



City of Denton

City Hall
215 E. McKinney Street
Denton, Texas
www.cityofdenton.com

AGENDA INFORMATION SHEET

DEPARTMENT: Materials Management

CM: Todd Hileman

DATE: October 17, 2017

SUBJECT

Consider adoption of an Ordinance accepting competitive proposal and awarding a five (5) year Third-Party Administrator (TPA) contract for Administrative Services Only (ASO) for Medical and Pharmacy for the City of Denton's self-funded health plan; providing for the expenditure of funds therefor; and providing an effective date (RFP 6414—Administrative Services Only (ASO) for Medical and Pharmacy Benefits awarded to United Healthcare Services, Inc. in the annual estimated amount of \$667,000 and for a total estimated contract not-to-exceed expenditure of \$3,400,000).

BACKGROUND

United Healthcare Services, Inc. (UHC) has been providing third-party administrator (TPA) services for the City of Denton's self-funded health plan since January 1, 2009. These administrative services include processing all medical and pharmacy claims, provision of the medical provider networks and the pharmacy facility networks, disease and case management services, reporting and data management, formulary drug management, Centers of Excellence, and other services necessary to help manage the overall self-funded health plan. While the City and UHC have had a successful contractual relationship since 2009, the current contract expires at the end of 2017, thus necessitating the Request for Proposal (RFP) process.

Requests for Proposals (RFPs) were sent to 131 prospective suppliers of these services. In addition, specifications were placed on the Materials Management website for prospective suppliers to download and advertised in the local newspaper. Four (4) responses were received from Health Insurance carriers: Blue Cross/Blue Shield of Texas, Cigna, Texas Health/Aetna, and United Healthcare (incumbent).

Two (2) responses were received from Pharmacy Benefit Management (PBM) companies for management of the prescription drug benefits only: CVS Health, and Script Care, Ltd.

The six (6) proposals were reviewed by an evaluation team comprised of five (5) members representing the Risk Management staff, the City's benefits consultant, McGriff, Seibels and Williams (MSW), and a non-evaluating member from Purchasing.

While the City stated in the RFP that we would accept proposals from both carriers and stand-alone PBM's, after evaluating the two (2) proposals from PBM's, and after reviewing the exceptions and potential coordination difficulty in working with an outside PBM, the evaluation committee agreed that it would not be in the best interests of the City to use a separate, stand-alone PBM.

An initial ranking of the responses was done to determine which companies would progress to the second step of the evaluation, which involved a detailed “re-pricing exercise” related to paid health and pharmacy claims. Since all four of the carrier responses were from major healthcare companies with comparable monthly administrative costs, it was determined that all four responders would be asked to participate in the re-pricing exercise.

The re-pricing exercise is a key factor in evaluating the overall cost of services. The monthly per employee per month (PEPM) administrative fee only accounts for less than 3% of the total cost of the health plan, so the vast majority of costs come from medical and pharmacy claims. Because of this, the level of contracted discounts with the medical providers, the provider network, and the pharmacy rebates must be tested. In order to test this, each provider was asked to “re-price” the actual medical and pharmacy claims that the City paid between June 2016 through May 2017, to determine what the City would have paid had each company’s current discount structure and provider network been in place at that time.

The detailed results of the repricing exercise can be found in Exhibit 3, but are also summarized below:

| | <u>Prior Claims</u> | <u>UHC</u> | <u>Aetna</u> | <u>BCBS</u> | <u>Cigna</u> |
|--------------|----------------------------|---------------------|---------------------|---------------------|---------------------|
| Medical | \$18,824,526 | \$18,236,569 | \$18,868,422 | \$18,220,267 | \$18,874,838 |
| Rx | \$4,146,806 | \$3,694,861 | \$3,809,976 | \$3,839,004 | \$3,709,438 |
| Total | \$22,971,332 | \$21,931,430 | \$22,678,398 | \$22,059,271 | \$22,584,276 |
| % Change | N/A | (4.53%) | (1.28%) | (3.97%) | (1.68%) |

Additionally, all four (4) carriers were asked to participate in formal presentations/interviews and to submit a Best and Final Offer (BAFO). Factoring in each company’s RFP response, the results of the repricing exercise, the formal presentations/interviews, and the BAFO response, the evaluation committee ranked the carriers as follows:

| <u>Rank</u> | <u>Company</u> | <u>Score</u> |
|--------------------|---------------------------------|---------------------|
| 1 | UHC | 100.0 |
| 2 | Cigna | 97.1 |
| 3 | Texas Health/Aetna | 96.6 |
| 4 | Blue Cross/Blue Shield of Texas | 95.4 |

UHC presented the lowest monthly administrative cost on a Per Employee Per Month (PEPM) basis and had the lowest projected total claim cost for medical and prescription drugs, based on the repricing exercise. Additionally, UHC is the incumbent carrier, so there will be no disruption to our employees, retirees, and dependents, nor to the providers. And finally, UHC has been a good partner for the City since 2009 in helping us manage our self-funded health plan.

RECOMMENDATION

Staff recommends entering into a three (3) year initial contract with United Healthcare Services, Inc., with two (2) one-year renewals.

ESTIMATED SCHEDULE OF PROJECT

Services under this agreement will begin on January 1, 2018.

FISCAL INFORMATION

The monthly Administrative Services Only costs related to the self-funded health plan are paid out of the Health Insurance Fund, 850500.6705.0001. The medical claim reimbursements to UHC are paid out of 850500.6706.0001 and the pharmacy claim reimbursements to UHC are paid out of 850500.6706.0002.

STRATEGIC PLAN RELATIONSHIP

The City of Denton's Strategic Plan is an action-oriented road map that will help the City achieve its vision. The foundation for the plan is the five long-term Key Focus Areas (KFA): Organizational Excellence; Public Infrastructure; Economic Development; Safe, Livable, and Family-Friendly Community; and Sustainability and Environmental Stewardship. While individual items may support multiple KFAs, this specific City Council agenda item contributes most directly to the following KFA and goal:

Related Key Focus Area: **Organizational Excellence**
Related Goal: **1.2 Develop a high-performance work force**

EXHIBITS

Exhibit 1: Agenda Information Sheet
Exhibit 2: Evaluation and Ranking Sheet
Exhibit 3: McGriff ASO Marketing Analysis
Exhibit 4: Ordinance
Exhibit 5: Agreement

Respectfully submitted:
Karen Smith, Purchasing Manager

For information regarding this acquisition, contact: Scott Payne, Risk Manager, at 349-7836.