

**Request for Proposals  
for a  
Third Party Administrator and/or  
Prescription Benefits Manager  
Results**

**Human Resources Department**



**CITY OF HOUSTON  
BUDGET AND FISCAL AFFAIRS COMMITTEE  
JANUARY 7, 2014**

# MEDICAL AND PRESCRIPTION PLANS TOPICS

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- Medical and Prescription Drug Plans Review
- 2013 Request for Proposals (RFP)
- Considerations:
  - Stand-alone Prescription Drug Plan
  - Integrated Medical and Prescription Drug Plan
- Recommendations

# **Medical and Prescription Drug Plans Review**

# MEDICAL AND PRESCRIPTION DRUG PLANS REVIEW

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- Self-insured since May 2011
- Third Party Administrator (TPA) contract expires April 2014.
- The City's plans cover 55,000 employees, pre-65 retirees and dependents
- Active employees = 82%; Pre-65 retirees = 18%
- Results-oriented Wellness Program

# MEDICAL AND PRESCRIPTION DRUG PLANS REVIEW CONT'D

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- If the health benefits budget stood alone as a separate department, it would be the 5th largest behind Public Works, Police, Houston Airport System and Fire.
- Favorable claims experience caused actual plan cost to be less than budgeted expense.
- The city is retaining all claims risk volatility and not procuring stop-loss insurance.
- Savings will be used to establish a permanent catastrophic fund balance reserve.

# MEDICAL AND PRESCRIPTION DRUG PLANS REVIEW CONT'D

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- **Limited Network Plan**
  - Kelsey Seybold Clinics
  - Renaissance Physician Organization
  - The Mayor Healthcare Group
- **Open Access Plan**
- **Consumer Driven Health Plan with a Health Reimbursement Account (HRA)**
- **Retirees of Texas Option Plus (RTOP) for pre-65 retirees who reside outside of the Greater Houston Area but live in Texas**

# MEDICAL PLANS – HISTORICAL EXPENSES

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**(\$ in millions)**

Year	Budget	Actual	% Change Over Previous Year	
FY10	\$ 292.69	\$ 286.00	-----	
FY11	\$ 307.38	\$ 282.90	-1.08%	Strategic shift to self-insured
FY12	\$ 267.31	\$ 273.39	-3.36%	
FY13	\$ 301.26	\$ 271.49	-0.70%	
FY14	\$ 309.42	\$ 286.57	Estimated *	5.55%

**Fiscal Years are not comparative to Plan Year expenses due to accounting and accrual differences which include IBNR and reserves.**

**\* FY14 includes \$14 million catastrophic reserve.**

# MEDICAL AND PRESCRIPTION DRUG PLANS – FINANCIAL SUMMARY

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## FY12 – FY14 Projected

(\$ in millions)

PLAN EXPERIENCE	FY12	FY13	FY14 Projected	3-Year Total
Premiums	\$259.30	\$293.62	\$311.18	<b>\$864.10</b>
Expense	\$273.39	\$271.50	\$286.57	<b>\$831.46</b>
Excess / (Deficit) in \$	<b>(\$14.09)</b>	\$22.12	\$24.61	<b>\$32.64</b>
Excess / (Deficit) %	<b>(5.15%)</b>	8.15%	8.59%	<b>3.93%</b>



# MEDICAL AND PRESCRIPTION DRUG PLANS – WELLNESS PROGRAM

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## Goal: Awareness, Engagement and Prevention

- Plan Year 1 - Discovery and correction of health conditions
- Plan Years 2 and 3 – Correction and maintenance of health conditions
- 98% employee participation in 2012 Wellness Engagements

**Improved health = Lower cost, lower absenteeism, and higher productivity**

**2013 Request for Proposals  
for a  
Third Party Administrator (TPA)  
and/or  
Prescription Benefits Manager (PBM)**

# RFP FOR TPA AND/OR PBM

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## Options requested

- Third Party Administrator for an integrated medical and prescription drug plan
- Third Party Administrator for the medical plan only
- Prescription Benefits Manager only

# RFP FOR TPA AND/OR PBM

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## TPA

- Blue Cross Blue Shield of Texas
- Cigna
- Memorial Hermann Health Solutions (MHHS)
- United Healthcare

## PBM

- MedImpact Health Care Systems, Inc.
- Express Scripts, Inc.
- Pharmpix Corporation
- Blue Cross Blue Shield of Texas
- Cigna
- United Healthcare

**Twenty-nine (29) proposers requested and were provided invitations/access to the RFP website.**

# RFP – EVALUATION CRITERION

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## The Evaluation Criterion – published with the RFP

RFP AREA	MAXIMUM SCORE
Account Management/Claims Administration/Reporting	20%
Data Management/Technical Requirements	15%
Member Services/Communications/Wellness Initiatives/Disease Management/Network Delivery and Management	20%
Financials/Financial Stability/Banking	10%
Pricing/Cost	20%
Plan Design	5%
Qualification/Experience of Proposer & Staff	10%
<b>TOTAL</b>	<b>100%</b>

# RFP – DUE DILIGENCE CONSIDERATIONS

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1. Responses to letters of Clarifications
2. Interviews
3. Site Visits
4. Reporting Systems
5. City's access to reporting systems: Claims and Financial
6. Responses to the City's minimum business and contractual guarantees
7. Health improvements programs and reporting
8. Transfer of data to a City designated data warehouse
9. Stable member outreach and customer service
10. Network structure and discounts

# RFP – EVALUATION COMMITTEE

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## CORE COMMITTEE

- Director, Solid Waste
- Deputy Director, Finance
- Deputy Director, Human Resources
- Assistant Director, Human Resources
- Benefits Manager, Human Resources
- Benefits Staff Analyst, Human Resources

## OVERSIGHT COMMITTEE

- Director, Finance
- First Assistant City Attorney, Legal
- Director, Human Resources
- Chief Procurement Officer, Finance

## OTHER RESOURCES

- The Segal Company, Professional Consulting Services
- Sr. Procurement Specialist, Finance

## **Considerations:**

- **Stand-alone Prescription Drug Plan**
- **Integrated Medical and Prescription Drug Plan**



# RFP - PLANS CONSIDERATIONS

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## 1. Stand-alone Prescription Drug Plan

- Manufacturers' discounts and rebates were comparable to prescription drug plans integrated with medical plans.
- Additional layer of administration – systems and staff
- Separate administration fee
- Additional layer of complexity for members
- One vendor does not have a retail network in the U.S.
- Prescription drug and medical claims data are not in sync.
- Additional cost to transfer claims files between two systems

# RFP - PLANS

## CONSIDERATIONS cont'd

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### 2. Integrated Medical and Prescription Drug Plan

- One process for administration fees
- Manufacturers' discounts and rebates are comparable to stand-alone PBMs
- Members engage only one system.
- Prescription drug and medical plan systems are in sync and utilization data are easily integrated.
- Vendors have established networks in the U.S.
- No additional cost to integrate claims data

# RFP – PLAN SELECTION COMMITTEE DECISIONS

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- Integrated Medical and Prescription Drug Plan
- Retain self-funding.
- Retain current plan options:
  - Limited Network Plan
  - Open Access Plan
  - Consumer Driven Health Plan
  - Retirees of Texas Options Plus

# Recommendations

# RFP – TPA RANKING

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Evaluator	BCBSTX	Cigna	UHC	MHHS
Committee	2	1	3	4
Segal	3	1	2	4

**Overall, Cigna ranked #1 in the evaluation criterion.**

- Pricing/cost – lowest administrative fees
- Account management/claims administration/reporting
- Member services/communications/wellness initiatives/network delivery and management
- Financial arrangements and banking
- Data management and technical requirements
- Qualification/experience of proposer and staff
- Plan design

# CIGNA'S VALUE

## **Cigna offers the best value.**

1. Cost estimates indicate least volatility.
2. Lowest fixed administrative fees.
3. Proven results with proposed arrangement consistent with existing program.
4. Capitated program has performance incentive to improve health outcomes and lower costs.
5. Fee-for-service discounts offset total pricing by the lower administrative fees.
6. Capitated program serves a majority of City subscribers.
7. Drug costs are significantly less than current structure.
8. Prescription drug plan incentivizes generic dispensing, now at 85% , an \$8 - \$12 million savings.
9. Performance guarantees augment financial projections.
10. No significant implementation costs involved.

# CIGNA'S PROPOSAL

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<b>Financial Highlights</b>	<b>2015 -2017 (\$ in millions)</b>
TPA Administrative Fees reduction	\$ 3.3
PBM pricing/concessions/rebates	\$ 13.1
<b>Plan Cost Reductions</b>	<b>\$ 16.4</b>

TPA and PBM favorable cost structure should have a positive influence on the trend line over the next three (3) years.

## **Other Highlights**

- Strong Performance Guarantees – up to \$3 million at risk each plan year
- Funding of five (5) discretionary onsite positions
- TPA administrative fees are guaranteed for three years.
- PBM administrative fees are guaranteed for three years.

# RFP – MEDICAL TPA/PBM PROPOSALS

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		<b>Limited Network Plan</b>	<b>Open Access Plan</b>	<b>CDH Plan</b>	<b>Total</b>
<b>Subscribers</b>		17,967	5,076	979	24,022
<b>Members</b>		41,508	10,882	2,167	54,557
BCBS	Capitation	X			
	Fee-For-Service	X	X	X	
<b>Cigna</b>	<b>Capitation</b>	<b>X</b>	<b>X</b>	<b>X</b>	
	Fee-For-Service	X	X	X	
UHC	Capitation				
	Fee-For-Service	X	X	X	
MHHS	Fee-For-Service	X	X	X	



# RFP – MEDICAL AND PRESCRIPTION DRUG PLANS COST

## Plan-Year Estimates 2015 – 2017 (in millions)

Total Administrative Fees	
BCBS	\$41.5 million
<b>Cigna</b>	<b>\$29.2 million</b>
UHC	\$40.9 million

Proposers	Low 3-Year Estimate	High 3-Year Estimate	3-Year Average
BCBS	\$ 805.1	\$ 874.7	\$ 839.9
<b>Cigna</b>	<b>\$ 811.0</b>	<b>\$ 844.9</b>	<b>\$ 828.0</b>
UHC	\$ 783.8	\$ 853.4	\$ 818.6

Plan year estimates include:

- Medical and prescription drug claims;
- TPA fees;
- Capitation, as applicable; and
- Other access fees.

# **MEDICAL AND PRESCRIPTION DRUG PLANS – MINORITY AND WOMEN BUSINESS ENTERPRISE**

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- RFP required commitment to award 15% of administrative fees in subcontracts to City-approved MWBE participants.
- As of January 3, 2014, Cigna had met 10.26% (\$2,192,528) of the 15% goal in the current contract.
- Cigna added two MWBE vendors, one in October and one in November 2013.

# MEDICAL AND PRESCRIPTION DRUG PLANS - RECOMMENDATIONS

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- Maintain self-insured funding.
- Contract with Cigna for administration of integrated medical and prescription drug plans.
- Maintain four self-insured plans:
  - Cigna Limited Network Plan
  - Cigna Open Access
  - Consumer Health-Driven Plan
  - Retirees of Texas Option Plus (RTOP)
- Maintain Health Care Reimbursement Account with \$500/\$1,000 City contribution for CDHP participants.
- Maintain wellness program with financial incentives and disincentives for participating in health improvement activities.

Effort is nice

# Results count

