

PORT OF SEATTLE
MEMORANDUM

COMMISSION AGENDA

ACTION ITEM

Item No. 6b

Date of Meeting May 11, 2010

DATE: April 16, 2010

TO: Tay Yoshitani, Chief Executive Officer

FROM: Jeff Hollingsworth, Risk Manager
Tammy Woodard, Sr. Manager, Total Compensation
Nora Huey, Director, Central Procurement Office

SUBJECT: Competitive Exemption and Procurement of Claims Administration Services in 2010 for Self Funded Medical and Dental Benefits

AMOUNT OF THIS REQUEST: \$1,600,000 **SOURCE OF FUNDS:** General Funds

REQUESTED ACTION:

(1) Determination that the competitive solicitation process is not appropriate or cost-effective and that contracts for third party medical and dental claims administration services in 2011 are therefore exempt from requirements of Chapter 53.19 RCW; (2) Request authorization for the Chief Executive Officer to execute (a) a one year contract for medical claims administration services for 2011 in the amount of \$1,200,000; and (b) a one year contract for dental claims administration services for 2011 in the amount of \$400,000.

BACKGROUND:

The Port of Seattle currently maintains a fully insured medical and dental benefits program. Adopting a self-funded approach would mean that a claims administrator would process claims, determine appropriate payment to providers, and then pay claims with funds provided by the Port. In this type of funding arrangement, the Port will assume some risk (currently assumed by insurance carriers) that actual claims are greater than expected and conversely realize the benefit of claims that are less than expected. Assuming this risk also permits the Port to realize savings on claims administration costs.

Self funding of benefits is fairly common with mid to large employers. Data from the Kaiser Family Foundation's 2009 survey indicates that 48% of employers with 200 to 999 employees self-fund their benefits programs while 80% of employers with 1000 to 4,999 employees self fund their programs. The same survey indicates that self-funding is common among employers in industries similar to the Port – 76% of employers in transportation/communication/utilities self-fund their benefit programs while 59% of state and local government employers self-fund theirs. Overall, this survey indicates that 57% of all employers self-fund their benefit programs. Within Washington State there are 16 cities, 6 counties, as well as multiple school districts, public utility districts, and public hospitals that self-fund at least a portion of their health insurance programs.

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Self funding is ultimately a cost containment strategy. The Port previously implemented a cost savings strategy utilizing the Wellness Rewards Program, which offered employees covered by the Port plans an opportunity to earn a 10% reduction in their share of annual medical premiums. The 10% reduction in 2009 permitted employees to receive their medical insurance with no premium sharing. Beginning in 2010, all employees covered by the Port plans pay a portion of their medical premiums and those participating in the Wellness Rewards Program still earn a 10% discount on the premium they pay. Another cost containment strategy implemented in 2010 was the elimination of the subsidy for retiree medical premiums.

SCOPE OF WORK:

The scope of work for the 2011 medical and dental claims administration contracts will include processing and administration of medical (including vision and prescription drugs) and dental claims as well as related services consistent with the Port's current fully insured insurance contracts with Premera and Washington Dental Service. No additional services will be added and no existing services will be deleted for 2011. Contracting with Premera and Washington Dental Service for 2011 self-funded claims administration services will include use of existing provider networks and receipt of discounts associated with these networks.

EXEMPTION FROM COMPETITIVE SOLICITATION (RCW 53.19.010):

The proposed contracts with Premera for medical claims administration and Washington Dental Service for dental claims administration for the above-described services are subject to Chapter 53.19 RCW, which requires "open competition for all personal service contracts entered into by port districts unless specifically exempted under this Chapter [53.19]." Unless the proposed contracts with Premera and Washington Dental Service fall under one of the five exemptions in RCW 53.19.0290, these contracts would be subject to "competitive solicitation" – defined as "a documented formal process providing an equal and open opportunity to qualified parties and culminating in a selection based on criteria, in which criteria other than price may be the primary basis for consideration."

RCW 53.19.020 lists five exemptions from competitive solicitation. The fifth exemption is for "[o]ther specific contracts or classes or groups of contracts exempted from the competitive solicitation process by the commission when it has been determined that a competitive solicitation process is not appropriate or cost-effective." RCW 53.19.020(5).

For the proposed contracts to fall under the exemption in RCW 53.19.020(5), the Commission must make a reasoned determination that the competitive solicitation process would not be appropriate or cost effective if the Port wishes to initiate a self funded benefit program in 2011. In making the determination as to whether the proposed contracts are exempt from competitive solicitation requirements, the Commission can avoid acting arbitrarily and capriciously by noting and discussing relevant facts and circumstances.

The self funded benefit project team requests that the Commission consider the following circumstances and make the determination that subjecting the proposed contracts to competitive solicitation requirements would not be cost-effective or appropriate for year 2011 only:

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1. A competitive process will be used in 2011 to select claims administrators for medical and dental benefits for plan years starting January 1, 2012. We anticipate initiating this process late in 2010. Thus the exemption is sought only for one year.
2. The ability to negotiate claims administration contracts for 2011 with Premera and Washington Dental Service without a competitive process will allow the Port to recognize direct cost savings in 2011 instead of having to wait until 2012. Because of the complexity of a competitive process for claims administration services, a competitive process cannot be done quickly enough in 2010 to implement self funding in 2011. However, the Port could move to self funding in 2011 if it could negotiate claims administration contracts with Premera and Washington Dental Service to provide the same claims processing and administration services as are present in our current insured contracts. The forfeited savings associated with delaying self funding to 2012 could be up to \$ 1 million.
3. The conversion to self funding with Premera and Washington Dental Service as claims administrators for the first year would give Human Resources and Development more time to develop processes, train internal staff on the new processes and prepare effective communication materials for Port staff. The time requirements for Human Resources staff will be significantly less in the first year of the program if the Port retains both Premera and Washington Dental Service as claims administrators. A competitive process could result in relationships with new entities which would require significant additional time to establish data and dollar exchange processes, re-structure benefit programs in the Port's HRIS system, and communicate new benefit plans and provider networks to employees.
4. Waiving competition for the 2011 plan year will allow the Port to move to self funding in 2011 without changing the provider networks employees currently utilize as these networks are associated with insurance/claims administration companies. This would be a comfort to employees who have used the same networks for years. A competitive process could result in new service provider networks if entities other than Premera and Washington Dental Service are selected as a result of a competitive process. Employees have expressed concerns over converting to a self funded approach and the potential need to change doctors, dentists, pharmacies, and other providers is one of their primary concerns. Self funding with our current provider networks in 2011 will allow the Port to demonstrate how self funding works and educate employees about the positive elements of self funding while ensuring that employees continue to have access to the same providers they are accustomed to.
5. The Port's current medical and dental insurance coverage has not required a competitive selection process with current CPO regulations. The purchased insurance premiums include claims administration services. If the Port does not convert to self-funding in 2011, which will be likely if the request to forgo competitive selection is denied, Premera and Washington Dental Service will remain the Port's insurance providers and they will continue to administer claims under the current arrangement.

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FINANCIAL IMPLICATIONS:

The estimated cost for one year is (1) \$1,200,000 for medical claims administration services in 2011; and (2) \$400,000 for dental claims administration services for 2011. The actual cost will depend, in part, on the total number of employees and retirees covered by the Port's self-funded medical and dental benefit plans.

PREVIOUS COMMISSION ACTIONS OR BRIEFINGS:

-January 12, 2010: Briefing of the Commission on a Port self funded program

-January 12, 2010: Commission authorization of a two-year contract with a benefits consulting firm, with the option to renew annually thereafter for three more years.

-April 27, 2010: Updated briefing of the Commission on a Port self funded medical and dental benefit program.

-May 4, 2010: First Reading of Resolution No. 3636 authorizing the Port to self fund medical and dental benefits.

-May 11, 2010: Second Reading and Final Passage of Resolution No. 3636.