



Memorandum

TO: HONORABLE MAYOR
AND CITY COUNCIL

FROM: Jennifer Schembri

SUBJECT: SEE BELOW

DATE: November 12, 2019

Approved

Date

11/22/19

SUBJECT: AMENDMENT TO THE VENDOR AGREEMENT WITH VISION SERVICE PLAN FOR VISION CARE BENEFITS FOR CITY EMPLOYEES, RETIREES AND THEIR DEPENDENTS

RECOMMENDATION

Adopt a resolution authorizing the City Manager to negotiate and execute an Amendment to the Vendor Agreement with Vision Service Plan for vision care benefits for City employees, retirees, and their dependents extending the term of the Agreement from December 31, 2019 to December 31, 2021, and increasing the not to exceed Agreement amount from \$4,360,000 to a revised not to exceed amount of \$7,671,477.

OUTCOME

Council approval of the Amendment will result in a two-year extension of the Agreement with Vision Service Plan (VSP), to provide vision care benefits to City employees, retirees, and their dependents.

BACKGROUND

VSP has an excellent performance record with the City and has been under contract since 1999. VSP has continually met the City's requirements to provide quality benefits and services to employees and retirees, a robust provider network, competitive pricing, performance guarantees, and acceptance of the City's Standard Terms & Conditions for a Vendor Agreement.

In the past, staff has typically sought four-year vendor agreements. In the three most recent Request for Proposals (RFPs) for vision insurance in 2008, 2012, and 2015, VSP offered rate reductions as well as rate guarantees for the full term of each contract period. The current contract is set to expire on December 31, 2019. An RFP was scheduled to be conducted in early 2019 to have a new contract in place by January 2020; however, based upon recent contract

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negotiations with other benefit vendors and based upon industry standards, a longer term contract will result in lower rates for the City and less disruption for employees. VSP was willing to extend their agreement for two more years under the same terms and conditions including guaranteeing the current rates through the extended contract period ending December 31, 2021.

ANALYSIS

The current VSP Agreement, covering calendar years 2016 through 2019, includes a not to exceed amount of \$4,360,000. This amount was determined in 2015 based on projections for enrollment for the 4-year term. Since 2015, there has been continual growth in both the employee and retiree populations resulting in enrollment increases year over year; more than originally projected. As such, the not to exceed amount of the current Agreement will be exceeded.

Enrollment at the beginning of the contract period in January of 2016, for both employees and retirees, was 5,895 and is estimated to be 7,014 by the end of the contract period in December of 2019; an increase of 19% and over 1,000 participants.

To ensure the continued delivery of vision care benefits to employees, retirees and their dependents, staff recommends an Amendment to the Agreement with VSP extending the term through December 31, 2021.

CONCLUSION

The amount needed for the current contract ending on December 31, 2019 due to increased enrollment and for the recommended two-year extension of the Agreement with VSP is \$3,311,477. The maximum compensation under the Amended Agreement will be \$7,671,477.

EVALUATION AND FOLLOW-UP

This project addresses the Human Resources' performance measure of the cost of benefits administration and operations per budgeted full-time employee. The Employee Benefits Division of Human Resources ensures that the City of San Jose employees and retirees receive high quality and cost effective benefits by subjecting benefit plan providers to regular competitive processes.

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CLIMATE SMART SAN JOSE

The recommendation in this memo has no effect on Climate Smart San José energy, water, or mobility goals.

PUBLIC OUTREACH

This Memorandum will be posted on the City's website for the December 3rd, 2019 City Council Agenda.

COORDINATION

This memorandum has been coordinated with the Office of the City Attorney and City Manager's Budget Office.

COMMISSION RECOMMENDATION/INPUT

No commission recommendation or input is associated with this action.

COST SUMMARY/IMPLICATIONS

Premiums for 2020 and 2021 will continue at the 2019 rates; there will be no premium increases. The following projected costs are based on October 2019 enrollment and estimated enrollment for 2020 and 2021. Vision costs for 2020 and 2021 will vary based on actual enrollment.

- For the current contract term ending December 31, 2019, the projected increase is \$492,450.
- For the two-year extended contract term ending December 31, 2021, the projected cost is \$2,819,027.

The total projected cost to cover the two-year Amendment to the VSP Agreement is \$3,311,477. Funding in the Benefit fund in 2019-2020 for the City's cost for Vision Plans is sufficient to cover the contract extension described in this memorandum. Future year costs are subject to appropriation and will be included as part of the annual budget process.

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CEQA

Not a Project, File No. PP17-003, Agreements/Contracts (New or Amended) resulting in no physical changes to the environment.

/s/

JENNIFER SCHEMBRI

Director of City Manager's Office of Employee Relations

Director of Human Resources

For questions please contact Emily Hendon, Benefits Manager, (408) 975-1448.