



Memorandum

TO: HONORABLE MAYOR
AND CITY COUNCIL

FROM: Jennifer Schembri

SUBJECT: SEE BELOW

DATE: March 3, 2020

Approved

D. D. S. L.

Date

3/4/2020

SUBJECT: AMENDMENT TO THE VENDOR AGREEMENT WITH DELTA DENTAL OF CALIFORNIA FOR THIRD PARTY ADMINISTRATOR SERVICES AND GROUP DENTAL INSURANCE FOR CITY EMPLOYEES, RETIREES AND THEIR DEPENDENTS AND BENEFICIARIES

RECOMMENDATION

Adopt a resolution authorizing the City Manager to:

- (a) Negotiate and execute an Amendment to the Vendor Agreement with Delta Dental of California for DHMO and PPO dental insurance group plans and administrative services for City employees, retirees, and their dependents and beneficiaries extending the term of the Agreement from December 31, 2020 to December 31, 2023, and increasing the not to exceed Agreement amount from \$57,434,000 to a revised total plan amount not to exceed \$97,958,000, subject to the appropriation of funds by the City Council;
- (b) Negotiate and execute any group plan or policy contracts, Evidence of Coverage (EOC) documents, Business Associate Agreements, or other ancillary documents necessary to facilitate the above Amendment until December 31, 2023; and
- (c) Subject to the terms of City's collective bargaining agreements, terminate the agreement(s) or group plan contract(s) in the event that Delta Dental of California's proposed annual renewal rates are not acceptable by the City Manager.

OUTCOME

Council approval of the Amendment will result in a three-year extension of the Agreement with Delta Dental, to provide dental care benefits to City employees, retirees, and their dependents.

BACKGROUND

Delta Dental of California (Delta Dental) has provided the City's dental insurance programs since 1975, and the current group plans have been in operation since 2006. The City conducted a Request for Proposal (RFP) for dental insurance in 2015 that resulted in the City entering into a new five-year agreement with Delta Dental. This contract is set to expire on December 31, 2020.

The City currently provides its employees and retirees with two dental insurance plan options:

Preferred Provider Organization (PPO):

This is a self-insured, network-based dental program which includes a PPO network component, and a Premier dental network which provide a discounted rate at the majority of dental offices in California and provisions for accessing services out-of-network (OON). The OON component of the PPO plan allows participants the freedom to go to any dentist that they choose. In the self-insured plan, the City assumes the risk for participant claims.

Delta Dental has both a PPO and Premier Network. The Premier network is a second network of participating dentists. This network is unique to Delta as no other carrier has a Premier network of contracted dentists. Within the PPO and Premier Networks, members can access up to 94% of the dentists in California.

Dental Health Maintenance Organization (DHMO):

This is a fully-insured dental insurance plan that provides a focused network of dental providers offering the full range of dental services for a reduced monthly premium and relatively small participant co-payments. In this DHMO plan, Delta Dental assumes the risk for participant claims.

Delta Dental is currently the City's PPO plan administrator and the City's provider of the DHMO plan. Delta Dental has been the only viable provider able to match the City's current DHMO plan design, which offers lower participant co-payments compared to other vendors offering dental care services. Services under the Delta PPO network provide cost savings to the both the employee and the City with deeper discounted fees for services than other dental insurance providers.

ANALYSIS

To ensure less disruption in coverage for City employees and comply with best practices, HR staff determined it would be beneficial to extend the current agreement with Delta Dental contracts for a longer term, in line with industry standard. Staff will continue evaluate the competitive marketplace and determine an appropriate time to go out to Request for Proposal.

Delta Dental has performed well and offers the following benefits:

- Match current plan designs
- Most robust and accessibility provider network
- No network disruption of service for participants
- Competitive rates
- Claims process ability

Delta Dental is willing to extend their agreement for three more years under the same terms and conditions. Delta Dental has agreed to a one-year rate guarantee for the DHMO dental rates and PPO administrative fees for calendar year 2021. The rates for the DHMO and PPO administrative fees will be subject to annual cost adjustments for each subsequent year based on actual enrollment and plan utilization for calendar years 2022 and 2023.

CONCLUSION

Delta Dental 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.

To ensure the continued delivery of dental care benefits to employees, retirees, and their dependents and beneficiaries without disruption and at a competitive price, staff recommends an Amendment to the Agreement with Delta Dental extending the term through December 31, 2023.

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.

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 March 17, 2020 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

The following projected costs are based on December 2019 enrollment. For the PPO plan costs were estimated based upon a claims and rate analysis prepared by the City's benefit consultant's actuary.

- The total cost for the DHMO group plan contracts with Delta Dental for the three-year Amendment is estimated at \$1,172,000. Delta Dental has agreed to a one-year rate guarantee for the DHMO dental rates for calendar year 2021. DHMO dental rates for calendar year 2022 and 2023 will vary based on actual enrollment and plan utilization, with rates determined annually. Rates for calendar year 2022 and 2023 assume a 5% rate increase, and a contingency factor of 3% for hiring and 2% for employees retiring.
- The total cost for claims for the PPO group plan contracts with Delta Dental for the three-year Amendment is estimated at \$37,425,000. A projection of claims for the three years was prepared by the City's benefits consultant actuary which assumed a dental trend factor of 5%. Actual costs will be based on plan enrollment and utilization for each calendar year.
- The total cost for the administrative fees for the PPO group plan contracts with Delta Dental for the three-year Amendment is estimated at \$1,927,000. Delta Dental has agreed to a one-year rate guarantee for the PPO administrative fees for calendar year 2021. Rates for calendar year 2022 and 2023 assume a 5% rate increase and a contingency factor of 3% for hiring and 2% for employees retiring.

The total projected cost to cover the three-year Amendment to the Delta Dental Vendor Agreement is \$40,523,000. Funding in the Dental Benefit fund in FY 2019-2020 is sufficient to cover the contract extension described in this Memorandum. Funding for future fiscal years is subject to appropriation and will be included as part of the annual budget process.

The amount needed for the recommended three-year extension of the Agreement with Delta Dental is \$40,524,000. The maximum compensation under the Amended Agreement will be \$97,958,000.

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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.