



Memorandum

TO: HONORABLE MAYOR
AND CITY COUNCIL

FROM: Jennifer Schembri

SUBJECT: SEE BELOW

DATE: May 18, 2020

Approved

Date

5/21/2020

SUBJECT: AMENDMENT TO THE VENDOR AGREEMENT WITH P&A ADMINISTRATIVE SERVICES, INC. FOR FLEXIBLE SPENDING BENEFITS, COMMUTER BENEFIT, AND COBRA ADMINISTRATION FOR CITY EMPLOYEES AND THEIR DEPENDENTS

RECOMMENDATION

Adopt a resolution authorizing the City Manager to negotiate and execute an Amendment to the Vendor Agreement with P&A Administrative Services, Inc. for flexible spending benefits and Internal Revenue Code Section 125 plan administration services for City employees and their dependents to add the scope of services from the existing agreement with P&A Administrative Services, Inc. for Commuter and Consolidated Omnibus Budget Reconciliation Act (COBRA) administration, to extend the term of the Agreement from December 31, 2020 to December 31, 2023, and to increase the not to exceed amount from \$283,500 to a revised total not to exceed amount of \$489,000, subject to annual appropriation.

OUTCOME

Council approval will result in a three-year extension of the Agreement with P&A Administrative Services, Inc. ("P&A Group") to provide flexible spending benefits and include scope of services for commuter benefits and COBRA administration for City employees and their dependents.

BACKGROUND

The City's Flexible Spending Accounts

The City's flexible spending accounts (FSA) are a voluntary benefit that allow employees to set aside pre-tax dollars that can be used to reimburse themselves for qualified out-of-pocket health care and dependent childcare expenses. The City last conducted a Request for Proposal (RFP)

for flexible spending in 2014, awarding the contract to P&A Group. The current agreement for flexible spending account services expires in December of 2020.

Commuter Benefit Program and COBRA Administration

Under a separate agreement, the P&A Group provides administration services of a pre-tax commuter benefit whereby employees can set aside pre-tax dollars to cover certain qualifying transit expenses, and COBRA administration services. This agreement also expires in December of 2020.

P&A Group has a strong performance record with the City and has been under contract since 2015. P&A Group continues to meet the City's requirements to provide quality benefits and services to employees, offer competitive pricing, and has accepted the City's Standard Terms & Conditions for a Vendor Agreement.

Both contracts are set to expire on December 31, 2020. An RFP was scheduled to be conducted in early 2020 to have one new contract in place by January 2021 for all FSA, COBRA, and Commuter Administration services under one agreement. However, based upon a recent Request for Information conducted by the City's Benefit Consultant, a longer-term contract will result in lower rates for the City and employees, and less disruption for plan participants. P&A Group is willing to extend their agreement for 2021, 2022, and 2023 under the same terms and conditions while lowering the rates by approximately 12.5% and is guaranteeing the lower rates through December 31, 2023. See table below for lowered rates and estimated savings based on enrollment as of April 2020.

Plan	Enrollment as of 4/1/2020	Current Rate/month	New Rate/month as of 1/1/2021	Estimate Annual Savings
FSA-Medical and Dependent Care	914	\$3.75	\$3.25	\$5,484
Commuter Benefit	71	\$3.50	\$3.00	\$426
COBRA Administration	5701	\$0.45	\$0.40	\$3,420
Total Savings Annually				\$9,330

ANALYSIS

The current P&A Group Agreements are as follows:

- Flexible Spending Benefit: Agreement covers calendar years 2015 through 2020 and includes a not to exceed amount of \$283,500. This amount was determined in 2014 based on projections for enrollment for the initial 4-year term and the amount related to a

15-month extension. Since 2015, there has been minimal growth in employee participation.

- Commuter and COBRA Administration: Agreement covers calendar years 2015 through 2020 and includes a not to exceed amount of \$97,000. The commuter administration amount was determined in 2014 based on projections for enrollment for the initial 4-year term and the amount related to a 15-month extension. The COBRA administration is paid per benefited employee and this amount was based on projected number of benefited employees when the City amended the commuter benefit agreement to add the COBRA services in 2018. The total number of benefited employees is not expected to increase substantially over the course of the amended agreement. The scope of this agreement will be added to the current agreement for Flexible Spending Accounts.

CONCLUSION

To ensure the continued delivery of quality flexible spending and commuter benefits to employees and their dependents at a competitive price, as well as, City compliance with federal and state COBRA regulations, staff recommends Council authorize the City Manager to negotiate and execute an Amendment to the Agreement with P&A Group to include the expiring commuter and COBRA scope of services and to extend the term through December 31, 2023. The combined maximum compensation under the amended agreement will be \$489,000 which will be subject to annual appropriation.

EVALUATION AND FOLLOW-UP

This project addresses the Human Resources' Department's performance measure of the cost of benefits administration 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.

CLIMATE SMART SAN JOSE

The recommendation in this memo advances Climate Smart San José's energy and mobility goals by providing a tax incentive to encourage commuting by public transit.

PUBLIC OUTREACH

This Memorandum will be posted on the City's website for the June 2nd, 2020 City Council Agenda.

COORDINATION

This memorandum has been coordinated with the Office of the City Attorney, the Department of Transportation and the City Manager’s Budget Office.

COMMISSION RECOMMENDATION/INPUT

No commission recommendation or input is associated with this action.

COST SUMMARY/IMPLICATIONS

Participants in the flexible spending benefits pay the FSA fees, however, the City’s Human Resources Department is responsible for collecting and transferring the payment monthly. The City’s Human Resources Department pays the COBRA administration fees and the City’s Department of Transportation pays the fees associated with the commuter benefit.

The total projected additional cost for the three-year extension to the P&A Group Agreement is \$205,500. This total includes: \$113,500 in estimated fees for each employee participating in the FSA, \$8,200 for Commuter benefit, and \$83,800 for COBRA administration fees. These costs will bring the not to exceed amount to \$489,000. See table below for the not to exceed amount (NTE) in the current agreements and the projected costs to cover the recommended amendment.

Current Agreements	Current Agreement NTE	Projected Cost for 3-year Amendment	New NTE for Combined Agreement
FSA	\$283,500	\$113,500	\$397,000
Commuter/COBRA	\$97,000*	\$92,000	\$92,000
Total		\$205,500	\$489,000

*The current “Not to Exceed” amounts for COBRA and Commuter are not included in the “New NTE” amount since the COBRA and Commuter amounts are in a separate agreement that is expiring. The cost and scope of this work is included in the amendment to the current FSA agreement.

Funding in the City’s Benefit Fund 160 for 2019-2020 and the Proposed Budget for 2020-2021 budget is sufficient to cover the City paid portion of the contract extension through June of 2021. Funding for future fiscal years is subject to appropriation and will be included as part of the annual base 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.



JENNIFER SCHEMBRI

Director of Human Resources and

Director of Employee Relations

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