



MEMORANDUM

TO: Mayor and Council

FROM: Joya Hayes, Director, Human Resources Department *RK for JH*

DATE: December 31, 2018

SUBJECT: Update on Council Resolution 20180809-060 Best practices on health plan claims appeals

The purpose of this memorandum is to provide a status update on Resolution No. 20180809-060 regarding national best practices on independent third-party appeals processes for denied medical claims. During Calendar Year (CY) 2017, there were 521,067 medical claims processed on behalf of City of Austin's employees, retirees, and covered dependents.

The Federal External Review Program (FERP) allows City of Austin members three levels of appeal. Appeals can be submitted by the member or their provider. The process below is the same regardless of the City's contracted Third Party Administrator (TPA).

- First level appeals are handled by the TPA and reviewed by health care professionals with appropriate expertise who were not involved in the initial claim denial. In CY 2017, 433 (0.08% of total claims) claims were filed at the first level appeals process. Of those, the TPA overturned 221 (0.04% of total claims) denials and upheld 212 denials.
- Second level appeals are also handled through the TPA and generally reviewed by a Medical Director. In CY 2017, 35 claims were filed at the second level appeals process. Of those, the TPA **overturned three denials** and upheld 32 denials.
- In CY 2017, the third level appeals reviewed by an Independent Review Organization (IRO) upheld the City's TPA appeals decision on two denials. There were no third level appeals overturned.

Third level appeals use one of three IROs determined by the Texas Department of Insurance (TDI) required by the Affordable Care Act (ACA) federal mandate. The FERP, or third level appeal, is available to members after the City's medical plan internal appeals process is exhausted. TDI administers the certification, selection, and operation of IROs based on qualifications and

independence of each physician or other health care provider making a review determination. A determination can be made by one provider or an IRO's panel of providers.

According to the National Association of Independent Review Organizations, the IRO mandate seeks to provide decisions about an individual's care on the basis of sound medical judgement through an evidence-based approach, not driven by financial or business considerations.

On August 9, 2018, the Austin City Council passed Resolution No. 20180809-060 directing the City Manager to research national best practices relating to third party appeals processes for municipal employees whose health care claims are denied under certain circumstances. The City Manager was directed to report back to Council with a report detailing the limitations, opportunities, benefits, and costs of implementing such a process.

Staff reached out to 44 public and private entities to determine if they utilize a third party company during the health plan appeals process, 24 entities responded and are listed below:

- City of Arlington
- City of Dallas
- City of El Paso
- City of Ft. Worth
- City of Houston
- City of San Antonio
- Bexar County
- Capital Metro Transportation Authority
- Employees Retirement System of Texas
- Lower Colorado River Authority
- Travis County
- University of Texas System
- City of Albuquerque
- City of Boston
- City of Indianapolis
- City of Jacksonville
- City of Miami
- City of Phoenix
- City of Seattle
- City of Tucson
- Metropolitan Government of Nashville and Davidson County
- IBM
- Texas National Instruments
- 3M Corporations

None of the responding entities contract with a third party company in addition to the internal and external review process required by the ACA federal mandate. Segal Consulting, the Actuary and Benefit Consultant for the City of Austin's Employee Benefits Fund, was also contacted and confirmed this same finding as the best practice for self-funded plans with TPA.

The ACA also requires consumer protection standards that afford a fair appeals process to the employee, retiree, and their dependents. These mandates include that a medical plan appeals process require:

- written notice to claimants of their rights to external review;
- IRO must be assigned by the state or an independent entity (TDI) on a random or rotational basis that ensures the independence and impartiality of the assignment process and must have no conflicts of interest that will influence their independence; and,
- IRO decision must be binding (except to the extent that other remedies are available under state or federal law).

The state legislative agenda for the Intergovernmental Relations Office was adopted by City Council on October 18, 2018. This agenda directs the Office to oppose legislation that erodes municipal immunity, therefore, supporting legislation that improves the City's ability to ensure the health, welfare, and safety of municipal employees.

The benchmark and research conducted confirmed the City of Austin's current appeals process is aligned to best practices for medical plan appeals for self-funded medical plans.

Should you have any questions, please do not hesitate to contact me at 512-974-3246.

cc: Spencer Cronk, City Manager
Elaine Hart, Deputy City Manager/CFO