COUNCIL AGENDA: 10/28/25
FILE: 25-1125
ITEM: 3.5

CITY OF SAN JOSE
CAPITAL OF SILICON VALLEY

Memorandum

TO:	HONORABLE MAYOR AND CITY COUNCIL	**FROM:**	Aram Kouyoumdjian
SUBJECT:	**See Below**	**DATE:**	October 6, 2025

Approved Jennifer A. Maguire Date: 10/15/25

COUNCIL DISTRICT: Citywide

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, or her designee, to negotiate and execute a Third 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 January 1, 2026 to December 31, 2029, and increasing the not-to-exceed Agreement amount of compensation from $13,745,682 to a revised not-to-exceed amount of compensation of $20,504,700, subject to the appropriation of funds.

SUMMARY AND OUTCOME

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

BACKGROUND

VSP currently offers vision insurance to benefited City employees, retirees, and their dependents. As indicated by a given employee's union affiliation and the applicable Memoranda of Agreement, 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.

VSP has been the City's vendor providing vision insurance for many years, with the most recent agreement spanning January 1, 2016, through December 31, 2025, following a Request for Proposal conducted in 2015. In their proposal, VSP offered rate reductions and guaranteed the rates for the full term of the contract period. Since 2016, VSP has maintained fixed rates with no increases. The current VSP Agreement, covering calendar years 2016 through 2025, includes a not-to-exceed amount of $13,745,682.

VSP has consistently demonstrated success in administering and managing benefits, rate negotiations (rate passes and rate guarantees for future years), employee communications, contract interpretation, issue resolution, and more. VSP has built a solid rapport with the City's benefits team for both active employees and retirees and has been highly responsive, knowledgeable, and aligned with the City's goals and objectives for its benefit programs. VSP has also demonstrated an ability to adapt to program changes and the evolving needs of participants over time.

ANALYSIS

As the incumbent provider, VSP brings extensive experience to the City and understands how to align employee and retiree benefits with the City's objectives. VSP has consistently provided high-quality service to the City, its employees, and retirees, and has earned a strong reputation in the market, including significant experience working with public agencies. Maintaining a vendor relationship with VSP supports service stability, reduces administrative risk, and allows the City to leverage its expertise in managing benefits efficiently. Based on the foregoing, VSP is deemed best suited to continue supporting the City over the next four years and is expected to remain a trusted and valuable resource.

Building a strong relationship with a benefits vendor takes years and having a long-term partnership is advantageous for many reasons including the vendor's understanding of the intricacies and nuances of the City's culture, as well as policies and practices to be able to appropriately advise on strategies for providing benefit programs that help to attract and retain employees in today's competitive market.

Extending the contract with VSP will ensure continued and seamless benefit coverage for employees and retirees at the current 2025 rates with no rate increases during the next three years of the four-year extension, i.e., maintaining the current rates through December 31, 2028. By extending the contracts, the City can ensure a smooth continuation of services while minimizing the costs and operational impact of a vendor change.

Alliant, the City's benefits consultant, advises that the current vision rates are competitive and supported by claims experience, and emphasizes that initiating a Request for Proposal at this time is unlikely to result in meaningful plan enhancements or cost savings that would justify changing carriers. VSP also maintains the largest network of vision providers in the marketplace, giving City employees and retirees broad and convenient access to care. Changing carriers could disrupt this access and create unnecessary challenges for hundreds of plan participants. Maintaining the existing Agreement ensures stability, avoids disruption, and supports the City's commitment to providing reliable, high-quality vision coverage.

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 three-year rate guarantee at the current rates through December 31, 2028. The rates for the fourth year of the extension will be determined based on enrollment and utilization.

Staff recommends extending the contract with VSP based on the vendor's ability to continue to offer benefits with no increase to the rates for another three years and the quality of claims administration and customer service. This extension supports reliable, high-quality service and cost stability for the City, employees, retirees, and their dependents.

EVALUATION AND FOLLOW-UP

No additional follow-up actions with the City Council are expected at this time.

COST SUMMARY/IMPLICATIONS

Vision insurance has a City-paid portion for certain unions and employee groups and a 100% employee-paid portion for other unions depending on the Memoranda of Agreement. 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, plus an additional 2% was added to plan year 2029 for a possible rate increase at that time.

Contract Year	Maximum Amount of Compensation
January 1, 2026 – December 31, 2026	$1,627,806
January 1, 2027 – December 31, 2027	$1,709,196
January 1, 2028 – December 31, 2028	$1,794,656
January 1, 2029 – December 31, 2029	$1,920,282
TOTAL January 1, 2026 – December 31, 2029	$7,051,940

The increase in the total maximum compensation of $6,759,018 as recommended in this memorandum, from $13,745,682 to $20,504,700, is lower than the $7,051,940 total in the chart above and is attributable to compensation actually being lower than projected by $292,922 due to actual enrollment through December 31, 2025. Vision insurance premiums for calendar years 2026 through 2028 will continue at the 2025 rates; there will be no rate increases. Actual contract costs will vary based on enrollment.

BUDGET REFERENCE

The table below identifies the fund and appropriation used to fund the contract as recommended as part of this memorandum. Staff is not requesting a change to the budget at this time. Any necessary adjustments will be made as part of the regular budget process. The costs for future years are subject to appropriation and will be included as part of the annual budget processes.

Amounts shown below represent the budgeted allocation and estimated costs for the City's portion of plan contributions for enrolled participants. Residual plan revenues and costs associated with this contract are managed through the Fund 161, Employee Health Fund.

Fund #	Appn. #	Appropriation Name	Total Appn.	Amount for Contract	2025-2026 Proposed Budget Page*	Last Budget Action (Date, Ord. No.)
160	0130	General Employee Vision	$423,000	$406,952	852	6/17/2025 31230

** The 2025-2026 Adopted Operating Budget was approved on June 10, 2025 and adopted on June 17, 2025 by the City Council.*

COORDINATION

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

PUBLIC OUTREACH

This memorandum will be posted on the City's Council Agenda website for the October 28, 2025 City Council Agenda.

COMMISSION RECOMMENDATION AND INPUT

No commission recommendation or input is associated with this action.

CEQA

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

PUBLIC SUBSIDY REPORTING

This item does not include a public subsidy as defined in section 53083 or 53083.1 of the California Government Code or the City's Open Government Resolution.

Aram Kouyoumdjian
Director of Human Resources and
City Manager's Office of Employee Relations

For questions, please contact Damiana Garcia, Benefits Manager, Human Resources Department at damiana.garcia@sanjoseca.gov.