

Executive Summary



To: The City Commission for the City of Key West

From: Lisa Takach Borzy, Risk Manager

Date: 4/30/2015

RE: Third Party Administrator Services

A handwritten signature in blue ink, appearing to be "LB", is located to the right of the "From:" field.

Action:

Pursuant to City of Key West Code of Ordinances 2-797 Exemptions, (4) (b), Best Interests of the City, respectfully request the City Commission to approve and extend Third Party Administrator (TPA) Services for the Administration of the City's property, casualty and workers' compensation claims program with Employers Mutual, Inc. (EMI)/Ascension for the policy period of 10/1/2015 – 10/1/2016 with the option, at the sole discretion of the City, to renew the agreement on an annual basis for up to three (3) additional policy years. Additionally authorizing the City Manager or designee to execute all necessary documents with the advice and consent of City Attorney.

Background:

On September 15, 2009 the City Commission adopted Resolution No. 09-246 authorizing the acceptance of Employers Mutual, Inc. (EMI, now Ascensions) proposal to serve as the City's insurance (property casualty and workers' compensation) program Third Party Administrator (TPA) for policy year 2009/2010 with four (4) additional years. The intent of the RFP was to provide the City the opportunity to annually re-evaluate the services provided by EMI/Ascension and to exercise its option for renewal in subsequent policy periods based on performance. Policy year 2013/2014 represented the final one (1) year period that could be exercised by the City pursuant to Resolution 09-246 and RFP 09-011. Subsequently, the City Commission adopted Resolution No. 14-085 approving an additional one (1) year extension for policy year 2014/2015. The intent was to then consider whether the City would rebid the TPA Services for policy year 2015/2016 and beyond.

As concerns the services EMI/Ascension has provided to the City thus far, following are highlighted statistics since the inception of the relationship back in September, 2009.

- The average workers' compensation claim cost per year from 2005-2008 was \$1.63M and the average workers' compensation claim cost from 2009-2013 was \$670K. The average workers' compensation claim costs per year has decreased by \$960K per year or 59%.

- The average number of workers' compensation claims for the same periods above are: 2005-2008 = 113 and 2009-2013 = 75, a 33% reduction in WC claims volume.
- Total claims (all lines) cost for years 2005-2008 are \$10.242M and years 2009-2013 are \$6.43M. This is a \$3.81M reduction with an additional year in the latter time frame.
- The City's workers' compensation modification rate has decreased from a 2.13 in 2010 to a 1.3 in 2014. This represents significant savings to the City in premiums, assessments and loss funds.

Qualitative measures that have impacted the program include:

- The depth of questioning in determining compensability.
- Detailed investigations of pre-existing conditions.
- Aggressively handling presumption claims; taking a hard defense and investigation on all presumption claims, most new presumption claims have been successfully denied. When the statute is deciphered appropriately these are avoidable high dollar claims.
- Researching and selecting the best sources to save money on medical costs.
- Consistent employee contact; establishing a relationship with the employee allows for a more productive patient and desirable result in treatment.
- Reclassifying lost time and medical only claims to their statutory definition, not that of the former TPA.
- Consistent contact with Risk Management, and excellent communication.

Financial Impact:

The most significant savings to the City by continuing its relationship with EMI/Ascension has been realized in the result of excellent claims management over the past 5 years. Flat rate fees comprise roughly 10% of overall claims costs. Effective claims management is the key to significant cost savings as opposed to simply comparing administrative fees on paper. However, EMI/Ascension has excelled in both areas as it has provided the City with both savings in claims management efforts as detailed above, as well as savings in administrative fees as discussed below.

EMI/Ascension's fee schedule is very simple in that it charges the City based on a flat rate fee per claim. There are no "hidden" fees or additional charges for standard services for which other TPAs charge, such as an annual administrative fee, data conversion, or producing reports. Furthermore, EMI charges flat rate fees for workers' compensation claims based on the statutory definition of Medical Only rather than a non-statutory definition. The cost difference between Medical Only and Lost Time is approximately \$850.00 per claim.

EMI/Ascension has also proven itself to be a valuable source of savings simply by way of its philosophy in claims management. EMI/Ascension strives to close workers' compensation claims quickly and efficiently after providing injured workers with excellent medical services. The result of this practice has reduced the City's claim volumes significantly. Further, EMI/Ascension does not elongate the life of claims without good reason. Depending on the fee structure, extending the life of claims can unnecessarily cost the City additional claim expenses in the way of administrative fees. Average workers' compensation administrative costs with the City's prior TPA from 2005 through 2010 policy years ranged from \$54,536 to as high as \$96,500. Administrative costs for workers' compensation claims expended by the City to EMI/Ascension from policy years 2010 to 2014 ranged from \$12,606 to \$28,943. General liability claim administrative fees paid to the prior TPA for the same periods ranged from \$27,100 to \$96,500, whereas EMI/Ascension administrative fee costs for its respective policy years ranged from \$15,759 to \$29,571.00

By extending the City's current relationship with EMI/Ascension, the City will see savings in other operating costs as well. The City will forego the insurance consultant expense to assist in the RFP process for a new TPA proposal, an estimated \$4,000. Moreover, the City will avoid costs associated with contracting with a new TPA, which include claim assumption costs/roll over fees, data conversion fees, and set up fees. In the 2009 transfer from Gallagher to EMI, the claim assumption costs alone for EMI to take over claims originally opened by Gallagher, for which Gallagher had already received a flat rate fee, totaled \$46,600.

EMI/Ascension has offered to extend the current Agreement with no changes in services, and further, Ascension will defer the 3% annual escalation clause on the current flat rate fee schedule for up to four (4) years. The current flat rate fees paid by the City to EMI/Ascension for claims administration remain fair and reasonable, and consistent with the nature of services provided to the City.

The fiscal year proposed insurance budget, when approved, will contain amounts sufficient to cover the number of claims projected to be administered in the fiscal year 2015/2016 operating period in account numbers 502-1952-519-3100 and 502-1953-519-3100.

Recommendation:

Request the City Commission to authorize extending the agreement with EMI/Ascension for third party administrator services for the policy period of 10/1/2015 – 10/1/2016 with the option, at the sole discretion of the City, to renew the agreement on an annual basis for up to three (3) additional one (1) year periods.