



City of Sunnyvale

Agenda Item-No Attachments (PDF)

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REPORT TO COUNCIL

SUBJECT

Award of a Three-year Contract for Workers' Compensation Claims Administration Services (F15-57)

REPORT IN BRIEF

Approval is requested to award a three-year contract, not to exceed \$924,316, to Acclamation Insurance Management Services, Inc. (AIMS) to provide workers' compensation claims administration services and to authorize the City Manager to renew the contract for additional one-year periods. Depending on the level of service and pricing, the total duration of this type of service contract is typically five years.

ENVIRONMENTAL REVIEW

N/A

BACKGROUND AND DISCUSSION

The City utilizes a state-licensed third party administrator (TPA) to manage workers' compensation claims of injured workers through a contract managed by the Department of Human Resources. Workers' compensation administration services consist of four components:

- Claims Administration - The largest component of the services provided, this includes the contracted cost for day-to-day handling of workers' compensation claims, and making disability payments and payments to doctors.
- Utilization Review - This is the assessment of the medical necessity of any medical treatment requested on the workers' compensation claim.
- Nurse Case Management - Services provided by nurses both telephonically and in the field to coordinate care for the injured worker. The Nurse Case Manager communicates with both workers and medical providers.
- Bill Review - Review of medical bills to confirm that doctors are charging only for authorized services and to verify that they are coded properly. Where necessary, coding is changed to reduce the bill to the State fee schedule amount.

The City has contracted with the current vendor, York Risk Services, since 2004 as the result of two separate Request for Proposals (RFP) processes. The current three-year contract with York, in the amount of \$757,238 was awarded in June, 2011 (RTC No. 11-143). One additional annual renewal period increased the contract by \$260,871 to a four-year total of \$1,018,109. The contracted cost is only for claims administration.

The costs associated with the remaining three components of bill review, nurse case management and utilization review are handled through the actual workers' compensation claims to ensure accurate cost accounting and for reimbursement purposes if the City's self-insured retention is

exceeded. The current vendor handles claims administration and bill review, while a third party (Professional Dynamics, Inc.) handles utilization review and nurse case management.

Most TPAs can provide all four components under one umbrella in a bundled service model. Although simpler to administer, this approach is not necessarily the most effective. Consequently the new RFP invited proposers to submit RFP responses in any or all of the categories.

Request for Proposals No. F15-57 was issued on January 23, 2015 and was directly distributed to twenty-six potential proposers. In addition, the RFP was posted on the Onvia DemandStar public procurement network. On February 20, 2015 sixteen proposals were received.

The proposals were evaluated by a committee including members of the Departments of Human Resources, Public Safety, and Finance. Each component of workers' compensation administration services was evaluated separately to determine which proposers offered the best solutions for the City. Following evaluation of the written proposals, eight proposers were invited to onsite interviews, as follows:

- 2 firms were invited to discuss all service components;
- 3 firms were invited to discuss just their claims administration services;
- 1 firm was invited to discuss their services for utilization review, nurse case management, and bill review services; and
- 1 firm was invited to discuss their services for utilization review and nurse case management; and
- 1 firm was invited to discuss only its bill review services.

The firms were invited in this fashion due to their relative specialties and/or strengths in any given service area.

The RFP was structured to only solicit three year costs for claims administration, which is the only contracted cost. The three-year costs for claims administration of the five proposers invited to interview are as follows:

<u>Proposer</u>	<u>Three-year Cost</u>
Athens Administrators	\$816,670
York Risk Services Group (current provider)	\$859,608
Acclamation Insurance Management Services (AIMS)	*\$973,634
Innovative Claim Solutions (ICS)	\$1,081,815
Keenan & Associates	\$1,090,017

*AIMS cost is the original proposed cost. After contract negotiations the cost was reduced to \$924,316, a reduction of \$49,318.

Based on evaluation of the written proposals and the subsequent interviews, the evaluation committee concluded that the City's needs would be best met through the following vendor utilization: AIMS for claims administration services, Professional Dynamics, Inc. (PDI) for utilization review and

nurse case management, and Intelligent Medical Solutions, Inc. (IMS) for bill review. AIMS was selected based on their experience working with California public entities, their commitment to early return to work efforts, their controlled provider network, and their focus on reducing workers' compensation costs. Reference checks performed by the Department of Human Resources confirmed AIMS' effectiveness in providing high-quality service.

Contracting with separate firms for nurse case management/utilization review (PDI) and for bill review (IMS) should provide checks and balances in analyzing claims to help contain workers' compensation costs, which have steadily increased over the past several years.

FISCAL IMPACT

The three-year contract amount with AIMS for claims administration services is \$924,316. While this is a substantial increase over the prior negotiated contract, the cost is reflective of improvements in the California economy since 2011 and an increased inventory of open workers' compensation claims. When the 2011 RFP was issued, the City's three-year average inventory of open claims was 243. When the current RFP was issued, the three-year average inventory of open claims was 275 - an increase of 13%. The number of open claims has increased as employees have filed more workers' compensation claims during the intervening years. The City has occupational safety programs in place to help prevent workplace injuries and mitigate the number of claims filed. Also, the City's return-to-work program seeks to get employees back to work quickly and get claims closed. For the first year of the contract (FY 2015/16), the increase in claims administration costs will be absorbed by the Workers' Compensation Sub-Fund in the Employee Benefits Fund. During the FY 2016/17 budget cycle, the budget will be adjusted accordingly for the remaining years of the contract.

The cost of utilization review, nurse case management, and bill review services are not contracted services. Those fees are paid through the claims resolution process. Budget funds are available in the Human Resources Department operating program to cover these costs, estimated at approximately \$180,000 annually.

PUBLIC CONTACT

Public contact was made by posting the Council agenda on the City's official-notice bulletin board outside City Hall, at the Sunnyvale Senior Center, Community Center and Department of Public Safety; and by making the agenda and report available at the Sunnyvale Public Library, the Office of the City Clerk and on the City's website.

RECOMMENDATION

- 1) Award a three-year contract to Acclamation Insurance Management Services, Inc. (AIMS) in the amount of \$924,316 to provide workers' compensation claims administration services, in substantially the same form as the draft consultant services agreement attached to the report; and
- 2) authorize the City Manager to renew the contract for additional one-year periods provided that pricing and service remain acceptable to the City.

Prepared by: Pete Gonda, Purchasing Officer
Reviewed by: Grace K. Leung, Director, Finance
Reviewed by: Teri Silva, Director, Human Resources
Reviewed by: Robert A. Walker, Assistant City Manager
Approved by: Deanna J. Santana, City Manager

ATTACHMENT

1. Draft Consultant Services Agreement