

Executive Summary



To: James Scholl, City Manager

From: Todd Stoughton, Risk Manager

Date: 7/31/2019

RE: Third Party Administrator Services

Action:

Pursuant to City of Key West Code of Ordinances, Section 2-797 (4) b., Exempt Contractual Services, respectfully request the City Commission authorize the City Manager or designee to negotiate the City's Third Party Administrator (TPA) Services for the Administration of the City's property, casualty and workers' compensation claims program with Relation Insurance Services for the policy period of 10/1/2019 – 10/1/2022. Once negotiated, authorize the City Manager to execute all documents consistent therewith with the consent and advice of the City Attorney.

Background:

On September 15, 2009 the City Commission adopted Resolution No. 09-246 authorizing the acceptance of Employers Mutual, Inc. (EMI, now Relation) 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 Relation 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.

In Resolution 15-184, the City Commission authorized extending the Agreement for Administrative Services with Relation for policy period 10/1/2015 to 9/30/2016, with an option to renew for three (3) additional one—year periods based on the same premise of exercising said option to renew based on performance.

As concerns the services Relation 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%. In continuing a positive trend,

the average workers' compensation claim cost per year from 2014-2017 was \$741K. This is a 55% decrease when compared to the 4 years prior to Relation administering our claims.

- 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. The average number of worker's compensation from 2014 – 2017 was 72. A 36% reduction over 2005 – 2008.
- 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 total claims cost for 2014 – 2017 was 5.21M.
- The City's workers' compensation modification rate has decreased from a 2.13 in 2010 to a 1.3 in 2014. The State of Florida's current modification rate for the City of Key West is 1.29. This continued decline in the City's Self-Insurer Experience Modification rate represents significant savings to the City in premiums, assessments and loss funds.

It is abundantly clear with the consistent results over the past ten years, that Relation saved the City millions of dollars.

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.
- In extending the relationship wherein adjusters work closely on existing files, the adjusters developed better institutional knowledge of the files and the City's operations resulting in a more effective claims adjusting process.

Financial Impact:

The most significant savings to the City by continuing its relationship with Relation has been realized in the result of excellent claims management over the past 8 years. Flat rate fees comprise roughly 3% of overall claims costs. Effective claims management is the key to significant cost savings as opposed to simply comparing administrative fees on paper. However, Relation 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.

Relation's fee schedule is very simple in that it charges the City based on a flat rate fee per claim. Relation charges flat rate fees for workers' compensation claims based on the statutory definition of Lost Time and Medical Only rather than a non-statutory definition. The cost difference between Medical Only and Lost Time is approximately \$850.00 per claim. The flat rate fee concept is not used by all TPA's, meaning claims with a longer life expectancy turns into a 'lost time' claim which costs more, and negatively affects the City's mod rate with the State of Florida.

Relation has also proven itself to be a valuable source of savings simply by way of its philosophy in claims management. Relation 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, Relation 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 Relation from policy years 2010 to 2017 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 Relation administrative fee costs for its respective policy years ranged from \$15,759 to \$29,571.00. Relation's average flat fee from 2014-2017 is \$36,000 per year, which is marginal compared to market rates and the costs savings provided.

By extending the City's current relationship with Relation, 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 Relation, the claim assumption costs alone for Relation to take over claims originally opened by Gallagher, for which Gallagher had already received a flat rate fee, totaled \$46,600. Additionally, during the annual audit, several discrepancies were discovered in the conversion between TPA's attributable to the conversion.

In 2015, Relation offered to extend the current Agreement with no changes in services, and further, Relation deferred the 3% annual escalation clause on the 2014/2015 flat rate fee schedule for up to four (4) years. In fact, Relation has only increased the fees two

times, or 6%, since the inception of the Agreement ten years ago and has asked for a 5% increase in their current proposal. This impact to the budget would be nominal at a projected cost of only \$2,200, which is consistent with the nature of services provided, and is in the best interest of 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 2018/2019 operating period in account numbers 502-1952-519-3100 and 502-1953-519-3100.

Recommendation:

Pursuant to City of Key West Code of Ordinances, Section 2-797 (4) b., Exempt Contractual Services, respectfully request the City Commission award the proposal of Relation Insurance Services, and authorize the City Manager or designee to negotiate the City's Third Party Administrator (TPA) Services for the Administration of the City's property, casualty and workers' compensation claims program with Relation Insurance Services for the policy period of 10/1/2019 – 10/1/2022. Once negotiated, authorize the City Manager to execute all documents consistent therewith with the consent and advice of the City Attorney.