



Memorandum

TO: HONORABLE MAYOR
AND CITY COUNCIL

FROM: Aram Kouyoumdjian

SUBJECT: See Below

DATE: April 21, 2025

Approved

Date:

5/1/2025

COUNCIL DISTRICT: Citywide

SUBJECT: Second Amendment to the Agreement with Pacific Secured Equities, DBA Intercare Holdings Insurance Services, Inc. for Workers' Compensation Claims Administration for Employees and Retirees

RECOMMENDATION

Adopt a resolution authorizing the City Manager to negotiate and execute a Second Amendment to the Agreement with Pacific Secured Equities, DBA Intercare Holdings Insurance Services, Inc. for workers' compensation claim administration for City employees and retirees, extending the term of the current agreement from June 30, 2025 to June 30, 2030, and increasing the total compensation not-to-exceed amount from \$32,582,834 to \$63,163,711, subject to annual appropriation of funds.

SUMMARY AND OUTCOME

Pacific Secured Equities, DBA Intercare Holdings Insurance Services, Inc. (hereinafter referred to as "Intercare") is the City of San José's (City) current administrator of workers' compensation claims. The vendor was selected for this function through a Request for Proposal process that was initiated by the Human Resources Department (HR) on December 14, 2018. The original agreement with Intercare was for the term of July 1, 2019 through June 30, 2022, with a total amount of compensation not to exceed \$15,963,931. On June 14, 2022, the agreement was amended to extend the term through June 30, 2025, and increase the amount of total compensation to not to exceed \$32,582,834. The amended agreement is set to expire on June 30, 2025. There are no remaining options to extend the contract.

Approval of the proposed recommendation will extend the current agreement with Intercare for an additional five years, ensuring that City employees and retirees continue to receive high quality workers' compensation claim administration services without a

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gap or disruption that would be occasioned by the data migration, information transfer, system customization, and training that changing vendors would require. The City retains the right to terminate the agreement at any time.

BACKGROUND

Intercare is responsible for administering all of the City's workers' compensation claims, which currently number more than 2,400. Claims administration involves claim notification, claim management, reporting, online risk information system access, medical cost containment services, and claim and vendor payments. Due to the number and complexity of such claims, the City faced annual workers' compensation costs in excess of \$28,000,000 in the 2023-2024 fiscal year.

Since assuming responsibility for the administration of the City's workers' compensation claims in 2016, Intercare has consistently exceeded industry performance standards for Third Party Administrators and has partnered with the City to develop customized claims and program management processes, as well as employee engagement and education programs.

Over the past several fiscal years, the City has partnered with Intercare to focus on resolving claims with a goal of lowering the inventory of open claims, and reducing future liability related to projected ultimate losses (the total amount that is expected to be paid in a particular claim period after all claims are closed). In reviewing data between Fiscal Years 2013-2014 and 2023-2024, staff noted an overall reduction in projected ultimate losses of \$8,616,000 or 2.6%. The reduction achieved since 2016 is in large part due to the successful systems the City has developed and implemented with Intercare.

In just the past two fiscal years, Intercare has achieved an average claim closing ratio of 104%. A closing ratio of 100% is considered to be "exceeding expectations" by industry standards. A closing ratio of over 100% means that a higher number of claims were closed than were received during the period being examined. A positive closing ratio is a strong indicator that Intercare is providing prompt service to injured City employees and effectively addressing issues that would otherwise delay their recovery and the resolution of their claim.

A further tool to evaluate Intercare's performance is the annual Technical Audit Performance Summary, which is completed by an independent auditor and measures performance in areas such as incident causation analysis, claims action plan development, and compliance with state performance measures, including disability payments and required notices. For the 2023-2024 period, Intercare's overall audit score was 98.3%, up from 97.4% in 2022-2023. A score between 90% and 100% is

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classified as "exceeding expectations." Intercare has consistently maintained an average score of 97.8%, dependably earning an "exceeds expectations" rating.

In addition to its success in managing the broader workers' compensation program, Intercare has committed significant resources to developing comprehensive programs to ensure that the City and injured employees consistently receive the highest level of service. Examples of this include the Workers' Compensation 101 education program and the Interconnect program. Both initiatives enhance City employees' understanding of the workers' compensation process, supervisors' roles and responsibilities, and provide personalized, in-person, one-on one-support to injured employees throughout the claims process.

The Workers' Compensation 101 education program offers employees an in-depth overview of the entire workers' compensation process, from initiation to resolution. This training covers key steps, necessary documentation, and how employees can navigate the workers' compensation system. Intercare also provides training for supervisors and workers' compensation liaisons, taught by the Intercare account manager assigned to the City's account. This training enhances supervisors' comprehension of their duties in the realm of appropriate medical attention for injured workers and correctly submitting required documentation. Supervisors are also trained in recognizing and responding to workers' compensation abuse or fraud.

The Interconnect program provides employees with an opportunity to meet directly with their assigned claims adjuster and the claims supervisor. These meetings allow employees to review the details of their claims, ask questions, and receive clear, personalized guidance. Response to this service has been overwhelmingly positive and has further affirmed the City's commitment to supporting injured employees.

Monthly department claims review meetings are another example of a customized program the City has developed with Intercare. These meetings are facilitated by Intercare and are attended by the department workers' compensation liaisons, the assigned claims management supervisors, the HR Workers' Compensation Division, and the City's Return to Work Coordinator. These meetings facilitate a collaborative approach that allows the group to review the status of the department's open claims, address any challenges or delays, ensure that all parties are aligned on claims management strategies, and collaborate on solutions.

Where costs are concerned, the Workers' Compensation Division within HR has invested significant effort in partnering with Intercare to identify cost recovery opportunities and proactive approaches to prepare for regulatory changes that will impact the City.

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Intercare has shown itself to be very proactive about monitoring all aspects of its services, in addition to the management of individual claims, to ensure programs are as efficient and cost effective as possible. For instance, in 2024, medical providers billed a total of \$50,842,973 for services. Intercare's medical bill review process, however, reduced that total by \$38,587,606 through a combination of Certified Bill Reviewer's analysis, appropriate down-coding, and negotiation of complex and out-of-network bills.

ANALYSIS

A primary justification for extending the Intercare contract is the high level of service the vendor provides to the City – levels that consistently exceed industry expectations in terms of claim handling or claim closure rates. Intercare has effectuated programs that address the needs of both the City (e.g., customized training through Workers' Compensation 101) and its injured employees (e.g., individualized attention through the Interconnect program).

Just as importantly, Intercare has established a record of success in reducing the City's medical expenditures by utilizing bill review and analysis to apply appropriate billing codes to provide services and to negotiate down out-of-network bills.

Yet a third rationale for extending the contract with Intercare is the need to avoid disruption to services. Effectively managing department-specific workers' compensation programs requires significant familiarity with the departments' job classes, unique structures, and management processes. Both through training and experience, Intercare adjusters have acquired this familiarity and knowledge. Switching vendors would result in disruption to claims administration and support for injured employees, as it would necessitate the implementation of new systems and technology, migration of data and files, information transfers, and extensive training of claims adjusters, City supervisors, as well as City employees submitting claims to a new third-party administrator.

With more than 2,400 open workers' compensation claims currently being managed by Intercare, the disruption of changing vendors could cause delays in payments, hamper claim processing and resolution, and adversely affect customer service.

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Conducting a Request for Proposal (RFP) for an agreement of this scale would take approximately six to eight months. This RFP process would include drafting a scope of services, posting the RFP, and answering proposers' questions during the bidding period. Once the bidding period closes, staff would assemble a panel of City employees with relevant subject matter expertise to review and rate proposals, conduct interviews with bidding vendors, and conduct site visits – a lengthy and time-intensive process. Once the City's RFP panel reaches consensus on selecting a vendor, staff would submit a report to City Council seeking authority for the City Manager to enter into an agreement. If authority is granted, staff would then draft and coordinate the execution of a contract with the selected vendor. In the event a new vendor is selected, the transition would involve the previously discussed challenges of system transfers, data migration, and training.

Based on these factors, staff recommends extending the current agreement to avoid significant disruption to the complex claims management systems and processes currently in place and to prevent impacts to the administration of workers' compensation claims for City employees and retirees.

The current agreement with Intercare is in effect from July 1, 2019, through June 30, 2025, and includes an amount of total compensation not to exceed \$32,582.834. The proposed amendment would extend the agreement for five years, through June 30, 2030, under the same terms and conditions in the current agreement and include the annual fee structure provided in the table below. The increase of the proposed amendment through June 30, 2030 is \$30,580,877, which would bring the total compensation not-to-exceed amount to \$63,163,711 for the entire term of the agreement from July 1, 2019, through June 30, 2030.

The recommended extension to the agreement will approve five new option year extensions with the following total compensation not to exceed amounts.

Fiscal Year	Total Compensation Not to Exceed Amount
7/1/25 - 6/30/26 (option year 1)	\$5,850,300
7/1/26 - 6/30/27 (option year 2)	\$5,979,309
7/1/27 - 6/30/28 (option year 3)	\$6,112,188
7/1/28 - 6/30/29 (option year 4)	\$6,249,054
7/1/29 - 6/30/30 (option year 5)	\$6,390,026
Total 5-year Not to Exceed Amount:	\$30,580,877

Policy Alternative

Alternative #1:

If the five-year extension is not approved, staff recommends that City Council approve a one-year extension with a not-to-exceed amount of \$5,850,300.

Pros: If an amendment to extend the current agreement is not approved, a one-year extension would ensure adequate time to complete the RFP process and execute a new contract with a vendor by June 30, 2026.

Cons: If an amendment to extend the current agreement is not approved, staff from HR's Workers' Compensation, Health and Safety Division would have to manage the complex and time-consuming RFP, delaying other high-priority projects, such as revising the citywide Injury and Illness Prevention Policy, digitizing current and archived employee medical files, and implementing an improved compliance tracking system for annual Firefighter medical testing. The selection of a different vendor may also necessitate transition management of the City's workers' compensation program to a new third party agreement (e.g., data migration, information transfer, and training of adjusters).

EVALUATION AND FOLLOW-UP

No additional follow-up actions with the City Council at this time. A new RFP will be conducted for workers' compensation claims administration services, and the results will be brought forward for City Council consideration by the end of Fiscal Year 2029-2030. .

COST SUMMARY/IMPLICATIONS

The table below summarizes the recommended not-to-exceed impacts and estimated costs by fiscal year.

Total Program Cost			
Fiscal Year	Claims & MPN Administration	Bill Review, Utilization Review, MPN, PBM Costs	Total Compensation Not to Exceed Amount (NTE)
FY 25-26	\$ 4,085,432	\$ 1,533,785	\$ 5,619,217
FY 26-27	\$ 4,300,300	\$ 1,550,000	\$ 5,850,300
FY 27-28	\$ 4,429,309	\$ 1,550,000	\$ 5,979,309
FY 28-29	\$ 4,562,188	\$ 1,550,000	\$ 6,112,188
FY 29-30	\$ 4,840,026	\$ 1,550,000	\$ 6,390,026

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Total annual not-to-exceed compensation includes third party administrator service components, as well as the administration of workers' compensation claims and the Medical Provider Network (MPN). Other service components include ongoing bill review, utilization review, Pharmacy Benefit Manager (PBM), and Nurse Case Management (MPN) costs. Funding for Workers' Compensation Claims and MPN Administration is included in the ongoing Base Operating Budget for the Human Resources Department, with costs for other service components included in the respective allocations for departmental workers' compensation claims costs and corresponding City-Wide Expenses and Special Fund appropriations.

Funding impacts associated with this amendment were anticipated and factored into the development of the 2025-2026 City Manager's Budget Request and 2025-2026 Proposed Operating Budget, pending approval by the City Council. Recommended funding levels are anticipated to be sufficient for the 2025-2026 Fiscal Year and will be reassessed relative to actual claims, with any necessary adjustments brought forward for City Council consideration as part of future budget actions.

COORDINATION

This memorandum has been coordinated with the City Attorney's Office and City Manager's Budget Office.

PUBLIC OUTREACH

This memorandum will be posted on the City's Council Agenda website for the May 13, 2025 City Council meeting.

COMMISSION RECOMMENDATION AND INPUT

No commission recommendation or input is associated with this action.

CEQA

Not a Project, File No. PP17-003, Agreements/Contracts (New or Amended) resulting in no physical changes to the environment.

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PUBLIC SUBSIDY REPORTING

This item does not include a public subsidy as defined in section 53083 or 53083.1 of the California Government Code or the City's Open Government Resolution.



Aram Kouyoumdjian
Director of Human Resources and
City Manager's Office of
Employee Relations

For questions, please contact Joseph Gregory, Workers' Compensation, Health and Safety Division Manager, Human Resources, Joseph.Gregory@sanjoseca.gov or (408) 975-1418.