

AGENDA MEMORANDUM

Item No.

4f

ACTION ITEM

Date of Meeting

February 28, 2017

DATE: February 17, 2017

TO: David Soike, Interim Chief Executive Officer

FROM: Tammy Woodard, Human Resources Director, Total Rewards
Paula Edelstein, Senior Director, Human Resources

SUBJECT: Contract to provide dental claims administration services for the Port's self-insured dental plan.

Amount of this request: \$1,900,000

ACTION REQUESTED

Request Commission authorization for the Chief Executive Officer to conduct a competitive procurement and execute a service agreement with a dental claims administrator for the Port's self-insured dental plan for five years with a possible extension of an additional five years and a maximum duration of 10 years. The contract will be effective January 1, 2018, and have an estimated value of \$1,900,000.

EXECUTIVE SUMMARY

The Port provides dental coverage for employees as part of the Total Rewards Package. This benefit has been provided through a self-insured dental plan since 2011. Self-insuring this plan permits the Port to offer the benefit more cost effectively than purchasing an insurance plan. The self-insured plan permits the Port to pay actual dental claims incurred by Port employees and their covered family members plus a fee to a claims administrator for processing the claims and maintaining a network of dentists and dental service providers. With the self-insured arrangement the Port does not pay the state premium tax or profit margin, both of which are built into insurance premiums paid with a fully insured arrangement.

The current dental 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 five year contract with the option to extend for an additional five years.

JUSTIFICATION

A self-insured dental 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 dental plan is typically 10% to 15% less than a fully insured plan. In addition to the cost

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savings, employers with self-insured plans have more flexibility in determining what benefits are covered, how they are covered, and the deductible and coinsurance amounts for their plans. This permits the Port to customize the dental plan offered to employees so it aligns with Port goals for a healthy workforce, cost containment, and providing a competitive benefit. The approximate 2017 cost of our self-insured dental plan is \$1.5 million so self-insuring this plan saves the Port \$150,000 to \$225,000 annually.

The cost of conducting a procurement for the dental claims administration services and potentially changing vendors is significant. Consulting support for the procurement process is essential to evaluate the implications of submitted proposals. Costs of transitioning from one TPA to another include: ICT resources to update data interfaces; communications costs, including the development and production costs, to ensure employees fully understand how their dental coverage will be administered 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 and allocating them over a 10 year contract is more cost effective than allocating them over a five year contract.

There is also a notable impact to employees and their families when the administrator of their dental plan changes. Based on staff experience with the last benefit plan vendor change, it took about three years for employees to become familiar with the new vendor's web site and where to find needed information, understand how their benefits were being processed, and understand how to contact the vendor for support when needed. It also took about this long for Port staff and the vendor's staff to work through all the complexities and different vendor's approach to the complexities of administering a benefit plan. With a five year claims administration contract the transition period is just winding down 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 with a 10 year maximum duration.

DETAILS

A competitive selection process is required by Port policy. The selection process will seek to minimize the disruption employees and their families may experience by having their current dental provider being 'out of network' in the event the selected claims administrator has a different network of providers who is not the incumbent and by seeking a claims administrator who can administer the Port's current dental plan design. The selection process will also seek to consider the customer service levels of the proposing vendors and ensure a positive customer service experience for Port employees when they must contact the claims administrator.

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

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covered by the Port’s self-insured plans. Anticipated new FTEs 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 claims administrator will maintain a network of dental providers who will provide 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 Port’s share to the providers and issue an Explanation of Benefits to the employee summarizing the amount the Port paid and their portion of the claims costs.

ALTERNATIVES AND IMPLICATIONS CONSIDERED

Alternative 1 – Return the Port’s dental plan to a fully insured plan

Cost Implications: With a ten year fully insured plan the Port’s costs would be \$3,300,000 to \$4,000,000. This is \$1,400,000 to \$2,100,000 higher than with a self-insured arrangement.

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
 - budgeting for the fixed insurance cost is less complex than budgeting for self-insured plans.

Cons:

- (1) The Port would not realize the full benefit of plans we have in place to encourage employees’ attention to their dental health 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 vs. the insurance company’s estimation of what our claims will be.
- (2) We would need to conduct a procurement process to select and contract with a dental network provider.
- (3) Fully insured plans cost more than self-insured plans because of the state’s premium tax and the insurance company’s profit margin that are built into the premiums.

This is not the recommended alternative.

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Alternative 2 – Perform the claims administration work in-house.

Cost Implications: The Port would need to hire staff to process the actual claims and contract with a vendor to maintain a provider network for the plan. This could cost as much as \$3,420,000 over the ten year term of the contract, approximately 75% more than contracting with a claims administrator. The Port would also need to purchase or design and build a claims processing system. Our benefits consultant is not aware of any organization that has purchased a system like this so we have a very rough estimate of \$1 million to purchase the system. This does not include the cost to implement and maintain the system.

Pros:

- (1) This option would give the Port the greatest control over customer service for our covered employees and accuracy of claims processing and payment.

Cons:

- (1) We would not have the economies of scale that vendors who are in the business of providing these services would have.
- (2) The time required to define the work, hire and train staff, procure and implement a claims administration system would be significant.
- (3) We would need to identify space, in facilities that are running out of space, for claims processing employees and claims records that would be secure and accessible only with proper credentials.
- (4) Employees would likely be very concerned about other employees having access to their health records.
- (5) This alternative would very likely cost more in the long run than contracting with vendors to provide these services.

This is not the recommended alternative.

Alternative 3 – Maintain a self-insured dental plan and conduct a competitive selection process for a claims administrator.

Cost Implications: The cost of a 10 year contract is estimated at \$1,900,000 and in addition we will need \$15,000 in consulting support to assist with evaluating proposals.

Pros:

- (1) Contracting with a vendor for claims administration and network management services simplifies the work required to obtain these services in a cost effective manner.
- (2) This alternative allows the Port to capitalize on the vendor's broad-based knowledge and expertise to the benefit of the Port sponsored dental plan as well as the employees and their family members covered by it.

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Cons:

- (1) The work required to carefully craft procurement materials, review proposals and select a vendor who best meet the needs of the Port, its dental plan and the employees covered by the plan 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 dental claims administration services are part of the dental 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