Date: June 6, 2013

To: Members of the Joint Labor-Management Benefits Committee

From: Staff

Subject: FLEX Medical Request for Proposal Results and Benefits Provider Selection for Plan Year 2014 (Agenda Item #3)

RECOMMENDATION:

That the Joint Labor Management Benefits Committee (JLMBC):

a. Medical Request for Proposal (RFP) Report – Receive and file Mercer and Staff’s findings related to the FLEX Medical Request for Proposal (RFP) results

b. Top Bidder Presentation – Direct staff to invite top RFP proposers to make a presentation at the Special JLMBC meeting on June 11, 2013

c. Last Best Final Offer Option – Instruct staff/Mercer to request that top bidders submit a Last Best and Final Offer option as specified in RFP Section 7.4

d. Medical Plan Contracts – Recommend to the General Manager Personnel Department the selection of Kaiser Permanente and Anthem Blue Cross as the medical plan providers for a three year contract term, subject to the successful negotiation of contract terms.

SUMMARY:

The Personnel Department solicited proposals for insured medical plan benefits beginning on January 1, 2014. This staff report and the Mercer Consulting RFP Results report attached provides information on the RFP selection process and RFP evaluation results. The Personnel Department issued two separate RFPs based on the service delivery model: one for a Staff Model provider and one for a Non-Staff Model Provider. The Staff Model RFP process only produced one viable carrier which is Kaiser. The Non-Staff Model RFP process received proposals from three viable firms, however
overall the Anthem Blue Cross proposal received the highest ranking. Staff recommends that the JLMBC make recommendations for the selection of Anthem Blue Cross (medical) and Kaiser (medical) as the medical carriers. Prior to the JLMBC making a recommendation on the selected carrier the JLMBC has the option to request the top bidders to make a presentation at the JLMBC meeting and/or submit a Last Best and Final Offer. The JLMBC has schedule two additional meetings on June 11 and June 13, 2013 to consider staff recommendations.

BACKGROUND

Annually, the JLMBC reviews and makes recommendations on FLEX benefit provider contract renewals and/or Request for Proposal (RFP) results and associated rate changes for the following Plan Year. This report provides information and staff recommendations on the selection of medical plan providers and proposed premium rate increases. Staff has prepared a separate report that reviews various medical benefit plan options for Plan Year 2014. In addition, a report on the other Flex Benefits Plan providers (dental, life, disability, AD&D, EAP, and FSA) will be provided to the JLMBC at the June 11, 2013 meeting. The JLMBC recommendations for plan design changes will be submitted to the City Council for consideration and the recommendation for the selection of the medical plan provider will be submitted to the Mayor for consideration.

The JLMBC convened an Ad Hoc Committee consisting of JLMBC management and labor representatives. The Ad Hoc Committee met on January 24 and 31, 2013 to review the draft RFP and provided input on the evaluation criteria, disruption factor weighting, plan options requested in the RFP, and evaluation process including the inclusion of a Last Best Final Offer option. The Ad Hoc committee spent a considerable amount of time discussing member disruption and how this factor should be evaluated given the concerns regarding member disruption and continuity of care during last year’s RFP process. At the February 7, 2013 JLMBC meeting, the JLMBC reviewed the final draft RFP and approved the final draft during the February 11, 2013 meeting.

In February and March this year, the Personnel Department solicited proposals for insured medical plan benefits beginning on January 1, 2014. The Personnel Department issued two separate RFPs based on the service delivery model: one for a Staff Model provider and one for a Non-Staff Model Provider. This was done to provide opportunities for more competitive outcomes. Mercer Consulting has provided a detailed report on the RFP responses, Evaluation Committee RFP scoring, financial analysis, Health Care Reform taxes and fees, and benefit plan considerations (See Attachment A).
MEDICAL PLAN REQUEST FOR PROPOSAL RESULTS

Staff Model RFP
A Staff Model organization provides an integrated healthcare program in which there is a single delivery system providing coordinated health care across the continuum of health care services in order to improve access, quality and cost of healthcare as well as employee health outcomes. A Staff Model provider is distinguished from other organizations in that they employ health care providers directly. Currently Kaiser is the Flex Plan provider for the Staff Model HMO.

The Staff Model Medical RFP was issued on March 18, 2013 and responses were due on May 16, 2013. Kaiser was the only organization that submitted a proposal for the Staff Model RFP. Kaiser proposed a premium rate increase of 5.9% (7.9% with HCR fees). The Personnel Department has opted to proceed with a sole source contract with Kaiser given that the RFP process produced inadequate competition, which indicates that competitive bidding on this service is impractical at this time. In addition, given that the Personnel Department will begin planning and implementing the open enrollment process for 2014 in June there is insufficient time to reissue and complete a competitive bid process. **Staff recommends proceeding with evaluating and negotiating the Kaiser proposed premium rates and contractual terms for 2014.**

Non-Staff Model RFP
The Non-Staff Model, in which a firm contracts with independent provider groups, physicians, and facilities to provide group medical insurance coverage, is common in the medical insurance industry. The Non-Staff Model Medical RFP was issued on February 14, 2013 and responses were due on April 15, 2013. Four firms submitted responses: Anthem Blue Cross, Blue Shield, Health Net and United Healthcare. Health Net was found to be non-compliant with the City’s Business Inclusion Program and was subsequently disqualified from the process. As indicated above the Mercer Consulting report details the RFP evaluation process and results.

The Evaluation Committee consisting of two Personnel Department, Employee Benefits Division managers, a benefits consultant from Mercer and one from AON, and an outsider rater from the County of Orange Employee Benefits Plan, reviewed three proposals from the top leading medical insurance providers in the industry. The Evaluation Committee completed its evaluation of written responses and interview process on the three viable proposers. The interview focused on premium rates, disruption, continuity of care and ability to address contract service delivery issues. The evaluation process consists of a rigorous scoring process based on the evaluation categories and their weights published in the RFP. Each rater conducted his/her evaluation independently to ensure the neutrality of the results; responses were then compared and modest adjustments could be made in the event the review discussion clarified the evaluation of a response. All three firms are well qualified and would be capable of providing the basic medical plan services requested. However the Evaluation Committee scored Anthem Blue Cross proposal as the highest ranked firm
overall. Staff recommends that the JLMBC select Anthem Blue Cross as the provider for Flex Plan non-staff model HMO and PPO plans.

Non-Staff Model Proposal Observations
The Personnel Department is required by the Administrative Code to issue an RFP on a periodic basis to ensure that City obtains the most competitive rates and services from the market. The medical Flex Plan covers approximately 59,000 lives with annual premiums in excess of $250 million. Historically each time the City issues an RFP for a medical provider the response to the RFP request by some of the top insurance companies is positive and the competition is aggressive as is the case with this current RFP. The key differences in the providers center on financial, disruption, and key program features as summarized below and on the attached Mercer report.

Anthem Blue Cross has been providing the Flex Plan HMO and PPO health insurance for the past 15 years. During that time Anthem has provided premium rate increases that are on par or lower than Kaiser HMO. Currently, the Anthem Blue Cross HMO plan is 9.1% less expensive on a per capita basis than the Kaiser HMO plan. Based on the initial proposed 2014 premium rates, Anthem Blue Cross HMO plan would still be less expensive than the Kaiser HMO by 5.2% on a per capita basis. In addition, Anthem contractual terms have favored the City in that funds in excess of claim cost have been returned to the City. Anthem’s proposal includes the current HMO Narrow Network, HMO Full Network, and PPO Full Network plan with an overall premium increase of 7.8% (11.7% with HCR taxes and fees). The premium rate increases were based on sound assumptions utilizing the City’s trend experience.

Anthem Blue Cross also continues to offer both Cedars and UCLA medical groups and hospitals in the HMO full Network and PPO networks and the Cedars and UCLA hospitals in the HMO Narrow Network (Select Network). Anthem Blue Cross was the only firm that offered an option for a PPO Narrow Network as well as a variety of other medical plan options. Anthem Blue Cross does not anticipate changes to the current network providers; therefore member disruption is not an issue with this proposal.

The Anthem proposal contained the following key features:

- Continuity of care that complies with State law including pregnant members regardless of trimester.
- Ability to provide a zero copay to children under 5.
- The most comprehensive out-of-area coverage for employees and dependents residing outside of California including a guest HMO plan.
- Local customer service call center located in the City of Los Angeles.

Anthem also currently provides services to similar organizations such as the County of Los Angeles, LAUSD, Self-Insured Schools of California, City of Los
Angeles Police and Fire sworn plans, DWP union sponsored plans, and recently was awarded a contract with CalPERs.

**Blue Shield** offered the most competitive premium rates. The Blue Shield proposal includes options for a narrow and full network HMO and a full network PPO. Blue Shield does not offer a narrow network PPO plan or the option of a HMO deductible plan. The overall premium offered for the status quo Flex HMO and PPO plans is a decrease of **-1.96%** (1.8% with HCR taxes and fees). The proposed premium rates are very aggressive and called into question the long-term sustainability of the premium structure. Blue Shield indicated that the premium rate proposal was largely based on their view that Blue Shield has better financial arrangements with contracted provider groups than the incumbent carrier. Nevertheless the proposed premium rates were evaluated based on reasonableness and the assumptions used to develop the rates and within the context of the entire proposal and risks associated with a low bid offer.

There is a disruption factor associated with the Blue Shield HMO plans as follows:

- **Narrow HMO Network** - 12.6% (2,653 members)
- **Full HMO Network** - 52.8% (124 members)

The high disruption rate with the Blue Shield replacing the Anthem full network plan is attributed to Blue Shield’s network exclusion of Cedars and UCLA medical groups. The Blue Shield HMO provider network also excludes Memorial Healthcare System and Monarch Healthcare. Blue Shield indicated that they intend to enter into contractual agreements with certain medical groups that City employees currently utilize such as UCLA, Cedars, and Aximinter.

The Blue Shield proposal contained the following key features:

- Offered a 9.9% rate cap for the second year (excluding Health Care Reform taxes and fees) with various caveats.
- Out-of-Area coverage provides access to urgent and emergency care services only
- Zero copay for children under 5 is not offered
- Continuity of Care extends to pregnant employees regardless of trimester
- Print copies of provider directories are not provided
- Customer call center located in northern California
- Proposal contained some deviations from City contracting provisions

Blue Shield currently provides services to similar organizations such as CalPERS, Self-Insured Schools of California, County of Orange, and County of San Bernardino.
**United Healthcare (UHC)** offered competitive premium rates. The UHC proposal includes options for a narrow and full network HMO and a full network PPO. UHC does not offer a narrow network PPO plan or the option of a HMO deductible plan. The disruption rate for the UHC HMO (Narrow Network) is 13.4%. The overall proposed premium rates are 6.1% (10.1% with HCR fees) above the current rates.

The UHC proposal contained the following key features:

- Offered a 9.0% rate cap for the second year (excluding Health Care Reform taxes and fees) with various caveats.
- Out-of-Area coverage provides access to urgent and emergency care services only
- Continuity of Care complies with State law but is limited to pregnant employees in third trimester
- Customer call center located out of state in Texas and Alabama based on central time hours of operation
- Proposed implementation plan was inadequate
- Proposal contained some deviations from City contracting provisions

UHC currently provides services to similar organizations such as Los Angeles County, DWP, and City of Long Beach.

**Non-Staff Model Proposal Considerations**

There are a number of considerations involved in selecting a provider for the Flex Benefit Plan. Staff believes that the long term viability of the Flex Benefit Plan is key to ensuring that quality and accessible benefits are provided to employees and their dependents at a cost that is reasonable to employees and to the City. The following are factors that should be considered in this medical provider selection process.

**Health Care Reform Fees and Taxes** - In 2014 Health Care Reform provisions will require fees assessed on insurance providers that in turn will be added on to health plan premiums. The inclusion of Health Care Reform fees on the premium rates distorts the actual premium increase we typically see on an annual basis. Staff finds that is important to distinguish the Health Care Reform fees from the regular premium rates increases while evaluating the rates changes for 2014. The Mercer report contains a detailed breakdown of the Health Care Reform fees.

**Disruption** - During the RFP review process, the providers utilized by current plan participants (hospitals and physicians) were compared to the proposed networks to measure the extent of any potential provider disruption. The full provider disruption data is provided in the Mercer Medical RFP report. In summary, selecting a non-incumbent carrier will involve varying levels of disruption to the plan members. The 2013 medical plan change to move from the Anthem full HMO network to a narrow HMO narrow network caused a 10 to
15% disruption rate to HMO plan participants. Increasing disruption on the non-Kaiser plans carries risks and has the potential to increase member migration to the Kaiser plan, which is the higher cost plan. The Kaiser HMO plan is 9.1% more expensive than the Anthem Blue Cross HMO plan on per capita basis. In addition, increased disruption will also limit employees’ options to access key providers in the Los Angeles area such as Cedars and UCLA medical groups. Finally, additional provider disruption has the potential to cause continuity of care issues which must be mitigated with significant outreach efforts.

Administrative Issues - The Flex Plan has undergone a number of significant changes in the last three years. The implementation of these changes has been challenging given the relatively limited staff resources. In addition, implementation errors and insufficient time to adequately implement plan changes have caused payroll, eligibility, and system errors that impact employees and their dependents directly as well as increased staff workload. The 2014 Plan Year will have significant administrative challenges with the implementation of Health Care Reform requirements which carry monetary non-compliances penalties. In 2014 three MOUs will have a 10% employee contribution, which means the Flex Plan will have a new group of employees that have a different contribution formula. Selecting a non-incumbent medical carrier increases the administrative complexity and workload associated with the health plan administration and open enrollment activities.

Proposal Pricing - The Blue Shield proposal for status quo will yield approximately $10 million in savings over the incumbent proposal. However, the Blue Shield proposal needs to be evaluated within the context of the entire proposal including but not limited to member disruption, feasibility and sustainability of rate increases, City administrative capacity to terminate a provider contract and change providers, if necessary within the three year contract window, and impact on the City’s ability to address underlying cost drivers such as employee health outcomes which impact premium rates increases. The Anthem proposal pricing was reasonable, transparent and based on sound assumptions.

Historically, the JLMBC and City have not based the selection of a medical carrier solely on the basis of lowest bid. During the RFP process for plan year 2013, the City did receive an offer from Anthem and Kaiser to consolidate all the HMO enrollment under one vendor. Anthem’s price was about $10 million lower than Kaiser’s for a consolidation. The result would have generated 100% disruption for the Kaiser participants. The same RFP process had quotes from Health Net for a narrow network that would have saved over $15 million but generated Anthem HMO membership disruption in the 50% range.

During the 1998/1999 renewal process, Kaiser agreed to a second year rate cap. When the rate cap was over there was a significant double digit increase in the Kaiser rates. Due to the City subsidy being tied to the Kaiser family rates, this
created significant budgetary pressure and initiated a situation wherein the Kaiser plan became more expensive than the non-Kaiser plan. In addition to the snap-back effect of the second year cap, future renewals were impacted by significant cost increases to accrue for seismic retrofitting of Kaiser owned facilities.

**Selection Process and Evaluation Criteria** – The RFP approved by the JLMBC provided for a disciplined and transparent review process. This process identified evaluation categories and relative weightings, and further provided for a multi-member review panel to ensure that proposals could be reviewed from varying crucial perspectives. This report and related supplemental reports establish the transparency and neutrality of the review process and scoring results. Staff’s recommendation for the selection of Anthem incorporates the complete review panel scoring for all of the evaluation categories (including but not limited to pricing) in accordance with the relative weightings identified in the RFP. As the JLMBC considers this information and completes any additional final steps in the review process, it is important to ensure that its actions are consistent with the evaluation and scoring results.

**NEXT STEPS**

The JLMBC has scheduled special JLMBC meetings on June 11 and 13, 2013 to discuss Flex benefit provider contract renewals, medical RFP results and associated rate changes for the following plan year and Flex Plan plan design options for 2014. In prior RFP selection processes, the JLMBC has exercised the option to have the top bidders provide presentations at a JLMBC meeting. The City Attorney has advised the presentations must be limited to a presentation regarding the proposal and questions and answers related to the RFP bid and evaluation criteria. Should the JLMBC opt to have the Anthem and Blue Shield make a proposal presentation, staff recommends that the JLMBC instruct staff to schedule the interviews on June 11, 2013. In addition, the RFP contains a Last Best and Final Offer option that the JLMBC can utilize to obtain better financial terms and premium rate quotes from the top bidders. Staff recommends the JLMBC opt to utilize this option and direct staff to prepare Last Best and Final Offer instructions for the bidders to submit a revised quote which will be submitted to the Evaluation Committee for consideration by June 10, 2013. The results of the Last Best and Final Offer would be presented to the JLMBC on June 13, 2013.

**CONCLUSION:**

Staff recommends that the JLMBC receive and file the Staff and Mercer reports regarding the results of the medical RFPs. Staff also recommends that the JLMBC make recommendations for the selection of Anthem Blue Cross (medical), and Kaiser (medical) as the medical carriers. Staff recommends that the JLMBC approve a three year contract term with these respective carriers starting on January 1, 2014, with the option to extend the contract up to two additional years with City Council approval. The premium rate renewal terms will be presented to the JLMBC each year for
consideration, which typically occurs in May/June for the following plan year that starts on January 1st. Staff finds that adopting staff recommendations on the provider contracts will effectively meet member health-care needs as well as provide reasonable premium rates for employees and the City.

Submitted by: ________________________________

Alejandrina Basquez

Attachment A - Mercer Report Titled Non-Staff Model Medical RFP Results for Plan Year Effective 1/1/2014