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Chair of the Assembly and the Academic Council
Faculty Representative to the Board of Regents
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September 26, 2008

PRESIDENT MARK G. YUDOF
ASSOCIATE VICE PRESIDENT JUDITH BOYETTE

Re: RFP for Outsourcing UCRP Benefits Administration

Dear Mark and Judy:

At its September 24, 2008 meeting, the Academic Council considered a report from the University Committee on Faculty Welfare (UCFW) on the RFP for outsourcing UCRP benefits administration. The Academic Council voted unanimously to endorse UCFW's recommendations not to proceed with the current RFP process and to begin a new RFP process to update existing in-house technological infrastructure for UCRP.

In making these recommendations, Council would like to emphasize five principles that it endorsed in former Council Chair Brown's July 15, 2008 [letter](#) to Executive Vice President Lapp. These principles outline the terms under which outsourcing UC's benefits administration should be considered. They include justification, the quality of services provided, security of confidential information, costs, and control of benefit design. The Academic Council agrees with UCFW that outsourcing UCRP cannot be justified on the basis of these principles. Outsourcing would provide neither a significant improvement in the quality of services, nor a reduction in costs. Moreover, such a radical change as outsourcing UCRP administration may be viewed by some UCRP members as a first step toward reducing and diminishing the University's health, welfare, and retirement benefits, particularly in the context of the resumption of contributions to UCRP and recent struggles over its governance (i.e., ACA 5). Such a perception, whether accurate or not, would inevitably undercut the University's ability to recruit and retain faculty at this time when UC salaries are not competitive. In addition, the Academic Council expressed grave concerns regarding outsourcing under the current climate of instability and corporate buy-outs.

Process

As the Senate committee most closely involved with issues involving the UC Retirement System, UCFW and its ad hoc subcommittee participated in several steps of the outsourcing initiative, which included reviewing a draft of the RFP in March, and attending the bidders' conference in April and vendor presentations in August. At its July meeting, UCFW heard a presentation by UCOP/Deloitte on the results of the UC Pension Administration Review Team self-assessment. The subcommittee's analysis of the information garnered throughout this process, along with UCFW's recommendation

regarding UCRP administration, were conveyed to the Academic Council for consideration at its September 24 meeting. UCFW's report to the Academic Council notes that the purpose of the RFP process was described as solely an information-gathering exercise and that UCFW approached it in this spirit. In making its recommendations, UCFW also relied on the principles noted above. Since the RFP was first proposed, Council has emphasized that the current level of service provided to UCRP members and member satisfaction are very high, and that a decision to outsource would need to be explicitly justified by lower costs or improved quality.

UCFW's Assessment

The main points of UCFW's report to Council are as follows:

1. Throughout the process, no singular advantage for outsourcing UCRP administration has been demonstrated. At no time during the process was there any assertion that UCRP does not offer excellent service. The information gathered during the process, including the vendor presentations, revealed no evidence that outsourcing would likely decrease the cost of UCRP administration or increase customer service above that provided by an in-house solution of improved UCRP IT infrastructure. UCRP's current IT capabilities are sustainable for 2-3 years, providing ample time to complete an upgrade.
2. While vendors currently exceed the University's capability to monitor performance by quantitative measures such as first contact resolution and call center wait time, this monitoring technology would be available to UC in a "co-sourcing solution" - acquiring improved technology to support the existing in-house UCRP administration. It is not at all certain that UC expertise and culture can be successfully transferred to a vendor, and the price in our members' satisfaction would be very high if the transfer were not completely successful. Furthermore, it is likely that a number of current UCRS employees would depart in the face of the imminent disappearance of their jobs rather than remain to assist with the transfer.
3. After close review of vendor data, UCFW concluded that while outsourcing costs may look comparable to an enhanced in-house model now, those costs are very likely to increase as contractual details are worked out. In addition, since removing UCRP administration from UC will be essentially irreversible, the University will have little negotiation leverage over either costs or service quality in future contracts with either the first generation provider or a potential successor. Thus, over time it is likely that outsourcing will prove substantially more expensive than retaining UCRP administration in-house.

As noted above, Council strongly opposes proceeding with the outsourcing project. Instead, Council urges the University to investigate potential improvements to in-house technology through a new RFP with the goal of completing an upgrade in three years.

Please do not hesitate to contact me if you have any questions regarding Council's comments.

Sincerely,



Mary Croughan, Chair
Academic Council

Copy: Executive Vice President Katherine Lapp
Academic Council
Martha Winnacker, Academic Senate Executive Director

Encl. 2



UNIVERSITY COMMITTEE ON FACULTY WELFARE (UCFW)
Helen Henry, Chair
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September 14, 2008

**MARY CROUGHAN, CHAIR
ACADEMIC SENATE**

RE: Proposed UCRP Administrative Outsourcing

Time line of the UCRP Outsourcing Undertaking

Dec 6, 2007: TFIR first informed of coming outsourcing RFP
March, 2008: UCFW and UCPB reviewed a draft of the RFP
Apr 30: Bidders Conference
Jul 17/18: UCOP/Deloitte Presentation of Vendor Bidding Results
Aug 18/19 Presentation of UC PAR Self-Assessment and Vendor Presentations
Sep 9- (?): Vendor Site Visits

Vendor Presentations: General Comments

We began the two-day session with a presentation of the Self-Assessment prepared by the UC Pension Administration Review (PAR) Team. While anecdotal evidence suggests a high degree of satisfaction with customer service provided by UCOP, qualitative assessments in this presentation indicated that currently the UC administration of UCRP is somewhat weaker than the industry standard in being able to carry out systematic measurement of customer service quality according to industry standards and that some calculations (e.g. disability eligibility and benefits) are not done in a timely fashion. It is generally agreed that the UCOP information-technology infrastructure, although likely adequate for the next 2-3 years, will need updating in the near future. Comparison of cost, on a per member basis, did not vary significantly between vendors or between vendors as given in their proposals and UC (as based on our actual costs). Costs for an “enhanced” UC administrative system were also within this range.

With regard to the outside vendors, there were originally three models in the RFP. Model 2, where the responses were concentrated, involves outsourcing everything and transferring all electronic records, with UC retaining all non-electronic records. Model 1 adds the handling of archival, non-electronic records to vendor responsibilities; UCOP/Deloitte felt the vendors had substantially underestimated costs for this model, and there is agreement that it is both cheaper and equally effective for UC to maintain these older records, providing specific information to a vendor as needed. We support the removal of Model 1 from consideration. Model 3 retains the customer service function within UC, with the vendor responsible for maintaining the database and supplying the information technology. There is no interest in Model 3 on the part of vendors. The remainder of this report concerns Model 2.

We approached the vendor presentations with the view that although we had serious concerns about outsourcing UCRP administration, we needed listen to the presentations with an open mind and gather further information about the implications of UCRP outsourcing. Throughout the presentations we looked for an answer to the question "What problem does outsourcing solve?". We did not receive a compelling answer to this question from any vendor or from UCOP/Deloitte.

Based on what we saw and heard, our concerns remain and have become somewhat more concentrated on particular aspects of outsourcing. The privatization that the outsourcing model would represent does not reduce costs and does not substantially improve members' experience with UCRP. Any minor improvements that could be identified (for instance, the ability to process rollovers from outside plans) could be implemented in-house with the co-sourcing model we are advocating. This model would retain the data-stewardship and customer-service functions within UC, but would make use of a vendor's software and would be equivalent to the Service Center model outlined in the Roles Report. One of the vendors expressed considerable interest in this model, and another potential bidder had indicated interest in this model, but declined to submit a bid because this model was not included in the RFP. We see this approach as one that reflects the Senate's principles. It would be broadly competitive with external vendors in terms of cost, possibly superior in terms of customer service, and would avoid the many serious risks from outsourcing.

Since it is our legacy IT framework, not our customer service, that represents some of the impetus for change, we are very much in favor of abandoning this RFP and pursuing a co-sourcing model, in which the vendor supplies to us the technology/software, necessary for us to manage the administration of UCRP. This view was reinforced by the UCOP/Deloitte presentations concerning what we've previously referred to, in our requests for such information, as the "enhanced status quo" model, in which UC would invest more in the "in-sourced" model we now have, focusing in particular on the IT side. We learned from our discussions with UCOP that our technology gap extends to additional technology to monitor customer service quality, and saw merit in such an investment.

Academic Council Principles

In analyzing the specific features and costs presented by the vendors, we determined the extent to which these met the Principles articulated by the Academic Council (excerpted in bold below; also enclosed) in former Academic Senate Chair Michael Brown's July 15th letter to Executive Vice President Katie Lapp.

This concern has led Council to adopt the following principles, which it respectfully requests the Administration use as guidelines in deciding whether to outsource benefits administration:

- **Justification: Based on information we have received to date, outsourcing benefits seems unjustified on the basis of either efficiency or effectiveness; outsourcing of UC benefits administration should be explicitly justified on the basis of costs, efficiency, and/or effectiveness.**

It is clear to us that the outsourced alternative will not be less costly than our current system or an "enhanced status quo". Even if outsourcing proceeded under the current RFP, UC would

continue to have its own HR expenses (estimated at \$5.5M, lower than the current estimated \$18.9M spent in this area) for benefits counseling, coordination with the new vendor, management oversight, etc. The tentative pricing that we saw from the interviewed vendors made the overall costs similar to or higher than current costs – and those vendor estimates were without detailed contracting which easily could increase the vendor contract price.

Both Deloitte and UCOP participants indicated their view that the current UCOP technology is sustainable for 2-3 years. A justification cited for concern beyond that time-period is the possibility that UC might want to adopt different benefits for different groups, or perhaps a "hybrid" (reduced DB benefit + DC plan) for new hires. The current IT infrastructure could not accommodate that. Nothing about poor customer service quality from UC HR&B was involved in any justification, beyond discussions of capabilities such as the automated monitoring of the percentage of first-calls that are answered. The outside vendors have better capabilities for monitoring quality control; we don't perceive that we have a quality control problem, but we also do not oppose adding such a capability.

Peak load is an issue for UCOP, but expansion of our customer service can be done in increments of one more person and one more phone line. The economies of scale outside vendors bring involve adding customer service reps from other clients to a dedicated UC team during peak times such as Open Enrollment. Even with the vendor who emphasized cross-training with other teams, so that added reps would not be completely unfamiliar with UC, such individuals would not be fully dedicated to UC most of the year.

We see much potential in a "co-sourcing" model, or an enhanced "in-sourced solution" that involves purchasing just a "systems solution" outside (i.e., we pay the outside vendor to help us take their better IT solution and apply it to our setting, retaining our customer service and other functions in-house, albeit with IT and training costs). One firm that elected not to bid was at one point interested in offering only this service, and this is descriptive of what CalPERS is currently investigating, having apparently found no external vendor to be a good alternative. One firm in the presentations mentioned other clients who have taken this approach. We think that waiting to make a decision is prudent because it allows us to see what CalPERS develops, and to consider issuing a new RFP focused solely on technology.

We also note that perhaps we are not looking at the right part of the technology problem. A theme in the interviews is that the vendor would have to accommodate numerous different UC payroll systems. UCOP's difficulties in responding to the *Chronicle* during Comp-gate were largely due to not having a modern payroll system. It may be that retooling the business side of UC should be focused there instead of or in addition to UCRP administration. Better, more coordinated UC IT capabilities might serve a number of problems related to reporting within and without the University, audit and compliance, etc., and might facilitate HR management as well.

- **Quality of services provided: Current quality provided to employees is very high and there should be no diminution of that quality.**

There would need to be a substantial transfer of expertise and information to the third-party vendor. Even then, each vendor being considered is geographically removed from California, so the familiarity with such details as "where is Santa Rosa?" will surely be lacking. A call concerning a health-care problem in a particular region in California will make less sense to customer service reps in another state. As one UCOP administrator noted, "all health-care problems are local".

All vendors seemed eager to “learn UC’s culture”, from where our retirees live and seek health care to how Californians are likely to feel about diversity or same-sex marriage. In sales mode, they are of course going to assure us that their representatives would receive training pertaining to the diversity and culture of UC. We don’t need to teach UC people this culture and the necessity for this training of vendor employees adds to the risk inherent in outsourcing.

Most of the vendors’ statements in regard to customer service related to quality-control monitoring or else consisted of “tell us what you want and we can do that”. Furthermore, we perceive that external vendors make a profit by encouraging members to use “self service”, web-based solutions as much as possible. Some of our retirees may not be happy with that.

UC HR&B administrators had some clear discomfort about features of our current in-house service. HR&B retirement has little ability to monitor the quality of responses to employees, poor ability to track queries, etc. While HR&B perceives that there is great overall satisfaction with their services, they are concerned that their capabilities are stretched, and do not lend themselves to quality assurance monitoring and control. There inevitably would be some costs involved to improve these features of our current “in-sourced” model. We recommend that such capabilities be considered as part of the new RFP we propose.

- **Security of confidential information: Providing employee information to a third party could increase the risk of security breaches and unauthorized disclosure of confidential information; there should not be any increased risks to security or confidentiality of personal information associated with the possible outsourcing of benefits administration.**

We do not see specific cause for concern, and the security of each site should be a focus of a site visit, but discomfort on the part of UCRP members in this regard will remain a reason to keep things in-house, and that is especially pertinent if we do not see an offsetting benefit.

- **Costs: Benefit services are funded out of the plan itself; there should be no cost increases associated with outsourcing such services.**

We think increased costs are inevitable. It seems to be the nature of the business that the current proposed fee structure is based on a plain-vanilla outsourcing model, and each time we ask for their framework to be tailored to meet a new UC need, a new fee must be negotiated.

Moreover, this step is irreversible. We anticipate that, in five years, it would be essentially impossible to bring things back inside UCOP. Our choice at that point would be to remain with the first-generation external vendor or switch to a second. Given that vendors know that such a switch would be costly, our bargaining power would be rather constrained as we negotiate with our first-generation vendor, even if we are happy with service quality. So, we would have to anticipate costs rising relative to the current bids that get them in the door.

- **Benefits design: Outsourcing should in no way affect UC’s role in the design of benefits plans.**

We are satisfied here, though we also see the potential for the cost of departing from what is easiest for the vendor to implement becoming a factor in any future discussions of our menu of benefits. UC would not transfer the decision-making to the vendor, but what is cheapest for the

vendor to implement would surely affect UC's incentives.

Summary and Recommendation

It is important to recall that the purpose of the exercise of formulating the RFP to outsource UCRP administration and analyzing the responses to it has been "to learn what's out there", and that there was not to be a pre-determined outcome. We have indeed learned a lot, and it has shaped our thinking. The vendors acknowledge that UC has done an excellent job with UCRP administration, particularly in customer service, and they demonstrated that they can do what we want, rather than showing us that they already do better. Thus, there seems to be wide agreement among the UCOP and Deloitte participants that there will not be significant cost reductions; that our current capabilities are sustainable for 2-3 years; that an enhanced UCOP solution is feasible; and that if we were to announce a transition to an external vendor, there would be a chaotic situation in which the employees needed to transfer tremendous amounts of information to an external vendor would also know that they are about to lose their jobs, and presumably would not wait around until the vendor's "go live" date to look for another job.

Our core concerns with the outsourcing of UCRP can be summarized as follows:

- 1. No cogent justification for outsourcing UCRP administration has been given by UCOP or Deloitte at any time during this process.*
- 2. Transferring UC expertise and culture to a vendor is fraught with uncertainty of success, with a large price to pay in terms of our members' satisfaction if it is not completely successful.*
- 3. While outsourcing costs may look comparable (to an in-house model), we now think it quite likely that outsourcing will prove substantially more expensive over time.*

We recommend that the Senate advocates strongly and vigorously against any of the three models in the current RFP. Instead, the Senate should recommend a new RFP that seeks only improved in-house technology. This is the model that CalPERS is following. We may find that a gradual increase in our reliance on the private sector is worthwhile over time, but in the current environment, there is not enough offered to make it worth the risk and the costs of complete outsourcing. Our proposal takes into account not only our excellent customer service but the irreversibility and substantial cost associated with a radical, wholesale abandonment of our current capabilities.

Sincerely yours,



Helen Henry, UCFW Chair

Encl.

Copy: UCFW

Martha Winnacker, Executive Director, Academic Senate



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July 15, 2008

**KATHERINE N. LAPP
EXECUTIVE VICE PRESIDENT**

Re: Outsourcing of Benefits Administration

Dear Katie:

At its June meeting, Academic Council requested that I convey Council's concerns related to the current consideration of outsourcing the University's benefits administration, including the Request for Proposals (RFP). At the start, let me emphasize Council's appreciation for consulting with us. We also appreciate having a role in vetting the RFP and evaluating the responses to it over the next few months, as well as your willingness to schedule the RFP process to permit the Senate's Committee on Faculty Welfare (UCFW) to present a recommendation to Council in time to convey recommendations to the Administration before a final decision is made.

Notwithstanding, Council is concerned that outsourcing may adversely affect benefits administration, an area in which the Office of the President is perceived as offering superb service. This concern has led Council to adopt the following principles, which it respectfully requests the Administration use as guidelines in deciding whether to outsource benefits administration:

- **Justification:** Based on information we have received to date, outsourcing benefits seems unjustified on the basis of either efficiency or effectiveness; outsourcing of UC benefits administration should be explicitly justified on the basis of costs, efficiency, and/or effectiveness.
- **Quality of services provided:** Current quality provided to employees is very high and there should be no diminution of that quality.
- **Security of confidential information:** Providing employee information to a third party could increase the risk of security breaches and unauthorized disclosure of confidential information; there should not be any increased risks to security or confidentiality of personal information associated with the possible outsourcing of benefits administration.
- **Costs:** Benefit services are funded out of the plan itself; there should be no cost increases associated with outsourcing such services.
- **Benefits design:** Outsourcing should in no way affect UC's role in the design of benefits plans.

I am happy to discuss these principles with you, at your convenience.

Thank you for considering this advice.

Sincerely,

A handwritten signature in black ink, appearing to read "Michael". The signature is fluid and cursive, with the first letter being a large, stylized "M".

Michael T. Brown, Chair
Academic Council

Copy: President Mark G. Yudof
Provost Wyatt R. Hume
Academic Council
Martha Winnacker, Senate Director