



Memorandum

**TO: Board of Administration for the
Federated City Employees'
Retirement System**

FROM: Benjie Chua Foy

**SUBJECT: Risk Strategies Agreement for
Insurance Broker Services**

DATE: January 8, 2024

Approved

B. Hayman

Date 1/10/2024

RECOMMENDATION

Discussion and action to authorize the CEO to negotiate and execute an agreement between the Board of Administration (the Board) for the Federated City Employees' Retirement System (the System) and Risk Strategies for insurance broker services ending on June 30, 2028, for an amount not to exceed \$300,000; this cost to be split 50/50 with the Board of Administration for the San Jose Police and Fire Department Retirement Plan (the Plan).

BACKGROUND

Starting in December 2007, MacCorkle Insurance Services provided insurance broker services for the System and the Plan, until they were acquired by Risk Strategies in 2015. Thereafter Risk Strategies provided insurance broker services for the System and the Plan. In May 2023, the Office of Retirement Services' (ORS) Internal Auditor issued an audit report titled "Procurement and Contract Oversight" that covered procurement and contract services. Finding #2 in the report states: *The ORS paid an insurance broker without a competitive vendor selection process or a contract to define the scope of services.*

Given finding #2, in August 2023, Staff issued a Request for Proposal (RFP) for insurance services, which closed on September 29, 2023. Over a dozen vendors reviewed the RFP and several downloaded either part or all of the RFP. However, no bids were submitted.

Upon further review of the contract amount, the contract amount qualified under the City's Request for Quote (RFQ) process. Staff outreached to the City's Purchasing / Finance department to inquire about issuing an RFQ. ORS was informed that as the contract is for consulting services, the process is department-led and would not need to involve the City Purchasing department. As such, staff outreached to several insurance broker firms inviting them to provide quotes for insurance broker services. Staff received two responses: from Risk Strategies and Epic Insurance Brokers. The quote amount for Risk Strategies is less than the amount quoted by Epic Insurance Brokers for the same services. Under the RFQ method, the determining factor is the cost, if the services provided are similar, as is the case for this RFQ. The base rate per year for Risk Strategies is \$50,000 vs. \$62,500 for Epic Insurance Brokers.

ANALYSIS

Risk Strategies provides insurance brokerage services to obtain fiduciary insurance services for the Board. The current policies and terms are listed below, along with the current premiums paid and Risk Strategies' commission of 17%. The current coverage period is for March 31, 2023 through March 31, 2024.

Type of Insurance	Carrier	Policy Limit	Current cost with commission	
			Federated	Police and Fire
Fiduciary	Hudson Insurance Co	\$10,000,000	\$100,040	107,501
Excess fiduciary	National Union Fire Insurance Company	\$5,000,000 underlying \$10,000,000	43,945	\$47,205
Excess fiduciary, Side A	Hudson Insurance Co	\$10,000,000 excess \$15,000,000	58,809	\$53,142
Total Insurance Premium (line A)			\$202,794	\$207,848
Cost based on current commission of 17% (line A x 17%)			\$34,475	\$35,334
Total commission for both plans				\$69,809
Annual average total commission for both plans for the past 5 yrs				\$68,714
Proposed flat fee cost / (with incentive bonus)				\$50,000 / (\$60,000)

For this contract, Risk Strategies has quoted a base rate of \$50,000 cost, split 50/50 between the System and Plan for all insurance policies. In addition, there is a provision for an incentive bonus of \$10,000 if the total premiums of the insurance policies can be reduced by 5% from the current year's premium cost. The quoted base of \$50,000 and possible incentive bonus of \$10,000, will decrease the average cost from \$68,714 to either \$50,000 or \$60,000 annually.

CONCLUSION

Staff recommend the Board authorize the CEO to negotiate and execute an agreement between the Board of Administration for the Federated City Employees' Retirement System and Risk Strategies for insurance broker services ending on June 30, 2028, for an amount not to exceed \$300,000; this cost to be split 50/50 with the Board of Administration for the San Jose Police and Fire Department Retirement Plan.

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