



Change Order: Medavie Blue Cross: Employee Benefits Carrier Services (VAC22344/RFP17296)

Item 9A

July 28, 2022

Board of Directors

Report: TCHC:2022-45

To: Board of Directors (the “Board”)

From: Building Investment, Finance and Audit Committee (“BIFAC”)

Date: July 27, 2022

PURPOSE:

The purpose of this report is to seek the Board’s approval of a change order for Medavie Inc. (operating as Medavie Blue Cross), for \$30,038,993.86, for additional spend within the original term (Year 1 to 5) of the Toronto Community Housing Corporation (TCHC) and Toronto Seniors Housing Corporation (TSHC) current employee benefit carrier services arrangement, plus a one (1) additional year extension.

RECOMMENDATIONS:

It is recommended that the Board approve:

1. A change order to Medavie Inc. (operating as Medavie Blue Cross) for \$30,038,993.86 (exclusive of taxes) for additional spend within the original term (Year 1 to 5) of the TCHC and TSHC current employee benefit carrier services arrangement, plus a one (1) additional year request, with funding of the commitment allocated as follows:

TCHC:

- (a) \$11,423,368.86 to cover the balance of Year 5 (January 1, 2022 to December 31, 2022) of the contract;
- (b) \$15,531,250 for a one (1) year extension to the contract (Year 6: January 1, 2023 – December 31, 2023)

TSHC

- (c) \$1,115,625.00 to cover the balance of Year 5 (June 1, 2022 to December 31, 2022) of the contract;
 - (d) \$1,968,750.00 for a one year extension to the contract (Year 6 January 1. 2023 to December 31, 2023);
2. Authorize the Vice President, Human Resources to execute a contract amendment with Medavie Inc. (operating as Medavie Blue Cross);
 3. Authorize the Vice President, Human Resources to re-allocate costs as between TCHC and TSHC related to funding for the commitment related to this contract in accordance with changes in the staff complement of TCHC and TSHC, as applicable, during the remainder of the contract term; and
 4. Authorize the appropriate staff to take the necessary actions to give effect to the above recommendations.

BIFAC:

This report will be considered by the BIFAC on July 27, 2022.

PROGRAM BACKGROUND:

In early 2018, TCHC engaged Medavie Inc. (operating as Medavie Blue Cross) (“Medavie Inc.”) as its employee benefit carrier for a three year term, plus two optional one year terms at TCHC’s management discretion (January 1, 2018 – December 31, 2022). Medavie Inc. was engaged through a Request for Proposal (RFP) process in which it was the successful proponent. Medavie Inc.’s engagement was approved by the Board as part of the Confidential Agenda for its meeting of February 23, 2018.

This employee benefits carrier services arrangement is for the following employee services coverage: benefits and supplemental life; dependent life; accidental death and dismemberment; long-term disability; administrative services only health care; and administrative services only dental care.

The agreement between TCHC and Medavie Inc. was based on a 5-year spend calculation of \$64,306,384, which was based on the following assumptions:

1. A consistent (static) employee count of 1731 active employees for each of years 1 to 5 receiving health insurance through their employment across four separate benefits plans, three of which belonged to a collective bargaining agreement;
2. 116 retired employees who received health insurance benefits through their past service to TCHC across seven (7) separate benefits plans based on employee retirement dates from TCHC and its predecessor corporations; and
3. 75 staff receiving benefits through Long Term Disability.

However, the employee head count has increased year over year as follows:

Table 1: Employee Head Count Changes

	YEAR 1 (2018)	YEAR 2 (2019)	YEAR 3 (2020)	YEAR 4 (2021)	YEAR 5 (2022)	YEAR 6 (2023)
Employee Count (resulting/estimated)*	1891	2011	2097	2337	2400	2400
Variance from Estimate	160	280	366	606	669	NA
Estimate Spend Per Employee **	\$7,168.03	\$7,270.11	\$7,379.98	\$6,929.67	\$7,457.45	\$7,291.67

NOTE:

* In 2018 TCHC estimated a steady employee count of 1731 for Years 1 to 5.

* TSHC benefit policies are provided under TCHC's master policy, with TSHC to be invoiced and pay vendor directly for associated costs for 270 employees for balance of Year 5 (Jun to Dec 2022) and for all of Year 6 (2023).

** Calculated based on annual spend divided by the number of employees for the same year.

The constant employee headcount assumption was a valid one in 2018 as City Council did not approve a permanent funding model for TCHC until 2019, providing additional subsidy for Capital and Operating budget, which supported TCHC's ability to staff at the level required to deliver its mandate.

In addition to employee head count changes which have occurred over the term of the agreement, rate card (premium rates) changes occurred in Year 4 (as permitted under the terms of the agreement) and rates for some benefits increased. This resulted in overall costs associated with the agreement to exceed the estimated spend that was identified in 2018.

The other contributing factor to the change order is the need to extend the agreement with Medavie Inc. for one additional year (up to December 31, 2023). As a result of key corporate priorities arising in the first half of 2022, TCHC's capacity was constrained to dedicate the sufficient expertise, time and resources to undertake a complex RFP process for new benefits carrier services. Extending the existing agreement with Medavie Inc. for an additional year will provide sufficient time and diligence to undertake the RFP process. It should also be noted that TCHC was successful in re-negotiating rates for Year 5 and for Year 6 that are lower, overall, as compared to Year 4 rates.

To summarize, a portion of the change order arises from under-estimating of the spend in Years 1 through Year 5, when assumptions were made that employee head count would remain unchanged. The balance of the change order arises from the need to extend TCHC's agreement with Medavie Inc. for one additional year (Year 6: 2023).

The change order reflects employee benefits costs for both TCHC and TSHC. In accordance with TCHC's Service Delivery Agreement with TSHC, TCHC provides TSHC with benefit provider and plan option services identical to those services that it provided to its internal divisions in the ordinary course, including monthly remittance filing, reconciliation and payments. Pursuant to the Service Delivery Agreement, TSHC is responsible for paying the vendor premiums related to those benefits. TSHC is, further, required to

indemnify TCHC for any claim against it arising from any breach, violation or non-performance by TSHC.

During the course of negotiations with the TSHC Transition Team related to the June 1 Transition of TCHC's Seniors Housing Portfolio, extensive financial disclosure was provided to TSHC regarding the employee costs that it would assume through the transition process. The 2022 benefit costs reflected in this Report were also reflected in the financial disclosure provided to TSHC through that process. As a consequence, those amounts are not new to TSHC. Additionally, discussions with TSHC in relation to the manner in which employee benefits would be secured for staff moving to TSHC were informed by a joint intention to initiate an RFP governing benefits carrier services in 2024. TSHC has confirmed its understanding of its share of the costs related to this commitment in the year 2023, which it will carry forward as part of its 2023 Operating Budget request.

Table 2: Change Order vs. Original Award Comparison (TCHC including TSHC)

	2018	2019	2020	2021
Original Estimated Spend	\$11,227,970.00	\$11,794,337.00	\$12,479,903.00	\$13,868,555.00
Actual Spend	\$13,554,735.79	\$14,620,183.64	\$15,475,817.87	\$16,194,640.50
Change Order	\$2,326,765.79	\$2,825,846.64	\$2,995,914.87	\$2,326,085.50

	2022	2023	Total Change Order
Original Estimated Spend	\$14,935,619.00	NA	
Actual Spend	Work in Progress	NA	
Estimated Spend	\$17,000,000.00	\$17,500,000.00	
Change Order	\$2,064,381.00	\$17,500,000.00	\$30,038,993.80

REASON FOR CHANGE ORDER REQUEST:

The \$30,038,993 change order arises from 2 components –

1) \$12,538,993 extra spend in Years 1 through Year 5 of the original contract term, to cover the actual spend arising from an increased employee headcount above what was anticipated when the agreement was initially created in 2018.

The funding for this spend was properly budgeted for in each of the years of the agreement, and no additional funding is required to cover this expenditure.

2) \$17,500,000 to cover the expenditure associated with an extension of the term of the agreement for one additional year, 2023.

The funding for Year 6 will be included in HR's annual budget (with TSHC covering the portion of their payments for their organization)

Table 3: Purchase Order and Change Order Summary

CO No.	Description	Reason	Individual CO Amount
1	Changes to Employee Benefits Carrier Services program	Additional spends and 1 year extension	\$30,038,993.86
Cumulative approved change orders to-date			\$0.00
Change order as requested in this report			\$30,038,993.86
Total cumulative change orders			\$30,038,993.86
Original contract awarded (VAC 18022)			\$64,306,384.00
Revised total contract amount			\$94,345,377.86
% of contract award/purchase order			46.71%

Process Improvements

To ensure proper contract management, a number of process improvements have been put into place:

- Business Unit: Functional leads are required to carry out diligent review to monitor invoices in a timely manner and to monitor Purchase Order balance vs anticipated future spend
- Business Unit and Finance: Completion of quarterly reconciliations of actual vs budgeted spend including forecasting of future requirements
- Procurement: Building master database of contracts along with expiry dates to help Business Units track expiry dates and allow for sufficient time to complete RFP process

IMPLICATIONS AND RISKS:

TCHC is currently in its 5th year contract term with Medavie Inc., ending December 31, 2022. The scope of work has remained unchanged since TCHC's engagement of Medavie Inc. on January 1, 2018. However, due to employee head count increases, as well as premium rate increases as permitted under the agreement for Years 4 and 5, TCHC's costs have increased more than estimated when the agreement was first created.

The recommendation to extend the current contract by one additional year recognizes that TCHC staff have been focused on corporate priorities impacting their capacity to issue and manage a complex RFP process. The one year extension provides TCHC with the opportunity to carry out a comprehensive and thorough RFP process to ensure a new agreement for benefits carrier services can be in place for January 1, 2024.

Financial source and use of funds: Funding for this Change Order award is within the existing Human Resources 2022 budget and Year 6 funding will be included in HR's annual budget. TCHC has confirmation that TSHC has approval for their portion of the payments for 2022; 2023 costs will be included in their 2023 budget.

SIGNATURE:

“Barbara Shulman”

Barbara Shulman
Vice President, Human Resources (Interim)

STAFF CONTACT:

Adriana Morariu, Manager, Payroll & Benefits
Adriana.morariu@torontohousing.ca