



**COMMISSION
AGENDA MEMORANDUM**

Item No. 4e

ACTION ITEM

Date of Meeting December 13, 2016

DATE: December 4, 2016

TO: Ted Fick, Chief Executive Officer

FROM: Tammy Woodard; Director Human Resources, Total Rewards

SUBJECT: Contract to provide medical claims administration services for the Port's self-insured medical plans

Amount of this request: \$12,000,000

ACTION REQUESTED

Request Commission authorization for the Chief Executive Officer to conduct a competitive procurement and execute a service agreement with a medical claims administrator for the Port's two self-insured medical plans for five years with possible extensions of up to five additional years and a maximum duration of 10 years. The contract will be effective January 1, 2018 and have an estimated total value of \$12,000,000.

EXECUTIVE SUMMARY

The Port has self-insured its non-HMO medical plans since 2011, these plans include vision and pharmacy benefits. This funding arrangement is more cost effective for the Port than a fully insured option as we only pay for claims actually incurred and the administrative cost to process and pay those claims. The Port also has more flexibility with benefit offerings under a self-insured plan as we establish the plan design best suited for covered Port employees rather than selecting from among plans offered by various insurance companies.

Maintaining self-insured plans requires the Port to contract with a claims administration vendor, also known as a Third Party Administrator (TPA), to review and pay medical providers on behalf of the Port's covered employees. The TPAs maintain networks of providers they have negotiated rates with; and this saves the Port, and our covered employees, money as these negotiated rates typically represent significant discounts. In addition, the TPA often provides ancillary healthcare services to the Port and its covered employees that will promote efficient and effective medical care for employees and their families covered by the Port's medical plans.

The current medical claims administration contract expires at the end of 2017. Because of the potentially significant costs and other implications of changing vendors, including major disruptions for covered employees and their families, we are requesting authorization for a contract of up to five years with an option to extend for an additional five years.

Meeting Date: December 13, 2016

JUSTIFICATION

A self-insured medical plan is more cost effective than a fully insured plan. For various reasons, including state premium taxes and profit margins of insurance companies, the cost of a self-insured medical plan is typically 10% to 15% less than a fully insured plan. In addition to the cost savings, employers with self-insured plans have more flexibility in determining what benefits are covered, how they are covered and what deductibles, coinsurance, and copays are for their plans. This permits the Port to customize the Port's medical plans to align with goals for a healthy workforce and cost containment strategies. The approximate cost of our 2017 self-insured medical plans is \$13 million. Self-insuring these saves the Port \$1.3 million to \$1.9 million annually.

The costs of conducting a procurement for these services and potentially changing vendors is significant. Consulting support for the procurement process is essential to evaluate the implications of the submitted proposals. Costs of transitioning from one TPA to another include: ICT resources to update data interfaces; communications costs, including development and production costs, to ensure employees fully understand how their medical coverage will be administered differently with a new vendor; staff time to establish new work flows, set up new vendors, update procedures and other related tasks. These costs can run as high as \$150,000. Allocating these costs over a 10 year contract is more cost effective than allocating them over a five year contract.

There is also a tremendous impact to employees and their families when the administrator of their medical plan changes. Based on staff experience with the last medical plan vendor change, it took nearly three years for employees to become familiar with the new claims administrator's web site and where to find needed information, understand how their claims were being processed and paid, and understand how to contact customer service when they have questions about their plan. It also took about this long for Port staff and the TPA staff to work through the subtleties of claims coverage and understand precisely how the new TPA processed claims compared to how the previous TPA had processed them. This impacted employees who didn't understand differences in claims processing and Port benefits administration staff who needed to have frequent contact with the TPA staff to gain clarity on these topics. With a five year TPA contract the transition period just ends when the process begins again to conduct a procurement and potentially change vendors. This keeps employees and staff in a nearly constant state of transition which takes time away from other important work.

For these reasons we are requesting authorization for a contract duration of up to 10 years.

DETAILS

A competitive selection process is required by Port policy. The selection process will seek to minimize the disruption employees and their families will experience by having their current doctors being 'out of network' with the new TPA and by seeking a TPA who can administer the Port's current medical plan design. The selection process will also seek to consider the customer service levels of the proposing TPAs and ensure a positive customer service experience for Port employees when they must contact the TPA.

Claims administrators are paid a monthly fee per enrolled employee. While we cannot know what the proposed fees will be, we are projecting slight fee increases, 2% per year, in the cost estimates. The larger impact on the total cost of the contract is the number of employees covered by the Port's self-insured plans. New FTEs requested in the 2017 budget are factored into the cost estimate as is a potential annual increase in the number of employees eligible for this coverage over the duration of the contract.

Scope of Work

The contracted TPA will maintain and communicate a network of providers who will provide medical services to covered Port employees and their families at negotiated rates that are less than the providers' standard billing rates. They will also receive claims, review them to see if they are for covered services and, if they are, determine the Port's and employee's shares of the cost and pay the providers. The TPA may also provide ancillary services like a Disease Management program, a Care Management program, utilization review services, or other services related to providing efficient and cost effective medical care to Port employees and their covered family members.

ALTERNATIVES AND IMPLICATIONS CONSIDERED

Alternative 1 – Change the funding mechanism for these plans from a self-insured arrangement to a fully-insured arrangement.

Cost Implications: Over a 10 year contract the Port could pay \$18 million more for fully-insured medical plans than for self-insured plans. This additional cost is due to the premium tax imposed by the State of Washington on fully-insured plans as well as profit margins and risk charges build in to fully-insured plans.

Meeting Date: December 13, 2016

Pros:

- (1) Fully-insured plans are easier for staff to administer than self-insured plans:
 - procurements for claims administration services are not necessary,
 - reporting the financial status of our plans to the State is not required with fully-insured plans, and
 - more responsibility is borne by the insurance company than with a self-insured plan.
- (2) The risk of catastrophic claims is born by the insurance company rather than the Port so separate supplemental risk insurance to protect the Port from this financial exposure is not necessary.

Cons:

- (1) The Port would not realize the full benefit of employees' careful attention to their health and judicious use of healthcare services as we would pay a fixed premium to the insurance company that is based on expected claims costs. With self-insured plans, we pay only for actual claims costs.
- (2) Fully-insured plans cost more than self-insured plans because of the state's premium tax.

This is not the recommended alternative.

Alternative 2 – Perform the proposed contracted work in-house.

Cost Implications: Over the course of a 10 year contract, the cost of performing this work in house could exceed the cost of contracting with a TPA by an estimated \$3.7 million. This is a very rough estimate that assumes that we would still contract with vendors to administer the vision and pharmacy benefits and that these costs would be at least 30% higher as they would not be bundled with the medical plan.

For 2017, estimating 1,100 employees are covered by the self-insured medical plans, the Port cost for the services of our TPA will be \$540,000. Port staff is not aware of any employers who self-administer their medical plans, nor is our benefits consultant so the following are very rough estimates.

- Network access fees at \$5 per employee per month total \$71,500 annually. This would likely result in a smaller network of providers for Port employees to access and smaller discounts/higher claims costs for both the Port and covered employees.
- Ancillary services at \$12.55 per employee per month total \$165,660 annually. This is about 25% more than we will pay in 2017.
- Staffing costs estimated at \$662,400 per year. This is based on an estimate of 6 employees to review, process and pay claims as well as resolve claims questions and issues with providers and fulfill the customer service function for both employees and

Meeting Date: December 13, 2016

providers at an annual salary of \$65,000 plus 38% for benefits. In addition, this level of staffing would also require one supervisor to oversee the work at an annual salary of \$90,000 plus 38% for benefits.

In addition, the Port would need to purchase or develop a claims administration system. As Port staff and the Port's benefits consultant are not aware of employers who do this work in house, our consultant provided a very rough estimate of \$1 million to secure the necessary system. Not included in this cost are expenses associated with updating and maintaining the system, as provider fees and plan designs change.

Pros:

- (1) The Port would have total control over services provided for covered employees and family members.

Cons:

- (1) Port staff would still need to contract with a pharmacy claims administrator and a vision claims administrator, via a competitive procurement process, or elect to fully insure these portions of the health plan.
- (2) Port staff would need to contract with vendors through a competitive selection process to provide utilization review, disease management, and other services requiring highly specialized skills.
- (3) The Port would not have the economies of scale that vendors who are in the business of providing these services would have. This would mean the fees the Port would pay would be higher.
- (4) The volume of claims administration work can vary from week to week for the Port's relatively small number of covered employees so ensuring staff was fully engaged at all times could be a challenge. Employees would have great concern about confidentiality of personal health data if their medical claims were processed by other Port employees.
- (5) The Port would need to purchase claims processing software and equipment to produce member identification cards.
- (6) Port would need to provide a highly secured area for the hired staff and the medical claims records.
- (7) The time required to define needed jobs and hire qualified staff would be significant.
- (8) This alternative is considerably more expensive than the current claims processing arrangement.

This is not the recommended alternative.

Meeting Date: December 13, 2016

Alternative 3 – Continue to contract with third party administrators to provide these services to the Port.

Cost Implications:

Approximately \$10 million - \$12 million over 10 years.

Pros:

- (1) Contracting with a TPA for medical services simplifies obtaining all necessary elements of healthcare administration as the TPA would develop and manage the provider network, process all claims, and provide specialty services.
- (2) This alternative allows the Port to capitalize on a TPA's broad-based knowledge and expertise to the benefit of our plans and the employees and family members covered by them.
- (3) This alternative permits Port staff to focus on strategic work in the area of health benefits rather than operating its own "insurance" company.

Cons:

- (1) The work required to carefully craft procurement materials, review proposals and select vendors who best meet the needs of the Port, its health plans and the employees covered by them is significant.
- (2) Staff time to manage the relationship with the TPA and resolve issues with them could be significant

This is the recommended alternative.

Annual Budget Status and Source of Funds

Funding for the medical claims administration services are part of the medical plan costs. These costs are shared by the Port and enrolled employees via premium sharing payroll deductions.

ATTACHMENTS TO THIS REQUEST

None

PREVIOUS COMMISSION ACTIONS OR BRIEFINGS

None