



AGENDA MEMORANDUM
Action Item for the City Council Meeting July 18, 2023

DATE: July 18, 2023

TO: Peter Zaroni, City Manager

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Service Agreements for Third-Party Administration of the City's Self-Funded Employee Health Benefits

CAPTION:

Resolution authorizing the negotiation and execution of four, five-year service agreements for the third-party administration of Medical, Dental, and COBRA with Blue Cross Blue Shield of Texas in an estimated total annual amount up to \$1,750,140; Pharmacy Benefit Management with Caremark PCS Health, LLC. in an estimated amount up to \$11,121 annually; Life & Accidental Death and Dismemberment with Blue Cross Blue Shield of Texas in an estimated amount up to \$97,464 annually; and, Long-Term Disability with Blue Cross Blue Shield of Texas in an estimated amount up to \$106,451 annually, for a total estimated amount up to \$1,965,176 annually for the City's self-funded employee health benefits, with an estimated five-year total value in an amount up to \$9,825,880.

SUMMARY:

This Resolution authorizes four, five-year service agreements for the Medical, Dental and COBRA, Pharmacy Benefit Management, Life & Accidental Death and Dismemberment and Long-Term Disability to provide third-party administration of the City's self-funded employee health benefits, effective October 1, 2023.

BACKGROUND AND FINDINGS:

The current agreements for the City's insurance benefits will expire on September 30, 2023. The insurance benefits are for City employees, which include 2,276 Civilians, 446 Fire and 491 Police sworn positions, for a total of 3,213 City employees. The purpose of this item is to initiate four new five-year service agreements as outlined below.

- 1) Blue Cross Blue Shield of Texas (BCBSTX) for medical, dental and COBRA plans.

- The Blue Cross Blue Shield administrative fees of \$46.65 per employee per month (PEPM) for medical enrollees and \$3.00 PEPM for dental enrollees include all services needed for health and dental plan administration including:
 - Managing, processing, and paying an estimated \$24.9 million in medical insurance claims and \$1.7 million for dental claims according to the City's specified plan designs.
 - Providing access to Blue Cross Blue Shield network contract discounts
 - Providing customer service and administering Wellbeing management services
- 2) The Caremark PCS Health, LLC. (CVS) for pharmacy benefits management
- The CVS administrative-dispensing fees of \$11,121 for pharmacy benefits include:
 - Managing, processing, and paying an estimated \$8.3 million for FY 2024 in pharmacy claims for the term of contract.
- 3) Blue Cross Blue Shield of Texas (BCBSTX) for Basic Life Accidental Death & Dismemberment in the amount of \$97,464.
- The City provides Basic Life Insurance to all full-time employees. Employees are covered by Basic life with a coverage volume of \$169,208,050 for an estimated cost of \$97,464. Employees may elect additional coverage at their own cost for themselves and their dependents.
- 4) Blue Cross Blue Shield of Texas (BCBSTX) for Long-Term Disability in the amount of \$106,457.
- The City provides long term disability to full-time non-uniformed employees at a base plan of 50% of their base salary with a six-month waiting period. Employees may buy up to other plans that have shorter waiting periods and cover up to 66.67% of their base salary.

PROCUREMENT DETAIL:

Medical and Dental and Pharmacy Administration Services:

A Request for Proposal (RFP) was issued for both Medical and Dental and Pharmacy administration services on March 27, 2023, for the City's insurance program contract. The RFP requested proposals for direct contract services to determine the interest of local providers. However, the City did not receive any direct contract services proposals, neither from local or non-local providers. In addition to allowance of direct contract services, as part of the medical and pharmacy plan request for proposal, alternative network strategies including Health Maintenance Organization (HMO) networks and narrow network alternatives (limiting provider and pharmacy access) were reviewed for consideration.

The Medical and Dental category received five third-party administration proposals, but three of the respondents were deemed non-responsive. The reason they were deemed nonresponsive was because each of the three respondents failed to duplicate re-pricing of current plan of benefits within their network, which was required within the RFP. This resulted in the evaluation committee only scoring two proposals for the Medical and Dental category.

The Pharmacy category received four proposals, but two of the respondents were deemed non-responsive. The reason they were deemed non-responsive was because the two respondents each failed to provide pricing within the solicitation window that was included with the RFP. This resulted in the evaluation committee only scoring two proposals for the Pharmacy category.

Due to five of the nine respondents for the Medical and Dental and Pharmacy categories being deemed non-responsive, a thorough analysis of required forms and RFP language was

conducted. It was determined there were no issues with the RFP or the procurement process as whole, and that all deficiencies were due to respondent error.

The evaluation committee for both categories was comprised of six scoring members and one non-scoring member, with representation from Human Resources, Finance, Police, Fire, Information Technology, and the City Manager's Office. The evaluation committee rated each responsive proposer and was scored according to 1) Cost, 2) Cost Containment, 3) Claims Processing, 4) Reporting, 5) Integrated Systems/Technology Initiative, 6) Past Performance & Communications and finalist included 7) price. Final scores were tabulated for each firm to determine the highest-ranking firm offering the best value to the City for Health and Welfare benefits.

Blue Cross Blue Shield of Texas, a Division of Health Care Service Corporation a Mutual Legal Reserve Company, of Richardson, Texas, is the incumbent for medical & dental. Rates for the third-party administration increased 2% for medical, decreased 4% for dental from the previous contract.

Caremark PCS Health, LLC. (CVS), of Northbrook, Illinois is the incumbent for pharmacy. CVS proposed a net 8.7% decrease in pharmacy benefit management fees from the FY 2019 contract rates for pharmacy benefits management.

The committee recommends awarding the Medical & Dental administration to Blue Cross Blue Shield of Texas and the Pharmacy administration to Caremark PCS Health, L.L.C.

Life & Long-Term Disability:

An RFP was issued on January 30, 2023, for Life & Long-Term Disability Insurance Coverage. The City received six responsive proposals for Life and Long-Term Disability Insurance, of which the top four scoring firms were evaluated and interviewed according to technical and evaluation criteria.

The evaluation committee for both Life & Long-Term Disability Insurance was comprised of six scoring members and one non-scoring member, with representation from Human Resources, Finance, Police, Fire, Information Technology, and the City Manager's Office. The evaluation committee rated each responsive proposer and was scored according to 1) Cost, 2) Cost Containment, 3) Claims Processing, 4) Reporting, 5) Integrated Systems/Technology Initiative, 6) Past Performance & Communications and finalist included 7) price. Final scores were tabulated for each firm to determine the highest-ranking firm offering the best value to the City for Life & Long-Term Disability Insurance.

Blue Cross Blue Shield of Texas, a Division of Health Care Service Corporation a Mutual Legal Reserve Company, of Richardson, Texas, is the incumbent for Life & Accidental Death and Dismemberment. They have proposed no change to the rate of \$0.48 per \$1000 for FY 2024.

Blue Cross Blue Shield of Texas, a Division of Health Care Service Corporation a Mutual Legal Reserve Company, of Richardson, Texas, submitted for the Long-Term Disability Insurance. They proposed an overall decrease for long-term disability employer costs of 23.7% from our current incumbent, Ochs-Madison National.

The committee recommends awarding the Life & Long-Term Disability to Blue Cross Blue Shield of Texas.

ALTERNATIVES:

The alternative is to not approve the four proposed agreements; however, the City's current insurance benefits agreements expire on September 30, 2023. This will leave the City without active health benefits agreements which will put City employees at risk of not having insurance, or having very expensive, temporary insurance until another RFP process is complete.

FISCAL IMPACT:

The estimated value of the Third-Party Administration, Basic Life and Long-Term Disability contracts is \$1,965,176, with estimated claims of approximately \$34.9 million for FY 2024. The FY 2025 through FY 2028 amounts will be budgeted in future years. In FY 2025 and beyond, we anticipate increases based off of medical inflation.

FUNDING DETAIL:

Fund	Org.	Account	FY 2024
5608	40602	537200	87,092.00
5608	40602	537201	14,124.00
5608	40606	537200	129,462.00
5608	40606	537201	4,708.00
5609	40605	537200	238,075.00
5609	40605	537201	14,123.00
5610	40600	537200	512,296.00
5610	40600	537201	11,938.00
5610	40601	537200	666,493.00
5610	40601	537201	-
5614	40610	537205	37,327.00
5614	40610	537206	45,623.00
5614	40610	537350	97,464.00
5614	40610	537270	106,451.00
Total			1,965,176.00

RECOMMENDATION:

Staff recommends approval of this resolution authorizing three five-year service agreements with Blue Cross Blue Shield of Texas for medical, dental, long-term disability, and life insurance services, and one five-year service agreement with Caremark PCS Health, L.L.C. (CVS) for pharmacy services, as presented.

LIST OF SUPPORTING DOCUMENTS:

Evaluation Matrix
Service Agreements