PORT OF SEATTLE
MEMORANDUM

COMMISSION AGENDA
ACTION ITEM

Item No. 4c

Date of Meeting June 14, 2016

DATE: June 2, 2016

TO: Ted Fick, Chief Executive Officer

FROM: Tammy Woodard, Assistant HR Director

SUBJECT: Contract to provide Flexible Spending and Health Savings Account Administration Services

Amount of This Request: $983,000 **Source of Funds:** General Fund, individual department budgets

ACTION REQUESTED

Request Commission authorization for the Chief Executive Officer to execute a contract to provide Flexible Spending and Health Savings account plan administration services with a contract duration of up to 10 years and four months (five years and four months with five one-year options for renewal) for a total amount of $983,000.

SYNOPSIS

Flexible Spending Accounts (FSA) permit employees to set aside funds on a tax-free basis to use for eligible health care (medical, dental and vision) and child or other dependent care costs. Health Savings Accounts (HSA) similarly permit employees enrolled in qualified medical plans to set aside tax free funds to use for qualified health care costs. Employee contributions to these plans are also excluded from the Port's contribution to Social Security and Medicare taxes. Both plans are subject to significant internal revenue code regulations, the HSA more than the FSA. HSAs differ from FSAs in that HSA funds carry over from year to year without limit and employees may take their accounts with them when they leave the Port.

All Port employees, represented and non-represented, are eligible to enroll in the health care or dependent care FSA. Employees, represented and non-represented, enrolled in the Port-sponsored qualified High Deductible Health Plan are eligible to enroll in the HSA.

The new contract will also ensure that the vendor has capability and capacity to administer a Health Reimbursement Account (HRA) in the future if the Port determines it is appropriate to add this feature to the healthcare options offered to employees.

BACKGROUND

The FSAs are a valued benefit available to both represented and non-represented employees. These plans permit employees to use tax-free funds to pay for qualified health care (medical, dental and vision) or dependent care (child or other dependent) costs. Employees enroll in these plans during the open enrollment period each year, contribute to their accounts through payroll deduction, and seek reimbursement from the plan administrator for qualified expenses. An important feature of these plans is the availability of a debit card linked to employees' FSA account that permit immediate access to funds available in their FSA. Employees have three months after the end of any plan year to request reimbursement for qualified costs incurred during the previous year. Because of this grace period the contract duration will include an additional four months for employees to request reimbursement during the grace period and the plan administrator to process the requests. In 2016 approximately 450 employees are taking advantage of the health care FSA and about 75 are taking advantage of the dependent care FSA.

Similar to the FSA, the HSA is an important benefit available to qualified participants in the Port's High Deductible Health Plan. Non-represented and some represented employees are eligible to participate in this plan. The HSA permits employees to set aside tax-free funds to cover the out of pocket costs associated with their High Deductible Health Plan including deductibles, coinsurance, and copays. Like the FSA, the HSA offers a debit card associated with employees' accounts. When funds remain in their HSA account at the end of the year they carry forward, without limit, for employees to use in subsequent years. The HSA account is also portable so any account balances employees have when they leave the Port goes with them. In addition, HSAs offer investment options to employees when their accounts reach a pre-determined threshold. In 2016 about 350 employees have elected to enroll in an HSA.

The Port does not currently include an HRA in the Port-sponsored health care options available to employees. These plans are similar to HSAs but are not portable. Offering these plans can add flexibility to some of the health plan options employers offer to employees. As Port staff continues to monitor health care and health plan trends, offering an HRA may support our ongoing healthcare cost containment efforts. As a result the ability and capacity to administer an HRA is included in the procurement effort for the FSA and HSA plan administrator and a provision for the cost of this option has been included in the value of the contract.

FINANCIAL IMPLICATIONS

Budget Status and Source of Funds

Anticipated cost of the 10 year contract is $983,000. These costs are included in the Port-wide benefits budget that is developed annually and allocated to individual departments.

Account enrollment and employee contribution data is electronically transmitted to the plan administration vendor. If a new vendor is selected as a result of the procurement, the vendor data interfaces will need to be updated. The cost of the work to update the interfaces has a potential cost of more than $100,000. This cost is not budgeted as it is not known that this work will be needed, or what the magnitude of the work to update the interfaces will be if updates are needed.

ALTERNATIVES AND IMPLICATIONS CONSIDERED

Alternative 1 – Contract with a vendor to provide plan administration services for a maximum duration of five years.

Cost Implications: The cost of a five year contract would be about half that of a 10 year contract, though the total cost for 10 years of plan administration services will likely be more with two contracts as the Port would not have as much financial leverage with two contracts as it would have with one 10 year contract.

Pros:

(1) This alternative may provide a greater opportunity for more vendors to do business with the Port.

Cons:

(1) Potential $100,000 plus cost to update vendor interfaces would be incurred more frequently thus increasing total costs.
(2) Twice as many procurement processes would be required, each requires staff time to complete, and that time cannot be devoted to other important work, so the total staff time to procure two contracts over 10 years will be approximately twice the time required to procure one 10 year contract.

This is not the recommended alternative.

Alternative 2 – Administer the plans in-house.

Cost Implications: A conservative estimate to administer the plans in-house is one FTE with a current annual pay and benefits costs of $115,000 plus $2000 in annual training costs to ensure our administration remains compliant with the ever-changing regulatory requirements. Over 10 years, using a conservative 3% annual pay increase, the cost of this one FTE is approximately $1,338,000 or about $355,000 more than the estimated cost of a 10 year contract.

Pros:

(1) No need to go through a procurement process to select a vendor thus freeing staff to focus on other important work.
(2) No need to develop interfaces with vendors so the $100,000 cost will not be incurred.

Cons:

(1) Would require an increase to current staffing levels, as well as the acquisition of knowledge and skills current staff does not possess.
(2) Would be more expensive than contracting with a vendor specializing in administering these types of plans.

(3) Would shift the liability for errors in processing employee reimbursements from the vendor to the Port.

(4) With a self-administered plan the ability of the Port to continue offering the debit card options and investment options for HSA account holders is questionable. If the Port could offer these options with a self-administered plan it would require contracting with vendors to provide these services.

This is not the recommended alternative.

Alternative 3 – Contract with a specialized vendor to provide plan administration services for up to 10 years.

Cost Implications: Approximately $983,000 for 10 years.

Pros:

(1) The possible cost of updating data interfaces, estimated at $100,000, is allocated over 10 years rather than the shorter five year alternative.

(2) Staff time to conduct the procurement process and possibly oversee the transition to a new vendor is half what it would be with the shorter five year alternative.

Cons:

(1) A 10 year contract might limit the opportunity for different vendors to do work with the Port.

This is the recommended alternative.

ATTACHMENTS TO THIS REQUEST

- None.

PREVIOUS COMMISSION ACTIONS OR BRIEFINGS

- None.