



AGENDA MEMORANDUM

Action Item for the City Council Meeting September 15, 2020

DATE: September 15, 2020

TO: Peter Zaroni, City Manager

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<p>Service Agreement for Health Benefits for HSA, FSA, DCA and COBRA Administrative Services</p>

CAPTION:

Motion authorizing a three-year service agreement, with two one-year options, for Health Savings Account (HSA), Flexible Spending Account (FSA), Dependent Care Account (DCA) and Consolidated Omnibus Budget Reconciliation Act (COBRA) administrative services for the City's employees, beginning October 1, 2020 to September 30, 2023, with OptumHealth Financial Services, Inc., in an estimated amount of \$78,600.00 for an estimated cost of \$26,200.00 for the first year and a potential expenditure in an estimated amount of \$131,000.00 if option years are exercised, with funding requested in the FY 2021 Proposed Budget in an estimated amount of \$26,200.00 through the Fire, Police and Citicare Employee Health Funds and other Employee Benefits Fund.

SUMMARY:

This motion authorizes a three-year service agreement, with two one-year options, with OptumHealth Financial Services, Inc., to provide HSA, FSA, DCA and COBRA administrative services. The actual cost is based on employee participation.

BACKGROUND AND FINDINGS:

Section 125 Plans refer to written plans offered under the Internal Revenue Code Section 125, which allows pretax deduction of health insurance and other benefit plan premiums as well as pre-tax deductions for funding HSA, FSA and DCA accounts to use for eligible

medical or dependent care expenses for themselves and their family. These plans, more commonly known as Cafeteria Plans, not only reduce employees' tax burden but also save employers money by eliminating employer-required matching of Social Security and Medicare taxes on the City's share of these pre-tax deductions.

COBRA is a law that was passed by Congress in 1985 as a means for individuals to continue health insurance coverage for a period of time after losing group coverage due to termination of employment. Compliance with this law requires coverage offers be made with strict timing, and the coverage must continue to be offered for a varying number of months, depending on the reason for termination of active coverage. While premiums are paid by the participants that elect to continue coverage, Optum will charge the City administrative fees of \$16 to process the initial offer and enrollments plus \$5 per month to bill, collect COBRA premiums, and to remit those funds back to the City.

These four benefits are offered to all City employees, including both Fire and Police labor groups. The three-year contract value based on the proposal submission is estimated at \$78,000 for 10/1/2020 – 9/30/2021, but fees are assessed on active participation, so costs may vary based on plan enrollment. The COBRA fees are discussed in the paragraph above. FSA fees are \$2.85 PEPM with a one-time fee of \$475.00 to write and file the Section 125 plan with the IRS. HSA fees are \$1.00 PEPM for only those accounts with less than a \$500 balance.

The City currently uses multiple vendors to support these services for its employees. ASI provides the FSA and DCA account services, Optum provides the HSA account services, and BCBS provides Cobra Administrative services for the City. Staff's recommendation is that it is in the City's best interest to consolidate these services with a single provider.

A Request for Proposal No. 3151 was issued to start the process for a new contract to combine the administrative services for the four benefit services. The City received seven proposals and evaluations of the proposals began by the City's evaluation committee and health benefits consultant. The evaluation committee was comprised of five members, with representation from Fire, Police and Human Resources. Finalists were narrowed to OptumHealth Financial Services, Inc. and BlueCross Blue Shield based on past service and price competitiveness. The scoring for the two vendors was very similar. A final consideration underlying the recommendation of Optum is that they are the current HSA provider and these accounts are employee-directed. The best option would be to consolidate services with Optum so there is no disruption for the current HSA participants.

ALTERNATIVES:

The City may choose to not offer the plans or to administer the plan in-house. Not offering the plan would increase the City's tax burden because all health premiums would become subject to FICA matching. COBRA can also be administered in house; however, administration of these plans is quite complex and would subject the City to risk of substantial fines. In-house administration would require at least one additional FTE with expert knowledge in allowable costs and COBRA administration in order to be able to accommodate the quantity and complexity of work.

FISCAL IMPACT:

There will be no fiscal impact for the Human Resources Department in FY 2020 for this agreement. The funding has been requested in the FY 2021 Proposed Budget through the Fire, Police, Citicare, and Other Employee Benefit Funds for the estimated value of \$26,200.00 for the first year of this contract. Enrollment may alter the total cost. The remaining cost of \$104,800.00 will be funded in future years through the annual budget process.

Funding Detail:

Fund:	5608	EmpHth Fire
Organization/Activity	40602	
Mission Element	213	Develop and manage health and benefits program
Project # (CIP Only)	N/A	
Accounts:	537200	Third Party Admin Fees

Fund:	5608	EmpHth Fire
Organization/Activity	40606	
Mission Element	213	Develop and manage health and benefits program
Project # (CIP Only)	N/A	
Accounts:	537200	Third Party Admin Fees

Fund:	5609	EmpHth Police
Organization/Activity	40605	
Mission Element	213	Develop and manage health and benefits program
Project # (CIP Only)	N/A	
Accounts:	537200	Third Party Admin Fees

Fund:	5610	EmpHth Citicare
Organization/Activity	40600	
Mission Element	213	Develop and manage health and benefits program
Project # (CIP Only)	N/A	
Accounts:	537200	Third Party Admin Fees

Fund:	5610	EmpHth Citicare
Organization/Activity	40601	
Mission Element	213	Develop and manage health and benefits program
Project # (CIP Only)	N/A	
Accounts:	537200	Third Party Admin Fees

Fund:	5614	Other Employee Benefits
Organization/Activity	40604	
Mission Element	213	Develop and manage health and benefits program

Project # (CIP Only) N/A
Accounts: 537200 Third Party Admin Fees

RECOMMENDATION:

Staff recommends approval of this motion authorizing a three-year service agreement, with OptumHealth Financial Services, Inc., for HSA, FSA, DCA and COBRA administrative services as presented.

LIST OF SUPPORTING DOCUMENTS:

Evaluation Matrix
Presentation