



MEMORANDUM

To: Mayor and City Council

From: Mark Washington, Director, Human Resources and Civil Service

Date: August 9, 2012

Subject: Administrative Services Agreement with UnitedHealthcare

The City is concerned about the health and welfare of its employees and is committed to providing cost-effective benefits. Providing a comprehensive benefits package allows the City to attract and retain a competitive workforce. The self-funded medical plans offered to employees, retirees, and their dependents are key to meeting this commitment.

An item will appear on the August 16, 2012, City Council agenda to authorize the award of an Administrative Services Agreement (ASA) to UnitedHealthcare (UHC) to administer the City's self-funded medical plans. The current contract expires December 31, 2012. The proposed Agreement will be a 12-month service contract with five 12-month extension options. The initial 12-month service contract will be an estimated \$8.7 million. The six-year contract will total up to \$78.1 million based upon allowing for potential increases in enrollment and rates over the term of the contract. I would like to provide some additional background information to assist you in reaching this important decision.

Administration of City Medical Benefit Plans

UHC is currently serving as the Third Party Administrator (TPA) for the health plan. Instead of buying expensive fully-insured medical coverage, the City is self-funded and has the sole responsibility for the plan design and risk for claims under \$500,000 per individual. The TPA bears the risk of claims over \$500,000; provides a network of health care providers with whom they have negotiated medical fee discounts; and pays and adjudicates the actual claims incurred by our enrollees.

Purchasing Process

To ensure our employees and retirees receive best-in-class service from the TPA, the Human Resources Department (HRD) has conducted a competitive bid process that included an extensive review by HRD staff, a representative from the Controllers Office, the Purchasing Office and a retiree. In addition, a thorough financial analysis of all

proposals was performed by Towers Watson, the City's actuarial and benefits consultant.

In February 2012, HRD issued a Request for Proposal (RFP) for administrative services for the self-funded medical programs, stop-loss coverage and pharmacy benefit management. Eight vendors submitted proposals. When evaluating the proposals, particular attention was paid to the following:

- Size and coverage of the medical and pharmacy networks and disruption
- Medical discounts
- Pharmacy discounts and rebates
- Administrative fees
- Stop-loss insurance premiums
- Customer service

HRD is requesting authorization to execute a contract with UHC for all services listed in the RFP (evaluation matrix is included in the agenda back-up). Based on the evaluation of all the proposals, UHC presented the best overall proposal, with a comprehensive network of providers including physicians, hospitals and pharmacies and the lowest overall cost.

In addition to the direct administrative cost that the City is expected to pay UHC as indicated in the RCA, staff evaluated the indirect cost savings from the claims that UHC pays on behalf of the City based on their negotiated medical and pharmacy discounts. Over the life of the contract with UHC, the direct and indirect cost savings to the City is \$45.8 million more than the closest competitor. UHC's direct and indirect cost savings to the City compared to the third ranked vendor is \$134.1 million.

If you questions, feel free to contact me at ext. 4-3202.

cc: Marc Ott, City Manager
Michael McDonald, Deputy City Manager
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Robert Goode, Assistant City Manager
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