



Memorandum

TO: HONORABLE MAYOR
AND CITY COUNCIL

FROM: Jennifer Schembri

SUBJECT: SEE BELOW

DATE: November 16, 2021

Approved

Date

11/22/21

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, 2021 to December 31, 2025, and increasing the not to exceed Agreement amount from \$7,671,477 to a revised not to exceed amount of \$13,745,682, subject to the appropriation of funds.

OUTCOME

Approval of the recommendation will result in a four-year extension of the Agreement with Vision Service Plan (VSP), to provide quality and cost competitive vision care benefits to City employees, retirees, and their dependents.

BACKGROUND

VSP has been the City's vendor providing vision insurance for many years, with the most recent contract from January 1, 2016 through December 31, 2021, resulting from an RFP that was conducted in 2015. In their RFP proposal, VSP offered rate reductions and guaranteed the rates for the full term of the contract period. The current VSP Agreement, covering calendar years 2016 through 2021, includes a not to exceed amount of \$7,671,477.

VSP has an excellent performance record with the City and has continually met the City's requirements to provide quality benefits and services to employees and retirees, competitive pricing, as well as performance guarantees.

VSP currently offers vision insurance to benefited City employees and retirees. Depending on the employees' union and the Memoranda of Agreements (MOAs), either the City pays a portion of the premium or the employee pays the full premium. For retirees, the vision insurance is 100% retiree paid.

ANALYSIS

Staff approached VSP with a request to extend the current contract for four years. VSP agreed to the extension under the same terms and conditions including a four-year rate guarantee at the current rates through December 31, 2025.

VSP was ranked as the top carrier by the RFP Evaluation Committee in 2015, meeting the City's then current plan design and requirements. As the incumbent, VSP has specific experience working with the City and its employees and retirees. Extending the contract with VSP preserves the benefit levels for employees/retirees, eliminates the City's cost to transition to a new vendor, eliminates disruption for employees/retirees, and maintains the current rates for the four-year extension.

Staff recommends extending the contract with VSP based on their ability to continue to offer current benefits with no increase to the rates for another four years and their quality of claims administration and customer service.

CONCLUSION

To ensure the continued delivery of vision insurance products, Staff recommends adoption of a resolution authorizing the City Manager to negotiate and execute an Amendment to the Agreement with VSP extending the term through December 31, 2025.

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 José 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 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 7, 2021 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

Vision insurance has a City-paid portion for certain unions and a 100% employee paid portion for other unions depending on the MOAs. Retiree vision insurance is 100% paid by retirees. Vision premium payments will vary based on actual enrollment. For the projected costs below, a contingency factor of 5% was added to each year to account for increases in enrollment.

1. Vision insurance for employees, retirees, and their dependents for calendar year 2022 with a total cost not to exceed \$1,438,063.
2. Vision insurance for employees, retirees, and their dependents for calendar year 2023 with a total cost not to exceed \$1,509,967.
3. Vision insurance for employees, retirees, and their dependents for calendar year 2024 with a total cost not to exceed \$1,585,465.
4. Vision insurance for employees, retirees, and their dependents for calendar year 2025 with a total cost not to exceed \$1,664,738.

The total cost for the four-year extension to the Agreement is projected to be \$6,198,233.

The increase in the total maximum compensation of \$6,074,205, from \$7,671,477 to \$13,745,682 is attributable to: 1) compensation was lower than projected by \$124,028 due to actual enrollment through December 31, 2021 ; and 2) estimated \$6,198,233 related to the four-year extension from January 1, 2022 through December 31, 2025. Vision insurance premiums for calendar years 2022 through 2025 will continue at the 2021 rates; there will be no rate increases. Actual contract costs will vary based on enrollment.

Retirees comprise roughly 40% of costs, active employees comprise 35%, and the City comprises 25%. Staff is not requesting a change to the City's budgeted cost at this time, as the

\$360,000 currently budgeted in the Benefit Fund is expected to be sufficient through the remainder of the fiscal year. If necessary, an adjustment to the 2021-2022 budget will be made as part of a future budget process. The costs for future years are subject to appropriation and will be included as part of the annual budget development process.

BUDGET REFERENCE

The table below identifies the fund and appropriation used to fund the contract as recommended as part of this memorandum.

Fund #	Appn. #	Appn. Name	Total Appn	Amt. for Contract	2021-2022 Adopted Budget Page	Last Budget Action (Date, Ord. No.)
160	0130	General Employee Vision	\$360,000	\$360,000	932	06/22/2021, 30621

CEQA

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



JENNIFER SCHEMBRI

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Director of Human Resources

For questions please contact Emily Hendon, Benefits Manager, at Emily.hendon@sanjoseca.gov.