

Section 125 Benefits Administration

Memo

To: Dr. Jeff Turner
From: Sid Grant
CC: Ralph Seeley, Kim Graham
Date: 12/8/2004
Re: 2005 – 2006 Section 125 Benefits Administration Recommendation

In January we will begin our Section 125 benefits enrollment process for voluntary benefits effective April 1, 2005. These products include voluntary dental, cancer, disability, and life insurance, as well as the administration of medical and childcare flexible spending accounts and 403(b) accounts. ***This enrollment process does not in any way involve our health insurance product (TRS-ActiveCare), which renews each September 1.***

Our current third-party administrator for our Section 125 benefit products, Diversified Benefits, has had significant upper management changes and a major software reconfiguration over the last year that have adversely impacted our employees' level of service and our billing process. In fact, Diversified Benefits' customer base has reportedly fallen from 57 school district clients to only ten clients over the past year due to the unfavorable changes and questionable business strength.

As a result of this knowledge and the diminishing level of service we are receiving from Diversified Benefits, Mr. Seeley, Ms. Graham, and I have considered four alternative third-party administrators including Financial Benefit Services (e.g. our current benefits consultant and enroller), True Benefits Administrators, Kazdon, Inc., and the Texas Association of School Boards (TASB). TASB's Section 125 benefits services are provided through an interlocal agreement with First Financial Group of America, a Houston based company with regional offices in Irving.

We believe that the strength of TASB's program will offer the best products at the most competitive prices while providing the most comprehensive service for our employees. Former Diversified Benefits customers that have transferred to the TASB Section 125 program include Highland Park ISD, Everman ISD, Waxahachie ISD, Venus ISD, and Graham ISD. TASB has approximately 80 member districts participating in their Section 125 program through the interlocal agreement with First Financial Group. We met personally with Dr. Coker of Highland Park ISD to discuss their experiences and opinions regarding changing from Diversified Benefits to TASB's program. They are very pleased with the products and level of service they are receiving through TASB and First Financial Group.

TASB's program, through First Financial Group, is a "turnkey" Section 125/Cafeteria Plan administration program that includes all consulting and assistance with product selection, conducting employee/campus informational meetings, personal and online enrollment, problem resolution, flexible benefit administration, and one check billing services for all products. All of these services are provided at no direct cost to the district or employee other than the monthly premium paid by the employee for the voluntary products. First Financial Group's compensation comes in the form of commissions received from the sale of products purchased by employees. Given the comprehensive, all-inclusive

services provided by First Financial Group, we would no longer require the consulting or enrollment services currently provided by Financial Benefit Services (FBS).

Regarding product recommendations, First Financial Group has recommended a slate of products that exceeds our current product offerings in terms of benefits and/or premiums. Although we are in the process of fine-tuning the product recommendations in order to offer the greatest benefit to our employees, I have attached as "Exhibit A" a comparative chart of existing product premiums as compared to the recommended products. You will note that we are not recommending changing all of our offerings. First Financial Group would continue to support and administer any products we do not change. We are only recommending changes in products where our employees will realize a net positive gain in terms of premium and/or benefits offered. First Financial Group will become agent-of-record for existing products continued in 2005-06.

Since the Section 125 Benefit Services were competitively bid by TASB, our participation would only require the execution of an "Interlocal Participation Agreement for Employee Benefits" with TASB. The interlocal agreement is an approved purchasing method under the Texas Education Code, Section 44.031. We have had great success in working with TASB on our risk management products and look forward to similar success with this program. With 36 years of experience, a large school district base of over 450 schools, and the partnership with TASB, First Financial Group is a clear choice for our third-party administrator.

Please consider this recommendation for inclusion in the December 13, 2004, Board agenda. I would also encourage you and our Board members to contact me prior to the Board meeting with any questions. TASB and First Financial Group of America will have representatives attending the Board meeting to answer any questions or concerns that might arise that evening.

Recommendation: That the Board of Trustees approve the Interlocal Participation Agreement for Employee Benefits with the Texas Association of School Boards at the December 13, 2004 Board meeting.