchased by Manulife), Sun Life and Ontario Blue Cross. The contract was awarded to Manulife Financial as they were considered to be the most effective and cost efficient benefits provider. The term of the agreement was for five years, renewed annually.

In the current marketplace there are only three other providers who have comparable services to Manulife Financial (i.e. electronic interface capability, online access to e-claims and claim history), and who currently serve clients of our size and complexity. They are Sun Life, Great West Life and Desjardins.

In 2008 the City completed a Market Verification Study, a Service Commitment Study and an LTD Claims Audit to assess whether Manulife Financial provides benefits in a cost-efficient, service oriented manner. The results of these studies and audits confirmed that Manulife Financial provides excellent service and competitive rates to the City.

Based on the results of these studies, Council approved staff's request to negotiate a 5 year agreement with Manulife Financial from September 1, 2009 to August 31, 2014. Rates and administrative expenses are negotiated annually with Manulife Financial against claims experience as part of the annual renewal process.

In 2004 Manulife Financial acquired Liberty Health through their Maritime Life acquisition (Hamilton's former benefits provider), however, Manulife Financial allowed the City of Hamilton to continue operating on the Liberty Health electronic claims handling system which adhered to Liberty Health's unique administrative claims handling practices. In December of 2011, Manulife Financial decommissioned the Liberty Health system and moved the City of Hamilton over to the Manulife Financial's platform. This transition was mandatory and required a great deal of work from Benefits staff. In accordance with this change, the City of Hamilton was required to review and approve new contracts, policies and booklets for each of the 112 existing plans, a process which will take us well into 2015 to complete. Staff also completed many reconciliation exercises to ensure like coverage was being provided under the new platform, some of which continue today.

Furthermore, in early 2013, the Benefits section of Human Resources lost both senior team members, one due to retirement and the other due to relocation. New staff has been in place since June 2013. With a changeover in the Manager and two Benefit Specialists within the last year, there has been a need for transition time as new staff learn the system, processes and provisions of all the benefit plans.

POLICY IMPLICATIONS/LEGISLATED REQUIREMENTS

Extended Health, Dental, Group Life, and Long-Term Disability policies with Manulife Financial are affected.

The Procurement Policy, Policy #11 – Non-competitive Procurements requires Council approval for any single source procurement in excess of \$250,000.

RELEVANT CONSULTATION

Discussions regarding the need to issue a Request for Proposals for Employee Benefits were held with the City's current benefit consultant, Mercer, and Manulife Financial.

Benefits staff and Procurement staff collaborated on the creation of this report.

ANALYSIS / RATIONALE FOR RECOMMENDATION

(include Performance Measurement/Benchmarking Data, if applicable)

Market Verification Study

The City engaged Mercer to complete a Market Verification Study of the City's Group Benefit Plans with Manulife Financial in May 2013. The goal of the study was to advise the City as to whether or not the current expense factors being paid to Manulife Financial to administer the group benefit plans are competitive, and to determine if a full marketing of the group benefits plan would be financially prudent.

Mercer maintains a database of all of their client plans and their expense factors. For this study comparators for organizations of similar size (based on headcounts/premium and/or claims), industry (public sector with a few private sector groups), and complexity to the City of Hamilton, were used.

As highlighted in the table below, Hamilton's expenses are currently ranking better than the average of the comparator group used for the study in each of the categories. Expenses are calculated as a percentage of paid claims.

Category	City of Hamilton Expenses as % of Paid Claims	Average Comparator Group Expenses as % of Paid Claims	Difference
Health	4.87%	5.17%	0.30%
Dental	4.12%	4.49%	0.37%
Life	1.78%	3.04%	1.26%
LTD	4.75%	7.19%	2.44%

Given the complexity and volume of the City's plans, the RFP marketing process would need to begin approximately 12 months before the effective date of the possible change in provider. The City would engage Mercer (our current benefits consultant) to assist with the RFP process and the costs for this engagement could range from \$85,000 to \$115,000. Staff time for this initiative would be in excess of one FTE benefit staff over a year, equivalent to approximately \$90,000, as well as staff time from Return to Work Services, Information Services, Payroll and Purchasing.

The results of the Mercer study show that Manulife Financials' expense factors for the City of Hamilton are competitive, and as such, Mercer does not anticipate that a marketing of the group benefit plan would result in any significant long term reductions in expenses.

Readiness

Due to the mandatory transition to the Manulife Financial electronic claims handling platform in late 2011, the Benefits team continues to work on the review and approval of the City's 112 plan documents, including contracts, policies and booklets. The absence of these completed documents would present a challenge in communicating the current benefit provisions to prospective carriers, therefore, staff and Mercer indicate that final versions of these documents would be required as part of the marketing process. Given the volume and complexity of these documents, staff will not be able to complete these in time for a 2014 marketing of the Plans. In addition, due to recent turnover in the department, review of these documents is taking longer than expected. Delaying the marketing exercise until all policies, contracts and booklets are available will result in clearer communication with prospective carriers, yielding less time spent communicating coverage provisions during the marketing process, and will limit the risk of transition errors should a new carrier be awarded the contract for benefits services.

Staff also recently implemented an interface from the City's PeopleSoft systems, direct to Manulife Financial. The goal of the interface was to achieve an operational efficiency by eliminating a second entry point for all benefits related information, and to ensure data integrity by maintaining all member information on the City's system of record. The interface went live in June 2013 and scheduled improvements are underway for the fall to transition the ownership of all member data from Manulife Financial to the City's PeopleSoft system. As some member information is still maintained on the Manulife Financial system, a transition prior to the completion of this exercise could pose some risk from a data integrity perspective. Furthermore, the interface would need to be rebuilt should we move to a new provider.

In summary, on the basis of the Market Verification Study, the opportunity to further negotiate rates, and the City's readiness with respect to plan documentation and system implementation, staff indicates that a marketing exercise would not be appropriate or feasible at this time. Given the current competitiveness of the plan and Manulife Financials' commitment to negotiate a favourable expense arrangement, accompanied by a rate guarantee, staff recommend that an agreement with Manulife Financial be negotiated for another 3 years. This extension would allow staff to complete their review of the numerous outstanding plan documents required for the RFP process and to complete the interface implementation. It would also enable staff to concentrate limited consultant budget on a timely analysis of options for efficiencies in preparation for the next round of collective bargaining.

ALTERNATIVES FOR CONSIDERATION

(include Financial, Staffing, Legal and Policy Implications and pros and cons for each alternative)

1. A Request for Proposals (RFP) be undertaken to obtain competitive quotations from various Benefit providers. The cost of consultant fees to support the RFP would range from \$85,000 to \$115,000. Staff resources required to support the RFP would be in excess of one FTE Benefit staff and would cost approximately \$90,000. Staff would not recommend this option due to the lack of updated documentation required for a marketing exercise.
2. The City could negotiate a shorter term extension of less than 3 years with Manulife Financial. This option would require temporary additional Benefits staff to get the plan documents ready for the RFP process.

ALIGNMENT TO THE 2012 – 2015 STRATEGIC PLAN:

Strategic Priority #1

A Prosperous & Healthy Community

We enhance our image, economy and well-being by demonstrating that Hamilton is a great place to live, work, play and learn.

Strategic Priority #2

Valued & Sustainable Services

We deliver high quality services that meet citizen needs and expectations, in a cost effective and responsible manner.

APPENDICES / SCHEDULES