

Memorandum

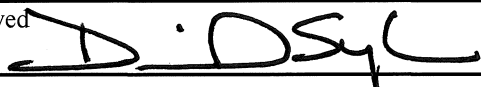
TO: HONORABLE MAYOR
AND CITY COUNCIL

FROM: Jennifer Schembri

SUBJECT: SEE BELOW

DATE: October 16, 2018

Approved



Date

10/18/18

SUBJECT: SECOND AMENDMENT TO AGREEMENT WITH THE CITY'S WORKERS' COMPENSATION THIRD PARTY ADMINISTRATOR, INTERCARE HOLDINGS INSURANCE SERVICES TO INCREASE COMPENSATION BY \$1,934,987 FOR A TOTAL CONTRACT AMOUNT NOT TO EXCEED \$10,405,042

RECOMMENDATION

Adopt a resolution authorizing the City Manager to negotiate and execute a Second Amendment to the Agreement with the City's Third Party Administrator for Workers' Compensation, Intercare Holdings Insurance Services, to increase compensation by \$1,934,897 for the current contract term of July 1, 2018 through June 30, 2019, for a total contract amount not to exceed \$10,405,042.

OUTCOME

Approval of the recommendation will authorize the City Manager to negotiate and execute a Second Amendment to the Agreement with Intercare Holdings Insurance Services, or "Intercare," to increase compensation by \$1,934,897 for the administration of workers' compensation claims and data transition costs to fully outsource the Workers' Compensation Program for the current contract term of July 1, 2018 through June 30, 2019.

BACKGROUND

On June 19, 2018, City Council accepted the staff report on the service delivery evaluation for administering the City's Workers' Compensation Program, and approved the recommendation to provide all Workers' Compensation Program services for all City employees through a Third-Party Administrator (or "TPA"), with the transition beginning July 1, 2018. City Council also authorized the City Manager to negotiate and execute an amendment to the agreement with Intercare to extend the contract through June 30, 2019, and to increase compensation by

\$3,289,297 for the period of July 1, 2018 through June 30, 2019, for a total contract amount not to exceed \$8,470,145, in order to have the Intercare administer all claims and provide other services, such as Bill Review, Medical Case Management, Utilization review and the Medical Provider Network. It should be noted that Intercare was handling all of the City's Workers' Compensation Program services except for those from the San Jose Police Department. Additionally, the recommendation authorized Intercare to administer all claims allowing the City to initiate the transition activities beginning July 1, 2018, with an anticipated transition of the data, hard copy files, and administration of the program to occur no later than September 8, 2018, but did not provide any additional compensation for the administration of the additional claims as explained below.

Pursuant to City Council direction, the transition began in July 2018 and involved a critical initial transition activity that included extracting data from the City's claims administration software system (NavRisk) and mapping, uploading, and testing the data in Intercare's software system. On August 31, 2018, approximately 1,477 open workers' compensation claims and approximately 23,306 closed workers' compensation claims were electronically transferred to Intercare. These were in addition to the claims that Intercare was already handling on behalf of the City prior to July 1, 2018. As part of the transition process, and after the transfer of data and files, Intercare began a 90-day review of all open claims to ensure that cases requiring immediate attention were reviewed and prioritized for appropriate action. Intercare refers to this as a "triage" process, which is expected to conclude on or before November 30, 2018.

ANALYSIS

The number of open claims for the Worker's Compensation Program fluctuates on a regular basis and claims administration is priced based on a range of claims that are handled. The projected budget for the fully out-sourced model presented to and approved by City Council on June 19, 2018, was estimated on 2,850 total open claims, which were the total case levels at the time and within the 2,701-2,900 price range. The first row of the table that follows (included in June 19, 2018 Council Memorandum) shows the 2,850 case load projection and the projected cost for the claims administration portion of the contract at \$3.85 million.

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Ongoing Cost Comparison – TPA (Intercare) vs In-House										
Case Load	Intercare⁽¹⁾					In-House⁽²⁾				Difference Ongoing Intercare vs In-House
	FTE	Contract (Claims Admin)*	CSJ Staff	Non-Personal Service	Total Ongoing	FTE	Ongoing	One Time	Total	
2,850	31.7	\$3.85M	\$221K	\$77K	\$4.15M	31.75	\$4.19M	\$698K	\$4.89M	(\$50K)
2,500	29.8	\$3.23M	\$221K	\$77K	\$3.53M	28.75	\$3.89M	\$698K	\$4.59M	(\$360K)
2,200	26.2	\$3.02M	\$221K	\$77K	\$3.32M	26.75	\$3.65M	\$698K	\$4.35M	(\$332K)

(1) CSJ Staff = 0.25 Division Mgr, 1.0 Analyst, 1.0 Principal Acct Clerk. Intercare FTEs do not include a manager, IT team, client services personnel, or general clerks.

(2) Ongoing costs include rent, parking, and other non-personal services, but it does not include costs to fully upgrade software system. One-time costs include space build out and moving expenses and maintaining the TPA contract for two months for transition.

* While this column says "contract" in the June 19, 2018 memo, it refers only to the claims administration portion of the costs for Intercare's pricing at the 2,701-2,900 price range. It does not include the Medical Containment Costs (e.g. Medical Provider Network, Bill Review, Utilization review) of \$1,364,400 that would be necessary whether the program was outsourced or in-house.

The recommendation approved by City Council authorized the City to provide all Workers' Compensation Program services for all City employees through the TPA, Intercare, with the transition beginning in July 2018. Appropriation actions included in the recommendation and in the 2018-2019 Adopted Operating Budget provided sufficient resources for a TPA case load in the 2,701-2,900 price range for Claims Administration at a cost of \$3.85 million. However, the first amendment approved by City Council only authorized an increase of \$3,289,297 for the period of July 1, 2018 through June 30, 2019, for a total contract amount not to exceed \$8,470,145 due to uncertainty about the specific timing and steps of the transition. The table below provides additional detail and compares the First Amendment with the recommended Second Amendment costs.

	Previous Year Contract 11/2016-6/30/2018	First Amendment 1301-1500 Claims	RECOMMENDED Second Amendment 2701-2900 Claims	Difference First – Second Amendment
Claims Admin	\$3,172,608	\$1,924,897	\$3,849,794	\$1,924,897
Data Conversion	\$0	\$0	\$10,000	\$10,000
Medical Provider Network	\$62,740	\$20,000	\$20,000	
Subtotal	\$3,235,348	\$1,944,897	\$3,879,794	\$1,934,897
Utilization Review/ Medical Case Management	\$712,500	\$495,600	\$495,600	
Bill Review/Preferred Provider Organizations	\$1,233,000	\$848,800	\$848,800	
Subtotal	\$1,945,500	\$1,344,400	\$1,344,400	
Contract Total	\$5,180,848	\$8,470,145	\$10,405,042	

Due to the uncertainty of the timing and steps of transferring all open workers' compensation claims files to Intercare, the entire contractual amount for claims administration could not be specified until the transition process was concluded. First, the total number of additional open claims that would be transferred to Intercare was unknown and it was unclear how the transition in July and August would impact staff ability to close cases to keep the total claims level within the 2,701-2,900 price range. Second, the City's projections for funding the \$3.85 million for claims administration in the fully-outsourced model was based on assumptions about the timing of staff transitions in July and August to generate salary savings (see the Cost Summary/Implications and the Budget Reference on page 18 of the June 19, 2018 Council Memorandum) and it was unclear how quickly placements would occur for permanent staff. Thirdly, in the absence of staff experience with Intercare's "triage" process, additional time was needed in July and August to better understand and ensure that appropriate contract provisions were included. Therefore, to allow services and payment to continue, the first amendment was written for a range of claims that Intercare was managing as of July 1, 2018, which was approximately 1,301-1,500 for an amount of \$1,924,897 for claims administration and \$1,364,400 for medical cost containment for a total amount of \$3,289,297 and a total contract amount not to exceed \$8,470,145. This facilitated the City's ability to proceed with transition activities beginning July 1, 2018, by exchanging data and transferring files to Intercare.

During the July and August transition, staff successfully managed existing claims, facilitated transition activities, and continued to close claims. Due to this progress and the successful transition of in-house employees to other assignments, the expected salary savings were secured to meet the budgetary assumptions of the fully-outsourced model. Staff now recommends a second amendment to increase the contract by \$1,924,897 to \$3,849,794 for the administration of the additional claims transitioned to Intercare on August 31, 2018 and \$10,000 for data conversion for a total contract amount not to exceed \$10,405,042.

This is consistent with the information provided in the Cost Summary/Implications and discussion on costs in the Business Case Analysis for a case load in the 2,701-2,900 price range which was presented to City Council and approved at the June 19, 2018, City Council meeting. The discussion of costs was only for claims administration costs, and did not include the costs for Medical Cost Containment of \$1,364,400. An additional \$10,000 for data conversion and testing is included in this Second Amendment for the costs to transfer the claims from the City's workers' compensation claims system to Intercare's workers' compensation claims system. The Second Amendment increases were previously included in the 2018-2019 Adopted Budget and it should be noted that no additional funds are being requested.

EVALUATION AND FOLLOW-UP

The City will conduct a Request for Proposal (or "RFP") process in Fall 2018 for a Third-Party Administrator to provide all services related to the City's Workers' Compensation Program to commence July 1, 2019, and will return to City Council for the required approvals. The new agreement would be in place for the 2019-2020 fiscal year.

PUBLIC OUTREACH

This memorandum will be posted on the City's Council Agenda website in advance of the October 30, 2018 Council Meeting.

COORDINATION

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

COMMISSION RECOMMENDATION/INPUT

No commission recommendation or input is associated with this action.

COST SUMMARY/IMPLICATIONS

The table below lists all costs associated with the Intercare Third-Party Administrator agreement. Actions recommended in this memorandum would increase compensation related to claims administration and data conversion (\$1,934,897) for a revised not to exceed contract total of \$10,405,042 million. These increases were assumed in the 2018-2019 Adopted Operating Budget within the General Fund's Human Resources Non-Personal/Equipment appropriation.

The cost breakdown history for the contract and the proposed second amendment are as follows:

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BUDGET REFERENCE

The table below identifies the funding source and appropriations for the recommended actions included in this memorandum.

Fund #	Appn #	Appn Name	Current Total Appn	Rec. Budget Action	Amt for Amendment	2018-2019 Proposed Operating Budget Page*	Last Budget Action (Date, Ord. No.)
001	0482	Human Resources Non-Personal/Equip	\$5,256,446	\$0.00	\$1,934,897	VIII-171	6/19/2018 Ord. No. 30125

*The 2018-2019 Proposed Operating Budget was adopted on June 19, 2018.

CEQA

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



JENNIFER SCHEMBRI

Director of Employee Relations/
Acting Director of Human Resources

For questions, please contact Kelli Parmley, Interim Assistant Director of Human Resources, at (408) 975-1458.