Date: April 5, 2018

To: Joint Labor-Management Benefits Committee

From: Staff

Subject: Tax-Advantaged Spending Accounts Services Request for Proposals Evaluation and Recommendation

RECOMMENDATION
That the JLMBC recommend to the General Manager Personnel Department that WageWorks, Inc. be selected as the service provider of the City of Los Angeles LAwell Civilian Benefits Program Tax-Advantaged Spending Accounts services for an initial three-year contract term, with the option to renew for up to two additional years.

DISCUSSION

A. Background

The following is a review of the JLMBC’s actions to date relative to the development and issuance of a Request for Proposals (RFP) for Tax-Advantaged Spending Accounts services for the City of Los Angeles LAwell Civilian Benefits Program:

- **October 5, 2017** – the JLMBC reviewed and approved a draft RFP for Tax-Advantaged Spending Accounts services and authorized its release.
- **December 13, 2017** – The RFP was released to the vendor community on the Los Angeles Business Assistance Virtual Network (LABAVN), with a response deadline of January 30, 2018.
- **January 8, 2018** – A mandatory pre-proposal conference was held.
- **January 30, 2018** – A total of two RFP responses were received from the following vendors:
  - WageWorks, Inc.
  - ConnectYourCare

The Personnel Department, Administrative Services Division evaluated the vendors’ proposals for compliance with the City’s general contracting requirements. Both proposals were determined to have satisfied these requirements.

B. Tax-Advantaged Spending Accounts Services RFP Evaluation and Findings

The City’s LAwell Civilian Benefits Program provides the following four Tax-Advantaged Spending Accounts: Healthcare Flexible Spending Account (HFSA), Dependent Care Flexible Spending Account (DCFSA), Transit Spending Account (TSA), and Parking Spending
Account (PSA). The mission of the Tax-Advantaged Spending Accounts services procurement was to identify the service provider which can best support the LAwell civilian population in its program by:

- Providing efficient, cost effective, and high quality service administration of tax-advantaged spending accounts for City employees;
- Developing and implementing strategies to increase employee participation in the spending account options;
- Communicating with and assisting members in navigating benefit and service complexity; and
- Providing support services that effectively integrate with the City’s LAwell Civilian Benefits Program and engage its membership.

The proposals were reviewed and rated by staff with assistance provided by Segal Consulting (Segal) in the review of some of the more technical data and fees and guarantees provided in the proposals. The following is the rating panel’s combined consensus scoring summary for the two firms:

<table>
<thead>
<tr>
<th>Ranking</th>
<th>Proposer</th>
<th>Score</th>
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<tr>
<td></td>
<td>Tax-Advantaged Spending Accounts Services</td>
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<tr>
<td>1</td>
<td>WageWorks, Inc.</td>
<td>962.00</td>
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<tr>
<td>2</td>
<td>ConnectYourCare</td>
<td>857.25</td>
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A scoring summary by category is provided as Attachment A to this report. A report from Segal assessing the fees and guarantees section of the RFP is provided as Attachment B. This staff report will summarize the key findings and results of the RFP evaluation.

**OVERVIEW**

The consensus recommendation of the review panel is that WageWorks, Inc. (WageWorks) be selected as the provider of the City of Los Angeles LAwell Civilian Benefit Program Tax-Advantaged Spending Accounts services. Consistent with prior practice, the JLMBC may request to meet with representatives from one or more of the vendors prior to a making final recommendation to the General Manager Personnel Department.

WageWorks’ proposal included the following features that were considered to best address the selection criteria established in the RFP and which represent important objectives for the City’s Tax-Advantaged Spending Accounts programs:

- Organizational strength and experience in supporting a diverse member population
- Over 42 years of experience administering flexible spending accounts and over 18 years of experience administering commuter accounts
- Strong account administration capabilities and the ability to work with the City’s benefits Third-Party Administrator (TPA) to fully support current administrative processing for all accounts
Versatile and user-friendly plan sponsor (employer) website that provides strong tools to facilitate day to day account administration and reconciliation of account balances, produce a wide variety of statistical reports, and provide educational content for distribution

User-friendly website for members to review account information and check account balances, submit claims for reimbursement, place orders for transit/parking media, and access educational resources

Robust and user-friendly mobile app for members to access accounts, check balances, upload receipts, and submit claims for reimbursement

Quick claims processing and reimbursements turnaround time

Strong customer service representative quality assurance measures

Competitive pricing compared to competing proposal with proposed monthly administrative fee guaranteed for an additional two years beyond the third year of the proposed contract term

To provide the JLMBC with ample detail regarding the proposals, in addition to the information provided in this report, Attachment C provides a comparative summary of the data submitted by the proposers. The focus in Attachment C is to summarize the key information of the proposers’ responses and to highlight the major differences which formed the basis for the review panel’s recommendation. A summary of key highlights from the proposals is provided below. In particular, the staff report contrasts how vendor proposals fared relative to key areas of emphasis in the RFP.

I. ORGANIZATIONAL STRENGTH AND PLAN SPONSOR SERVICES

The RFP posed questions regarding organizational background, financial strength and experience, external agency ratings, client experience, plan sponsor services, regulatory and compliance services, ability to provide all required tax-advantaged spending account services, and security and disaster recovery protocols. This section of the RFP was worth 25% of the overall score.

WageWorks scored higher in this section with 241.75 points compared to ConnectYourCare (CYC) with 217.25 points due mainly to it being a large and established firm in terms of client size, number of participants, and experience. WageWorks has experience providing tax-advantaged spending accounts services to the City and at least one other large governmental client. CYC does not have comparable experience providing these services to a public sector client similar in size to the City.

WageWorks was founded in 2000 through strategic acquisitions. The firm has been providing administrative services for flexible spending accounts since 1986 and commuter benefits since 2000. CYC was formed in 2002 and has been operational since 2004. In 2016, WageWorks’ revenue and net profits were $365 million and $20 million, respectively. While CYC provided information regarding its revenue, it indicated that the information was proprietary and confidential and that it be redacted from public disclosure. CYC did not provide net profit information.

In terms of number of clients and participants served, WageWorks is the larger of the two firms with experience providing tax-advantaged spending accounts services to over 5 times
more clients and about 3.7 times more participants than CYC. Currently, WageWorks has about 100,000 clients with approximately 6.5 million participants while CYC has about 19,000 clients with approximately 1.75 million participants.

On the subject of client experience, each firm was asked to provide lists of their largest clients, terminated clients, and clients most recently retaining their services. Staff was able to make contact with most of the listed references. Both firms received positive overall feedback from their current client references and were generally described as very capable vendors. WageWorks received positive feedback from a terminated client reference which indicated that the only reason for the contract termination was due to other business reasons. CYC, however, did not provide any terminated client references.

In terms of plan sponsor services, both firms demonstrated in their RFP responses that they have sufficient organizational resources for supporting the City in the ongoing administration of the four tax-advantaged spending accounts, including the ability to generate aggregate data reporting, work with the City’s benefits TPA with respect to data file transfers, allow the City to audit the services provided, and provide an experienced account team to service the City’s account with access to legal and compliance resources to keep the City informed and updated regarding any regulatory changes that would affect the administration of the tax-advantaged spending accounts.

Lastly, the RFP requested vendors to provide details on its security protocols for maintaining the confidentiality and security of participant records, contingency plans for emergencies, and disaster recovery efforts. Both firms provided detailed responses and described policy and practices to protect and maintain member confidentiality and protect against security breaches. Additionally, both firms described detailed plans in place to respond to emergencies and/or disasters.

Overall, in this section, WageWorks scored higher due to its broader industry experience, large client base, and strong current and terminated public sector client references.

II. ACCOUNT ADMINISTRATION

In this section of the RFP, both firms were asked to demonstrate their ability to administer the City’s four tax-advantaged spending accounts – HFSA, DCFSA, TSA, and PSA. Additionally, a performance exam was conducted with each firm to further assess their account administration capabilities, communications resources, and success metrics.

This section of the RFP was worth 40% of the overall score. WageWorks scored higher in this section with 392 points compared to CYC with 337.75 points. WageWorks demonstrated stronger overall account administration capabilities compared to CYC, especially in TSA and PSA administration, and stronger protocols for call center quality assurance.

In the general account administration and recordkeeping category, the RFP requested that vendors demonstrate their ability to administer the City’s four tax-advantaged spending accounts, including average claims processing and payment turnaround times and providing a call center staffed with trained customer service representatives (CSRs) to provide members with instructions on how to enroll, make changes or access account and claims
information, file claims and submit requests for reimbursements, and answer member questions related to administration of the tax-advantaged spending accounts such as qualified/non-qualified expenses, documentation requirements, and payment and mailing options. Both firms demonstrated similar claims processing and payment turnaround times with WageWorks having a slightly faster processing time. WageWorks indicated an average claims processing and payment turnaround time of no more than three business days compared to CYC of no more than five business days. Both firms indicated financial accuracy of over 99%.

In terms of the call center, both firms indicated that they do not dedicate CSRs to specific accounts in the interest of operational and organizational efficiency. CYC indicated that it could designate a subset of CSRs as primary for the City but that its current model of not assigning CSRs to specific accounts would provide better service for handling peak call times and volumes. WageWorks provided a comparable response regarding its CSR model in which CSRs are shared across its book of business and not assigned to specific clients. Both firms indicated a comparable CSR average wait time of about 21 seconds. Regarding questions related to policies and practices each firm has in place to monitor and assess the quality of CSRs, WageWorks demonstrated a higher level of accountability to measure and account for CSR quality assurance. Both firms discussed different methods of call monitoring and CSR review periods, but WageWorks indicated a higher level of quality assurance measures performed on a monthly basis in which CSRs are evaluated on performance in three key areas: call monitoring, call scoring utilizing behavioral analytics software, and call surveying after every call. CYC, on the other hand, indicated that a random sample of calls could be performed daily to assess quality and compliance. Additionally, CYC indicated that participants are surveyed annually on satisfaction with the CSR experience, which is a much longer period of time than performed by WageWorks.

The next section of the RFP addressed administration of the Healthcare and Dependent Care Flexible Spending Accounts (HFSA and DCFSA respectively). Both firms demonstrated comparable ability to successfully administer both accounts, including providing similar capabilities for members to submit claims for reimbursement online and through the mobile app, providing a debit card for members to make payments, and having high auto-substantiation rates for payment card purchases. Some differentiating factors between the firms’ proposals in this area included: 1) WageWorks receives an updated list of eligible expenses monthly from the Special Interest Group for Inventory Information Approval System Standards and updates its system immediately for any compliance changes; 2) WageWorks issues separate reimbursement checks for HFSA and DCFSA, while CYC issues one check for both accounts if claims are approved on the same day; and 3) WageWorks has the ability for dependent care providers to sign directly in its mobile app when participants submit DCFSA claims, eliminating the need for submitting a detailed receipt for reimbursement.

Regarding TSA and PSA account administration, WageWorks demonstrated greater administrative capabilities in several key areas. First, WageWorks demonstrated a stronger level of penetration for acquiring transit and parking media directly from Southern California regional transportation authorities. For example, WageWorks provides participants with the ability to load stored value and transit passes directly from their transit spending accounts onto their Transit Access Pass (TAP) cards on the WageWorks member self-service website without having to visit a ticket office or machine kiosk. In comparison, CYC partners with
WiredCommute for transit and parking media fulfillment. WiredCommute has relationships with transit authorities and is responsible for mailing passes and tickets directly to participants after orders are placed on CYC’s website. Thus, while CYC offers a reloadable MasterCard, participants can only load funds onto their TAP cards at ticket offices or machine kiosks using commuter check vouchers that are mailed to them. This would be a reduction in the service level that is currently provided to members and does not match the capability that WageWorks is able to provide in this area. CYC also confirmed that it is unable to fully support the City’s current administrative process for funding participant’s transit and parking spending accounts; specifically CYC is unable to limit participants’ available funds for transit and parking media purchases to the funding transmitted by the City’s benefits TPA for each participant based on their annual contribution election(s). This is a significant limitation and would require that the City change its current administrative process to accommodate CYC’s requirements.

Lastly, a performance exam (1.5 hours) was conducted with each vendor on March 16, 2018. As part of the exam, the City requested that each vendor provide a live demonstration of their member-level and plan sponsor websites, as well as discuss their overall member engagement strategies, including communications resources for members and success metrics. CYC demonstrated its new member-level website that was not included in its RFP response as well as its plan sponsor website and mobile app. Although both the member-level and plan sponsor website had a thoughtful and modern design, CYC was unable to demonstrate all of the functions of both websites during the performance exam, especially in areas relating to commuter benefits and sample reports available for download. As such, the review panel was unable to fully grasp the functionalities and navigation of the websites from the presentation. In addition, CYC requires employers to navigate to a different website from the plan sponsor website to obtain commuter benefits reports and was unable to showcase the different types of reports available to employers to facilitate day to day account administration and reconciliation of account balances.

WageWorks’ demonstration showcased a member-level and plan sponsor website that are both user-friendly and engaging to use. For the member-level website, the member is provided with prior plan year account information alongside current year account information up until the prior year’s claims filing deadline immediately upon logging in on the main page. In addition, the member is provided with a pop-up message alert each time a participant logs into their accounts with different types of reminders such as claims filing deadlines and notifications to submit receipts. The review panel found these two features to be very helpful for participants in checking their account balances and submitting claims for reimbursement. In addition, WageWorks also provided a demonstration of their mobile app which was similar in capability to CYC’s mobile app. However, WageWorks’ also demonstrated additional capabilities of its mobile app such as the ability for day care providers to provide an electronic signature in place of having participants submit receipts for DCFSA claims, a feature that did not appear to be available on CYC’s mobile app. In terms of the plan sponsor website, WageWorks demonstrated strong tools including a wide variety of reports available for the employer to download to reconcile account balances and the ability for the employer to view all funding files transmitted by the City’s benefits TPA to resolve member funding issues. This functionality was not demonstrated to the review panel by CYC.
Regarding the topic of member engagement strategies to support members and measure the effectiveness of those strategies on customer satisfaction, both firms provided similar responses and indicated that they would work with the City to develop customized campaigns and educational materials, including webinars, flyers, posters, etc. to support members and the City in increasing its participation rate in the flexible spending accounts. WageWorks demonstrated on its plan sponsor website a library of educational content, including easy to read/understand flyers and posters that employers could use in email communications with their members. By contrast, CYC showcased a “FSA for Dummies” book they co-authored that would be available for the City’s members to download, which the review panel perceived to be dense and difficult for members to easily understand. Lastly, both firms also indicated that they would work with the City to continually assess the effectiveness of its targeted communications by periodically reviewing metrics such as claims reimbursement and participation rates throughout the year and annually during Open Enrollment.

Overall in this section, WageWorks scored higher due to its stronger account administration capabilities, especially in TSA and PSA administration and robust, user-friendly member-level and plan sponsor websites. CYC did not demonstrate the capability to successfully administer all aspects of the City’s commuter benefits program and did not demonstrate any improvements to the City’s current administration capabilities both in the RFP response and in the performance exam.

III. COMMUNICATIONS

This section of the RFP was worth 15% of the overall score and posed questions regarding the vendors’ member-level website and content, new/messaging/interactive capabilities, website customization capabilities and resources, mobile applications (apps) and other media, planned technology enhancements, print communication materials, and member satisfaction. WageWorks’ overall score in this section was 141.25 points compared to CYC with 139.75 points.

The review panel found WageWorks’ member-level website to be more user-friendly with greater notification capabilities and easy to access educational materials. The member-level website has many key focus areas such as account balances, status of reimbursement claims, and claims history easily accessible and visible on the main page. Additionally, educational materials such as eligible expense lists and calculators are readily accessible on the website. On the other hand, although CYC presented a new iteration of their website during the performance exam, they did not provide information regarding this new website in their RFP response. The CYC website provided in the RFP response was more difficult to navigate, and does not have commonly used tools and information easily accessible on the main page such as eligible expense lists and calculators. CYC’s website, however, has the capability to be translated into Spanish, a feature that WageWorks does not have. Overall, both the website described in the written proposal and the new website presented in the performance exam were found to be less user friendly than WageWorks’ current member-level website.

Regarding the mobile app, both CYC and WageWorks demonstrated comparable capabilities such as the ability for participants to view and check account balances, upload receipts, file
claims for reimbursements, and check on the status of the last five frequent transactions. An additional feature of CYC’s mobile app that the review panel found useful was the ability for participants to view an eligible list of qualified expenses for filing reimbursement claims directly in the mobile app, a feature that did not appear to be available on the WageWorks’ mobile app without redirecting the participant back to the main WageWorks’ website.

In terms of member engagement strategies, both firms indicated that they would work with the City to assess outreach strategies and develop targeted communications plans. Both firms also provided comparable educational tools such as online videos, newsletters, blogs, printed materials, and webinars. In terms of measuring member satisfaction, WageWorks indicated that it conducts monthly participant satisfaction surveys from a random sampling of participants and sends email surveys at the completion of every call made to the call center. CYC, by contrast, indicated it disseminates member satisfaction surveys twice a year. Both vendors demonstrated comparable member engagement strategies and communication resources to support the City’s participants.

The key difference resulting in the scoring advantage for WageWorks was that the review panel found WageWorks’ member-level website to be more user-friendly and able to better support member participation and experience in all of the flexible spending accounts offered through the Civilian Benefits Program.

IV. FINANCIAL COST

This section of the RFP was worth 20% of the overall score. Proposers were requested to detail fees and guarantees to provide the services detailed in the Scope of Services of the RFP. Segal assisted staff in evaluating this section of the RFP. Segal’s report on the financial competitiveness assessment of the Tax-Advantaged Spending Accounts RFP is included as Attachment B to this report.

As specified in Segal’s report, WageWorks proposed administrative fees are more cost effective for the range of services offered. WageWorks proposed no change to the current monthly administration fee of $3.00 per unique participant, regardless of the number of accounts the participant enrolls in. CYC, on the other hand, provided information regarding its proposed fees but indicated that the information was proprietary and confidential and that it be redacted from public disclosure. While the actual fee will not be disclosed, staff’s assessment of CYC’s fee proposal is that it is more costly than WageWorks’ proposal and would negatively impact participants that are enrolled in both HCFSA/DCFSA and TSA/PSA. A detailed analysis of the administration fees for both vendors is included in Appendix A of Segal’s financial analysis report.

In terms of fees for additional services, both vendors indicated that they will provide standard reporting and participant communications at no additional cost. Customized reporting and some customized communications, as well as printing and postage expenses, would be invoiced at cost. A key difference between the two proposals is the cost for required annual discrimination testing. The IRS requires that Section 125 FSA Plans be nondiscriminatory, such that they do not discriminate in favor of “highly compensated individuals” or “key employees” regarding eligibility for pre-tax contributions and actual benefits provided. To ensure that a plan is compliant, it must perform and pass a series of nondiscrimination tests.
each year. The City’s Civilian Benefits Program is a Section 125 Plan and accordingly must conduct these tests annually for its FSA accounts. WageWorks has proposed providing this testing at an annual cost of $1,000 to the City. CYC’s proposal to provide this testing is higher and less cost effective than WageWorks’ proposal. A summary of all fees associated with additional services is included in Appendix B of Segal’s financial analysis report.

In terms of rate caps and price guarantees, both vendors guaranteed their proposed administration fee for five years.

With respect to performance guarantees, both vendors have proposed placing up to a total of 10% of quarterly administrative fees at risk for a range of performance criteria and would work with the City to develop mutually agreed upon performance evaluation criteria, reporting, and assessment. The key difference between the two vendors is that WageWorks’ performance criteria is based solely on their book of business results while CYC’s performance criteria includes a mix of book of business results and City specific experiences.

Overall, WageWorks scored higher in this category with 187 points compared to CYC with 162.5 points. CYC’s proposed monthly administrative fees were not as competitive as WageWorks' proposal and would negatively impact those employees who participate in both HFSADCFSA and TSA/PSA without providing additional or improved services. In addition, CYC’s proposed fee for mandatory annual nondiscrimination testing is less competitive than WageWorks’ proposal to provide this service at a cost of $1,000 annually to the City. WageWorks’ rate proposal is highly competitive and represents the best overall financial value for both the employer and employees.

C. Conclusion and Next Steps

The focus in reviewing this RFP was to identify a provider that could best partner with the City to provide efficient, cost effective, and high quality service administration of the City’s tax-advantaged spending accounts, as well as member engagement strategies and support services that effectively integrate with the City’s LAwell Civilian Benefits Program. The finding of the review panel is that WageWorks best demonstrated these capabilities and at a competitive price for the City’s Civilian Benefits Program members. Based upon its analysis, staff recommends that the JLMBC recommend to the General Manager Personnel Department that WageWorks be selected as the service provider of the City of Los Angeles LAwell Civilian Benefits Program Tax-Advantaged Spending Accounts services for an initial three-year contract term, with the option to renew for up to two additional years. Prior to exercising the option to extend the contract beyond three years, an analysis of the contractor’s performance would be brought back to the JLMBC for the purpose of generating a recommendation to the General Manager Personnel Department.