PORT OF SEATTLE
MEMORANDUM

COMMISSION AGENDA
ACTION ITEM

Item No. 4i

Date of Meeting April 28, 2015

DATE: April 22, 2015

TO: Ted Fick, Chief Executive Officer

FROM: Tammy Woodard, Assistant HRD Director – Total Rewards
Christie Norbury, Benefits Manager

SUBJECT: Flexible Spending Account and Health Savings Account Plan Administrator Procurement

Amount of This Request: $650,000 **Source of Funds:** Operating Budget

ACTION REQUESTED

Request Commission authorization for the Chief Executive Officer to execute a service agreement for three years, four months, with seven possible one-year extensions to a maximum duration of 10 years, 4 months, to provide Flexible Spending Account and Health Savings Account administration services to the Port. The service agreement will have an estimated total value of $650,000.

SYNOPSIS

The Port of Seattle has included a Flexible Spending Account (FSA) in its benefits package for many years. This plan permits employees to use pre-tax funds to pay for dependent care or health care costs. In 2014 the Port implemented a qualified High Deductible Health Plan (HDHP) with an associated Health Savings Account (HSA). The HSA also permits employees to use pre-tax funds to pay for qualified health care costs. These plans are governed by Internal Revenue Code regulations and require considerable recordkeeping. Due to the complexity of administering these plans the Port contracts with a vendor to administer the plans. The current contracts, one for the FSA administration and one for the HSA administration, expire at the end of 2015.

BACKGROUND

Port employees have both a dependent care FSA option to use pre-tax funds to pay for qualified child or elder care costs and a health care FSA option to use pre-tax funds to pay for qualified health care costs. Qualified dependent care costs include day care expenses, costs of summer camps for school age children, in-home child care costs, and similar costs for adult dependents who are unable to care for themselves. Qualified health care costs include deductibles, coinsurance and copays for medical, dental and vision care.

Beginning in 2014 the Port added a Health Plan (HDHP) option to the benefits package. This option includes a linked HSA that permits employees to save funds on a pre-tax basis to pay qualified health care costs. Qualified health care costs that employees can use the HSA for are very similar to those they can use their FSA for. The HSA and health care FSA have different governing rules including maximum annual contributions and carry forward provisions. Only employees enrolled in the HDHP are eligible to enroll in the HSA. Employees eligible for all the Port medical plans, including those provided by unions through collective bargaining agreements, are eligible to enroll in both the health care and dependent care FSAs.

Both the FSA and HSA plans require significant recordkeeping to ensure employees access only funds they have available and that funds are used in ways consistent with regulations defining qualified expenses. There are also priority rules that govern the use of health care FSA funds for employees also enrolled in an HSA. The medical FSA has limited carry forward provisions while the HSA has unlimited carry forward provisions. Additionally, employees enrolled in the HSA have their funds deposited into a bank account established in coordination with the HSA administration vendor, and employees can make decisions on how their funds are invested when their account balance reaches a pre-determined level. The multiple and varied regulations that direct how these plans are administered together with the details that must be taken into account by a plan administrator makes using a well-qualified vendor as a plan administrator a wise decision.

The staff time, and thus cost, of ensuring all relevant details are addressed when procuring these services is significant. There are many details that must be addressed to ensure efficient transfer of data from the Port to the plan administrators and considerable staff time is required to ensure systems are in place to appropriately deduct contributions to the FSA and HSA accounts, transmit contributions and data to the vendor, and track contributions for compliance with annual limits. Allocating these costs over a 10 year contract yields a lower cost per year than a five year contact would. With the three year initial contract term there will be sufficient time for employees to become familiar with details of using their plan with a new vendor and streamline Port processes. The ability to extend the contract, on a year to year basis, to 10 years gives the Port the ability to allocate procurement and implementation costs over a fairly long period but also permits the Port to end the contract sooner if a better agreement (more efficient administration, lower cost, etc.) becomes a possibility. The additional four months included in the contract duration covers the run out period associated with the FSA plans where employees can incur qualified expenses through December 31 of one year and submit reimbursement claims through March 31 of the following year before unused funds would be forfeited.

FINANCIAL IMPLICATIONS

Budget/Authorization Summary

Administration costs for the FSA and HSA accounts are billed on a monthly basis per enrolled employee. The total estimated agreement value of $650,000 includes an estimate for one-time implementation costs, as well as the monthly per enrolled employee charges for an estimated number of employees that increases over the term of the agreement. Also included are other administrative costs like non-discrimination testing and plan document updating costs.

Budget Status and Source of Funds

The FSA and HSA administration costs are budgeted annually as part of the Port's overall benefits costs and allocated to individual department budgets.

STRATEGIES AND OBJECTIVES

Offering a total rewards package that supports retention and attraction of the employees necessary to complete the Port's work supports the Century Agenda as well as operational strategies and objectives. FSA and HSA plans support employees being informed about their health care costs and this is aligned with the overarching Total Rewards Philosophy principle of sustainability – "total rewards must be managed in a fiscally responsible way that is sustainable over time."

ALTERNATIVES AND IMPLICATIONS CONSIDERED

Alternative 1) – Discontinue offering FSA and HSA plans

Pros:

- A procurement process would not be necessary.

Cons:

- The FSA and HSA plans are a valuable component of our total rewards package, and work in partnership with our medical and dental plans to help employees manage their health care costs. These plans also provide a tax advantage to participating employees.
- Employees would view this as a reduction in their benefits package, and enrollment in the more cost-effective HDHP could be jeopardized.

This is not the recommended alternative.

Alternative 2) – Administer the FSA and HSA plans in house

Pros:

- The port would not be paying vendor fees for these services.

Cons:

- Outsourcing this work allows HRD to concentrate on our core businesses, and at the same time have highly skilled subject matter experts administer these heavily regulated programs. Performing this work in house would require a considerable amount of time and education of Port staff to become sufficiently knowledgeable about these programs. Additionally, regulations governing these plans are updated regularly so on-going staff training would be necessary to continue administering plans in house.

- The Port would need to develop or purchase a record keeping system to administer these programs that would include a method for employees to submit claims, tools to permit Port staff to adjudicate the claims, and a process for making claims payments.. The system would also need to be able to track and report account balances for employees.

This is not the recommended alternative.

Alternative 3) – Contract with a plan administration vendor to administer the FSA and HSA plans for a maximum period of five years, four months.

Pros:

- This alternative would allow for us to offer the FSA/HSA plans and to have the plans outsourced to a company that has expertise in the administration of these plans.

Cons:

- This alternate is not ideal due to length of time required to establish interfaces with vendors, update Port business processes to integrate with vendor processes, and establish communication methods between the Port and the vendor. Employee productivity could also be adversely impacted by employees needing to learn new reimbursement processes. Having a longer period of time between possible vendor changes reduces the frequency of these transition impacts on the Port.
- This alternative is potentially more costly to the Port. If a procurement results in a new vendor being selected the internal cost of changing established interfaces is incurred more frequently than with a longer term contract.

This is not the recommended alternative.

Alternative 4) – Contract with a plan administration vendor to administer the FSA and HSA plans for a maximum period of 3 years, 4 months with the option to extend this contract 7 times for a one year extension to a maximum of 10 years, 4 months.

Pros:

- This alternative will permit a longer period of time with one vendor. This option would minimize the disruption to employees associated with learning new processes in working with the HSA and FSA vendor and minimize the staff time required to assist employees in becoming familiar with new vendor processes.
- Allows us to allocate the staff time required to conduct the procurement process and implement different requirements of a new vendor over a longer, yet realistic, period.
- Allows us to review and assess the vendor's performance and gives us the option to not renew the contract if the performance is not what was expected, but will allow us to stay with a firm that is performing the task to our satisfaction.
- Will allow us to amortize the internal costs of implementation over a longer period of time.

Cons:

- May not allow the Port to reassess costs of services provided by other vendors in the market to assess that we are getting the best deal if we remain in the contract for the entire length of the contract.

This is the recommended alternative**.**

ATTACHMENTS TO THIS REQUEST

- None.

PREVIOUS COMMISSION ACTIONS OR BRIEFINGS

- None.