**SUBJECT:** Negotiation of Agreement with Manulife Financial, Insurance Provider for City of Hamilton (HUR09011) – (City Wide)

**RECOMMENDATION:**

(a) That the City of Hamilton negotiate a 5 year agreement with Manulife Financial for the provision of Extended Healthcare and Dental Insurance, Group Life Insurance and Long-Term Disability Benefits, effective September 1, 2009, with the provision for cancellation on thirty-one days notice.

(b) That the Executive Director of Human Resources and General Manager of Finance and Corporate Services, or their designates, be authorized to negotiate an agreement with Manulife Financial, in a form satisfactory to the City Solicitor, for the provision of benefits coverage to City staff.

Christopher Murray,
City Manager
EXECUTIVE SUMMARY:

A Request for Proposal (RFP) for an Insurance Benefits Provider for the City of Hamilton was issued in 2004. The objective of the Request for Proposal (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 (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 2008 the City completed a Market Verification Study, a Service Commitment Study and a 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 provides excellent service and competitive rates to the City.

The existing five year agreement with Manulife Financial expires August 31, 2009. The City has the option to issue a new RFP for employee benefits or can consider the option of entering into a renegotiated agreement with Manulife Financial. As part of the 5 year negotiated contract, Manulife Financial has agreed to lower our administrative fees for the next two and a half years. Given the results of the reviews undertaken in 2008 and the fact that producing an RFP is a costly process, staff recommend that staff be authorized to negotiate a new five year agreement with Manulife Financial, which would include provisions to facilitate some administrative efficiencies.

This report provides Council with an analysis of the service level provided and benefits rates charged by Manulife Financial, including the rationale for negotiating our employee benefits provider contract for another 5 years with Manulife Financial.

BACKGROUND:

Manulife Financial was appointed as the City's Benefits Insurance provider in 2004 for a five year term as the result of Request for Proposal (RFP) (C8-03-03).

The City of Hamilton’s EHC and Dental Benefits as well as LTD Benefits are administered by Manulife Financial on an Administrative Service Only (ASO) basis. The expenses for an ASO plan include General Administration charges and Pooling charges. Pooling is an arrangement that limits the plan sponsor's financial risk. In exchange for a set non-refundable pool charge, the plan sponsor (City of Hamilton) is protected from large, unexpected benefit amounts that exceed a pre-determined level and are therefore not charged to the plan sponsor (the City has a $100,000 pooling level for EHC). These two charges are the controllable factors in the cost of providing this coverage.
The City of Hamilton pays Life Insurance premiums to Manulife Financial to cover the employees for Basic, Dependent and Optional Life insurance. The expense charges for an insured plan include General Administration charges, Claims Administration charges, Risk charges as well as Pooling charges. These are the controllable factors in the cost of providing this coverage.

In addition to the cost that the Benefit Insurance Provider charges for its services, level of service and accuracy of claims adjudications are also crucial factors to consider. Standards such as the service delivery, quality of the Administration Support Team, the Plan Administrator Service Centre, Customer Service Centre, Claims Integrity and Fraud Preventions Services and web-services must be analysed when determining the service level provided by a Benefit Insurance Provider. Claims Audits are also methods to determine if a provider is performing within their requirements.

**ANALYSIS/RATIONALE:**

**Market Verification**

The City engaged Mercer to complete a Market Verification Study of the City’s Group Benefit plans. The goal of the study was to determine if the expense factors being charged by Manulife are competitive in the market place. Mercer used a database of all of their client plans and their expense factors as well as their database of all Canadian renewals. Utilizing these databases and their extensive knowledge of current markets, they assessed the competitiveness of insurer expense factors. In order to compare the expenses to those of other clients, Mercer converted the expenses into a target loss ratio. This target loss ratio is the percentage of premiums used to pay claims. A high target loss ratio is better than a low target loss ratio as it means that the expenses are provided at a less expensive rate.

The results of the Market Verification Study are listed below:

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<tr>
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<th>City of Hamilton Target Loss Ratio</th>
<th>Comparator Average Loss Ratio</th>
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<tbody>
<tr>
<td>Long-Term Disability</td>
<td>95.75%</td>
<td>92.31%</td>
</tr>
<tr>
<td>Drugs and Health</td>
<td>96.12%</td>
<td>95.27%</td>
</tr>
<tr>
<td>Dental</td>
<td>95.92%</td>
<td>95.65%</td>
</tr>
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Noting that the City’s target loss ratio across all benefit coverage is better than comparator groups, going out to RFP to receive the same results as the Market Verification study would be costly and redundant. Given the complexity of the City’s plans, the marketing process would take 8 to 12 months before the effective date of the possible change in carrier. The cost to support this RFP project ranges from $85,000 to $115,000 dependent on the involvement level required from a third-party consultant. This does not include the internal cost and time required to complete the project which would be in excess of 1,820 hours of staff time if a new Benefit Insurance provider was
secured. Staff sections involved would be Benefits, Return to Work Services, Information Services, HR Payroll and Purchasing.

Service Commitment Study

An important and critical component of any employee benefit program is the service commitment the City receives from the Benefit Insurance provider. Outlined below is a summary of the service commitment:

Administration Support Team:

The Account Management Team at Manulife Financial is responsible for the ongoing contact with the City of Hamilton. The City of Hamilton is very pleased with their commitment and contribution to the administrative responsibilities for Health/Dental, Life and Long-Term Disability. The Account Executive, Account Associate, Sales Director and Underwriting Consultant are always supportive and provide responses to all inquiries from the Benefits Team within 24 hours.

Customer Service Centre:

Manulife Financial’s stated objectives to answer 80% of all calls within 30 seconds and to achieve an abandonment rate of less than 5% of all calls have been maintained over the course of the contract. Manulife Financial’s objective is to process 90% of all claims within 5 days. The statistics indicate that 94% of the claims were completed within 5 days while 60% of those claims were processed within 2 days. In addition, the Plan Administrator Support System has helped expedite benefit issues and has been an excellent source of information to the Benefits staff.

Claims Integrity and Fraud Prevention Services:

Manulife Financial’s Investigative Services Team is a very active group which operates a benefits abuse prevention program. Over the last 2 years, the City has worked closely with this team and has profiled several areas (e.g. utilization of orthotics) that may be a concern if left unattended. Cost containment and control initiatives have been implemented. These include the implementation and completion of questionnaires to determine that suppliers/vendors are providing a legitimate service/product to our employees and the City is being charged appropriately. Furthermore, cost containment and control mechanisms have been incorporated into the City’s labour relations strategy for current and all future collective bargaining. The Benefits section is pleased with the efforts of Manulife Financial and continually relies on their support to ensure the integrity of all our benefit plans (EHC, Dental, LTD, Life Insurance)
Manulife Website – Secure Serve:

Secure Serve is a tool designed to assist the City’s Benefits team as well as provide useful information to the employees/retirees of the City. The Benefits team would describe Manulife Financial’s website and Secure Serve tool as user friendly and critical for the day-to-day benefit administration. The Secure Serve access has been activated by 40% of City of Hamilton employees who have benefits. The access provides claims experience, benefit booklets, direct deposit information, personal information and a Health Library, a great benefit to our employees.

LTD Audit Results

In 2008, the City requested that Mercer perform a Long Term Disability Claims Audit on Manulife Financial. Mercer was hired to provide an independent third-party opinion on whether or not the LTD plan process is being managed appropriately and within expected standards. The City of Hamilton was pleased with the overall findings of the audit. Most notably, Manulife Financial’s timeliness of initial LTD decisions is 36 days compared to the reasonable industry standard of 60 days. Also, Manulife Financial’s rehabilitative rate of 36% is well above the industry standard of 20% for files involved with rehabilitation. Recommendations for further improvement were identified in the Audit. The main recommendation was to have continual effective communication between the City and Manulife Financial with respect to managing our LTD claims. As a result a meeting was held with Mercer, Manulife Financial and the City of Hamilton’s Return to Work Services section, to develop an action plan. The parties agreed to conduct quarterly planning and review meetings to ensure LTD claims are effectively managed.

In summary, on the basis of the Market Verification Study, the Service Commitment analysis, the results of the LTD Claims Adjudication Audit, and the ongoing consultation and advisory services, staff are very satisfied with the services provided by Manulife Financial. On the basis of Manulife Financial’s performance and the cost of implementing a new RFP process, staff recommend that the current agreement with Manulife be negotiated for another 5 years with provision for some administrative efficiencies.

ALTERNATIVES FOR CONSIDERATION:

There are two alternatives for Council’s consideration:

1. A Report for Proposal (RFP) be undertaken to obtain competitive quotations from various Benefit providers. The cost of consultant fees to support the RFP process would range from $85,000 to $115,000. Staff would be required to dedicate resources to the RFP project, which would be in excess of 1,820 hours (approximately $74,000).
2. The City could negotiate a shorter term extension with Manulife Financial of less than 5 years.

**FINANCIAL/STAFFING/LEGAL IMPLICATIONS:**

If staff negotiated a 5 year agreement with Manulife Financial, the City would avoid the cost of the RFP process, a conservative estimate being $189,000. The agreement would include a 31 day cancellation period which would enable the City to cancel the agreement and go out to RFP if required prior to the 5 year period.

Manulife Financial has proposed to the City a reduction in the General Administration charges (1% to 0.8%) until December 31, 2011, which would result in an approximate savings of $178,000 over the 2 ½ years. This estimate is based on the assumption that the number of eligible employees and the number of claim transactions in 2009 remain at the 2008 level.

**POLICIES AFFECTING PROPOSAL:**

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

The Purchasing Policy, Policy #11 - Policy for Negotiations requires Council approval for any single source procurement in excess of $250,000.

**RELEVANT CONSULTATION:**

Discussions regarding the need to need to issue a Request for Proposal for Employee Benefits were held with Return-To-Work Services, Mercer (City’s Benefits Consultant), Benefits staff and Purchasing staff that would be heavily involved in issuing the RFP and transferring to a new provider.

**CITY STRATEGIC COMMITMENT:**

By evaluating the “Triple Bottom Line”, (community, environment, economic implications) we can make choices that create value across all three bottom lines, moving us closer to our vision for a sustainable community, and Provincial interests.

- Community Well-Being is enhanced. ☐ Yes ☑ No
- Environmental Well-Being is enhanced. ☑ Yes ☐ No
- Economic Well-Being is enhanced. ☑ Yes ☐ No

Negotiating a new five year agreement will save the City of Hamilton approximately $85,000 to $115,000 by not going to RFP and save at lease 1820 ($74,000) hours of staff time,
Does the option you are recommending create value across all three bottom lines?

☐ Yes  ☑ No

Do the options you are recommending make Hamilton a City of choice for high performance public servants?

☑ Yes  ☐ No

Staff are familiar with the Manulife Financial Management team, services, processes and software. Staff have well established working relationships with Manulife Financial's Account Management Team and Plan Administrator staff. The Manulife Financial services are well known to the staff and employees are familiar with the Plan Contract numbers and Summary of booklets currently provided. The software is easily accessed and the staff are very knowledgeable with the software.