

# Insurance Advisory Group, Inc.

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## "E X H I B I T - 1"

October 11, 2005

Ms. Marty Salazar, Purchasing Agent  
Hidalgo County  
100 East Cano  
Edinburg, Texas 78539

Re: Section 125 Plan Administrator – Hidalgo County  
Bid no: 05-158-07-27CGV

The County of Hidalgo has solicited proposals for a fee based Section 125 Cafeteria Plan Administrator to administer the County's Premium Only Section 125 Program.

Under IRC Section 125, employees may elect certain qualified insurance plans and pay for these plans on a pre-tax basis, through payroll deduction. Examples of qualified insurance plans include dental, vision, and group medical insurance.

Currently, Hidalgo County self administers their Section 125 Cafeteria Plan with assistance from the vendors of products previously approved by the Commissioners Court. Each vendor provides personnel for the annual open enrollment period and performs both the act of an Administrator for the Cafeteria Plan and enroller of insurance products. In addition, each vendor reports separately to the County of Hidalgo regarding billing statements, adjustments to billing statements, new employee enrollment forms, terminations, changes and/or additions to their eligibility format, which among the vendors is not a universal form or procedure.

The current system has proven to be inefficient. Hidalgo County has had to provide additional man hours to properly install the plan each plan anniversary. Some insurance policies applied for by the employees were either not issued (but payroll deductions were initiated), or were terminated (either by the insured or the County) with payroll deductions continued on these cancelled policies. This has put the County at risk. Without a central Cafeteria Plan Manager (Administrator) I believe these issues will continue to put the county at risk.

It is the intent of the County to seek an independent fee based administrator to act a general manager/administrator of the County's Cafeteria Plan. Current insurance vendors would remain in place. A fee based administrators will improve the program as follows:

1. The functions of the Administrator are separate from the acts of an agent selling insurance. By contracting with an independent fee based Administrator, the act of "enroller" versus "marketer" would be separate and distinct.

2. The Plan Administrator would be responsible for the following:

- A. Process and administer all new and existing payroll deductions with insurance companies for payroll deducted financial and insurance products.
- B. Relieve Payroll Department responsibility by providing consolidated monthly billing, including the plan recaps, which allows the Payroll Department to submit one check to the Plan Administrator for all payroll deducted products. The Plan Administrator will disburse appropriated amounts to individual carriers within two working days after receipt of funds.
- C. Act as County liaison for plan operations to assist with the resolution of employee participant, and administrative problems as they arise.
- D. Keep the County informed of all changes in both State and Federal laws and Regulations pertaining to Section 125 to assure that the County and its Plan remain in compliance.
- E. Conduct meetings and enrollments with all personnel in the County on determined days to educate and inform, answer questions, and give presentations on the Plan, its benefits, and products.
- F. Assure continuing compliance with the Internal Revenue Code and Department of Labor Regulations and Rules of the employer, including but not limited to, reviewing benefit election forms, plan documents, summary plan descriptions, plan changes and amendments, form 5500 (if applicable) and other IRS filings. Additionally, maintain all plan records in a fashion conducive to providing verification of plan compliance.
- G. Provide the County with all needed forms to facilitate plan operations and compliance.

The functions of the Administrator will provide more efficient management of the Program and will bring accountability to the process. Vendors of insurance products would continue to offer their products through the direction and management of the Plan Administrator.

As a result of the RPF, the County received one proposal. That proposal was from National Plan Administrators. Their proposal complies with the proposal specifications and is a complete offering of services requested.

The National Plan Administrator's fees for service include the following:

- Monthly fee for each participating employee	\$ 1.00
- Annual Enrollment fee per eligible employee	\$5.00
- Initial set up fee (one time only)	\$ 500.00
- Annual completion of IRS form 5500	\$ 300.00

National Plan Administrators Inc. has met with the Insurance Committee to go over their offer in detail, as well as had discussions with the County of Hidalgo IT Department to determine if their system is compatible with the Hidalgo County payroll system.

October 11, 2005

**Recommendation:**

We recommend that NPA be approved as the County of Hidalgo Section 125 Cafeteria Plan Administrator effective November 1, 2005. We recommend that the fees be paid as follows:

Monthly fee for each participating employee	Paid by employee
Annual enrollment fee	Paid by County
Initial set up fee	Paid by County
Annual completion of IRS form	Paid by County

Based on approximately 3,500 employees, the County's annual cost would be approximately \$17,800.

Sincerely

William Rusteberg  
Risk Manager, Tx. Lic. #149261