

# Memorandum



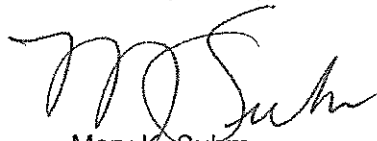
DATE November 5, 2010

TO Members of the Budget, Finance & Audit Committee:  
Jerry R. Allen, Chair, Ann Margolin, Vice-Chair, Vonciel Jones Hill,  
Angela Hunt, Delia D. Jasso, Ron Natinsky, David A. Neumann

SUBJECT Liability and Workers' Compensation Third Party Administration (TPA)

The Budget, Finance & Audit Committee's November 8, 2010 agenda includes the Subject briefing. Molly McCall, Interim Director, and Debra Johnson, Assistant Director of Human Resources Department will brief the Committee.

Should you require additional information, please let me know.



Mary K. Suhm  
City Manager

Attachment

C: Honorable Mayor & Members of the City Council  
Deborah A. Watkins, City Secretary  
Tom P. Perkins, City Attorney  
Craig D. Kinton, City Auditor  
Ryan S. Evans, First Assistant City Manager  
A. C. Gonzalez, Assistant City Manager  
Jill A. Jordan, P.E., Assistant City Manager  
Forest E. Turner, Assistant City Manager  
Jeanne Chipperfield, Chief Financial Officer



# Liability and Workers' Compensation Third Party Claims Administration (TPA)

Budget, Finance and Audit Committee  
November 8, 2010

# Purpose

- Overview of Liability and Workers' Compensation Program
- Review the Request for Competitive Sealed Proposal (RFCSP) process
- Provide results of the proposal evaluations
- Make recommendation

# Liability and Workers' Compensation Program

- The Liability and Workers' Compensation Program consists of two components:
  - Claims administration (performed by Third Party Administrator), and
  - Claims paid (paid by the City via the Third Party Administrator)
- Liability
  - City is self-insured for all liability claims
  - City Attorney's Office defends lawsuits and claims against the City
  - City has protection under Texas Tort Claims Act which limits exposure
    - \$250,000/person \$500,000/occurrence
    - \$100,000 for property damage
  - Certain claims are protected by governmental immunity
  - FY 09-10, 1,500 liability claims received; \$4,760,140 paid
- Workers' Compensation (WC)
  - City is self-insured for all claims under \$750,000
  - City purchases excess WC insurance for catastrophic claims exceeding \$750,000
  - FY 09-10, 2,046 WC claims received; \$10,500,455 paid

# 2004 Study of Workers' Compensation Program

- Study of Risk Management Program was conducted in 2004 and benchmarked against industry best practices
- Result of Study required audit of WC program
  - City Auditor conducted a performance audit of WC program
  - Comprehensive review of program and policies by PartnerSource, Inc. (contracted firm by City Attorney)
  - Commission on Productivity and Innovation recommended changes for Loss Control
- Major Findings Resulting from 2004 Audit
  - WC costs were higher than average
  - WC claims remained open longer than average
  - Injured workers were out of work longer than average
  - Injured workers not encouraged to return to work
  - Safety initiatives were not defined and had minimal impact on the reduction in losses

# 2004 Audit Recommendations and Actions

- 2004 Audit Recommendations
  - Develop strategies to encourage employees to return-to-work
  - Better oversight of designated medical provider network
  - Provide safety training to employees and implement safety inspections
- Actions Taken By City
  - Developed Return-to-Work/Light Duty Program
  - Implemented formalized Safety Program
    - Consolidated Safety staff to Risk Management
    - Developed safety training programs
    - Developed Safety Scorecard
    - Implemented property inspection program
  - Awarded a 5-year contract to Tristar Risk Management as Third Party Claims Administrator (TPA)
    - Not to exceed \$11,971,853
    - Term: 12/1/2005 – 11/30/2010
  - Implemented WC Certified Network

# 2004 Audit Results

- Positive Results (from efforts of City and TPA)
  - Number of WC claims reduced 28%
    - 2627 claims to 2046 claims
  - WC claims cost reduced 23%
    - \$13,004,008 to \$10,500,455
  - Length of time to close WC claims reduced 16%
    - 285 days to 237 days

# Request for Competitive Sealed Proposal (RFCSP)

- Current TPA Contract expires 11/30/2010
- Services Provided
  - Claims administration (WC and Liability)
    - Determination of eligibility
    - Claims processing
    - Payment recommendation
  - WC medical cost containment
    - Medical, hospital and pharmacy bill auditing
    - Pre-authorizations
    - Case Management
  - WC legal representation on Texas Workers' Compensation Commission issues
  - Surveillance and investigation services
- RFCSP issued July 15, 2010



# Request for Competitive Sealed Proposal (RFCSP)

- Aon Risk Consultants Provided Oversight
  - Subject Matter Experts
  - Reviewed bid specifications
  - Prepared comparative analysis of bids
- The evaluation team consisted of the following:
  - Assistant Director, Human Resources
  - Sr. Risk Analyst, Human Resources
  - WC Coordinators, DPD and DFR
  - Manager III, Human Resources (Non-scoring)
  - Aon Risk Consultants (Non-scoring)

# Request for Competitive Sealed Proposal (RFCSP)

- Received 7 proposals
  - Full TPA Services
    - Broadspire Services, Incorporation
    - ESIS
    - JI Companies
    - Tristar Risk Management
  - Liability
    - Carl Warren and Company
  - Medical Cost Containment
    - Argus Services Corporation
    - Injury Management Organization
- All Proposers Interviewed
- Evaluation Criteria
  - Responsiveness (10 pts)
  - Qualifications (15 pts)
  - Risk Management Information System (10 pts)
  - Services Rendered (20 pts)
  - MWBE (15 pts) and Cost (30 pts)
    - MWBE and Costs were evaluated by Procurement

# Proposal Results

- To realize the most competitive pricing, proposals were accepted for bundled and unbundled services
- After comparing all bid responses, it was determined that bids for bundled services were most advantageous
- Proposers were ranked with JI Companies and Tristar Risk Management listed as the top two vendors

## Third Party Claims Administration - All Services

Vendor	Responsiveness to the RFCSP (10 points)	Proposer Qualifications (15 points)	Risk Management Information System (RMIS) (10 Points)	Services Rendered (20 points)	Cost (30 points) Evaluated by Purchasing	MWBE Participation (15 points) Evaluated by Purchasing	Total
Broadspire Services, Inc.	9.00	10.25	8.25	14.25	24.81	9.00	75.56
ESIS, Incorporated	8.00	11.75	8.25	13.00	19.13	2.00	62.13
JI Companies	9.25	14.00	8.25	17.50	30.00	7.00	<b>86.00</b>
TRISTAR Risk Management	9.00	14.00	9.25	18.25	24.88	7.00	82.38

# Best and Final Offers

- Best and final offers were requested and accepted from the top two vendors: JI Companies and Tristar Risk Management
- JI Companies offered the most competitive pricing
  - 20% (\$1,749,076) less than Tristar Risk Management

Service	JI Companies	Tristar Risk Management
Workers' Compensation	4,513,239	5,363,937
Legal	500,000	858,000
Investigation	49,732	49,732
General Liability	2,331,878	2,872,256
Medical Cost Containment	1,225,989	1,225,989
<b>Total</b>	<b>8,620,838</b>	<b>10,369,914</b>

# Comparison: 5-Year Contract Costs

- Comparison of expiring 5-year contract costs with Tristar Risk Management and JI Companies
  - 39% (\$3,351,015) difference

Service	Expiring Contract Tristar	Recommended Contract JI Companies
Workers' Compensation	6,397,537	4,513,239*
Legal	1,238,720	500,000
Investigation	55,500	49,732
General Liability	1,779,545	2,331,878
Medical Cost Containment	2,500,551	1,225,989
	11,971,853	8,620,838

\* Certain WC services are now performed by the Certified Network

# Extension of Tristar's Contract

- The electronic data transfer is expected to take approximately 60 days. To ensure continuity of services, it is recommended that Tristar continue servicing the account until data transfer is complete
  - Electronic Data Transfer
    - 1,651 claim files
      - 811 workers' compensation claims
      - 484 general liability claims
      - 356 subrogation claims
  - Continuity of Services
    - Benefit payments
    - Pre-authorization of medical treatment
    - Medical bill payments and audits
  - Estimated Completion
    - Up to 60 days to complete
    - No billable work performed by JI during extension data conversion

# Recommendation

- Extend current contract with Tristar Risk Management, not to exceed 60 days
  - Not to exceed: \$421,733
  - Extension Term: 12/1/2010 – 1/31/2011
- Award 5-year contract to JI Companies
  - Not to exceed: \$8,620,838
  - Contract Term: 12/1/2010 – 11/30/2015
- Council Agenda: 11/10/2010