

PORT OF SEATTLE
MEMORANDUM

COMMISSION AGENDA

Item No. 5a
Date of Meeting June 7, 2011

DATE: May 30, 2011
TO: Tay Yoshitani, Chief Executive Officer
FROM: Tammy Woodard, Sr. Manager, Total Compensation
David Leon, Benefits Manager
SUBJECT: Request for Additional Authorization on the Towers Watson Benefits Consulting Contract No. P-00316429

Amount of This Request: \$320,000

Source of Funds: General Operating Funds

Total Contract Authorization: \$1,130,000

ACTION REQUESTED:

Authorization for the Chief Executive Officer (CEO) to amend the benefits consulting contract with Towers Watson for an additional \$320,000, for a total authorization of \$1,130,000, to be used over the term of the contract, in two areas: 1) \$60,000 for actuarial analysis included in the existing scope of work for the Port's Other Post Employment Benefits ("OPEB") liability for retiree life insurance, and the Warehouse Pension Trust; and 2) \$260,000 for in-depth research, analysis and advising related to elements in the existing scope of work. This may potentially include, but is not limited to, planning for changes associated with Health Care Reform, enhancing the design and value of the Port's Wellness Initiative, additional benefit plan design costing, or benefits communications strategy support, possibly related to a potential account-based health plan offering.

SYNOPSIS:

The purpose of this memorandum is to request authorization to amend the Port's benefits consultant contract with Towers Watson for an additional \$320,000. The initial funding authorization, in January 2010 was \$810,000.

The first part of the resulting contract focused on the shift from fully-insured health plans to self-funded health plans in 2010, and the associated savings that the transition would bring. The transition to self-funding occurred on January 1, 2011, and a good deal of the work in part one of the contract related to the self-funding transition has taken place.

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The original funding authorization, however, did not fully account for work to be done under parts 2 and 3 of the contract, namely the costs of actuarial services needed for the Port's Other Post-Employment Benefits (OPEB) liability for retiree life insurance and Warehouse Pension Trust; and other costs associated with optimal plan administration, such as the costs of compliance and planning related to the Patient Protection and Affordable Care Act ("PPACA"), which was passed in March 2010; or the full costs of consultant support for an enhanced wellness program and a possible account-based health plan offering. Authorization of additional funds will allow the Port to continue to achieve savings as part of the overall health care benefit cost containment effort. The additional consulting support that will be available with the contract amendment would be appropriate regardless of whether the Port-sponsored health plans were self-insured or fully insured, and the additional funding will not diminish savings resulting from the conversion of the Port-sponsored plans to self-insured status.

BACKGROUND:

In January 2010 the Port issued a Request for Proposal (RFP) to select a Benefits Consultant to support the conversion to self-insured health plans, provide consulting support to the new self-insured health plans, serve as a broker for the insured benefit plans, and perform actuarial analysis work in support of the Port's OPEB liability and the Warehouse Pension Trust. The Port had previously utilized a Benefits Consultant to provide consulting and brokerage support to the fully insured benefit plans. Prior to 2010, the benefits consulting fees were paid through commissions earned by the Consultant on the Port's fully insured benefit plans.

The 2010 RFP was the first RFP issued for benefits consulting services with the current procurement and contracting processes. Historically, the Port had been able to utilize commissions received by the consultant in excess of the agreed to annual fee to support in depth research, analysis, costing, communication or consulting needs related to the Port's benefit plans. When requesting authorization for the benefits consulting contract that resulted from the January 2010 RFP, we did not recognize that we would have continuing needs for additional research, analysis, costing, communication and consulting support. As such, we requested funding authorization for an amount we believed would cover the on-going support to our benefits plans and the needed actuarial services.

Towers Watson was selected through the competitive selection process as the Port's Benefits Consultant. The contract with Towers Watson includes fees to assist the transition to self-insured medical and dental plans, annual fees to support the on-going administration of the Port's self-insured medical and dental plans, as well as fees to help administer the other benefit plans that remained fully insured (i.e., Group Health medical coverage, life insurance, and disability insurance). The contract that we negotiated with Towers Watson also included the actuarial support for the Warehouse Pension Trust and the OPEB liability. The authorized amount of the contract, however, was not sufficient to cover the transition to self-funding support, on-going benefits consulting support for the remaining term of the contract, and actuarial support for the full potential term of the contract (five years) or any additional work beyond the on-going support of the current programs.

We are not certain what consulting support we will need, or want, to have Towers Watson consultants perform through the end of the current contract. We may need to have analytical work performed to assess implications of health care reform legislation. We may benefit from their support to develop strategies related to our wellness program or overall benefits program. We may need their expertise as

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we develop communication materials to support possibly changing benefit plans in the future. We may also need to have additional actuarial work performed in support of the Warehouse Pension Trust. Because future needs are not known, we need to have funding available through this contract to permit needed work to be performed.

SCOPE OF WORK:

The scope of work for this authorization is substantially the same as the existing scope of work for the benefits consultant contract. Minor changes would be made to allow for more in-depth work associated with PPACA planning, wellness program improvements, and planning for potential offering of an account-based health plan. This work will further the Port's goals of overall health benefits cost containment by supporting the efforts already underway to encourage employees to lead healthy lifestyles, incentivizing employees to be smart consumers of healthcare, and incentivizing providers to deliver appropriate, evidence-based quality healthcare.

FINANCIAL IMPLICATIONS:

The authorized amount of the current contract is \$810,000, and the maximum term is five years (two years with three one-year extensions). If this authorization request is approved, and all requested funds are allocated to potential work under the contract, the maximum contract value will increase to \$1,130,000. This is an increase of about 40%.

This cost increase, however, is consistent with the goal of containing health care costs by transitioning to a self-funded plan, by – for example – helping the Port avoid significant tax burdens imposed by PPACA, stabilizing or reducing employee health risk factors, and reducing overutilization of costly health care services. The consulting support that will be available if the contract amendment is authorized would benefit the Port-sponsored health plans whether they were self-insured or fully insured. The additional research, analysis, or costing that the Port's consultant may perform will not be factored into the annual cost of the Port's medical or dental plans and will therefore not diminish the savings that result from the 2011 conversion to self-insured status.

ALTERNATIVES CONSIDERED/RECOMMENDED ACTION:

- 1) Authorize additional funds for \$320,000 to amend the existing contract with Towers Watson. **This is the recommended alternative.**
- 2) Authorize funds for benefits consulting work in separate contracts from the Towers Watson contract. Although pursuing separate contracts for one or more of these services may provide some of the value of authorizing the additional funds for the existing contract, there is likely to be a higher fixed start-up cost for a new consultant, and higher marginal costs associated with the need to have two different consultants coordinate their services. Even if Towers were to be the winning bidder of a separate contract, the procurement and administration process of another contract would add unnecessary costs and inefficiencies. This is not the recommended course of action.
- 3) Authorize no further funding for the benefits consulting agreement. The current agreement does not contain sufficient funds to perform necessary actuarial work; nor does it provide any funding for

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in-depth research and analysis to implement anything other than the basic switch to self-funding. This alternative would essentially “leave money on the table” by not capitalizing on the full advantage of having a self-funded plan – the ability to coordinate plan design components and wellness program elements to incentivize healthy lifestyles, smart healthcare consumerism and delivery of quality care, ultimately generating more significant reductions in health care costs. This is not the recommended course of action.

PREVIOUS COMMISSION ACTIONS OR BRIEFINGS:

January 12, 2010: The Commission authorized the CEO to enter into a two year contract with a benefits consulting firm, with the option to renew annually thereafter for three more years, for a total authorized amount of \$810,000.