

AGENDA



Thursday, August 21, 2008

**Purchasing Office
RECOMMENDATION FOR COUNCIL ACTION****Item No. 25**

Subject: Authorize award, negotiation and execution of two requirements service contracts with United HealthCare Insurance Company, Plano, TX, as follows: 1) a 16-month service contract for a self-funded Health Maintenance Organization group medical plan with open access including provider network, utilization review, claims administration, and disease management services, and for Prescription Benefit Management services in an estimated amount not to exceed \$1,743,000, with three 12-month extension options in estimated amounts not to exceed \$2,036,000 for the first extension option, \$2,303,000 for the second extension option, and \$3,020,000 for the third extension option, for a total estimated contract amount not to exceed \$9,102,000; and 2) a 12-month service contract for Stop-Loss coverage for the self-funded Health Maintenance Organization group medical plan in an estimated amount not to exceed \$322,000, with three 12-month extension options in estimated amounts not to exceed \$407,000 for the first extension option, \$515,000 for the second extension option and \$651,000 for the third extension option, for a total estimated contract amount not to exceed \$1,895,000.

Amount and Source of Funding: Funding for this contract and extension options is contingent upon available funding in future budgets. These contracts will be funded by City, employee, and retiree contributions.

Fiscal Note: There is no unanticipated fiscal impact. A fiscal note is not required.

For More Information: Rosemary Ledesma, Supervising Sr. Buyer/974-2011 or Russell Nash, Benefits Manager/ 974-3288.

Purchasing Language: Best evaluated proposal of three proposals received.

MBE/WBE: This contract will be awarded in compliance with Chapter 2-9C of the City Code (Minority Owned and Women Owned Business Enterprise Procurement Program). No subcontracting opportunities were identified: therefore, no goals were established for this solicitation.

The City issued a solicitation on January 21, 2008 seeking proposals from firms to provide a self-insured or fully-insured Health Maintenance Organization (HMO) based on a gatekeeper/primary care physician plan design, including pharmacy benefits and stop loss coverage for the HMO plan selected by the City. These benefit administration services will be for City employees, retirees, and other eligible participants. The solicitation included the following specific administrative services: 1) provider network, utilization review, claims administration and disease management for an HMO Medical Plan; and 2) Prescription Benefit Management (PBM) services for the HMO medical plan. In addition, the solicitation requested Stop-Loss insurance quotes to cover the HMO medical plan which will be awarded in a separate contract. Three firms submitted proposals on March 10, 2008.

This award is based on United Healthcare Insurance Company's (UHC) alternate proposal for an open access self-insured HMO medical plan (without the gatekeeper/primary care physician component) and includes the following services: Provider Network, Utilization Review, Claims Administration and Disease Management; PBM services and Stop-Loss coverage.

Under the City's current benefits program, employees and retirees are provided with a choice of two medical plans offered through different insurance carriers: 1) a fully-insured HMO which is administered by Blue Cross and Blue Shield of Texas, and 2) a self-insured Preferred Provider Organization (PPO) which is administered by United Healthcare (UHC). The HMO provides a closed, gatekeeper controlled network of physicians and facilities with no out-of-network option. The PPO provides a network of preferred providers and allows individuals to access out-of-network providers but at a greater cost to the individual. The Stop-loss insurance coverage protects the City from catastrophic claims for any one covered person that exceed \$500,000. PBM services allow individuals to purchase prescription drugs from a national network of participating retail pharmacies or from the PBM's mail order service at a reduced cost to the City and the covered person. PBM and stop loss coverage services are currently provided under both plans.

With these actions approved, the HMO network access and claims administration contract will be administered by UHC. Thereby, offering two medical plans (Self-insured PPO and HMO) programs to participants in 2009 through the same insurance company, UHC. The Blue Cross and Blue Shield of Texas fully-insured HMO medical plan would no longer be available and offered to City employees and retirees. UHC has discounted agreements with physicians, medical facilities, and other health providers to provide medical services and care to persons enrolled in the plan. UHC's local network has over 2,300 physicians which includes the Austin Diagnostic Clinic, a large group of physicians not in the current HMO network, and the Austin Regional Clinic. Also, all area hospitals are included in the network. UHC currently has 180,000 members in the Central Texas area. The contract also provides HMO claims administration services that will include plan interpretation, medical claims adjudication, pre-notification of hospital admissions, utilization review and payment for approved medical services. The plan year for HMO services will be January 1 through December 31 of each year. The extension options, if exercised, will extend the contract term through December 31 of each year. The Stop-Loss coverage (\$2 million Lifetime Maximum) protects the City from catastrophic claims for individuals whose medical claims exceed \$500,000.

The recommendations for award are based on evaluation of proposals reviewed by the Human Resources staff and cost savings analysis information received from Towers Perrin, the City's actuarial and benefits consultant. The evaluation criteria included: scope of work and solicitation requirements; business organization, experience and financial stability; and cost. The panel members are familiar with the services and the industry and recommend UHC as the best evaluated proposal for the HMO, PBM, and Stop-Loss insurance services. UHC presented the best HMO plan design offering low administrative fees and a comprehensive network of providers including physicians, all Austin area hospitals, and many other medical facilities. UHC offered the most value for PBM services in conjunction with and integral to medical claims administration.

The recommended awardee has performed well as the PPO administrator for the City for the past four years, and they received positive responses from references contacted who are very satisfied with services received from UHC.

The monthly fees to the City per employee for Provider Network, Utilization Review, Claims Administration and Disease Management, and PBM services for the initial contract and extension option years are as follows: \$26.71 for 2009; \$28.46 for 2010; \$29.32 for 2011; and \$30.20 for 2012. These administrative fees are fixed and guaranteed for each year. The stop loss premium will be \$322,000 for 2009. Renewal Stop loss insurance quotes will be provided annually as it is standard in the industry to limit the initial term to 12 months for the contract.

MBE/WBE solicited: 1/2

MBE/WBE Bid: 0/0

RFP NO. RML0010

PRICE ANALYSIS

a. Adequate competition.

b. Twenty seven notices were sent including one MBE/two WBEs. Three proposals were received.

APPROVAL JUSTIFICATION

a. Best evaluated proposals.

b. The Purchasing Office concurs with the Human Resources Department's recommended award.

c. Advertised in the Austin American-Statesman and on the Internet.