

<h2 style="margin: 0;">COUNTY OF SONOMA</h2> <h3 style="margin: 0;">AGENDA ITEM SUMMARY REPORT</h3>			Clerk of the Board Use Only Meeting Date                      Held Until ___/___/___                      ___/___/___  Agenda Item No:                      Agenda Item No: _____                              _____
<b>Department:</b> Human Resources			<b>(    ) 4/5 Vote Required</b>
<b>Contact:</b> Marcia Chadbourne	<b>Phone:</b> (707) 565-2473	<b>Board Date:</b> 10-20-09	<b>Deadline for Board Action:</b> 10-20-09
<p><b>Agenda Short Title:</b></p> <p>Health Reimbursement Arrangement Administration Agreement</p> <p><b>Requested Board Action:</b></p> <p>Approve and Authorize the Chairman of the Board to execute the agreement with Fringe Benefits Management Company (FBMC) for administration of the County's Health Reimbursement Arrangement (HRA) Program.</p>			
CURRENT FISCAL YEAR FINANCIAL IMPACT			
<u><b>Expenditures</b></u>		<u><b>Add'l Funds Requiring Board Approval</b></u>	
Estimated Cost	\$ 25,000	Contingencies (Fund Name: )	\$
Amount Budgeted	\$ 25,000	Unanticipated Revenue (Source: )	\$
Other Avail Approp (Explain below)	\$ 0	Other Transfer(s) (Source: )	\$
<b>Additional Requested:</b>	\$ 0	<b>Add'l Funds Requested:</b>	\$
<p><b>Explanation (if required):</b> Costs associated with the HRA for employees hired after 1/1/09 are budgeted within each departments' salary and benefits. (No direct fees will be incurred by the County as fees are paid by each participant, with the exception of potential special system programming – estimated not to exceed \$25,000 for the 3 year term of the agreement) Costs associate with newly negotiated benefit plan options will be included in subsequent board reports approving those MOUS.</p>			
<p><b>Prior Board Action(s):</b>          2/05/08 – Other Post Employment Benefits (OPEB) Report Accepted          2/22/09 – HRA Plan Document approved</p>			
<p><b>Alternatives – Results of Non-Approval:</b> County will not be in compliance with Memorandums of Understanding establishing an HRA plan for employees.</p>			

**Background:**

The recommendation before your Board is to authorize the Chairmen to execute the agreement with Fringe Benefits Management Company to provide third party program administration and trust management of funds deposited into the County of Sonoma Health Reimbursement Arrangement (HRA) program.

The County has agreed through approval of various Memoranda of Understanding with most bargaining units, to the implementation of a HRA plan for new employees hired after January 1, 2009. The HRA provides for a specified county contribution to be deposited into individual employee accounts for reimbursement of eligible post employment medical expenses, in accordance with the Internal Revenue code as outlined in the HRA Plan document. The County is also in the process of considering expansion of the use of the HRA for interested employee groups who wish to provide the tax benefits of the HRA to their members. A initial HRA Plan Document was approved by your Board on February 22, 2009. At that time, staff reported it was working on a Request for Proposal/Request for Information (RFP/RFI) process to identify third party administrators' (TPA's) who can assist the County in administration of the HRA program and that a contract with the selected vendor would be presented for your Board's consideration at a later date.

**Request for Proposal Process:**

The County, through its benefits consultant the Segal Company, released a RFP on May 13, 2009 to the following vendors: Bank of America, Basic Western, Connect Your Care, Discovery Benefits, HFS Benefits, Payflex and Wells Fargo. Although Bank of America initially submitted intent to bid, it subsequently declined as they are installing a new computer system scheduled to occur at year end. To be cautious about the change over, they are declining to take on any new administrative clients. The County's deferred compensation provider, Nationwide was considered, but they only perform certain investment services and do not provide HRA administrative services. Only three vendors submitted viable proposals for evaluation, with only two meeting all of the necessary criteria of the RFP. Those two vendors are Connect Your Care (CYC) and Fringe Benefit Management Company (FBMC) and interviews were conducted on July 29, 2009.

During the interviews and subsequent due diligence process, FBMC demonstrated superior abilities and knowledge in all areas of HRA administration. They have extensive HRA plan administration experience nationwide and direct experience with other public employers within

**Attachments:** Exhibit A – Scope of Services  
Exhibit B – Best and Final Offer, Summary of Fees

**On File With Clerk:** FBMC/Sonoma County Agreement with all exhibits and documents incorporated into the agreement.

**CLERK OF THE BOARD USE ONLY**

**Board Action** (if other than "Requested")

**Vote:**


**Background (continued):**

California, including the State of California, City and County of San Francisco, Placer County, and the Los Angeles Unified School District. They also have a few sizable private California employer groups including Pacific Gas and Electric and Maxim HealthCare Services. FBMC has the ability to support participant-directed investments, which is a unique and important program feature provided through the County's program.

FBMC has 33 years experience in administration of a variety of benefit programs including Flexible Savings Accounts, Section 125 Cafeteria benefits, COBRA, Section 401(k) and 403(b) plans, Health Savings Accounts, and now Health Reimbursement Arrangements. FBMC's public entity customers make up more than 25% of their business providing services to county, city and state governments, public schools, universities, hospitals and private employers nationwide. A summary of the services which FBMC will provide through the agreement, are outlined in Exhibit A. All services to be provided to the County, as represented in the agreement, their Proposal and all other documentation provided through the evaluation process, has been incorporated into the agreement, and is on file with the Clerk of the Board.

FBMC provides direct claims adjudication services through its service center located in Tallahassee, Florida. FBMC provides web-based, on-line enrollment and access to individual accounts. FBMC utilizes two subcontractors; Wilmington Trust for investment and trust custodial services and Accurecord, providing software and systems support.

**Evaluation of Costs between Vendors:**

Following the interview process, Segal conducted subsequent evaluation of the information presented and conducted further due diligence based upon the references provided by each vendor. Each vendor was then requested to provide its best and final pricing proposals, resulted in FBMC proposed fees being 27% lower for inactive/employee accounts and 41% lower for active accounts, compared to the other vendor. Their fees are outlined in their Best and Final Offer, a summary of these fees is included in Exhibit B.

Account participants will receive investment returns on their account balances based on their self directed investment decisions. Fees charged by the FBMC are based on a per participant per month (PPPM) and are assessed to each individual plan participant. For inactive participant accounts the fee is \$1.56 PPPM. This is the fee charged to employees and plan participants who have left County employment, but who are not yet eligible to access plan funds. Once a plan participant becomes active, which means they have reached the plan eligibility age or have retired, and makes a determination to begin accessing plan funds, the fee is \$4.00 PPPM. Once a participant account becomes active due to reaching age 50 or upon retirement, they are eligible to use the funds and this is where account administration costs are incurred, through issuance of debit cards, submission of reimbursement claims, etc. These fees are all inclusive for all other services provided by FBMC, including initial plan participant cards, debit cards, communication materials, 24-hour on-line account access, etc. During the term of the agreement, the PPPM fee charged for active plan participants is based upon the number of active plan participants. Once the plan reaches 1,000 participants, the PPPM reduces to \$3.90, and will continue to reduce incrementally, up to 10,000 participants, when the PPPM goes to

**Background (continued):**

\$3.50. Similar to the administrative agreement with Nationwide for deferred compensation administration services, there are no direct fees or charges incurred by the County, with the exception of any special system programming which may be later identified. These services are billed at \$100 per hour. Not knowing whether such services will be necessary until program implementation is underway, we have estimated up to \$25,000 to cover such costs for the 3 year term of the agreement.

There will be internal administrative support costs incurred through the Human Resources - Benefits Unit and the Payroll Division of the Auditor-Controller, Treasurer, Tax Collector. Costs associated with internal administration have not yet been determined, but are not expected to have significant impact, except for the time necessary for initial set-up of the program.

With the new tier of retiree medical benefit provided to new employees after January 1, 2009, it is estimated that approximately 100 participants will be added to the plan each year. As additional plan options are added to the program through plan document amendments, the number of participants will increase gradually.

County Counsel has reviewed and approved the agreement.

**Recommendation:**

Approve and Authorize the Chairman of the Board to execute the agreement with Fringe Benefits Management Company (FBMC) for administration of the County's Health Reimbursement Arrangement (HRA) Program.